Nestle India

BSE SENSEX	S&P CNX
57,614	16,952

Stock Info

Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	1825 / 22.2
52-Week Range (INR)	21053 / 16000
1, 6, 12 Rel. Per (%)	3/0/14
12M Avg Val (INR M)	1206
Free float (%)	37.2

Financials Snapshot (INR b)

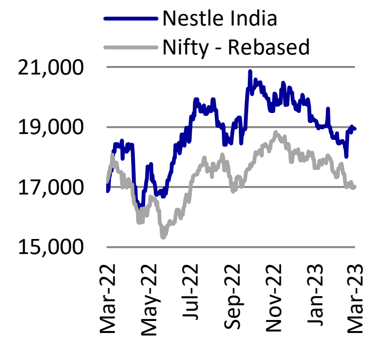
Y/E Dec	2022	2023E	2024E
Sales	169.0	191.2	226.3
Sales Gr. (%)	14.6	13.2	18.4
EBITDA	37.1	43.6	53.1
Margins (%)	22.0	22.8	23.5
Adj. PAT	23.9	27.9	33.6
Adj. EPS (INR)	247.9	289.2	348.3
EPS Gr. (%)	3.1	16.6	20.4
BV/Sh.(INR)	255.0	244.2	252.5
Ratios			
RoE (%)	105.2	115.8	140.2
RoCE (%)	98.6	108.8	131.1
Payout (%)	84.7	103.7	97.6
Valuations			
P/E (x)	76.3	65.5	54.4
P/BV (x)	74.2	77.5	75.0
EV/EBITDA (x)	48.4	41.2	34.0
Div. Yield (%)	1.1	1.6	1.8

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	62.8	62.8	62.8
DII	9.1	8.9	7.9
FII	12.1	12.1	12.4
Others	16.1	16.3	17.0

FII Includes depository receipts

Stock performance (one-year)



CMP: INR18,929 TP: INR19,900 (+5%) Neutral

Setting up new building blocks

Decline in ad spends-to-sales ratio remains concerning

NEST's CY22 annual report highlights its underlying strengths and the company remains one of the strongest revenue growth opportunities in the Indian Consumer universe. The key takeaways are as follows:

- **The company's overall volume growth in CY22 stood at only ~5%, as it was adversely impacted by a sharp dip in volumes towards the end of the year. Given the unfavorable operating environment, NEST's volume growth was healthy and better than its peers. The company does not disclose volume growth in its interim results. In CY22, the company witnessed strong volume growth in Beverages (up ~14% YoY) and Chocolate and Confectionery (up ~12% YoY). On the other hand, volume growth was muted in the case of Prepared Dishes and Cooking Aids (up 5.7%, lowest since the Maggi crisis in 2015). Since Prepared Dishes constitutes ~61% of total volumes v/s ~32% of sales, the company's overall volume growth was adversely impacted.**
- **Volumes in Milk and Nutrition (M&N, 41%/23% of total sales/volumes) were flattish in CY22, continuing with its disappointing trend. The segment has been reporting flattish volumes/decline in volumes for the past four out of five years. Volume growth has been robust across the other segments. Prepared Dishes and Confectionery segments have clocked double-digit volume CAGR since 2016, when Mr. Suresh Narayanan took charge. M&N tonnage in CY22 was in line with CY09 levels.**
- **Ad spends (not shared in interim results) were down ~10% YoY on an absolute basis. While other staples peers have also cut their ad spends, for NEST, ad spends as a percentage of sales stood at 4.3% in CY22, the lowest in over three decades. It had last been at 4.4-4.5% levels in the CY11-CY13 period, when NEST was underinvesting in the business. Given that the company has been registering double-digit revenue growth over the last few years, driven by higher investments in ad spends, the decline in ad spends-to-sales ratio is disappointing. It is in fact the fifth consecutive year of dip in ad spends to sales. Rising commodity costs could have contributed to the drop in ad spends (gross margin dipped 280bp YoY) and with the management expecting continued pressure on raw materials, ad spends-to-sales ratio needs to be monitored.**
- **Amid the COVID-19 pandemic, the management's prime focus was on its core business; however, the company still managed to maintain a healthy pace of launches as compared to its peers. Since CY16, NEST has launched over 110 products.**
- **Valuations are expensive at 54.4x CY24E EPS, preventing us from turning constructive on the stock. We have a Neutral rating on the stock.**

Healthy volume growth in Beverages and Confectionery

- NEST reported a healthy 14.6% YoY sales growth in CY22, but its volume growth stood at only ~5%, adversely impacted by high inflation toward the end of the year. Healthy volume growth in Beverages (up ~14% YoY) and Chocolates and Confectionery (up ~12% YoY) was offset by muted volume growth in larger categories such as Prepared Dishes and Cooking Aids (~5-6% YoY) and flat volumes in M&N. Over CY19-CY22, M&N registered a 1.2% decline (pre-Covid period) in volume on CAGR basis, Prepared Dishes, Beverages, and Confectionery clocked a volume CAGR of 9.6%, 2%, and 8.3%, respectively, leading to ~6% overall volume CAGR over the same period. On the other hand, sales CAGR for these segments stood at ~6%/15%/10% and 17%, respectively.

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Ad spends-to-sales ratio declining considerably over the years

- As a percentage of domestic/net sales, A&P expense fell 120bp YoY to 4.3%/4.1% in CY22. This has been the fifth consecutive year of decline in ad spends-to-sales ratio.
- In absolute terms, ad spends reduced by 10% YoY to INR7.0b in CY22.
- With continued pressures on gross margin, either the EBITDA margin or the ad spends-to-sales ratio is expected to come under pressure in CY23. EBITDA margin at 22% in CY22 was already at its lowest level since the Maggi crisis in CY15 and gross margin of 54.1% in CY22 was at the lowest levels since CY14.

Launches and new segments

- One of the most interesting aspects of NEST in recent years is its accelerating pace of launches.
- The company has seen a healthier launch pipeline since CY16 as compared to the past. While the launches slowed down in CY17-18 v/s CY16 levels, CY19-22 continued to witness a healthy momentum.
- NEST has launched over 110 products since CY16, with 30 projects in the pipeline currently.
- The company continued on its path of premiumization through the acquisition of Purina Petcare business and the launch of globally renowned brand Gerber Cereals.
- Digitalization is a growth accelerator and leveraging the power of data and analytics is a part of the company's business strategy. It has a multi-intelligent data analytics system that sources internal and external data to converge insights that trigger swift and decisive business actions.

Data analytics and product customization

- The company has made a strong commitment to transform itself using data analytics, across every aspect of its business, be it manufacturing, supply chain, sales, marketing, and communications.
- This has helped understand the evolving consumer needs, spotting trends, and delivering innovations.
- We believe increasing customization can be a key driver of growth for packaged food businesses such as Nestle. As a part of its cluster-based approach, the company continued to roll out a slew of innovations in CY22, including

a) Launch of CEREGROW Grain Selection – a nutritious cereal for toddlers inspired by traditional ingredients, made from ragi, mixed fruits, and ghee. This has been developed for parents who are looking for ways to integrate traditional ingredients and recipes into their children's diets.

b) MILO, which is specialized for teenage nutrition with Whey protein and jaggery, was launched in Tamil Nadu and reportedly received good response.

c) The NESTLÉ a+ Greek Yoghurt range was introduced with local fruits such as Mahabaleshwar Strawberries and Alphonso Mangoes from Ratnagiri, leading to the NESTLÉ a+ Greek Yoghurt business increasing by double.

- With a view to garner higher market share in the coffee market in South India, it launched NESCAFÉ SUNRISE with a refreshed brand look and new communication. This was enabled by the cluster strategy. Customized plans for each market ensured NESCAFÉ SUNRISE delivered healthy overall growth.

Sustainability and efficiency

- From CY06 to CY22, for every ton of production, NEST reduced the usage of energy by around 36%, water usage by around 51%, generation of wastewater by around 38%, and specific direct Green House Gas emissions by 52%.
- In CY22, 73% of raw materials were sourced sustainably.
- On transportation and logistics sustainability and cost saving efforts are driven by:
  - Usage of alternate fuel/CNG/Electric vehicles – from 0% in CY19 to 4% in CY22,
  - Increase in vehicle payload utilization from 90.3% in CY19 to 94% in CY22,
  - Usage of bigger size vehicles increased from 5.9% in CY19 to 10.2% in CY22, and
  - Increased usage of railways – from 0.2% in CY19 to 6% in CY22.

Valuation and view

- There is no material change to our CY22 and CY23 EPS forecasts.
- The long-term narrative for revenue and earnings growth for NEST is highly attractive. Companies such as NEST with a strong pedigree and distribution strength are expected to benefit significantly from the immense growth prospects of the Packaged Foods segment in India. Further, the successful implementation of the company’s volume-led growth strategy in recent years provides confidence in execution as well.
- However, valuations at 54.4x CY24E P/E are expensive and do not offer any significant upside from a one-year perspective. We value the company at 55x Mar’25E EPS to arrive at our TP of INR19,900. We maintain our Neutral stance on the stock.

