

October 19, 2022

Q3CY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY23E	CY24E	CY23E	CY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	20,111		20,178	
Sales (Rs. m)	1,87,917	2,07,019	1,85,540	2,04,343
% Chng.	1.3	1.3		
EBITDA (Rs. m)	43,264	48,606	44,156	49,315
% Chng.	(2.0)	(1.4)		
EPS (Rs.)	293.2	336.4	303.8	345.8
% Chng.	(3.5)	(2.7)		

Key Financials - Standalone

Y/e Dec	CY21	CY22E	CY23E	CY24E
Sales (Rs. bn)	147	169	188	207
EBITDA (Rs. bn)	36	38	43	49
Margin (%)	24.2	22.6	23.0	23.5
PAT (Rs. bn)	24	25	28	32
EPS (Rs.)	244.4	257.9	293.2	336.4
Gr. (%)	12.4	5.5	13.7	14.7
DPS (Rs.)	200.0	215.0	245.0	285.0
Yield (%)	1.0	1.1	1.3	1.5
RoE (%)	114.8	113.2	112.7	111.2
RoCE (%)	152.2	152.9	152.0	148.1
EV/Sales (x)	12.7	11.0	9.8	8.9
EV/EBITDA (x)	52.2	48.6	42.8	37.9
PE (x)	79.3	75.2	66.1	57.6
P/BV (x)	89.7	80.9	69.1	59.7

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.20,200 / Rs.16,000
Sensex / Nifty	58,961 / 17,487
Market Cap	Rs.1,869bn/ \$ 22,697m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1222.32m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	11.65
Domestic Institution	9.14
Public & Others	16.45
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.3	4.5	(0.3)
Relative	5.1	1.3	4.5

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Input cost pressures have peaked

Quick Pointers:

- EPS cut 3.5%/2.7% for CY23/24 due to elevated RM environment
- Margins expected to improve sequentially in 4Q22

We cut CY23/24 EPS estimates by 3.5%/2.7% following 118bps QoQ gross margin slippage in 3Q22 despite double digit topline growth and strong momentum across key brands. Growth momentum was intact across large metros & smaller towns and across channels particularly MT & OOH. Medium to long term growth drivers remain intact led by 1) sustained expansion in rural reach (~ 20% of sales) 2) availability of capacity in Maggi post expansion 3) huge scope of growth in segments like coffee, RTD & Chocolates and 4) channels of future like E-commerce as well as newly launched D2C website platform - mynestle.in (7.2% of revenues).

Although we expect Nestle to gain from lower costs of Palm oil while firm prices of food grains, coffee and milk might prevent a sharp uptick in margins in near term. We factor in EBIDTA margin decline of 170bps in CY22 and a gradual recovery of 90bps over coming couple of years. We estimate 11.2% PAT CAGR over CY21-24. We expect slow returns given near term margin pressure and rich valuations of 66.1x CY23 EPS. Maintain Accumulate with a DCF based TP of Rs 20,111 (Rs20,178 earlier).

Sales up by 18.2%, PAT up by 8.5%: Revenues grew by 18.2% YoY to Rs45.9bn (PLe: Rs 45.6bn) with domestic/export sales up by 18.3/15.7%. Gross margins contracted by 292bps YoY to 52.8% (PLe: 55.0%) impacted by higher commodity prices in edible oil, milk & its derivatives and packaging materials. EBITDA grew by 6.8% YoY to Rs10.2bn (PLe: Rs 10.6bn); Margins contracted by 238bps YoY to 22.1% (PLe:23.3%). Lower employee cost (90bps) as a % of sales helped to partially offset the raw material pressure while other expenses were higher (40bps) due to increase in fuel prices. Adjusted PAT grew by 8.5% YoY to Rs6.7bn (PLe: Rs 7.0bn). Board declares 2nd interim dividend of Rs120/share. Total dividend for 9M CY22 aggregates to Rs145/share.

Strong growth across key brands, input pressures to remain in near term: MAGGI noodles, MILKMAID, NESCAFÉ Classic and Sunrise reported strong digit growth led by 1) aggressive media campaigns 2) consumer promotions 3) distribution expansion 4) focused distribution drives and 5) festive season. Price outlook of key commodities like edible oil and packaging have seen early signs of stability while milk, fuel, wheat and coffee are expected to remain firm with increase in demand and volatility.

