

Estimate changes



TP change



Rating change



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Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	1842 / 23.1
52-Week Range (INR)	20600 / 16000
1, 6, 12 Rel. Per (%)	3/5/-2
12M Avg Val (INR m)	1216

Financials & Valuations (INR b)

Y/E Dec	2021	2022E	2023E
Sales	147.1	166.7	188.4
Sales Gr. (%)	10.2	13.4	13.0
EBITDA	35.7	37.6	44.3
Margin (%)	24.3	22.6	23.5
Adj. PAT	23.2	24.1	29.0
Adj. EPS (INR)	240.8	249.9	300.6
EPS Gr. (%)	10.8	3.8	20.3
BV/Sh.(INR)	216.2	216.1	216.6

Ratios

RoE (%)	113.2	115.6	138.9
RoCE (%)	109.5	108.4	129.7
Payout (%)	83.0	100.1	99.8

Valuations

P/E (x)	79.3	76.5	63.6
P/BV (x)	88.4	88.4	88.2
EV/EBITDA (x)	50.9	48.1	40.8
Div. Yield (%)	1.0	1.3	1.6

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	62.8	62.8	62.8
DII	9.1	8.6	7.9
FII	11.7	12.0	12.4
Others	16.5	16.6	16.9

FII Includes depository receipts

CMP: INR19,104
TP: INR19,500 (+2%)
Neutral

Result in line; near-term margin outlook challenging

- Nestlé India (NEST) declared broadly in-line 2QCY22 result. Volumes and price increases have played an equal part in driving 13.3% sales growth in 1HCY22 with volumes growing 7% and realization making up for the rest.
 - Management pointed out that while there has been some softening in edible oil and packaging costs; milk, green coffee, wheat, etc. are at all-time high levels and are likely to remain firm for some more time. NEST's strategy of avoiding sharp price hikes, unlike the past, means that near-term margins would continue to be under pressure.
 - The acquisition of Purina PetCare's India business (100% owned by Nestle earlier) is a good move from a CG perspective and launch of 'Gerber' nutrition brand is good; however, both of these will take time to scale up.
 - We value the stock at 60x Jun'24 EPS to arrive at our TP of INR19,500.
- Maintain Neutral on fair valuations.**

Broadly in-line result

- NEST reported net sales growth of 16.1% YoY to INR40.4b (in line).** Domestic sales grew 16.4% YoY to INR38.5b in 2QCY22. Growth was primarily driven by pricing, albeit, there have been some underlying volume and mix improvements.
- Gross margin contracted 300bp YoY to 54%** (est. 55.7%).
- EBITDA** grew 1.8% YoY to INR8.5b (est. INR9b). EBITDA margin contracted 300bp YoY to 21% (est. 23%).
- PBT** grew 1.9% YoY to INR7.3b (est. INR7.7b).
- Adj. PAT rose 3.9% YoY to INR5.5b (est. INR5.8b).**
- Other income decreased 34% YoY to INR194m during the quarter.

Key highlights from the management commentary

- Sales growth in Mega cities and metro is healthy. Healthy uptick is also being witnessed in its rural sales. Growth in rural is across categories but Maggi, nutrition, milk and coffee are the key drivers.
- RM CAGR over 2018-2020 was only 3%; 2021 witnessed 5% RM growth while the growth is 15% in CY22 YTD. Management stated that it will not take any indiscriminate price increase as it does not want to hurt volumes or lead to downtrading.
- NEST pointed out that while there has been some softening in edible oil and packaging costs; milk, green coffee, wheat, etc. are at all-time high levels.
- Purina is likely to have INR460m of revenue in CY22. The integration of Pet Food Business with Nestlé India Limited is proposed with effect from 1st Oct'22. The cost of this transaction is INR 1.2b. Domestic pet care category size is INR40b and it is growing at 25% YoY.
- Gerber launch – The size of the emerging toddler market in India is INR35b. NEST has a brand in this space in India known as Ceregrow. Gerber is a 90-year old global brand. Products will be developed/customized for India by using cereals, legumes, fruits, etc.