Exhibit 1: NEST's segment-wise performance

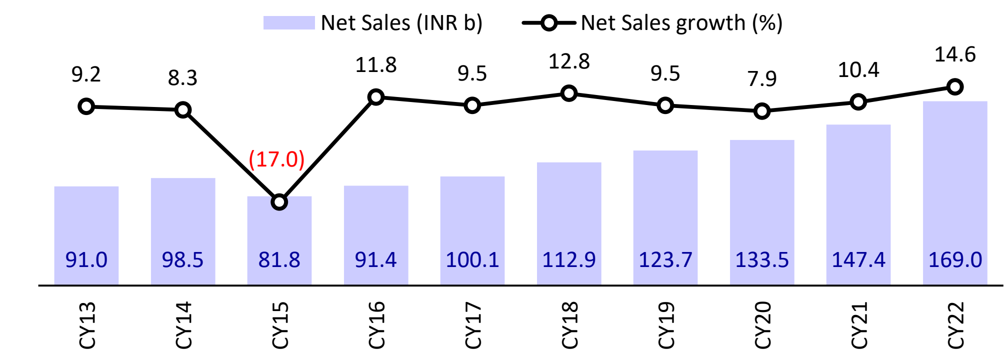
	CY13	CY14	CY15	CY16*	CY17	CY18	CY19	CY20	CY21	CY22
Volume (MT)										
Milk products	138,772	135,591	131,980	128,751	130,796	137,066	138,941	138,402	1,34,669	1,34,034
Beverages	27,717	24,673	22,130	22,092	24,423	27,013	26,380	20,772	24,507	28,020
Prepared Dishes and Cooking Aids	245,443	254,553	103,138	176,871	210,427	240,879	264,072	281,392	3,29,567	3,48,225
Chocolate and Confectionery	46,718	41,080	33,083	35,289	36,803	42,197	49,033	50,358	55,648	62,401
Total	**458,650**	**455,897**	**290,331**	**363,003**	**402,449**	**447,155**	**478,426**	**490,924**	**5,44,391**	**5,72,680**
Volume (as a percentage of total)										
Milk products (MT)	30%	30%	45%	35%	33%	31%	29%	28%	25%	23%
Beverages (MT)	6%	5%	8%	6%	6%	6%	6%	4%	5%	5%
Prepared Dishes and Cooking Aids (MT)	54%	56%	36%	49%	52%	54%	55%	57%	61%	61%
Chocolate and Confectionery	10%	9%	11%	10%	9%	9%	10%	10%	10%	11%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Volume growth										
Milk products	-1.1%	-2.3%	-2.7%	-2.4%	1.6%	4.8%	1.4%	-0.4%	-2.7%	-0.5%
Beverages	9.3%	-11.0%	-10.3%	-0.2%	10.6%	10.6%	-2.3%	-21.3%	18.0%	14.3%
Prepared Dishes and Cooking Aids	3.8%	3.7%	-59.5%	71.5%	19.0%	14.5%	9.6%	6.6%	17.1%	5.7%
Chocolate and Confectionery	-2.2%	-12.1%	-19.5%	6.7%	4.3%	14.7%	16.2%	2.7%	10.5%	12.1%
Total	**1.9%**	**-0.6%**	**-36.3%**	**25.0%**	**10.9%**	**11.1%**	**7.0%**	**2.6%**	**10.9%**	**5.2%**
Weighted average volume growth	**2.0%**	**-0.3%**	**-25.3%**	**34.6%**	**11.5%**	**11.3%**	**7.2%**	**3.0%**	**11.6%**	**5.4%**
Price (INR/kg)										
Milk products	293	337	354	360	368	378	407	444	465	509
Beverages	478	543	604	582	568	564	569	711	690	720
Prepared Dishes and Cooking Aids	110	116	127	131	129	129	132	139	139	152
Chocolate and Confectionery	275	305	336	332	332	332	335	348	382	425
Total	**205**	**222**	**290**	**259**	**252**	**251**	**257**	**271**	**269**	**293**
Price growth										
Milk products	6.7%	15.0%	4.9%	1.8%	2.4%	2.7%	7.5%	9.2%	4.8%	9.2%
Beverages	7.9%	13.7%	11.2%	-3.6%	-2.4%	-0.7%	1.0%	24.8%	-2.9%	4.4%
Prepared Dishes and Cooking Aids	7.0%	5.8%	9.5%	2.8%	-1.8%	0.2%	2.8%	4.9%	0.0%	9.5%
Chocolate and Confectionery	12.4%	10.8%	10.1%	-1.2%	0.0%	0.0%	1.0%	3.9%	9.5%	11.5%
Total	**7.2%**	**8.6%**	**30.7%**	**-10.7%**	**-2.8%**	**-0.4%**	**2.5%**	**5.3%**	**-0.5%**	**8.8%**
Weighted average price growth	**7.7%**	**11.6%**	**7.3%**	**0.9%**	**0.3%**	**1.2%**	**4.5%**	**9.0%**	**3.1%**	**9.1%**
Gross sales (INR m)										
Milk products	40,712	45,752	46,694	46,350	48,196	51,876	56,518	61,488	62,686	68,157
Beverages	13,241	13,398	13,360	12,861	13,870	15,226	15,018	14,763	16,918	20,188
Prepared Dishes and Cooking Aids	26,982	29,613	13,141	23,176	27,071	31,053	34,982	39,108	45,813	53,006
Chocolate and Confectionery	12,864	12,532	11,109	11,709	12,214	14,007	16,435	17,543	21,231	26,545
Total	**93,799**	**101,295**	**84,304**	**94,096**	**101,351**	**112,162**	**122,953**	**1,32,902**	**1,46,649**	**1,67,895**
Gross sales (as a percentage of total)										
Milk products	43%	45%	55%	49%	48%	46%	46%	46%	43%	41%
Beverages	14%	13%	16%	14%	14%	14%	12%	11%	12%	12%
Prepared Dishes and Cooking Aids	29%	29%	16%	25%	27%	28%	28%	29%	31%	32%
Chocolate and Confectionery	14%	12%	13%	12%	12%	12%	13%	13%	14%	16%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Gross sales growth										
Milk products	5.5%	12.4%	2.1%	-0.7%	4.0%	7.6%	8.9%	8.8%	1.9%	8.7%
Beverages	17.9%	1.2%	-0.3%	-3.7%	7.8%	9.8%	-1.4%	-1.7%	14.6%	19.3%
Prepared Dishes and Cooking Aids	11.0%	9.7%	-55.6%	76.4%	16.8%	14.7%	12.7%	11.8%	17.1%	15.7%
Chocolate and Confectionery	10.0%	-2.6%	-11.4%	5.4%	4.3%	14.7%	17.3%	6.7%	21.0%	25.0%
Total	**9.3%**	**8.0%**	**-16.8%**	**11.6%**	**7.7%**	**10.7%**	**9.6%**	**8.1%**	**10.3%**	**14.5%**

*Slight impact from the implementation of Goods & Services Tax (GST) on CY16 financials   Source: Company, MOFSL

Highest revenue growth in the past decade

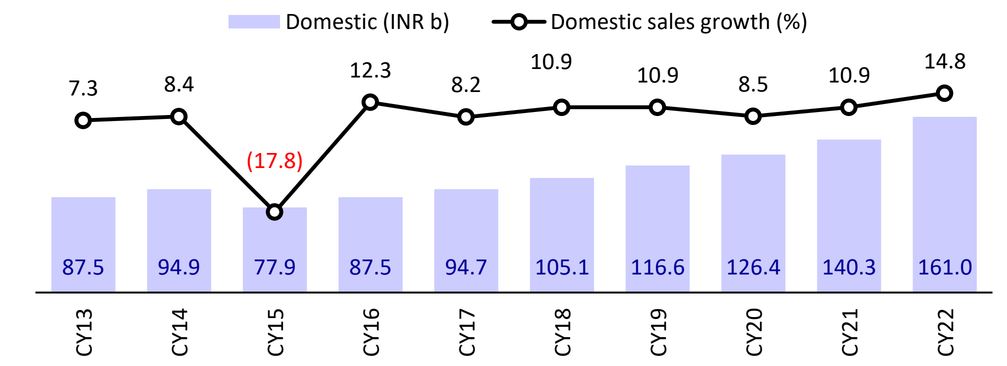
- The focus on volume growth has been clear since Mr. Suresh Narayanan took over the reins of NEST. Average realization has remained stable at INR293/kg in CY22 compared to INR290/kg in CY15 (*Exhibit 1*). CY22 witnessed an 8.8% YoY increase in realization after remaining flat YoY in CY21. This has been the highest realization/pricing growth under Mr. Narayanan's six-year tenure so far. Prior to Mr. Narayanan's appointment, realization had risen rapidly to INR290/kg in CY15 from INR172/kg in CY11, highlighting the disproportionate focus of the earlier management on pricing.
- Volume growth was in double-digits for Beverages and Chocolate & Confectionery segments while it remained in mid-single digits for Prepared dishes & Cooking aids and flat for Milk products and Nutrition.
- Net sales rose 14.6% YoY to INR169b in CY22.
- Domestic sales growth stood at 14.8% in CY22 — a noteworthy performance, given the decent high base in CY21 along with previous years of strong growth. This indicates a vast opportunity in the domestic Foods' category and NEST's success in its own initiatives.

Exhibit 2: Net sales grew 14.6% YoY to INR169.0b in CY22, the highest growth recorded in the past decade



Source: Company, MOFSL

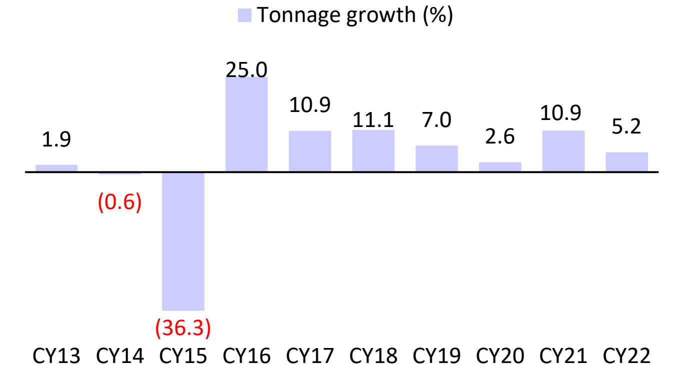
Exhibit 3: Domestic sales grew 14.8% YoY to INR161.0b in CY22



Source: Company, MOFSL

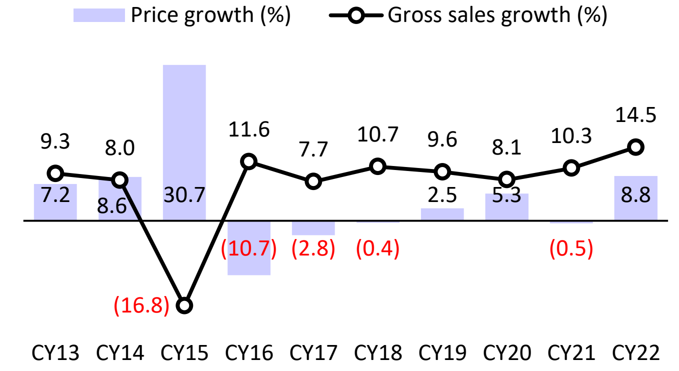
- Volumes plunged sharply in CY15 due to the Maggi crisis. Volume growth in CY16 and CY17 may be attributed to the recovery from the trough of CY15 (the company started emerging completely out of the crisis only in 2HCY16). Amid a weak operating environment, NEST's 5.2% volume growth in CY22 (despite a high base of 10.2% growth) is rather commendable.

Exhibit 4: Overall tonnage grew 5.2% in CY22



Source: Company, MOFSL

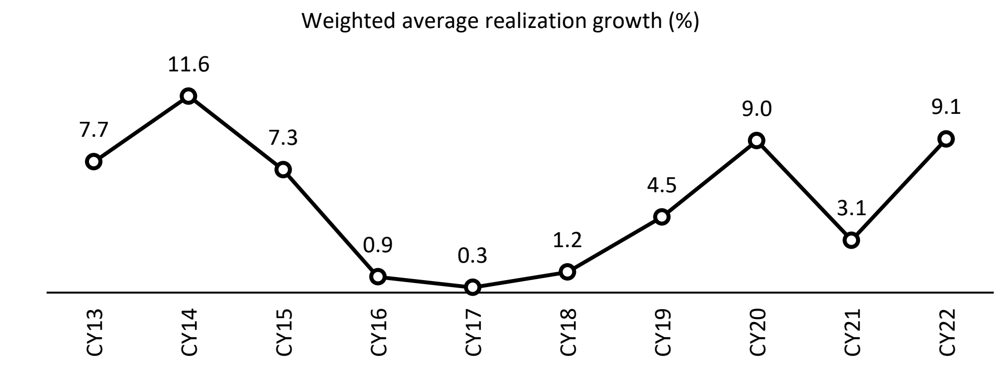
Exhibit 5: Overall value growth was ~8.8% in CY22



Source: Company, MOFSL

- Weighted average realization growth, which was inordinately high in the earlier part of the last decade, was flattish over CY16-18. A weighted average realization growth of 9.1% in CY22 was due to price hikes taken by NEST to pass on significant inflation in the cost of raw materials, especially in dairy, as well as an improvement in the mix. As the price of milk and wheat continue to trend upwards, we expect NEST to take further price hikes, and hence, realization may further improve in CY23. However, in case these costs abate, the company may roll back the price hike, leading to lower realizations in CY23.