Expect gross margin improvement in 4Q22: NEST continues to witness headwinds in commodity prices across edible oils, milk & its derivatives and packaging materials which were partly offset by pricing actions. Stability in edible oil and packaging material prices can be seen but milk, fuel, wheat and coffee prices remain firm.

Exhibit 1: 3QCY22 Results: Revenue up 18.2% YoY; Gross Margins contract by 292bps

Y/e Dec (Rs mn)	3QCY22	3QCY21	YoY gr. (%)	2QCY22	QoQ gr. (%)	9MCY22	9MCY21	YoY gr. (%)
Net Sales	45,910	38,826	18.2	40,366	13.7	1,26,083	1,09,701	14.9
Gross Profit	24,231	21,627	12.0	21,782	11.2	68,063	62,579	8.8
<i>% of NS</i>	52.8	55.7	-2.9	54.0	-1.2	54.0	57.0	-3.1
Other Expenses	14,064	12,104	16.2	13,291	5.8	40,097	35,416	13.2
EBITDA	10,166	9,523	6.8	8,492	19.7	27,966	27,163	3.0
<i>Margins (%)</i>	22.1	24.5	-2.4	21.0	1.1	22.2	24.8	-2.6
Depreciation	981	955	2.7	1,016	(3.4)	3,039	2,851	6.6
Interest	370	519	(28.7)	370	0.0	1,095	1,576	(30.5)
Other Income	306	337	(9.0)	194	58.2	715	928	(23.0)
PBT	9,122	8,386	8.8	7,300	25.0	24,546	23,663	3.7
Tax	2,379	2,169	9.7	1,850	28.6	6,344	6,282	1.0
<i>Effective tax rate (%)</i>	26.1	25.9		25.3		25.8	26.5	
Adjusted PAT	6,743	6,217	8.5	5,450	23.7	18,202	17,381	4.7

