

Estimate changes 

TP change 

Rating change 

Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USD\$b)	1904.7 / 22.9
52-Week Range (INR)	20200 / 16000
1, 6, 12 Rel. Per (%)	5/5/6
12M Avg Val (INR M)	1173

Financials & Valuations (INR b)

Y/E Dec	2021	2022E	2023E
Sales	147.1	167.5	189.3
Sales Gr. (%)	10.2	13.9	13.0
EBITDA	35.7	36.1	44.5
Margin (%)	24.3	21.6	23.5
Adj. PAT	23.2	23.6	29.4
Adj. EPS (INR)	240.8	244.8	305.2
EPS Gr. (%)	10.8	1.7	24.7
BV/Sh.(INR)	216.2	211.0	216.2
Ratios			
RoE (%)	113.2	114.6	142.9
RoCE (%)	109.5	106.3	131.8
Payout (%)	83.0	102.1	98.3
Valuations			
P/E (x)	82.0	80.7	64.7
P/BV (x)	91.4	93.6	91.4
EV/EBITDA (x)	52.6	51.8	42.0
Div. Yield (%)	1.0	1.3	1.5

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: INR19,755

TP: INR18,700 (-5%)

Neutral

EBITDA in-line; fair valuation limits upside

- Nestlé India (NEST) delivered a slight beat on our sales estimates. Sales growth was driven by double-digit YoY growth across segments, led by better volumes, mix and higher realizations. While demand and sentiment remained strong in metros, it was robust across smaller towns and rural markets as well – an encouraging development.
- Gross margin came in 170bp lower than our estimate, on account of higher commodity costs for key inputs. However, management commentary points to early signs of softening in edible oils and packaging materials even as fresh milk, fuels, grains, and green coffee costs remain firm. Nevertheless, we believe gross margin may have bottomed out in 3QCY22 and a recovery led by lower input costs and better realizations is imminent in the coming quarters.
- The e-commerce channel continued to deliver robust growth and accounted for 7.2% of 3QCY22 sales. NEST has doubled-down on this channel by announcing the launch of its [D2C platform](#) in the NCR region and plans to expand its presence to other parts of the country.
- We value the stock at 55x Sep'24 EPS to arrive at our TP of INR18,700. We reiterate our **Neutral** stance on fair valuations.

Sales beat; gross margin pressure higher than expected

- **NEST reported net sales growth of 18.2% YoY to INR45.9b (est. INR43.5b).** Domestic sales grew 18.3% YoY, driven by volume and mix. Export sales grew 15.7% YoY to INR2.1b.
- **Gross margin contracted 290bp YoY to 52.8%** (est. 54.5%).
- **EBITDA** grew 6.8% YoY at INR10.2b (in-line). EBITDA margin contracted 240bp YoY to 22.1% (est. 22.7%).
- **PBT** grew 8.8% YoY to INR9.1b (est. INR8.6b).
- **Adj. PAT rose 8.5% YoY to INR6.7b (est. INR6.4b).**
- The company has declared second interim dividend of INR120/share.

Segmental highlights

- **Prepared Dishes and Cooking Aids:** Growth was driven by Maggi noodles, aided by media and distribution expansion.
- **Milk Products and Nutrition:** Decent segmental performance with strong growth in Milkmaid.
- **Confectionery** continued its strong performance, aided by aggressive media campaigns, festive and consumer promotions and distribution drives.
- **Beverages:** Strong growth in Nescafé Classic, Sunrise, and vending mixes.

Key highlights from the management commentary

- **Revenue:** Achieved **highest quarterly sales in the last five years** on the back of strong volume and mix. Witnessed double-digit growth across all categories.
- **Commodity costs:** witnessing stability in prices of edible oils and packaging materials. However, **fresh milk, fuels, grains, and green coffee costs are expected to remain firm** with continued increase in demand and volatility.
- **D2C platform:** It has launched a D2C platform www.mynestle.in during the quarter. Initially, it will be launched in Delhi NCR, and subsequently, will expand to other parts of the country.

- **E-commerce** channel showed increased acceleration and **contributed 7.2% to sales**. Organized trade channels are witnessing strong growth across categories on account of **high footfalls**.
- **OOH channel grew at a robust pace**, driven by faster channel reopening and business-led initiatives.