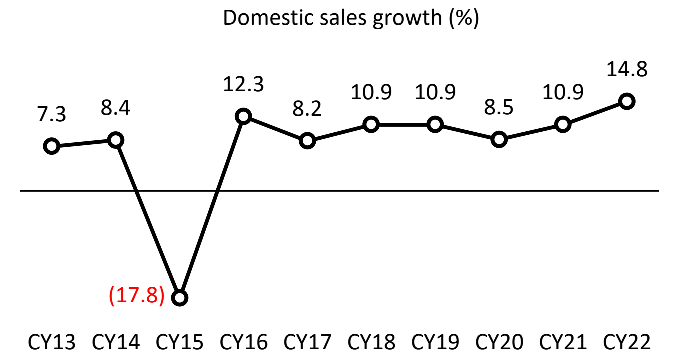
Exhibit 6: Weighted average realization growth up 9.1% in CY22



Source: Company, MOFSL

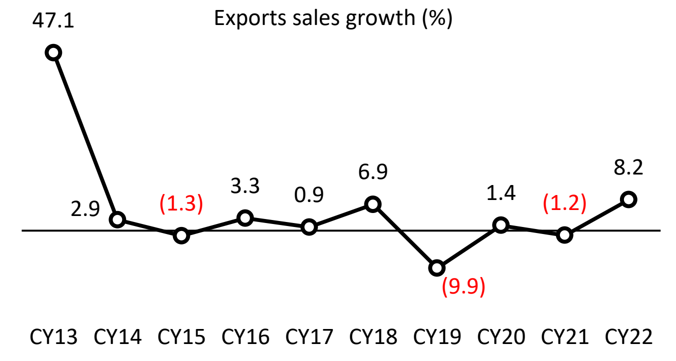
- After remaining flat and declining over the last three years, exports have grown by 8.2% in CY22, due to the company's focus on promoting Indian product portfolio through traditional and mainstream channels. As a proportion of gross sales, exports fell 30bp YoY to 4.1% in CY22.
- Prepared Dishes and Cooking Aids products such as Masala-ae-magic, maggi noodles, sauces, and pazzta witnessed growth in the key export markets (Canada, US, Australia, New Zealand, and Singapore).
- The confectionery business in the Middle East delivered robust performance, led by TOFFO sugar chewy boiled confectionery and NESCAFE SUNRISE continued to gain traction in Singapore and Taiwan. Export to Nepal and Bhutan witnessed stable growth despite economic challenges as a result of low forex reserves in both the countries.
- During the year, Nestle India began exporting Polo Holes to Taiwan, where it introduced new formats such as POLO jars and POLO pouches.

Exhibit 7: Domestic sales grew 14.8% YoY in CY22



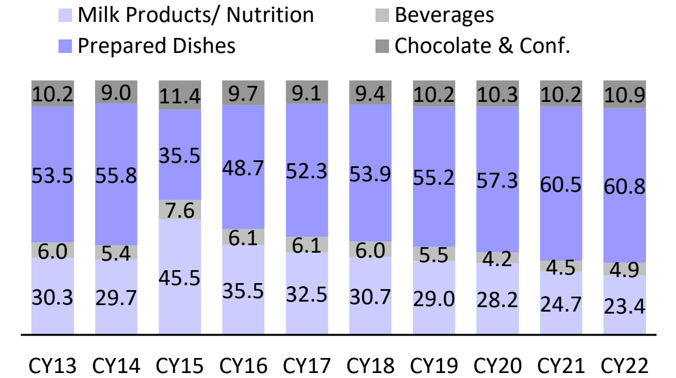
Source: Company, MOFSL

Exhibit 8: Exports grew 8.2% YoY in CY22



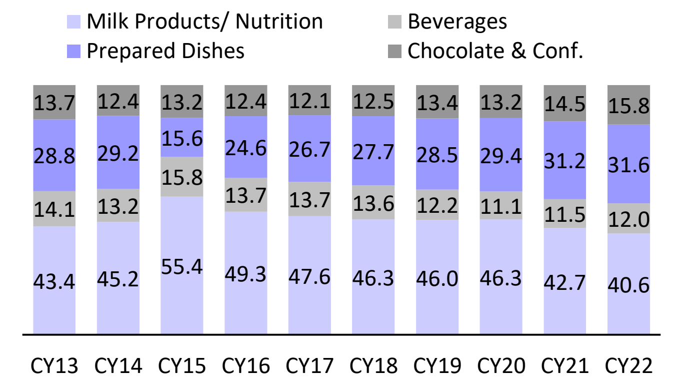
Source: Company, MOFSL

Exhibit 9: Volume mix



Source: Company, MOFSL

Exhibit 10: Sales mix

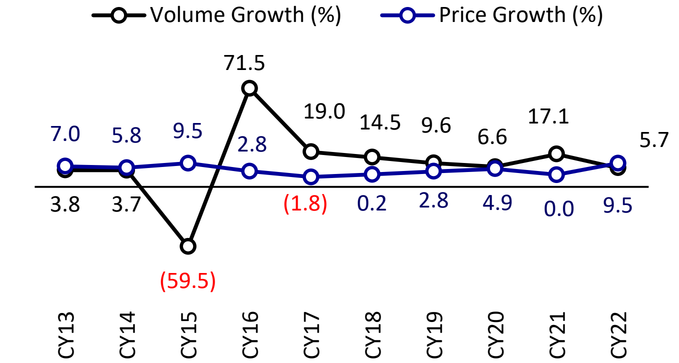


Source: Company, MOFSL

Prepared Dishes and Cooking Aids (60.8%/31.6% of CY22 volume/sales)

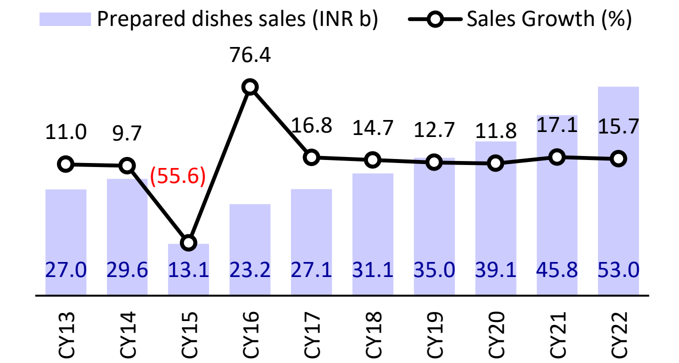
- This segment witnessed robust growth momentum, led by a healthy balance of product mix, pricing, and volume growth (in MAGGI noodles and MAGGI masala-ae-magic), aided by strong consumer engagements, media campaigns, and attractive consumer activations.
- Production capacities were ramped up across factories, on account of high demand forecasts.
- As per Nielsen report, MAGGI saw the highest ever distribution and also maintained its market leadership this year.
- **Breakfast cereals business** – NEST's focus is on driving penetration in this category through accessible price points. It did extensive sampling across metropolitan cities to communicate taste and nutritional benefits to consumers. It posted a robust volume growth in brands such as NESTLE KOKO KRUNCH and NESTLE GOLD, due to increase in availability of breakfast cereals.

Exhibit 11: Prepared Dishes – Volume/price growth



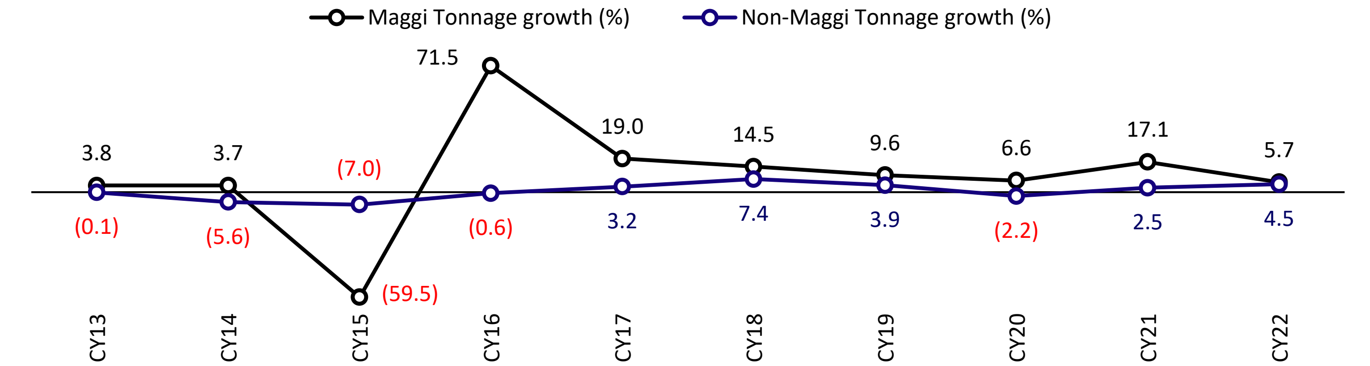
Source: Company, MOFSL

Exhibit 12: Sales of Prepared Dishes grew 15.7% to INR53b



Source: Company, MOFSL

Exhibit 13: Tonnage growth in the non-Maggi portfolio remained tepid in CY22



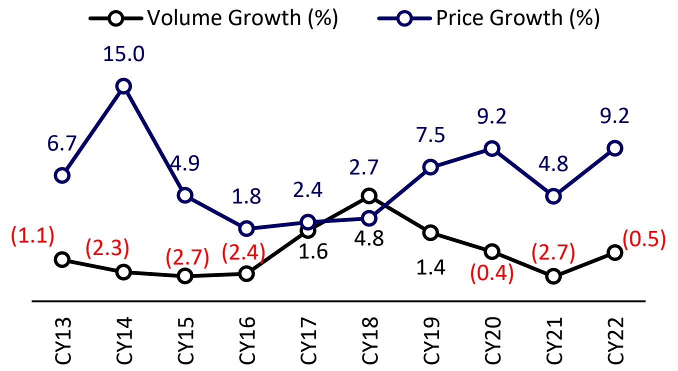
Source: Company, MOFSL

Milk and Nutrition (23.4%/40.6% of CY22 volume/sales)

- In CY22, NEST expanded its range of offerings for toddlers aged two years and above.
- GERBER – In CY22, NEST brought GERBER to India. GERBER was started in 1928 by Dorothy Gerber in Michigan, USA, and it was subsequently acquired by Nestle in 2007 as a part of its vision to provide a full range of nutritious food options worldwide. GERBER Cereals with Powerblend was launched in two variants (spinach & carrot and mango & berry), which combines the goodness of four diverse food groups, i.e., cereals, legume, milk and fruits/vegetables, depending on the variant. The offering is customized as per the needs of Indian toddlers.
- NEST also launched CEREGROW Grain Selection, which is a nutritious cereal inspired by traditional ingredients and is made of ragi, mixed fruits, and ghee. This is for parents who are looking to integrate traditional ingredients into their children's diet. CEREGROW Grain Selection is an effort to rediscover the value of traditional millets.
- MILKMAID – It grew in strong double digits in value terms. This was aided by:
  - providing a range of experimental desserts across national and regional festivals,
  - collaborating with top chefs and understanding the upcoming baking trends,
  - more than two million visits on MILKMAID'S website
- Ready-to-Drink business also posted healthy growth for the second year in a row. This was led by growth in in-home consumption and revival of out-of-home-consumption.