Valuation and view

- There are no material changes to our EPS forecasts for CY22 and CY23.
- The long-term narratives for revenue and earnings growth are highly attractive. The Packaged Foods segment offers immense growth opportunities in India. This is particularly true for a company such as NEST, which has a strong pedigree and distribution strength. The successful implementation of its volume-led growth strategy in recent years provides confidence in execution as well.
- Nevertheless, as highlighted in our [annual report note](#) as well as [commodity cost note](#), NEST is facing commodity cost headwinds. With four consecutive years of ad-spends to sales decline, up to CY21 (to 5.5% of domestic sales in CY21, the second lowest in the last seven years) the buffer to protect EBITDA margin erosion from gross margin pressures may not be available without constraining volume growth.
- NEST's valuation at 63.6x CY23E P/E is expensive and does not offer any significant upside from a one-year perspective. We value the company at 60x June'24 EPS to arrive at our TP of INR19,500. Maintain Neutral.

Quarterly performance

Y/E December	(INR m)											
	CY21				CY22				CY21	CY22E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	36,108	34,767	38,826	37,393	39,807	40,366	43,485	43,079	1,47,094	1,66,736	39,287	2.7%
YoY Change (%)	8.6	14.0	9.6	8.9	10.2	16.1	12.0	15.2	10.2	13.4	13.0	
COGS	14,976	14,948	17,198	16,067	17,757	18,583	19,568	18,537	63,189	74,446	17,404	
Gross Profit	21,132	19,819	21,627	21,326	22,050	21,782	23,917	24,542	83,905	92,290	21,883	-0.5%
Margin (%)	58.5	57.0	55.7	57.0	55.4	54.0	55.0	57.0	57.0	55.4	55.7	
Operating Exp	11,831	11,481	12,104	12,813	12,742	13,291	14,046	14,607	48,229	54,685	12,847	
EBITDA	9,301	8,339	9,523	8,513	9,308	8,492	9,871	9,935	35,676	37,605	9,036	-6.0%
Margins (%)	25.8	24.0	24.5	22.8	23.4	21.0	22.7	23.1	24.3	22.6	23.0	
YoY Growth (%)	16.2	9.9	5.9	12.4	0.1	1.8	3.7	16.7	10.9	5.4	8.4	
Depreciation	936	953	955	1,058	1,043	1,016	1,146	1,354	3,902	4,559	1,096	
Interest	540	517	519	436	356	370	508	607	2,012	1,841	465	
Other income	297	295	337	273	214	194	300	296	1,201	1,004	250	
PBT	8,121	7,164	8,386	7,293	8,124	7,300	8,516	8,269	30,963	32,209	7,725	-5.5%
Tax	2,096	1,919	2,169	1,560	2,115	1,850	2,146	2,005	7,744	8,117	1,947	
Rate (%)	25.8	26.8	25.9	21.4	26.0	25.3	25.2	24.3	25.0	25.2	25.2	
Adjusted PAT	6,024	5,245	6,217	5,733	6,008	5,450	6,370	6,264	23,219	24,093	5,778	-5.7%
YoY Change (%)	13.1	5.4	3.2	23.6	-0.3	3.9	2.5	9.3	10.8	3.8	10.2	