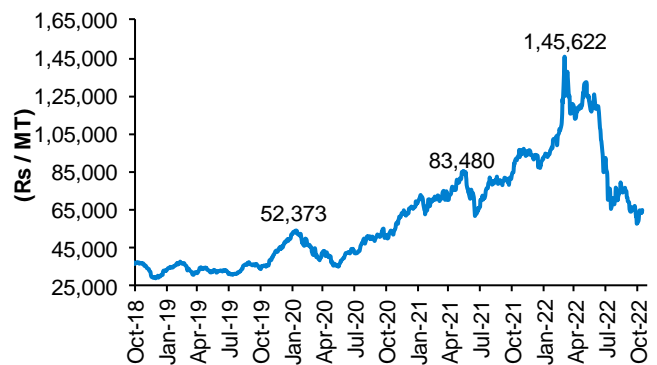
Source: Company, PL

Exhibit 2: Coffee prices up 23.4% YoY and -1.3% QoQ



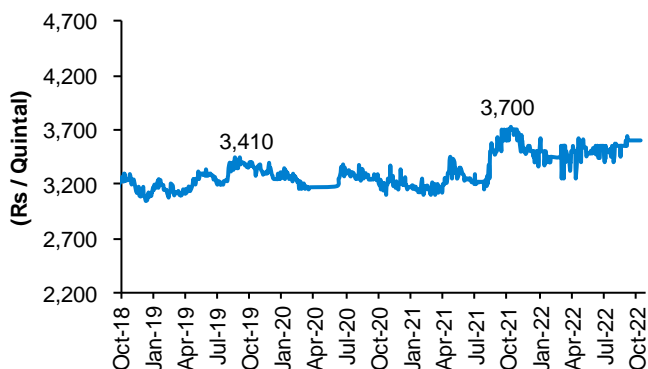
Source: Company, PL

Exhibit 3: Palmoil down 9.6% YoY and 38.1% QoQ



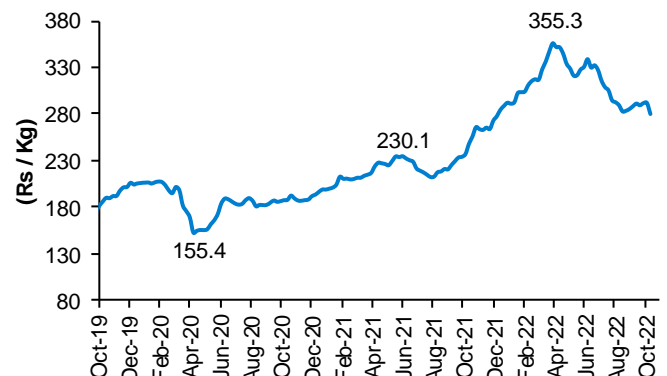
Source: Company, PL

Exhibit 4: Sugar up 4.0% YoY and 1.0% QoQ



Source: Company, PL

Exhibit 5: SMP prices up 32.7% YoY and -12.0% QoQ



Source: Bloomberg, PL

Exhibit 6: Prepared dishes and chocolates to drive long term volume growth

Y/e March	CY19	CY20	CY21	CY22E	CY23E	CY24E
Milk Products						
Volume (MT)	1,38,941	1,38,402	1,34,669	1,37,362	1,40,110	1,43,192
<i>Volume growth</i>	1.4%	-0.4%	-2.7%	2.0%	2.0%	2.2%
Sales Value (Rs m)	56,518	61,488	62,686	67,776	71,897	76,418
<i>Growth in Value</i>	8.9%	8.8%	1.9%	8.1%	6.1%	6.3%
<i>% of sales</i>	46.0%	46.3%	42.8%	40.3%	38.4%	37.1%
Beverages						
Volume (MT)	26,380	20,772	24,507	26,713	29,384	31,735
Value (Rs m)	15,018	14,763	16,918	21,207	24,261	26,726
<i>Growth in Volume</i>	-2.3%	-21.3%	18.0%	9.0%	10.0%	8.0%