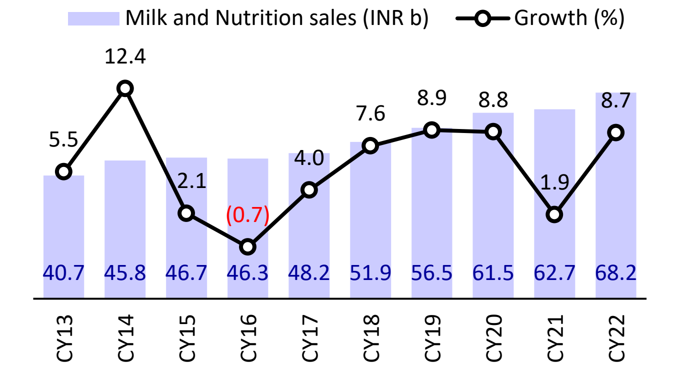
- MILO with whey protein and jaggery was launched in Tamil Nadu and has received an encouraging response.
- It also launched Mishti doi with jaggery (the first ever in the category) and is witnessing strong acceptance along with accelerated growth.
- It also introduced NESTLE a+ Greek Yoghurt with local fruits such as Mahabaleshwar strawberries and alphonso mangoes from Ratnagiri which led to doubling of business.

Exhibit 14: Milk and Nutrition – Volume/price growth



Source: Company, MOFSL

Exhibit 15: Milk and Nutrition sales grew 8.7% to INR68.2b

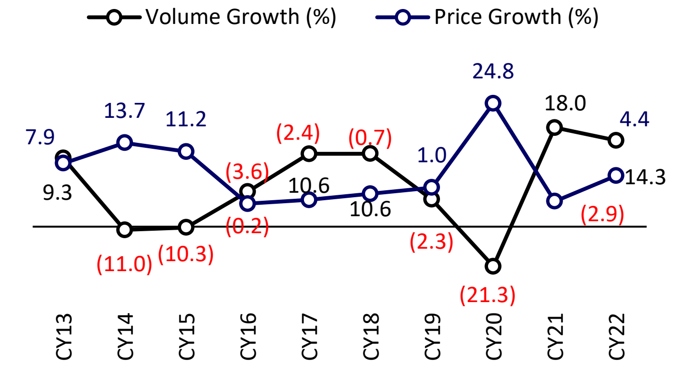


Source: Company, MOFSL

Beverages (4.9%/12.0% of CY22 volume/sales)

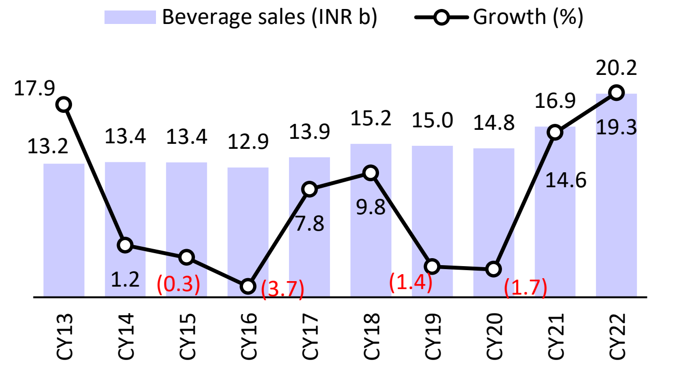
- NEST's strategy of building relevance for the coffee category and focus on recruitment led to strong growth in the beverages business.
- NESCAFE in-home consumption delivered double-digit growth in CY22. It recorded the highest-ever single-year growth in household penetration. In addition to gaining significant market share, it continued to maintain its market leadership position.
- NESCAFE RTD and out-of-home grew in double digits in the year.
- NESCAFE CLASSIC spearheaded category recruitment with a thematic campaign that clearly defined the role of coffee among youth. This was complemented by consistent distribution expansion.
- NEST is winning in South India through the launch of renovated NESCAFE SUNRISE with refreshed brand look and new communication. By adopting the cluster strategy, NESCAFE SUNRISE posted a healthy growth during the year.
- NESCAFE GOLD delivered a stellar growth and led the premium category creation through its promise of delivering coffee as its best.
- Sustainable growth across portfolios was led by focus on mitigating inflationary pressures by initiatives that delivered optimizations across value chain.

Exhibit 16: Beverages – Volume/price growth



Source: Company, MOFSL

Exhibit 17: Sales of Beverages grew 19.3% to INR20.2b

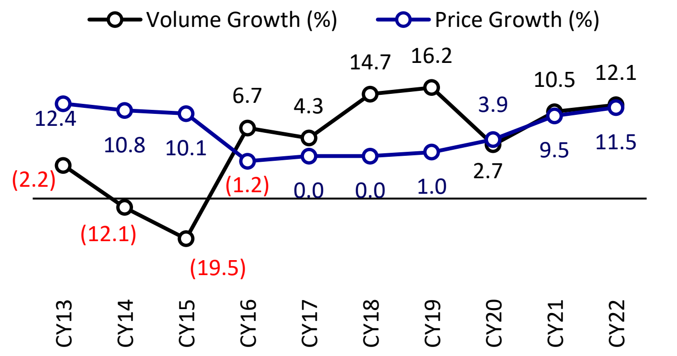


Source: Company, MOFSL

Chocolates and Confectionery (10.9%/15.8% of CY22 volume/sales)

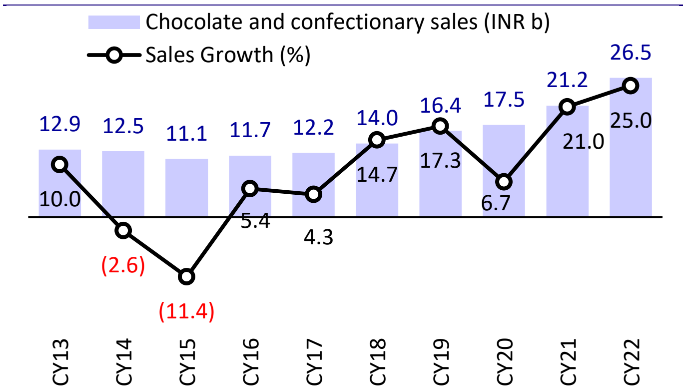
- CY22 witnessed the comeback of confectionery consumers after the challenging period of the pandemic.
- It registered robust growth and gained market share in the category, led by KITKAT and MUNCH.
- NEST launched KITKAT Moodbreaks in two new fruity flavors – mixed fruit and mango.
- Through KITKAT, there was a sustained focus on the key brand proposition, ‘taking a break’, in all forms of communication.
- It launched MUNCH Max, which is extra crunchy and chocolatey.

Exhibit 18: Chocolates and Confectionery – Volume/price growth



Source: Company, MOFSL

Exhibit 19: Sales of Chocolates and Confectionery grew 25% to INR26.5b



Source: Company, MOFSL

Pet Food business

- NEST has made an entry into Pet Food business with the acquisition of Purina Petcare India Pvt. Ltd. The management believes that this segment has high potential for growth.
- It delivered a strong growth in Dry Dog and Cat Food products.
- The Dry Dog portfolio includes globally recognized brands such as PURINA Supercoat and PURINA Pro Plan that provide complete and balanced nutrition, with no artificial colors or flavor.
- The Pet Food portfolio also includes PURINA Friskies, and PURINA Fancy Feast in the Dry and Wet Cat Food range, respectively, that provide the right balance of nutrition and taste.

- NEST has launched Flexi Wet Cat Food in line with its plan to introduce new products in the segment. Leveraging the unique and patented grilled technology, Felix is positioned to create a strong benchmark of taste and overall nutrition.
- E-Commerce registered robust growth, delivering increased market penetration.

Out-of-Home business highlights

- Out-of-Home (OOH) business made a strong comeback in CY22, recovering its pre-COVID base and delivering robust growth, which was an outcome of revamping and resetting geography, channel, and sales priority.
- It cemented its participation in the larger and faster growing Bean to Cup segment by enhancing its range of blends and machine solutions, and offering the widest menu.
- To premiumize small operators, NEST launched the CAFÉ MENU range, which is ‘tin and spoon’ application for hot cappuccino and cold coffee. To improve its share in the street channel, SUNRISE STRONG with a superior strength and aroma was launched.
- Under ONE NESTLÉ, it added new sites to take the total number to over 620 MAGGI and NESCAFÉ branded kiosks.

Brand extensions/launches/product re-launches/introduction of variants

- NEST has launched over **110 new products** in the last seven years and has approximately 30 new products in its pipeline.
- It launched CEREGROW Grain Selection this year to rediscover the value of traditional millets along with various other products (*exhibit 20).*

Exhibit 20: Launches/re-launches/variants introduced over the years

Year	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22
No. of launches	**Seven**	**Three**	**19 (39 including variants and re-launches)**	**Nine (17 including variants and re-launches)**	**14 (20 including variants and re-launches)**	**20 (24 including variants and re-launches)**	**12 (14 including variants and re-launches)**	**18 (20 including variants and renovation)**	**12 (13 including variants and renovation)**
1	Magg Oats Noodles	Relaunched Maggi Noodles	Maggi Hot Heads: four variants	Maggi Nutri-licious Noodles: two variants	KITKAT duo strawberry variant	Maggi Nutrilicious Atta Noodles	MAGGI Yummy Capsica	MAGGI Veggie Masala Noodles	GERBER Cereals with Powerblend – Spinach & Carrot
2	Nestlé KitKat Senses Milk	Munch Nuts	Maggi No Onion No Garlic Masala	Maggi Masalas of India: four variants	Munch Crunch-O-Nuts	Maggi Fusian Noodles (three variants)	MAGGI Chatpata Tomato	MAGGI Special Chicken65 Masala Noodles	GERBER Cereals with Powerblend – Mango & Berry
3	Nestlé KitKat Senses Dark	Cerelac Stage 5	Maggi Hot Heads Cuppa Noodles	Nestle a+ Grekyo greek yogurts: three variants	Nesplus Breakfast cereals: four variants	LACTOGEN 1 with L. reuteri (relaunch)	Maggi Atta Spinach Noodles	Nestlé GOLD Corn and Oat flakes	CEREGROW Grain Selection
4	Nestlé KitKat Senses Extra Smooth		Maggi Cuppa Masala	Nan Excellapro	Nescafe Ready-to-Drink Cans	Pre-NAN with DHA and ARA (relaunch)	Maggi Fried Rice Masala - Classic Veg	Koko Krunch Kookie Cereal	MILO (with Whey Protein and jaggery) in Tamil Nadu
5	Nestle Masala Buttermilk		Maggi Cuppa Chilly Chow	Nestle Resource High Protein: three variants	Maggi Special Masala noodles	Maggi Fusian Chilli Garlic Sauce	Maggi Fried Rice Masala - Chilli Garlic	MAGGI Hot n Sweet Sauce - sriracha	Mishti Doi (with jaggery)