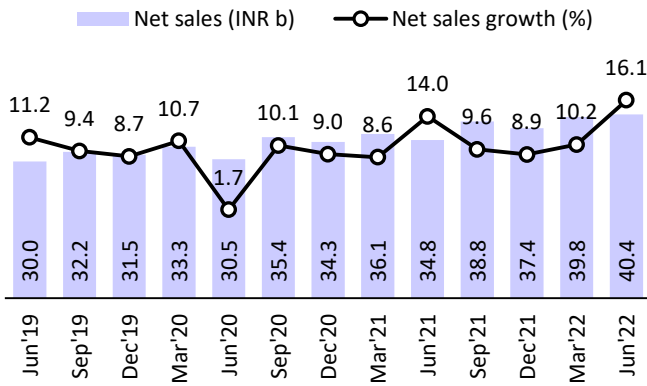
E: MOFSL Estimates

Key Performance Indicators

Y/E December	CY21				CY22
	1Q	2Q	3Q	4Q	
2Y average growth (%)					
Sales	9.7	7.8	9.9	9.0	9.4
EBITDA	10.4	7.5	11.0	11.1	8.1
PAT	12.7	8.3	1.5	11.4	6.4
% of Sales					
COGS	41.5	43.0	44.3	43.0	44.6
Employee Expenses	10.2	10.9	10.0	10.3	10.2
Other Expenses	22.6	22.1	21.2	23.9	25.2
Depreciation	2.6	2.7	2.5	2.8	2.6
YoY change (%)					
COGS	3.1	12.2	15.9	14.4	18.6
Employee Expenses	2.7	2.4	5.0	-4.1	7.8
Other Expenses	14.3	30.3	4.2	3.1	7.7
Other Income	-30.8	-22.3	-2.3	-10.7	-27.7
EBIT	17.9	10.9	6.0	12.6	-1.2