<i>Growth in Value</i>	-1.4%	-1.7%	14.6%	25.4%	14.4%	10.2%
<i>%Sales</i>	12.2%	11.1%	11.6%	12.6%	13.0%	13.0%
Prepared Dishes & Cooking Aids						
Volume (MT)	2,64,072	2,81,392	3,27,659	3,66,978	4,07,346	4,48,080
Value (Rs m)	34,982	39,108	45,501	53,764	61,469	68,968
<i>Growth in Volume</i>	9.6%	6.6%	16.4%	12.0%	11.0%	10.0%
<i>Growth in Value</i>	12.7%	11.8%	16.3%	18.2%	14.3%	12.2%
<i>%Sales</i>	28.5%	29.4%	31.1%	32.0%	32.9%	33.5%
Chocolate & Confectionery						
Volume (MT)	49,033	50,358	55,648	60,656	67,935	76,087
Value (Rs.mn)	16,435	17,301	19,501	21,681	24,768	28,295
Realisation (Rs./Kg)	335	344	350	357	365	372
<i>Growth in volume</i>	16.2%	2.7%	10.5%	9.0%	12.0%	12.0%
<i>Growth in Value</i>	17.3%	5.3%	12.7%	11.2%	14.2%	14.2%
<i>Growth in Realisations</i>	1.0%	2.5%	2.0%	2.0%	2.0%	2.0%
<i>% Sales</i>	13.4%	13.0%	13.3%	12.9%	13.2%	13.7%

Source: Company, PL

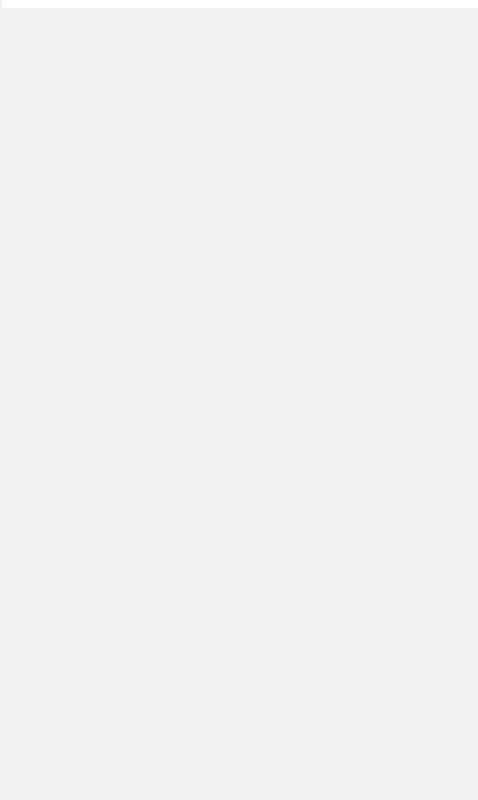
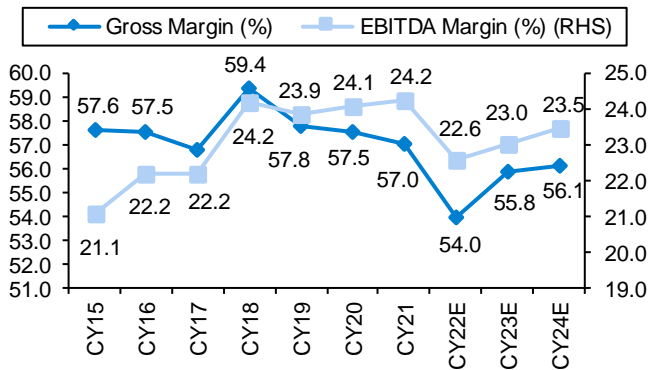
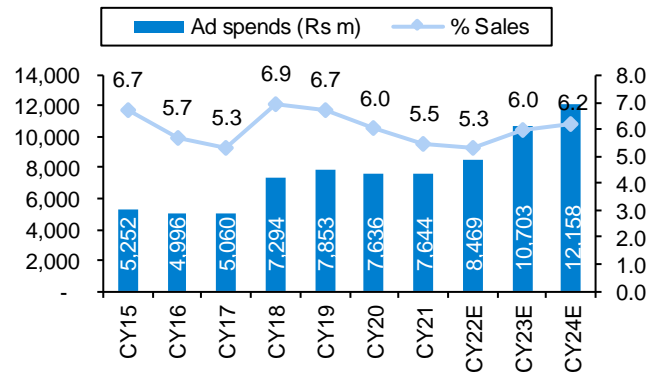