Year	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22
6	Nestle Lassi		Maggi Cup-a-licious Soups: six variants	Milo Ready-to-Drink beverage	Maggi dip & spread: two variants	Maggi Liquid Seasoning	Maggi Paneer-ae Magic Shahi Paneer	MAGGI Hot n Sweet Sauce – extra hot	Nestle a+ Greek Yoghurt – Mahableshwar Strawberries
7	NAN Lo-Lac		Nestle a+ Greekyo: four variants	KITKAT Dessert Delight	KITKAT Dessert Delight Brownie Kubes	Maggi Professional Thai Curry Pastes (two variants)	Maggi Kadhai Paneer Masala mix	MAGGI Masala-vin-Magic	Nestle a+ Greek Yoghurt –Alphonso Mangoes
8			Nestle Everyday Masala Fusion Dairy Whitener: six variants	Milkybar (Re-launch)	Nescafé E-Smart Coffee Machine (all-in-one travel mug and coffee machine)	KITKAT Dessert Delight Rich Chocolate Fudge	Koko Krunch cereal	NESCAFÉ ALL in 1 - coffee premix	Nestlé KITKAT Moodbreaks – Mixed Fruit
9			Nescafe RTD: three variants	Milkybar Moosha	Maggi Nutri-licious Baked Noodles	Munch Crisp-Pop	Lactogrow Toddler	NESCAFÉ Black Roast	Nestlé KITKAT Moodbreaks – Mango
10			Ceregrow		Nestle Les Recettes De l'Atelier	Milkybar Moosha Cocoa Crispies	Nestlé POLO Extra Strong	NESCAFÉ SUNRISE Liquid Decoction	MUNCH Max
11			Nestle a+ Pro-grow		Nestle Everyday Chai life: three variants	Milo	Nestlé POLO Paan	Nestlé Munch Fruit O Nuts	Nescafe SUNRISE STRONG (with superior strength and aroma)
12			Renovation of Cerelac with Iron		Nangrow	Nestlé a+ Banglar Mishti Doi	Optifast vanilla flavor	KITKAT Kookie & Crème - limited edition	Felix Wet Cat Food
13			Nescafe Sunrise Insta-filter		Nan Pro with DHA (Re-launch)	Cerelac Organic Cereals*		NESCAFÉ Roasted Whole Beans	
14			Nestea Iced Tea: three variants		Nan Excellapro (re-launch)	Ceregrow Organic Cereals*		NESCAFÉ Sunrise Strong	
15			Nescafe Latte			Cerelac Ragi		Seasonings from MAGGI	
16			KITKAT Duo			Optifast		NESTEA - Instant Green Tea Powder	
17			Nestle Munch Trio			Maggi Upma		POLO - launched in ME	
18			Barone Charge			Maggi Poha		Crunch wafers - launched in ASEAN markets	
19			New Alpino			Nescafe Cappuccino (renovation)			
20						Nestea Ready-to-Drink Iced Tea (two variants)			

*The company has not shared the number of variants for Cerelac and Ceregrow Organic Cereals

Source: Company, MOFSL

- The management has clearly walked-the-talk on its stated intention of launches after the change of guard in Jul'15. The company has also delivered as expected on stakeholder interactions. The management communicated in 4QCY22 call that it will be investing in expanding its capacity, and thereby, laying emphasis on volume growth unlike in the past.

Exhibit 21: Financial overview (INR b)

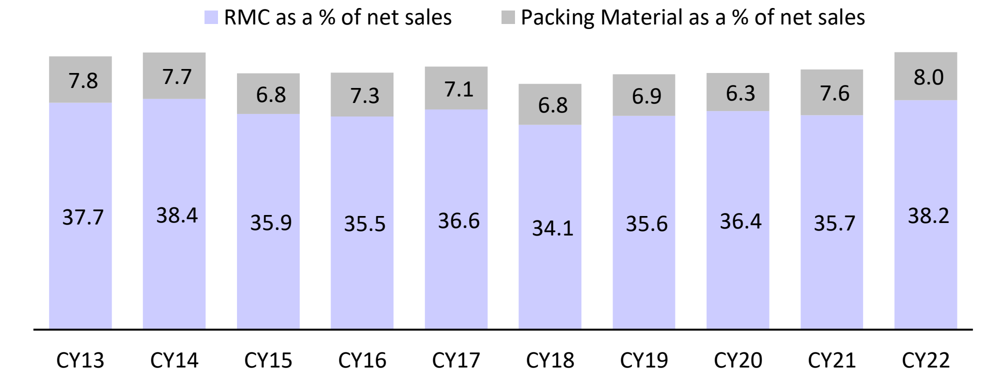
	CY17	%	CY18	%	CY19	%	CY20	%	CY21	%	CY22	%
Total Revenue	**100.1**	**100.0**	**112.9**	**100.0**	**123.7**	**100.0**	**133.5**	**100.0**	**147.4**	**100**	**169.0**	**100**
Raw Material Consumed	43.3	43.2	45.9	40.6	52.2	42.2	56.7	42.5	63.5	43.1	77.5	45.9
Gross Profit	**56.8**	**56.8**	**67.0**	**59.4**	**71.4**	**57.8**	**76.8**	**57.5**	**83.9**	**56.9**	**91.5**	**54.1**
Employee Benefit Expense	10.6	10.6	11.7	10.4	13.0	10.5	15.1	11.3	15.3	10.4	16.4	9.7
Other Expenses												
Power and Fuel	2.9	2.9	3.4	3.0	3.4	2.8	3.1	2.3	4.1	2.8	5.7	3.4
Repairs	1.2	1.2	1.1	1.0	1.1	0.9	1.1	0.8	1.2	0.8	1.3	0.8
A&P spends	5.1	5.1	7.3	6.5	7.9	6.3	7.6	5.7	7.7	5.2	7.0	4.1
Freight and Transport	4.8	4.8	5.3	4.7	5.5	4.5	5.8	4.3	7.0	4.7	7.9	4.7
Royalty	4.6	4.6	5.4	4.8	6.0	4.9	6.5	4.9	7.2	4.9	8.2	4.9
Others	5.6	5.6	5.5	4.8	5.5	4.4	5.3	4.0	5.8	3.9	7.8	4.6
EBITDA	**22.2**	**22.2**	**27.3**	**24.2**	**29.1**	**23.5**	**32.2**	**24.1**	**35.7**	**24.2**	**37.1**	**22.0**
Less: Interest Expense	0.9		1.1		1.3		1.6		2.0		1.5	
Less: Depreciation	3.4		3.4		3.7		3.7		3.9		4.0	
Add: Other Income	1.8		2.6		2.5		1.5		1.2		1.0	
Profit before Tax (PBT)	**19.6**	**19.6**	**25.4**	**22.5**	**26.5**	**21.4**	**28.3**	**21.2**	**30.9**	**21.0**	**32.6**	**19.3**

Source: Company, MOFSL

Gross and operating margin

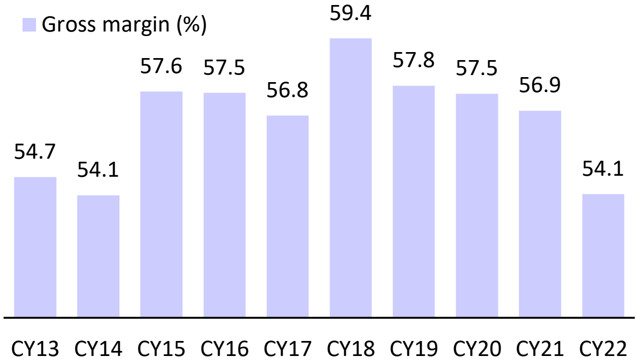
- Net sales rose 14.6% YoY to INR169.0b in CY22. Material costs were adversely impacted for the whole year post the start of Russia-Ukraine conflict, leading to a gross margin of 54.1% in CY22, down 280bp YoY. With some moderation in input costs, we expect gross margin to gradually revert to its normalized levels.
- Consumption of raw materials as a proportion to net sales rose 250bp YoY to 38.2%. Packing material (8.0% of sales in CY22) contributed 40bp to the contraction in gross margin.

Exhibit 22: Packaging material cost may continue to increase going forward, led by a sharp rise in crude prices



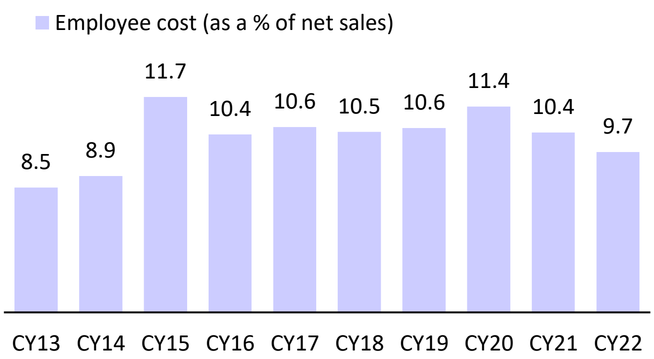
Source: Company, MOFSL

Exhibit 23: Gross margin contracts by 280bp YoY in CY22



Source: Company, MOFSL

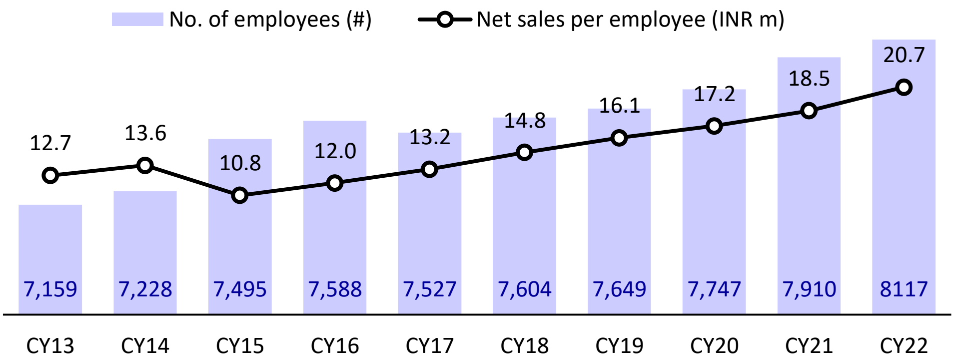
Exhibit 24: Employee costs (including training expenses) fell 70bp to 9.7% in CY22



Source: Company, MOFSL

- NEST has stopped sharing breakdown of key raw material costs from CY17.
- Employee costs (including training expense) rose 6.9% YoY to INR16.4b (down 70bp YoY to 9.7% of sales) in CY22.
- Net sale/employee has been on a rising trend since CY15, registering a CAGR of 9.7% over CY15-CY22.

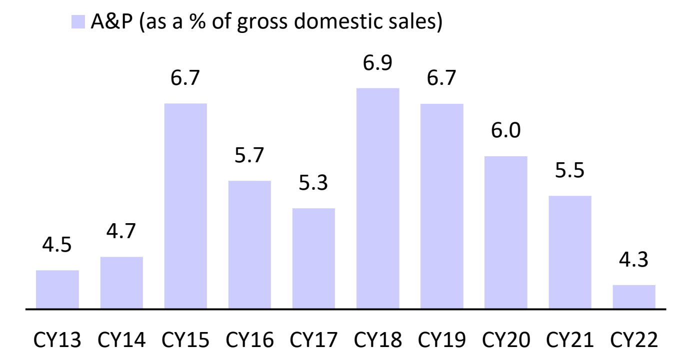
Exhibit 25: Sales per employee at a record high



Source: Company, MOFSL

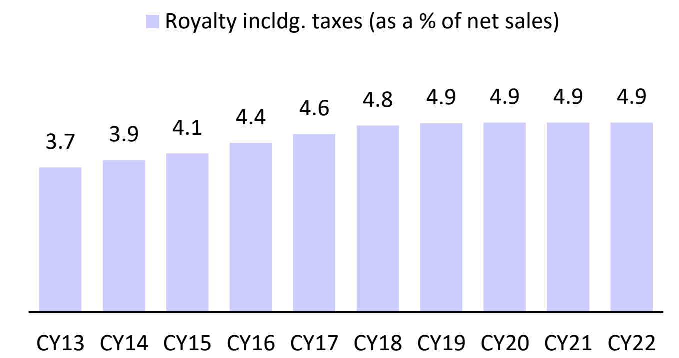
- Advertising and sales promotion (A&P) costs declined 110bp YoY to 4.1% of gross sales, the lowest since CY01. This has been the fourth consecutive year of a decline in ad spends-to-sales ratio. NEST does not share A&P costs in its quarterly results, and this data is only available in its annual report.
- As a percentage of domestic/net sales, A&P expense fell 120bp/110bp YoY to 4.3%/4.1% in CY22.
- If the pressure on gross margin continues, either EBITDA margin or the ad spends-to-sales ratio may come under pressure in CY23.