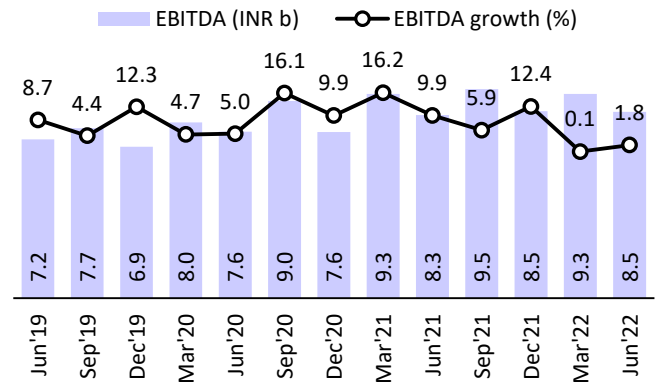
Key exhibits

Exhibit 1: Net sales up 16.1% YoY to INR40.4b



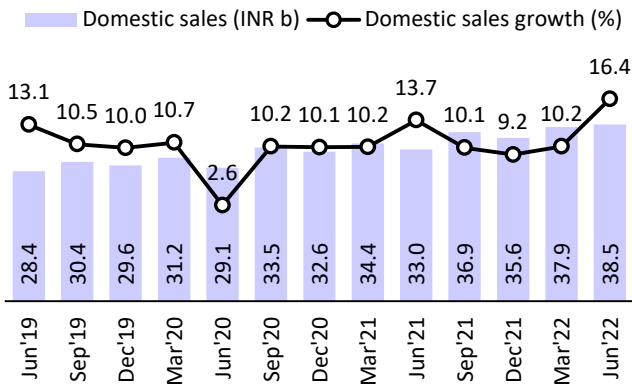
Source: Company, MOFSL

Exhibit 2: EBITDA remained flat YoY at INR8.5b



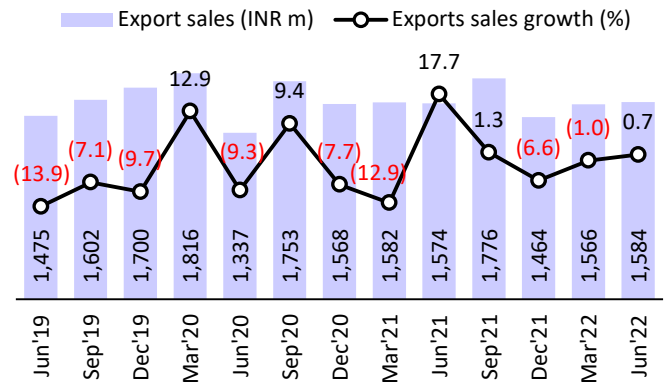
Source: Company, MOFSL

Exhibit 3: Domestic sales rose 16.4% YoY to INR38.5b



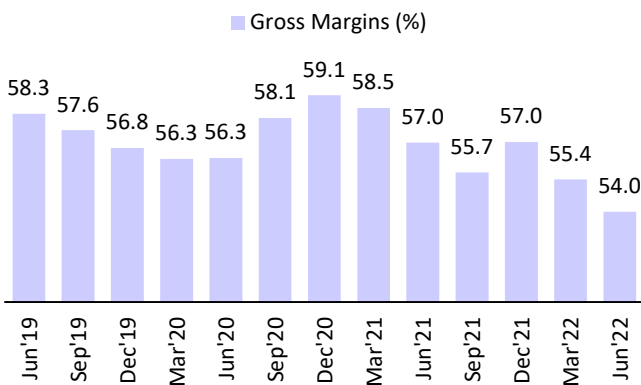
Source: Company, MOFSL

Exhibit 4: Exports rose marginally by 1% to INR1.6b



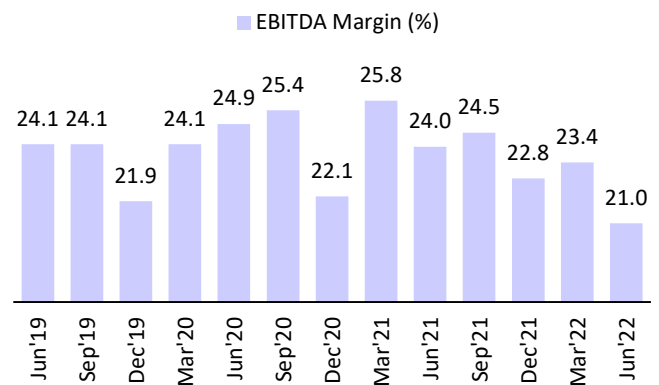
Source: Company, MOFSL

Exhibit 5: Gross margin at multi quarter low



Source: Company, MOFSL

Exhibit 6: EBITDA margin contracted 300bp YoY to 21.0%



Source: Company, MOFSL



Highlights from the management commentary

Performance and Outlook

- In the first half of the calendar year volume growth was 7% and price increases was 6.3%.
- Sales growth in Mega cities and metro is healthy. Healthy uptick is also being witnessed in its rural sales. Growth in rural is across categories but Maggi, nutrition, milk and coffee are the key drivers.
- Currently 70,000-80,000 villages are covered and the target is to cover 120000 villages.

Cost and margins

- RM CAGR during 2018-20 was only 3%, 2021 witnessed 5% RM growth and CY22 YTD is 15%.
- Management highlighted that it won't take any indiscriminate price increase as they don't want consumers to down trade or affect volumes.
- Volume and value mix on sales growth has been equal in both 1QCY22 and 2QCY22
- NEST pointed out that while there has been some softening in edible oil and packaging costs; milk, green coffee, wheat, etc. are at all-time high levels.

Growth areas

- 1HCY22 Milk and Nutrition saw 7.2% growth, Prepared dishes 13.9% YoY, confectionary 24.4% and beverages have grown at 21.7% with the latter also aided by OOH recovery.
- 5.6% of sales come from innovations and renovations made in the last 5.5 years. Cumulatively 100 new products launched in this period.

Purina PetCare acquisition

- Reason for acquisition – This segment has scaled up now and the synergies with NEST's network would augur well. Nestle is the market leader in per care worldwide.
- Management believes it has an exciting future. Pet adoption is on the rise with 11% per annum.
- Purina is likely to have INR460m of revenue in CY22. The integration of Pet Food Business with Nestlé India Limited is proposed with effect from 1st Oct'22. The cost of this transaction is INR 1.2b. Domestic pet care category size is INR40b and it is growing at 25% YoY. 75% of the market is dry dog food. Wet dog food is growing at 35%.
- It has built distribution through pet specialty stores in 45 towns and 1000 stores.
- Purina business grew 68% in CY21 and 51% in 1HCY22. Pet cat food is also growing.
- Currently, it is dependent on imports from other Nestle markets.
- Key products are premium dry dog food and super premium wet dog food. It also has premium and super premium wet cat food.

Nutrition is not a mature business

- Gerber launch – The size of the emerging toddler market in India is INR35b. NEST has a brand in this space in India known as Ceregrow. Gerber is a 90-year old global brand. Products will be developed/customized for India by using cereals, legumes, fruits, etc.

- Both of these products will be premium. If we take Maggi (largest selling product for Nestle) as a price of INR100, pet care average price is at INR140 and Gerber is at INR700.