Exhibit 7: Gross Margins expected to decline in CY22



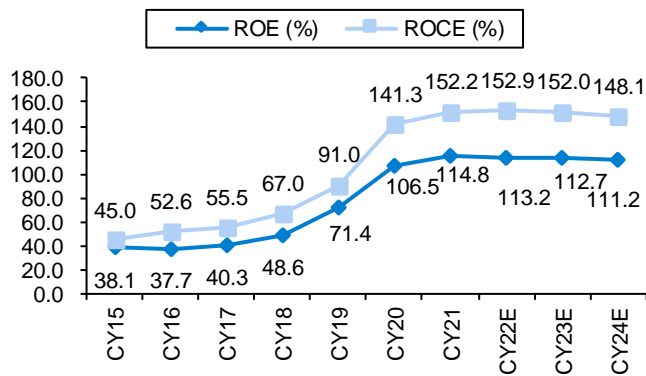
Source: Company, PL

Exhibit 8: Ad spends to increase gradually



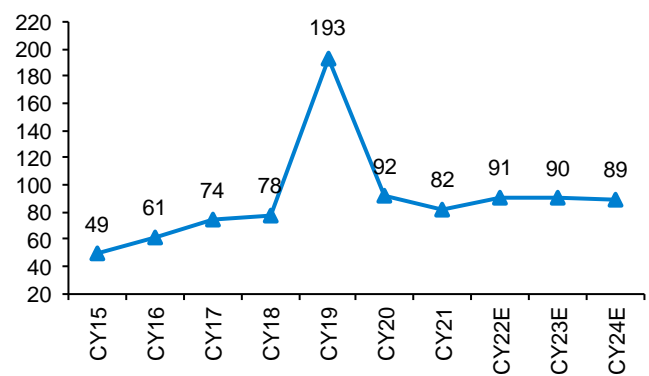
Source: Company, PL

Exhibit 9: ROE and ROCE remain healthy



Source: Company, PL

Exhibit 10: Expect 85-90% dividend payout



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Net Revenues	1,47,094	1,69,118	1,87,917	2,07,019
YoY gr. (%)	10.2	15.0	11.1	10.2
Cost of Goods Sold	63,189	77,796	82,980	90,804
Gross Profit	83,905	91,323	1,04,938	1,16,215
Margin (%)	57.0	54.0	55.8	56.1
Employee Cost	15,213	16,820	18,886	20,599
Other Expenses	16,768	18,330	22,451	24,790
EBITDA	35,664	38,197	43,264	48,606
YoY gr. (%)	10.9	7.1	13.3	12.3
Margin (%)	24.2	22.6	23.0	23.5
Depreciation and Amortization	3,902	4,120	4,735	5,001
EBIT	31,762	34,077	38,529	43,605
Margin (%)	21.6	20.1	20.5	21.1
Net Interest	2,012	1,466	1,639	1,802
Other Income	1,201	990	1,311	2,026
Profit Before Tax	30,951	33,602	38,201	43,829
Margin (%)	21.0	19.9	20.3	21.2
Total Tax	7,389	8,737	9,932	11,396
Effective tax rate (%)	23.9	26.0	26.0	26.0
Profit after tax	23,562	24,865	28,269	32,433
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	23,562	24,865	28,269	32,433
YoY gr. (%)	12.4	5.5	13.7	14.7
Margin (%)	16.0	14.7	15.0	15.7
Extra Ord. Income / (Exp)	(2,113)	(1,377)	(197)	(217)
Reported PAT	21,449	23,488	28,072	32,217
YoY gr. (%)	3.0	9.5	19.5	14.8
Margin (%)	14.6	13.9	14.9	15.6
Other Comprehensive Income	(1,514)	(500)	(500)	(500)
Total Comprehensive Income	19,935	22,988	27,572	31,717
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	244.4	257.9	293.2	336.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Non-Current Assets				
Gross Block	73,390	80,167	84,798	89,314
Tangibles	73,390	80,167	84,798	89,314
Intangibles	-	-	-	-
Acc: Dep / Amortization	43,451	47,147	51,544	56,291
Tangibles	43,451	47,147	51,544	56,291
Intangibles	-	-	-	-
Net fixed assets	29,940	33,020	33,254	33,023
Tangibles	29,940	33,020	33,254	33,023
Intangibles	-	-	-	-
Capital Work In Progress	2,462	2,585	2,715	2,850
Goodwill	-	-	-	-
Non-Current Investments	7,598	7,696	7,761	7,828
Net Deferred tax assets	258	695	1,192	1,762
Other Non-Current Assets	14,746	15,137	15,540	15,955
Current Assets				
Investments	7,430	8,831	17,297	26,367
Inventories	15,802	18,177	19,529	21,349
Trade receivables	1,653	1,843	2,049	2,257
Cash & Bank Balance	557	3,397	2,142	1,316
Other Current Assets	1,040	1,144	1,259	1,385
Total Assets	82,099	93,237	1,03,522	1,14,955
Equity				
Equity Share Capital	964	964	964	964
Other Equity	19,881	22,140	26,090	30,328
Total Network	20,845	23,104	27,054	31,293
Non-Current Liabilities				
Long Term borrowings	275	275	275	275
Provisions	32,845	35,475	38,426	41,645
Other non current liabilities	2,102	2,261	2,807	3,266
Current Liabilities				
ST Debt / Current of LT Debt	66	-	-	-
Trade payables	17,349	21,314	22,734	24,878
Other current liabilities	8,618	10,808	12,226	13,598
Total Equity & Liabilities	82,099	93,237	1,03,522	1,14,954

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
PBT	30,951	33,602	38,201	43,829
Add. Depreciation	3,902	4,120	4,735	5,001
Add. Interest	2,012	1,466	1,639	1,802
Less Financial Other Income	1,201	990	1,311	2,026
Add. Other	(17,844)	(1,889)	(368)	(1,109)
Op. profit before WC changes	19,021	37,299	44,207	49,523
Net Changes-WC	15,593	1,923	(7,438)	(7,859)
Direct tax	(7,389)	(8,737)	(9,932)	(11,396)
Net cash from Op. activities	27,225	30,485	26,837	30,268
Capital expenditures	(8,124)	(7,323)	(5,098)	(4,906)
Interest / Dividend Income	1,958	1,904	2,235	3,056
Others	301	-	-	-
Net Cash from Invt. activities	(5,865)	(5,418)	(2,863)	(1,850)
Issue of share cap. / premium	-	-	-	-
Debt changes	(8)	(66)	-	-
Dividend paid	(19,283)	(20,729)	(23,622)	(27,478)
Interest paid	(2,012)	(1,466)	(1,639)	(1,802)
Others	-	-	-	-
Net cash from Fin. activities	(21,303)	(22,261)	(25,261)	(29,280)
Net change in cash	58	2,805	(1,287)	(862)
Free Cash Flow	19,101	23,162	21,738	25,362