Exhibit 26: Ad spends declined 120bp YoY in CY22



Source: Company, MOFSL

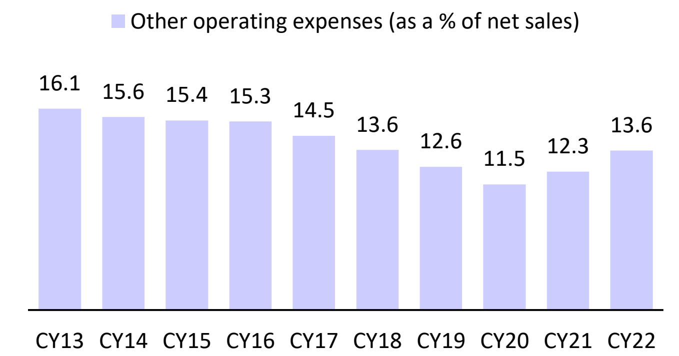
Exhibit 27: Royalty expenses flat were at 4.9%



Source: Company, MOFSL

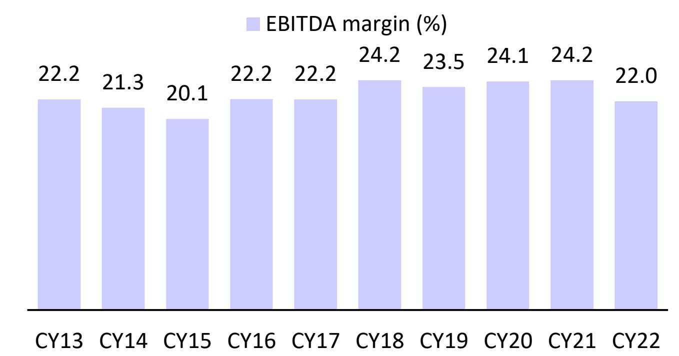
- As a percentage of net sales, royalty expenses or general license fees (including withholding tax on general license fees) remained flat YoY at 4.9% in CY22.
- EBITDA margin declined 220bp YoY to 22% in CY22, majorly led by contraction in gross margin by 280bp. Savings in ad-spends to the tune of 120bp and employee expense of 70bp were compensated by a 130bp increase in 'other expenses'.

Exhibit 28: Other operating expenses rose 130bp YoY



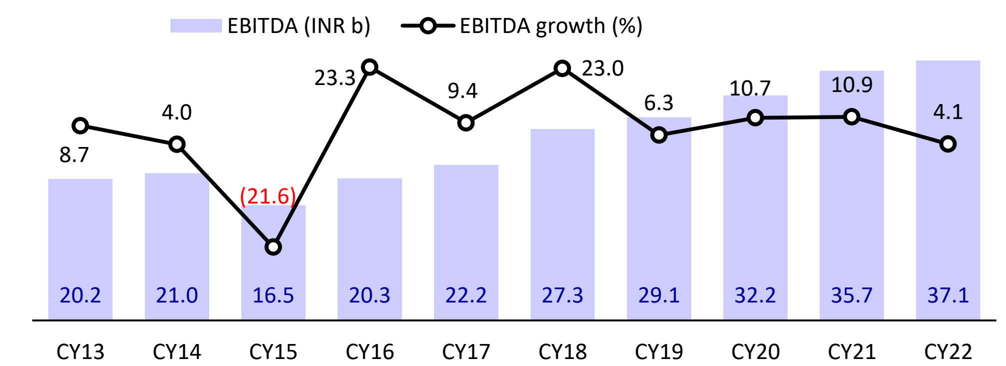
Source: Company, MOFSL

Exhibit 29: EBITDA margin contracted 220bp YoY to 22.0%



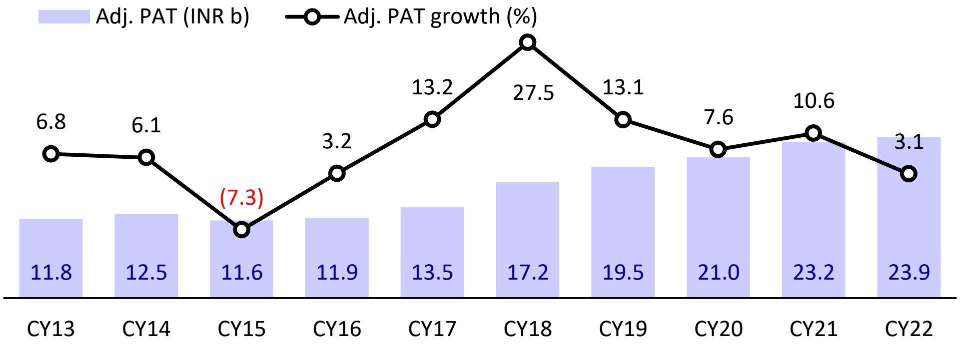
Source: Company, MOFSL

Exhibit 30: EBITDA grew 4.1% YoY to INR37.1b in CY22



Source: Company, MOFSL

Exhibit 31: Adjusted PAT grew 3.1% YoY to INR23.9b in CY22

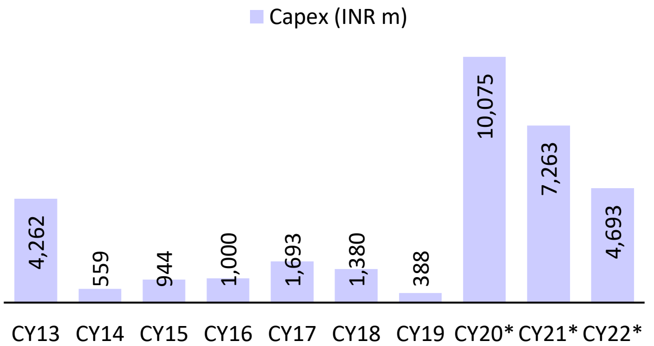


Source: Company, MOFSL

Capex, fixed assets, working capital, and cash flows

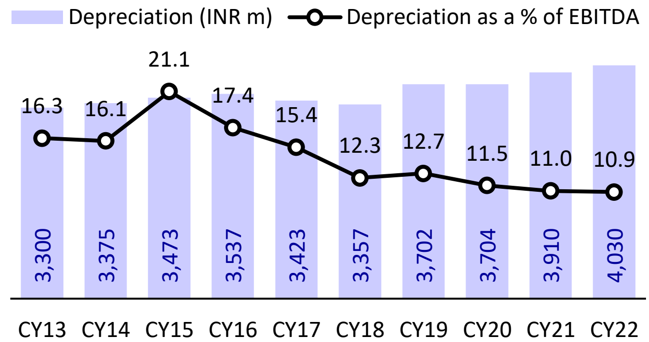
- Capex stood at INR4.7b in CY22, with capex-to-sales ratio down 210bp YoY to 2.8%. Depreciation stood at INR4.0b. CY22 is the third year, after seven years in a row, where annual capex has been ahead of depreciation. This, in turn, has led to an increase in net fixed assets + CWIP.
- NEST plans to deploy a capex of INR50b over the next three years with INR13b in CY23 and INR20b in CY24.

Exhibit 32: Capex stood at INR4.7b in CY22



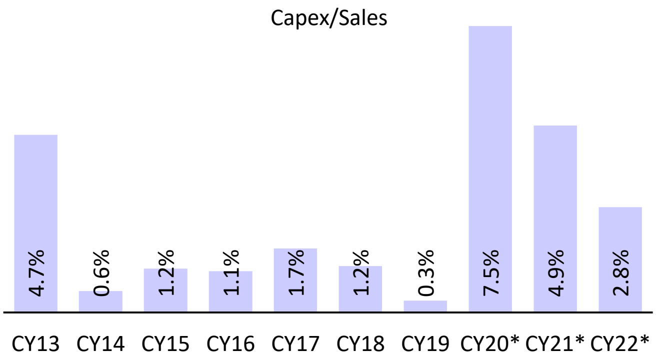
Source: Company, MOFSL
*includes Right-of-Use assets

Exhibit 33: Depreciation, as a percentage of EBITDA, stood at 10.9% in CY22



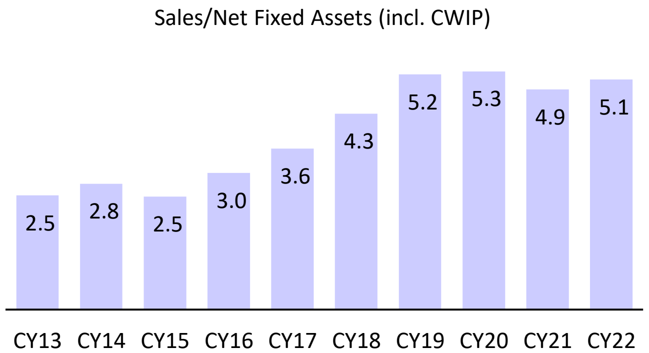
Source: Company, MOFSL

Exhibit 34: Capex continues to remain substantial after the resurgence in CY20



Source: Company, MOFSL

Exhibit 35: Asset turnover increases YoY



Source: Company, MOFSL

- Cash conversion cycle worsened marginally to two days in CY22 from one day in CY21. Debtor days remained at its historical average of three-to-four days and creditor days remained flat at 40 days YoY. Inventory days increased by one day in CY22 (*refer exhibit 37 for details*).

Exhibit 36: Cash conversion cycle remains healthy in CY22

Cash conversion cycle (on an avg. basis)	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22
Inventory Days	30	29	37	35	34	30	33	37	37	38
Add: Trade Receivable Days	3	3	4	4	3	3	4	4	4	4
Less: Trade Payable Days	24	25	33	31	33	36	40	41	40	40
Cash Conversion Cycle	**10**	**7**	**8**	**8**	**5**	**(2)**	**(3)**	**0**	**1**	**2**

Source: Company, MOFSL

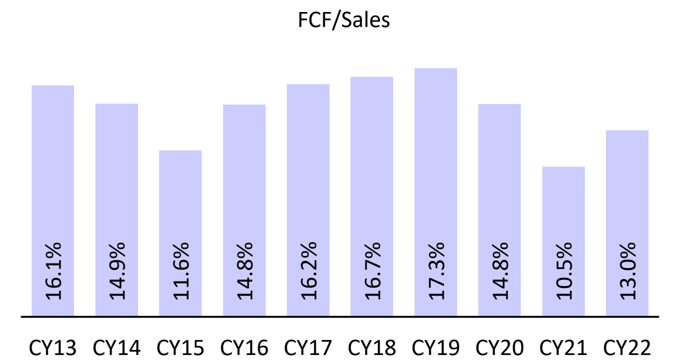
Exhibit 37: Breakup of inventory days

On an average basis	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22
Inventory days	**30**	**29**	**37**	**35**	**34**	**30**	**33**	**37**	**37**	**38**
Raw material days	8	10	12	13	12	10	12	14	14	**13**
Packing material days	1	1	1	1	1	1	1	2	2	**2**
Work-in-progress days	4	3	4	3	4	4	3	4	5	**4**
Finished goods and stock-in-trade days	14	14	18	16	15	14	14	15	15	**16**
Stores and spares days	2	2	2	2	2	2	2	2	2	**2**

Source: Company, MOFSL

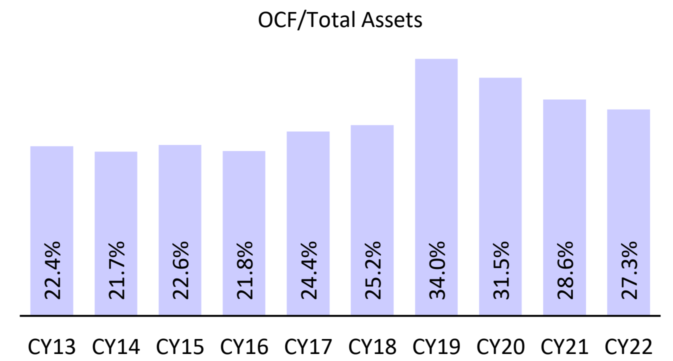
- Operating/free cash flow increased 20.5%/42.6% YoY to INR27.4b/INR22b in CY21. Increase in cash flow was a result of robust operating performance and lower capex in CY22.
- Operating cash flow clocked a CAGR of 8.5% over CY17-22, led by improvement in profitability and release of working capital, leading to NWC being back to zero/low single-digit levels over the past years.