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.
- Even as some major input prices have started to soften, NEST continues to face 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 is limited.
- NEST's valuation at ~64.7x CY23E P/E is expensive and does not offer any significant upside from a one-year perspective. We value the company at 55x Sep'24 EPS to arrive at our TP of INR18,700. We reiterate our **Neutral** rating on the stock.

Quarterly performance

Y/E December	(INR b)											
	CY21				CY22				CY21	CY22E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE		
Net Sales	36.1	34.8	38.8	37.4	39.8	40.4	45.9	41.4	147.1	167.5	43.5	5.6%
YoY Change (%)	8.6	14.0	9.6	8.9	10.2	16.1	18.2	10.8	10.2	13.9	12.0	
Gross Profit	21.1	19.8	21.6	21.3	22.0	21.8	24.2	23.0	83.9	91.1	23.7	
Margin (%)	58.5	57.0	55.7	57.0	55.4	54.0	52.8	55.5	57.0	54.4	54.5	
EBITDA	9.3	8.3	9.5	8.5	9.3	8.5	10.2	8.2	35.7	36.1	9.9	3.0%
Margins (%)	25.8	24.0	24.5	22.8	23.4	21.0	22.1	19.7	24.3	21.6	22.7	
YoY Growth (%)	16.2	9.9	5.9	12.4	0.1	1.8	6.8	(4.0)	10.9	1.3	3.7	
Depreciation	0.9	1.0	1.0	1.1	1.0	1.0	1.0	1.0	3.9	4.1	1.1	
Interest	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	2.0	1.5	0.5	
Other income	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3	1.2	1.0	0.3	
PBT	8.1	7.2	8.4	7.3	8.1	7.3	9.1	7.0	31.0	31.6	8.6	6.5%
Tax	2.1	1.9	2.2	1.6	2.1	1.9	2.4	1.6	7.7	8.0	2.2	
Rate (%)	25.8	26.8	25.9	21.4	26.0	25.3	26.1	22.9	25.0	25.2	25.2	
Adjusted PAT	6.0	5.2	6.2	5.7	6.0	5.5	6.7	5.4	23.2	23.6	6.4	5.2%
YoY Change (%)	13.1	5.4	3.2	23.6	(0.3)	3.9	8.5	(5.8)	10.8	1.7	3.1	

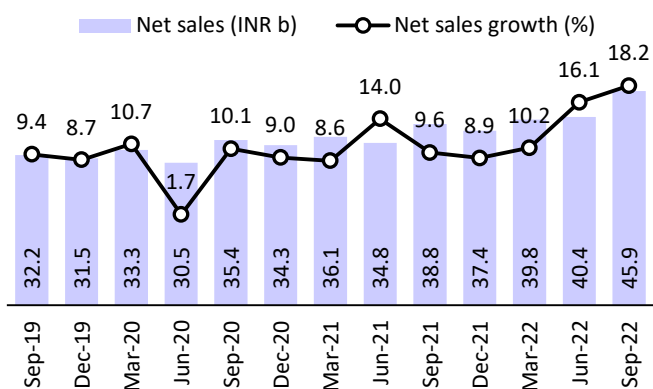
E: MOFSL Estimates

Key Performance Indicators

Y/E December	CY21				CY22		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
2Y average growth (%)							
Sales	9.7	7.8	9.9	9.0	9.4	15.0	13.9
EBITDA	10.4	7.5	11.0	11.1	8.1	5.9	6.3
PAT	12.7	8.3	1.5	11.4	6.4	4.7	5.8
% of Sales							
COGS	41.5	43.0	44.3	43.0	44.6	46.0	47.2
Employee Expenses	10.2	10.9	10.0	10.3	10.0	10.1	9.1
Other Expenses	22.6	22.1	21.2	23.9	22.0	22.8	21.5
Depreciation	2.6	2.7	2.5	2.8	2.6	2.5	2.1
YoY change (%)							
COGS	3.1	12.2	15.9	14.4	18.6	24.3	26.1
Employee Expenses	2.7	2.4	5.0	-4.1	7.8	7.9	7.6
Other Expenses	14.3	30.3	4.2	3.1	7.7	19.6	20.2
Other Income	-30.8	-22.3	-2.3	-10.7	-27.7	-34.3	-9.0
EBIT	17.9	10.9	6.0	12.6	-1.2	1.2	7.2