Valuation and view

What has happened over the last 10 years?

- After experiencing weak growth on all fronts in the first half of the decade, NEST has done well in the second half, particularly in the last four years.
- Its decadal performance has been modest, with sales/EBITDA/PAT CAGR in the 7-9% range over CY11-21.
- The past five years have seen accelerated growth (~10% sales CAGR), with an EBITDA/PAT CAGR of 12%/14%, respectively, despite several macro disruptions – demonetization, GST rollout, the COVID-19 pandemic and commodity cost headwinds – impairing the FMCG sector.
- Starting with damage control since the Maggi crisis in CY15, the management has initiated a series of measures, including (but not limited to): a) focusing on volume-led, double-digit sales growth, b) over 90 product launches since CY16, c) backing up launches, with a sharp increase in ad spends, and d) focusing on distribution expansion (more recently).

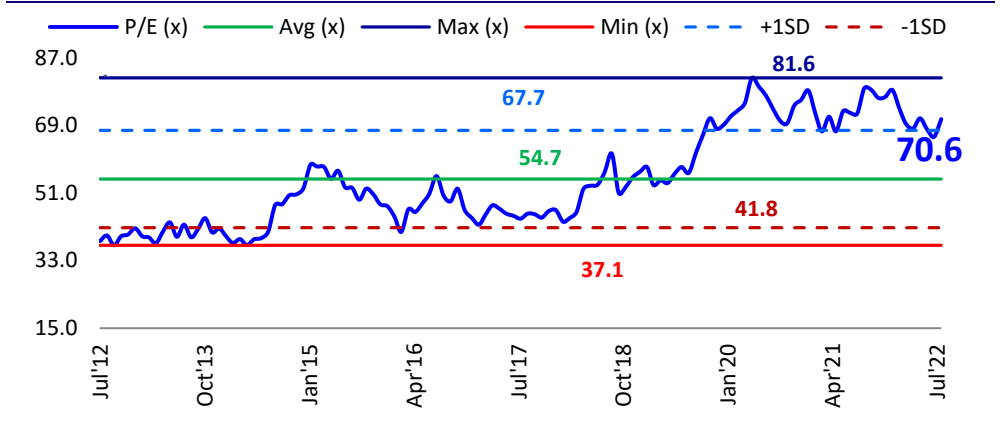
Maintain Neutral

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- Nevertheless, as highlighted in our [annual report note](#) as well as [commodity cost note](#), NEST is facing commodity cost headwinds and with four consecutive years of ad-spends to sales decline up to CY21 (to 5.5% of domestic sales in CY21, second lowest in the last seven years) the buffer to protect EBITDA margin erosion from gross margin pressures may not be available without constraining volume growth.
- NEST's valuation at 63.6x CY23E P/E is expensive and does not offer any significant upside from a one-year perspective. We value the company at 60x June'24 EPS to arrive at our TP of INR19,500. Maintain Neutral.

Exhibit 7: Model changes lead to a -2%/1.4% change in our CY22E/CY23E EPS

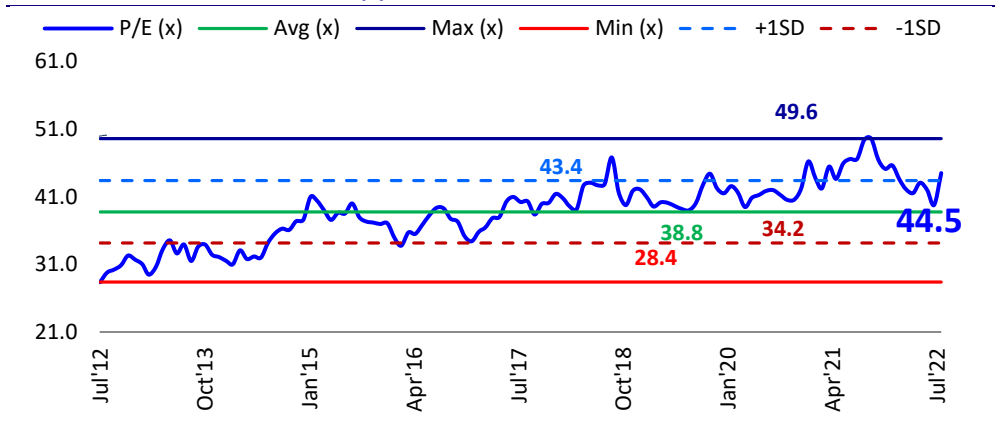
(INR b)	New estimate		Old estimate		Change (%)	
	CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
Net Sales	166.7	188.4	165.4	186.9	0.8	0.8
EBITDA	37.6	44.3	38.2	43.7	-1.5	1.3
Adjusted PAT	24.1	29.0	24.6	28.6	-2.0	1.4