Exhibit 38: FCF-to-sales ratio increased YoY



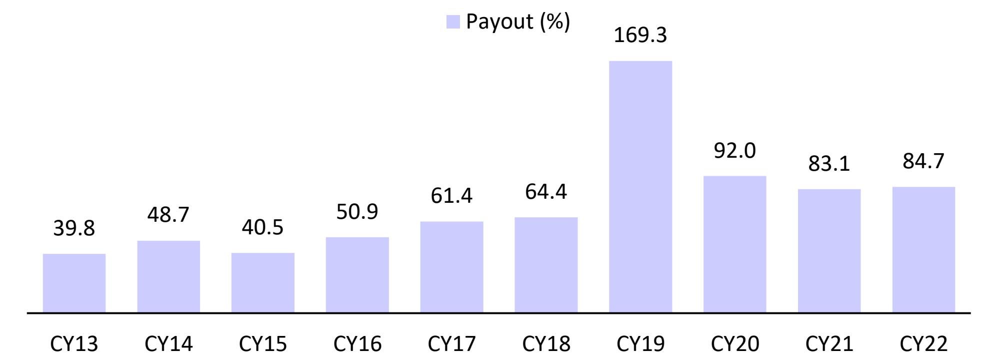
Source: Company, MOFSL

Exhibit 39: OCF/total assets fell YoY



Source: Company, MOFSL

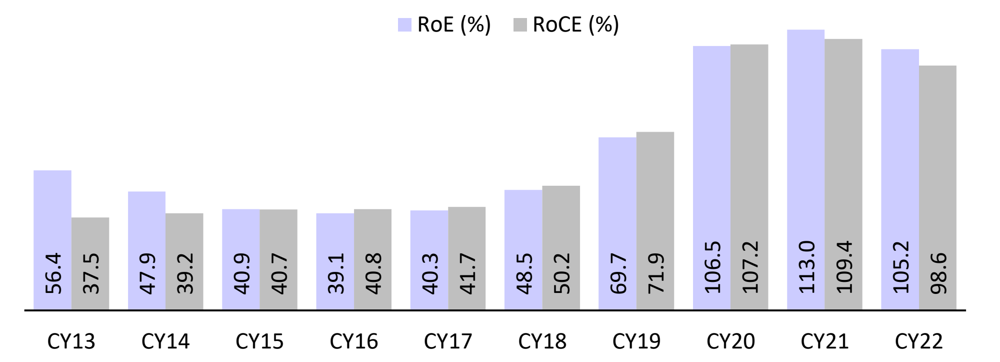
Exhibit 40: Payout ratio remained high (inordinately high in CY19 due to special dividend)



Source: Company, MOFSL

- As cash and cash equivalents rose significantly over CY15-18 levels, the company declared a special dividend, leading to a sharp payout (169%) in CY19 v/s 64% in CY18. NEST has continued its higher payouts of 83%-92% over the last three years.
- With higher dividend payouts over CY19-22, return ratios improved significantly. RoE/RoCE was over/near 100% levels in CY22.
- As indicated by the company, it has approved a scheme of arrangement to transfer the entire balance of general reserve, i.e., INR8,374m to retained earnings. It has received 'no observation letter' from BSE Ltd. and the sanction of the scheme is awaited from Honorable NCLT.
- As highlighted by the management in Annual Report, the utilization of the amount transferred shall be available for payout to members. Hence, we expect a possibility of higher dividend payout in the coming years.

Exhibit 41: RoE and RoCE improved significantly in CY22 due to higher payouts



Source: Company, MOFSL

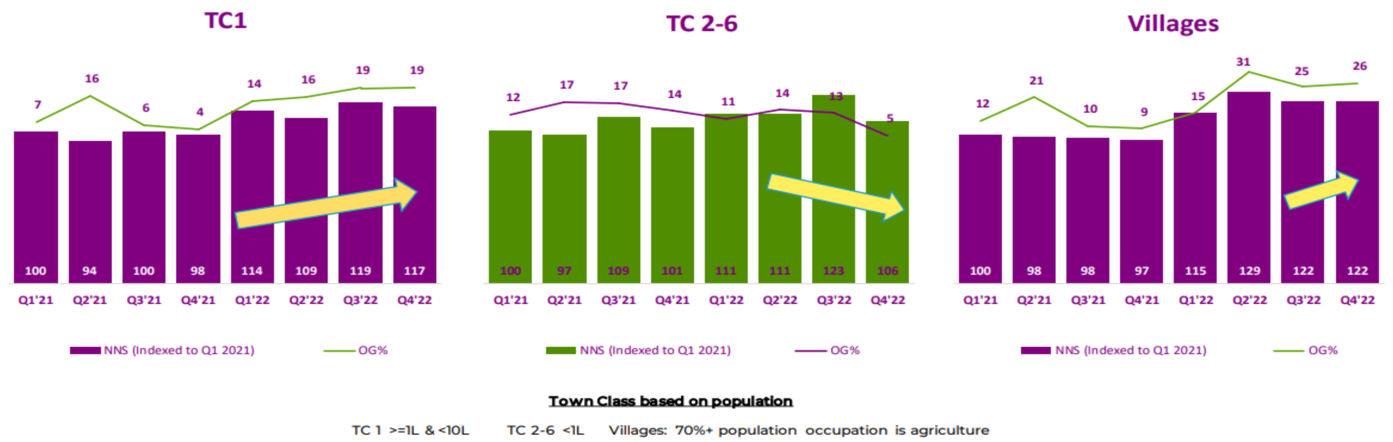
Provision for contingencies

- NEST created a contingency provision of INR 1,309m in CY22 (INR908m in CY21), mainly from matters, which are under litigation/related to disputes and other uncertainties requiring management judgment.
- The company has also reversed, utilized/settled contingency provision of INR157m in CY22 (INR750 in CY21).
- Net provisions for contingencies created in CY22 therefore stood at INR1,152m v/s INR158m in the previous year.

Channel expansion

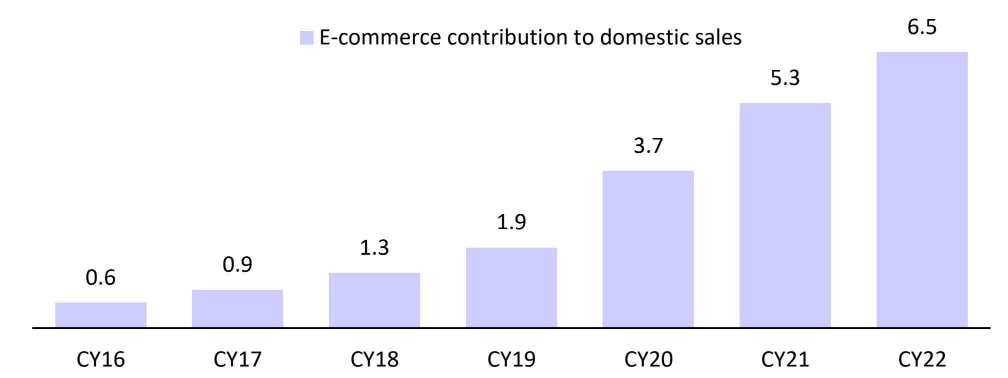
- NEST's RURBAN (quasi-rural) strategy focuses on: 1) using a mix of customized portfolios, 2) direct distribution, 3) enhancing its distribution infrastructure, 4) deployment of resources, 5) regional and localized communication, 6) enhancing its visibility by participating in village haats, and 7) building a consumer connect.
- Through Project RURBAN, it reached out to small towns with a population of less than 100,000 and large villages with a population greater than 2,000 with an eye on long-term growth opportunities.
- It added 55,000 villages and 1,800 distribution touch points in CY22 and increased consumer connects through 'Haat' activities (increased 10x compared to last year) and RURBAN smart stores.
- CY22 also witnessed NEST launching its first-ever D2C e-commerce platform – www.mynestle.in. It is currently only serving in the Delhi-NCR region with plans to expand to other parts of the country.
- NEST's e-commerce channel showed strong acceleration on the back of new emerging formats, such as quick commerce and 'Click & Mortar'. Quick Commerce growth was fueled by new user acquisition initiatives such as targeted digital communication and ensuring access to products at the point of purchase.
- NEST is also leveraging the emerging specialized formats such as ePharmacies.

Exhibit 42: Expanding rural reach



Source: Company

Exhibit 43: Growing contribution of e-commerce in domestic sales



Source: Company, MOFSL

Supply chain

- NEST has developed a resilient and agile supply chain framework that sources its direct and indirect materials from its suppliers. It selects its suppliers through the internal laid-out procedures and engages them in line with Nestlé Responsible Sourcing Standard ('NRSS').
- The Sustainable Sourcing team ensures that raw/packaging materials and the services received are aligned with NRSS.
- In CY22, it sourced 73% of its inputs sustainably. Fresh milk, palm oil, cocoa, wheat, spices, rice, and green coffee have been sourced sustainably.
- NEST procures raw materials locally. In addition to collecting milk and implementing the Nestlé Milk District Model successfully, it provides technical assistance to milk farmers to improve the productivity and quality, veterinary services, medicines at no-profit basis, and promotes sustainable agricultural practices.

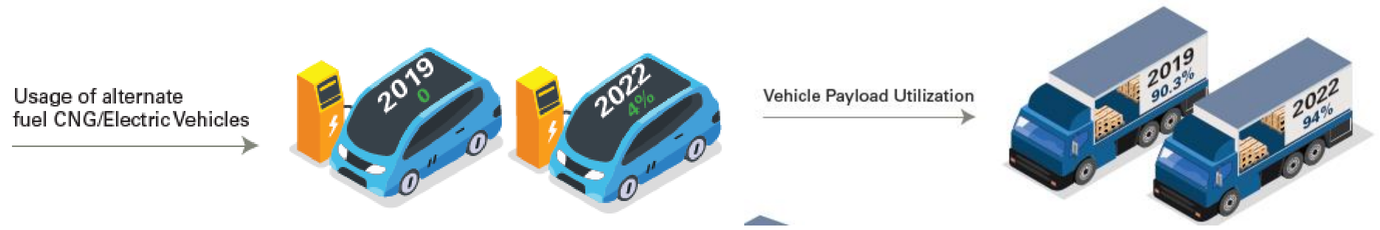
Increasing emphasis on data analytics

- NEST has made a strong commitment to transform itself, using data analytics, across every aspect of its business, be it manufacturing, supply chain, sales, marketing, and communications.
- This has helped understand evolving consumer needs, spotting trends, and delivering innovations.
- This has also led to streamlining business practices, bringing operational efficiencies, becoming more strategic and predicative while making more effective business decisions.