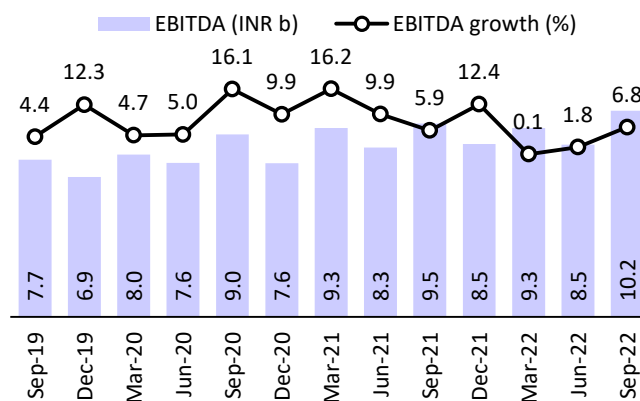
Key exhibits

Exhibit 1: Net sales up 18.2% YoY to INR45.9b



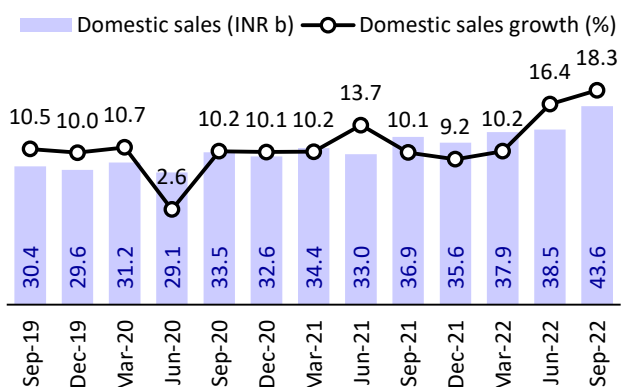
Sources: Company reports, MOFSL

Exhibit 2: EBITDA rose 6.8% YoY to INR10.2b



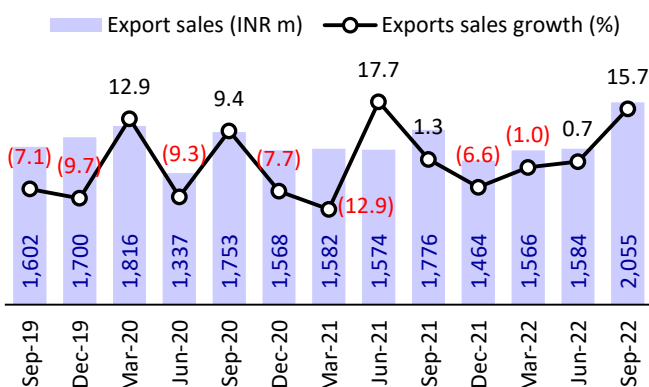
Source: Company reports, MOFSL

Exhibit 3: Domestic sales rose 18.3% YoY to INR43.6b



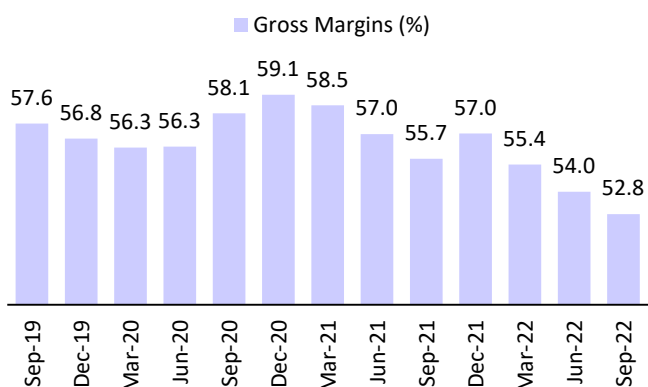
Sources: Company reports, MOFSL

Exhibit 4: Exports grew by 15.7% YoY to INR2,055m



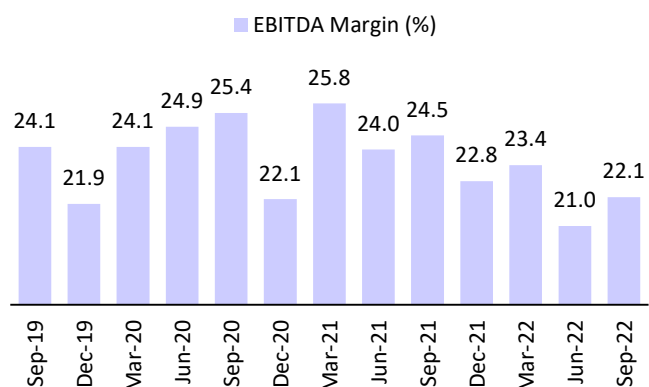
Sources: Company reports, MOFSL

Exhibit 5: Gross margin at a multi-quarter low



Sources: Company reports, MOFSL

Exhibit 6: EBITDA margin contracted 240bp YoY to 22.1%



Sources: Company reports, MOFSL

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).