Exhibit 8: NEST's P/E (x)



Source: Company, MOFSL

Exhibit 9: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E December	2017	2018	2019	2020	2021	2022E	2023E
Net Sales	100.1	112.9	123.7	133.5	147.1	166.7	188.4
Change (%)	9.5	12.8	9.5	7.9	10.2	13.4	13.0
Gross Profit	56.8	67.0	71.4	76.8	83.9	92.3	107.4
Margin (%)	56.8	59.4	57.8	57.5	57.0	55.4	57.0
Other Expenditure	34.6	39.7	42.4	44.6	48.2	54.7	63.2
EBITDA	22.2	27.3	29.1	32.2	35.7	37.6	44.3
Change (%)	9.4	23.0	6.3	10.7	10.9	5.4	17.8
Margin (%)	22.2	24.2	23.5	24.1	24.3	22.6	23.5
Depreciation	3.4	3.4	3.7	3.7	3.9	4.6	5.1
Int. and Fin. Ch.	0.9	1.1	1.3	1.6	2.0	1.8	2.0
Other Inc.- Rec.	1.8	2.6	2.5	1.5	1.2	1.0	1.6
PBT	19.6	25.4	26.5	28.3	31.0	32.2	38.7
Change (%)	13.1	29.5	4.3	6.6	9.5	4.0	20.3
Margin (%)	19.6	22.5	21.4	21.2	21.0	19.3	20.6
Tax	6.1	8.2	7.1	7.3	7.7	8.1	9.8
Tax Rate (%)	31.3	32.3	26.6	25.8	25.0	25.2	25.2
Adjusted PAT	13.5	17.2	19.5	21.0	23.2	24.1	29.0
Change (%)	13.2	27.5	13.1	7.6	10.8	3.8	20.3
Margin (%)	13.5	15.2	15.7	15.7	15.8	14.4	15.4
Non-rec. (Exp)/Inc.	1.2	1.1	0.2	0.1	1.8	0.0	0.0
Reported PAT	12.3	16.1	19.2	20.8	21.4	24.1	29.0

Balance Sheet							(INR b)
Y/E December	2017	2018	2019	2020	2021	2022E	2023E
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	33.2	35.8	18.2	19.2	19.9	19.9	19.9
Net Worth	34.2	36.7	19.2	20.2	20.8	20.8	20.9
Loans	0.4	0.4	0.5	1.5	2.7	2.7	2.7
Capital Employed	34.6	37.1	19.7	21.7	23.5	23.5	23.5
Gross Block	33.6	34.9	34.9	40.0	51.2	57.4	62.4
Less: Accum. Depn.	7.4	10.8	13.8	18.2	21.2	25.8	30.9
Net Fixed Assets	26.2	24.0	21.1	21.8	29.9	31.6	31.5
Capital WIP	0.9	1.1	1.4	6.4	2.5	2.5	2.5
Investments	19.8	26.6	18.3	15.5	22.2	22.7	23.2
Current	13.9	19.3	10.1	7.2	0.6	0.7	0.8
Non-current	5.9	7.3	8.2	8.3	21.6	22.0	22.4
Curr. Assets, L&A	26.7	29.2	30.9	35.1	27.2	33.9	37.1
Inventory	9.0	9.7	12.8	14.2	15.8	17.4	16.7
Account Receivables	0.9	1.2	1.2	1.6	1.7	1.4	1.5
Cash and Bank Balance	14.6	16.1	13.1	17.7	7.4	12.1	12.7
Others	2.2	2.2	3.7	1.6	2.4	3.0	6.2
Curr. Liab. and Prov.	37.8	43.2	51.9	57.3	58.6	67.4	71.0
Account Payables	9.8	12.4	14.9	15.2	17.3	20.2	22.0
Other Liabilities	4.2	4.6	7.0	8.4	7.0	9.9	7.5
Provisions	23.8	26.2	29.9	33.7	34.2	37.2	41.5
Net Curr. Assets	-11.1	-14.0	-21.0	-22.2	-31.4	-33.5	-33.9
Def. Tax Liability	-1.2	-0.6	-0.1	0.2	0.3	0.3	0.3
Appl. of Funds	34.6	37.1	19.7	21.7	23.5	23.5	23.5