Source: Company Data, PL Research

Key Financial Metrics

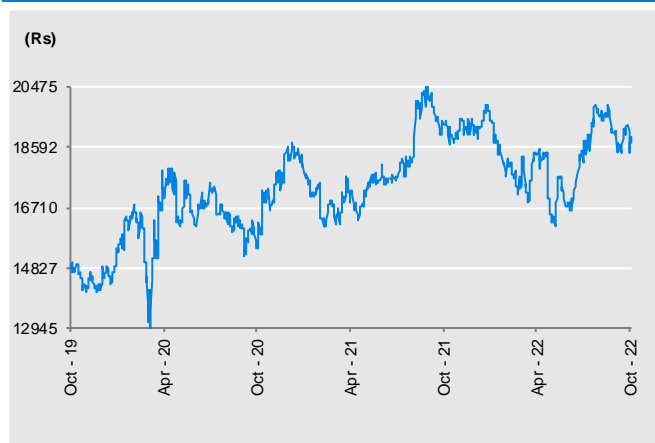
Y/e Dec	CY21	CY22E	CY23E	CY24E
Per Share(Rs)				
EPS	244.4	257.9	293.2	336.4
CEPS	284.8	300.6	342.3	388.3
BVPS	216.2	239.6	280.6	324.6
FCF	198.1	240.2	225.5	263.1
DPS	200.0	215.0	245.0	285.0
Return Ratio(%)				
RoCE	152.2	152.9	152.0	148.1
ROIC	42.9	42.1	45.8	50.0
RoE	114.8	113.2	112.7	111.2
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.7)	(0.9)
Net Working Capital (Days)	0	(3)	(2)	(2)
Valuation(x)				
PER	79.3	75.2	66.1	57.6
P/B	89.7	80.9	69.1	59.7
P/CEPS	284.8	300.6	342.3	388.3
EV/EBITDA	52.2	48.6	42.8	37.9
EV/Sales	12.7	11.0	9.8	8.9
Dividend Yield (%)	1.0	1.1	1.3	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q4CY21	Q1CY22	Q2CY22	Q3CY22
Net Revenue	37,393	39,807	40,366	45,910
YoY gr. (%)	8.9	10.2	16.1	18.2
Raw Material Expenses	16,067	17,757	18,583	21,679
Gross Profit	21,326	22,050	21,782	24,231
Margin (%)	57.0	55.4	54.0	52.8
EBITDA	8,513	9,308	8,492	10,166
YoY gr. (%)	10.0	0.1	1.8	6.8
Margin (%)	22.8	23.4	21.0	22.1
Depreciation / Depletion	1,058	1,043	1,016	981
EBIT	7,456	8,265	7,476	9,185
Margin (%)	19.9	20.8	18.5	20.0
Net Interest	436	356	370	370
Other Income	273	214	194	306
Profit before Tax	7,293	8,124	7,300	9,122
Margin (%)	19.5	20.4	18.1	19.9
Total Tax	1,205	2,115	1,850	2,379
Effective tax rate (%)	16.5	26.0	25.3	26.1
Profit after Tax	6,088	6,008	5,450	6,743
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,088	6,008	5,450	6,743
YoY gr. (%)	26.8	(0.2)	3.9	8.5
Margin (%)	16.3	15.1	13.5	14.7
Extra Ord. Income / (Exp)	(2,221)	(61)	(297)	(60)
Reported PAT	3,867	5,947	5,153	6,683
YoY gr. (%)	(20.0)	(1.3)	(4.3)	8.3
Margin (%)	10.3	14.9	12.8	14.6
Other Comprehensive Income	(454)	1	13	31
Total Comprehensive Income	3,412	5,948	5,167	6,714
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	63.1	62.3	56.5	69.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Accumulate	20,178	18,966
2	28-Jul-22	Accumulate	19,721	19,112
3	07-Jul-22	Accumulate	19,426	18,205
4	21-Apr-22	Accumulate	19,426	18,203
5	08-Apr-22	Accumulate	19,626	18,453
6	17-Feb-22	Accumulate	19,120	18,126
7	06-Jan-22	Accumulate	18,723	19,936
8	29-Oct-21	Accumulate	19,501	18,965

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,446	3,303
2	Avenue Supermarts	BUY	5,121	4,306
3	Britannia Industries	Hold	4,026	3,769
4	Colgate Palmolive	Accumulate	1,702	1,579
5	Dabur India	Accumulate	604	557
6	Emami	Accumulate	574	499
7	Hindustan Unilever	Accumulate	2,827	2,623
8	ITC	Accumulate	340	324
9	Jubilant FoodWorks	BUY	688	615
10	Kansai Nerolac Paints	Accumulate	558	495
11	Marico	Hold	523	527
12	Mold-tek Packaging	Accumulate	898	858
13	Nestle India	Accumulate	20,178	18,966
14	Pidilite Industries	Hold	2,691	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,608	2,433
17	Westlife Development	BUY	847	719

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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