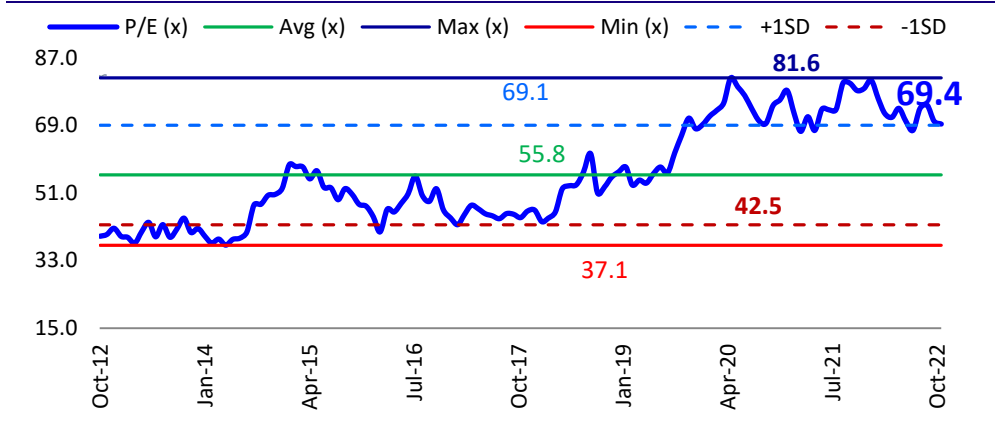
Reiterate Neutral rating

- 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 the recent years provides confidence in execution as well.
- Even as some major input prices have started to soften, NEST continues to face 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 is limited.
- NEST's valuation at ~65x CY23E P/E is expensive and does not offer any significant upside from a one-year perspective. We value the company at 55x Sep'24 EPS to arrive at our TP of INR18,700. We reiterate our **Neutral** rating on the stock.

Exhibit 7: There are no material changes to our EPS forecasts for CY22 and CY23

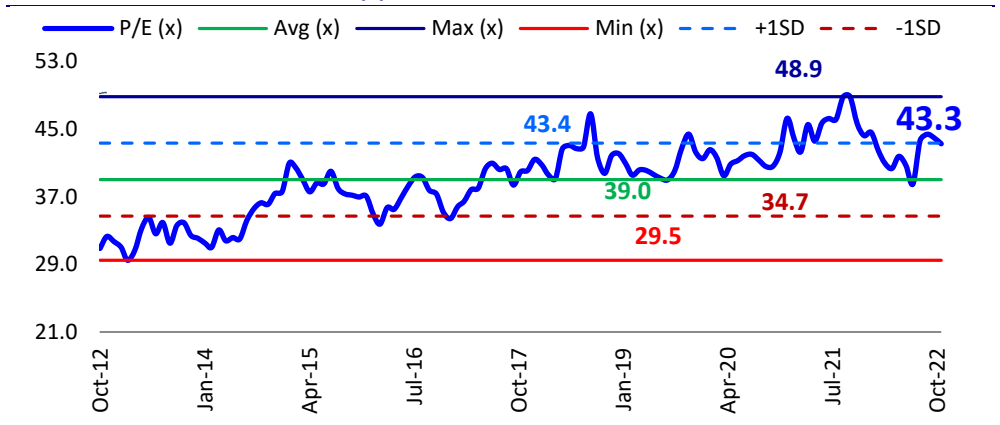
(INR b)	New estimate		Old estimate		Change (%)	
	CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
Net Sales	167.5	189.3	166.7	188.4	0.5	0.5
EBITDA	36.1	44.5	36.8	44.3	-1.7	0.5
Adjusted PAT	23.6	29.4	23.6	29.1	0.2	1.3

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



Sources: Company reports, MOFSL

Exhibit 9: Consumer sector P/E (x)