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)							
EPS	140.0	178.6	202.0	217.4	240.8	249.9	300.6
Cash EPS	175.5	213.4	240.4	255.8	281.3	297.2	353.3
BV/Share	354.8	381.0	199.0	209.4	216.2	216.1	216.6
DPS	86.0	115.0	342.0	200.0	200.0	250.0	300.0
Payout (%)	61.4	64.4	169.3	92.0	83.0	100.1	99.8

Valuation (x)

P/E	136.4	107.0	94.6	87.9	79.3	76.5	63.6
Cash P/E	108.9	89.5	79.5	74.7	67.9	64.3	54.1
EV/Sales	18.1	15.9	14.6	13.6	12.3	10.9	9.6
EV/EBITDA	81.4	65.9	62.3	56.3	50.9	48.1	40.8
P/BV	53.9	50.1	96.0	91.2	88.4	88.4	88.2
Dividend Yield (%)	0.5	0.6	1.8	1.0	1.0	1.3	1.6

Return Ratios (%)

RoE	40.3	48.5	69.7	106.5	113.2	115.6	138.9
RoCE	41.7	50.2	71.9	107.2	109.5	108.4	129.7

Working Capital Ratios

Debtor (Days)	3.2	4.1	3.7	4.5	4.1	3.0	3.0
Asset Turnover (x)	2.8	3.1	4.3	6.5	6.6	7.2	8.1

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.1	0.1	0.1	0.1
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Cash Flow Statement

Y/E December	2017	2018	2019	2020	2021	2022E	2023E
(INR b)							
OP/(loss) before Tax	18.4	24.3	26.7	28.1	28.8	33.0	39.2
Int./Div. Received	1.4	2.5	2.4	1.4	1.2	1.0	1.6
Depn. and Amort.	3.4	3.4	3.7	3.7	3.9	4.6	5.1
Interest Paid	0.0	0.0	0.0	0.2	0.0	1.8	2.0
Direct Taxes Paid	6.0	8.8	6.7	7.0	7.3	8.1	9.8
Incr in WC	3.7	4.1	1.6	1.0	-1.5	6.9	1.0
CF from Operations	18.2	20.5	23.0	24.5	22.7	37.2	36.0
Others	0.6	-2.6	11.7	4.4	-5.6	0.2	1.1
Incr in FA	2.0	1.6	1.5	4.7	7.3	6.2	5.0
Free Cash Flow	16.2	18.9	21.4	19.8	15.4	31.0	31.0
Pur of Investments	1.1	1.6	0.2	0.0	0.0	0.5	0.5
CF from Invest.	-2.4	-5.8	10.0	-0.4	-12.9	-6.5	-4.4
Incr in Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	8.3	10.9	29.5	18.9	19.3	24.1	28.9
Others	-1.7	-2.3	-6.5	-0.7	-0.9	-1.8	-2.0
CF from Fin. Activity	-10.0	-13.2	-36.0	-19.6	-20.2	-25.9	-31.0
Incr/Decr of Cash	5.8	1.5	-3.0	4.6	-10.3	4.8	0.6
Add: Opening Balance	8.8	14.6	16.1	13.1	17.7	7.4	12.1
Closing Balance	14.6	16.1	13.1	17.7	7.4	12.1	12.7

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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