Sources: Company reports, 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	167.5	189.3
Change (%)	9.5	12.8	9.5	7.9	10.2	13.9	13.0
Gross Profit	56.8	67.0	71.4	76.8	83.9	91.1	108.0
Margin (%)	56.8	59.4	57.8	57.5	57.0	54.4	57.0
Other Expenditure	34.6	39.7	42.4	44.6	48.2	54.9	63.4
EBITDA	22.2	27.3	29.1	32.2	35.7	36.1	44.5
Change (%)	9.4	23.0	6.3	10.7	10.9	1.3	23.2
Margin (%)	22.2	24.2	23.5	24.1	24.3	21.6	23.5
Depreciation	3.4	3.4	3.7	3.7	3.9	4.1	5.1
Int. and Fin. Ch.	0.9	1.1	1.3	1.6	2.0	1.5	1.6
Other Inc.- Rec.	1.8	2.6	2.5	1.5	1.2	1.0	1.5
PBT	19.6	25.4	26.5	28.3	31.0	31.6	39.3
Change (%)	13.1	29.5	4.3	6.6	9.5	1.9	24.7
Margin (%)	19.6	22.5	21.4	21.2	21.0	18.8	20.8
Tax	6.1	8.2	7.1	7.3	7.7	8.0	9.9
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	23.6	29.4
Change (%)	13.2	27.5	13.1	7.6	10.8	1.7	24.7
Margin (%)	13.5	15.2	15.7	15.7	15.8	14.1	15.5
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	23.6	29.4

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	19.4	19.9
Net Worth	34.2	36.7	19.2	20.2	20.8	20.3	20.8
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	23.0	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	25.3	30.4
Net Fixed Assets	26.2	24.0	21.1	21.8	29.9	32.1	32.0
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	33.5	36.7
Inventory	9.0	9.7	12.8	14.2	15.8	17.7	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	11.4	12.3
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	68.0	71.1
Account Payables	9.8	12.4	14.9	15.2	17.3	20.7	22.1
Other Liabilities	4.2	4.6	7.0	8.4	7.0	10.0	7.5
Provisions	23.8	26.2	29.9	33.7	34.2	37.3	41.5
Net Curr. Assets	-11.1	-14.0	-21.0	-22.2	-31.4	-34.5	-34.4
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	23.0	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	244.8	305.2
Cash EPS	175.5	213.4	240.4	255.8	281.3	287.0	357.9
BV/Share	354.8	381.0	199.0	209.4	216.2	211.0	216.2
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	102.1	98.3
Valuation (x)							
P/E	141.1	110.6	97.8	90.9	82.0	80.7	64.7
Cash P/E	112.6	92.6	82.2	77.2	70.2	68.8	55.2
EV/Sales	18.7	16.5	15.1	14.0	12.8	11.2	9.9
EV/EBITDA	84.2	68.2	64.5	58.2	52.6	51.8	42.0
P/BV	55.7	51.8	99.3	94.3	91.4	93.6	91.4
Dividend Yield (%)	0.4	0.6	1.7	1.0	1.0	1.3	1.5
Return Ratios (%)							
RoE	40.3	48.5	69.7	106.5	113.2	114.6	142.9
RoCE	41.7	50.2	71.9	107.2	109.5	106.3	131.8
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	7.3	8.2
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.1	0.1	0.1	0.1

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	32.1	39.4
Int./Div. Received	1.4	2.5	2.4	1.4	1.2	1.0	1.5
Depn. and Amort.	3.4	3.4	3.7	3.7	3.9	4.1	5.1
Interest Paid	0.0	0.0	0.0	0.2	0.0	1.5	1.6
Direct Taxes Paid	6.0	8.8	6.7	7.0	7.3	8.0	9.9
Incr in WC	3.7	4.1	1.6	1.0	-1.5	7.2	0.8
CF from Operations	18.2	20.5	23.0	24.5	22.7	35.9	35.5
Others	0.6	-2.6	11.7	4.4	-5.6	0.5	1.4
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	29.7	30.5
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	-6.2	-4.1
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	-1.5	-1.6
CF from Fin. Activity	-10.0	-13.2	-36.0	-19.6	-20.2	-25.6	-30.6
Incr/Decr of Cash	5.8	1.5	-3.0	4.6	-10.3	4.0	0.9
Add: Opening Balance	8.8	14.6	16.1	13.1	17.7	7.4	11.4
Closing Balance	14.6	16.1	13.1	17.7	7.4	11.4	12.3

E: MOFSL Estimates

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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