Sustainability

- For every ton of production over CY07-22, NEST reduced:
  - the usage of energy by around 36%,
  - water usage by around 51%,
  - generation of wastewater by around 38%, and
  - specific direct Green House Gas emissions by 52%.
- On transportation and logistics:
  - Usage of alternate fuel/ CNG/ Electric vehicles – to 4% in CY22 from 0% in CY19,
  - Increase in vehicle payload utilization to 94% in CY22 from 90.3% in CY19,
  - Usage of bigger size vehicles increased to 10.2% in CY22 from 5.9% in CY19, and
  - Increased usage of railways – to 6% in CY22 from 0.2% in CY19.
- NEST was among the first to responsibly manage quantity equivalent to the post-consumer plastic waste generated by its products, and its brands have remained plastic neutral since 2020.
- Through the Extended Producer Responsibility Initiative, the company has achieved EPR of 23,300 MT through plastic waste management.
- For sustainable sourcing of materials, NEST collaborates with the dairy farmer to encourage sustainable dairy farming practices. As part of the NESCAFÉ Plan, the company trains coffee farmers in sustainable agricultural practices and through MAGGI Spice Plan.
- The company now sources eight key spices from suppliers, that are sustainably and local sourced.

Exhibit 44: Increased usage of alternative fuel vehicles and increased vehicle payload utilization

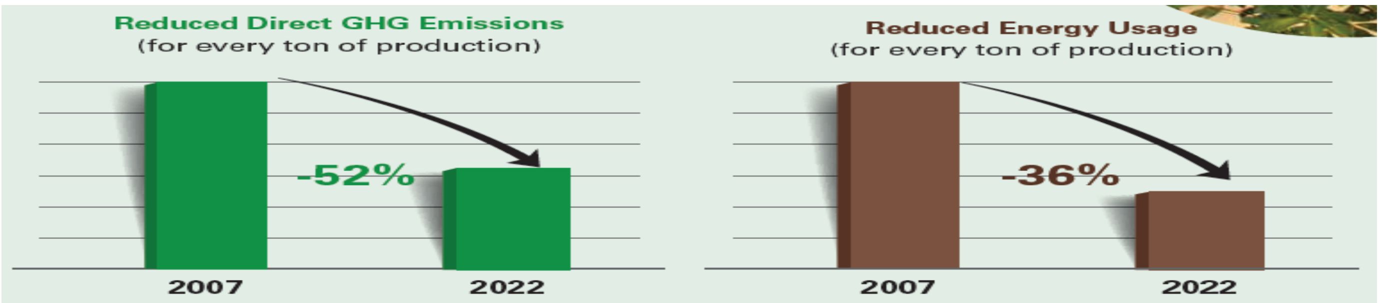


Source: Company

Exhibit 45: Increasing the usage of bigger vehicles and railways

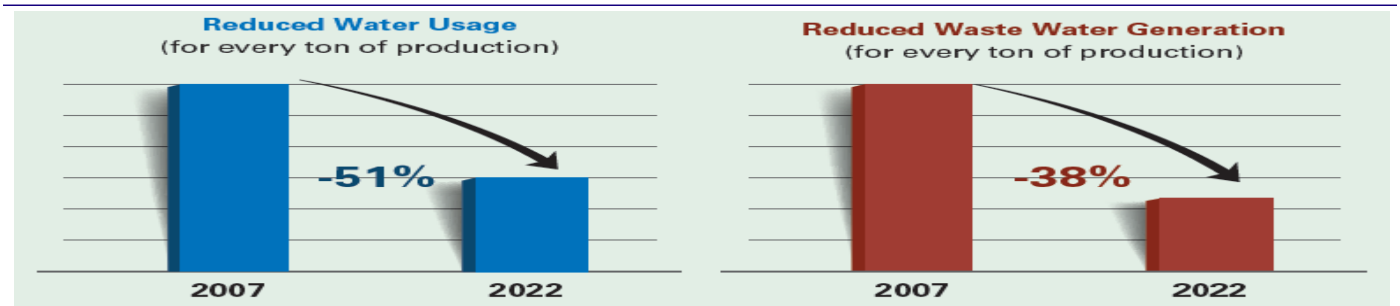
Source: Company

Exhibit 46: Reducing direct GHG emission and energy usage…



Source: Company

Exhibit 47: …along with reduction in water usage and waste water generation



Source: Company

Other salient talking points from the annual report

- R&D spends stood at INE298m/INR49m (recurring/capital R&D) in CY22. Total R&D spends stood at INE346m in the year and constituted 0.21% of net sales.

Exhibit 48: R&D expenditure as a percentage of sales stood at 0.21%

(INR m)	CY20	CY21	CY22
Capital	26	109	49
Recurring	233	266	298
Total	259	374	346
R&D expenditure as a percentage of net sales (%)	0.2	0.3	0.2

Source: Company, MOFSL

- In CY22, total remuneration of MD Mr. Suresh Narayanan was INR177.4m (down 5.7% YoY). Mr. David McDaniel, Director - Finance & Control and CFO, earned INE79.7m in the year.

Exhibit 49: MD's remuneration decreases 5.7% YoY in CY22; increase in median remuneration stood at 6.60%

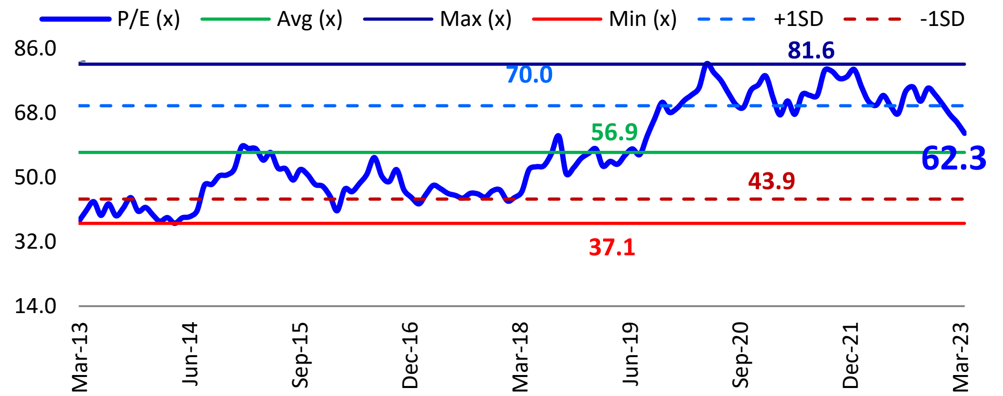
Name of the employee	Designation	CY20	CY21	CY22
Mr. Suresh Narayanan	Chairman and Managing Director	171.9	188.1	177.4
YoY increase (%)		6.3	9.4	(5.7)
Mr. Shobinder Duggal/ Mr. David Steven McDaniel#	Director - Finance & Control and CFO	49.2	80.7	79.7
YoY increase (%)		4.9	Not comparable	(1.2)

#Appointed as Whole-time Director, designated as Executive Director – Finance & Control and CFO with effect from 1st Mar'20;
Source: Company, MOFSL

Valuation and view

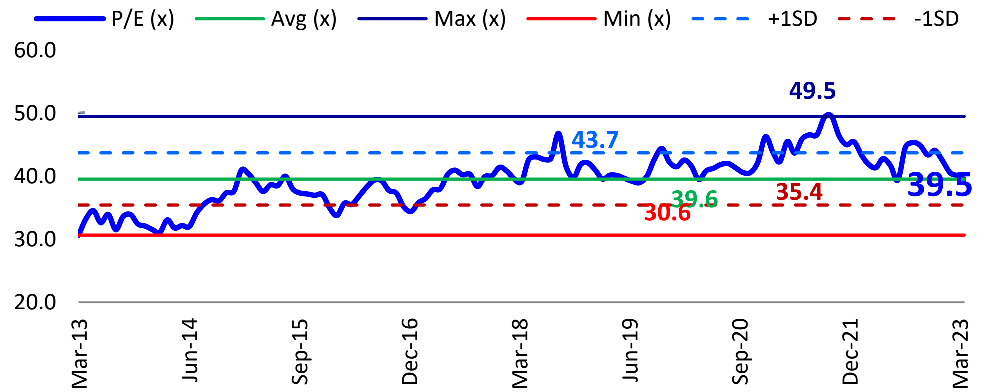
- There is no material change to our CY22 and CY23 EPS forecasts.
- The long-term narrative for revenue and earnings growth for NEST is highly attractive. Companies such as NEST with a strong pedigree and distribution strength are expected to benefit significantly from the immense growth prospects of the Packaged Foods segment in India. Further, the successful implementation of the company's volume-led growth strategy in recent years provides confidence in execution as well.
- However, valuations at 54.4x CY24E P/E are expensive and do not offer any significant upside from a one-year perspective. We value the company at 55x Mar'25E EPS to arrive at our TP of INR19,900. We maintain our Neutral stance on the stock.

Exhibit 50: NEST's P/E (x)



Source: Company, MOFSL

Exhibit 51: P/E (x) for the Consumer sector excluding ITC



Source: Company, MOFSL

Financials and valuations

Y/E December	2017	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	**100.1**	**112.9**	**123.7**	**133.5**	**147.4**	**169.0**	**191.2**	**226.3**
Change (%)	9.5	12.8	9.5	7.9	10.4	14.6	13.2	18.4
Gross Profit	**56.8**	**67.0**	**71.4**	**76.8**	**83.9**	**91.5**	**108.0**	**130.2**
Margin (%)	56.8	59.4	57.8	57.5	56.9	54.1	56.5	57.5
Other Expenditure	34.6	39.7	42.4	44.6	48.3	54.3	64.4	77.1
EBITDA	**22.2**	**27.3**	**29.1**	**32.2**	**35.7**	**37.1**	**43.6**	**53.1**
Change (%)	9.4	23.0	6.3	10.7	10.9	4.1	17.4	21.8
Margin (%)	22.2	24.2	23.5	24.1	24.2	22.0	22.8	23.5
Depreciation	3.4	3.4	3.7	3.7	3.9	4.0	5.3	6.7
Int. and Fin. Ch.	0.9	1.1	1.3	1.6	2.0	1.5	1.7	1.9
Other Inc.- Rec.	1.8	2.6	2.5	1.5	1.2	1.0	1.4	1.2
PBT	**19.6**	**25.4**	**26.5**	**28.3**	**30.9**	**32.6**	**38.0**	**45.7**
Change (%)	13.1	29.5	4.3	6.6	9.4	5.2	16.6	20.4
Margin (%)	19.6	22.5	21.4	21.2	21.0	19.3	19.9	20.2
Tax	6.1	8.2	7.1	7.3	7.7	8.7	10.1	12,157
Tax Rate (%)	31.3	32.3	26.6	25.8	25.0	26.6	26.6	26.6
Adjusted PAT	**13.5**	**17.2**	**19.5**	**21.0**	**23.2**	**23.9**	**27.9**	**33.6**
Change (%)	13.2	27.5	13.1	7.6	10.6	3.1	16.6	20.4
Margin (%)	13.5	15.2	15.7	15.7	15.7	14.1	14.6	14.8
Reported PAT	**12.3**	**16.1**	**19.2**	**20.8**	**21.2**	**23.9**	**27.9**	**33.6**

Balance Sheet

Y/E December	2017	2018	2019	2020	2021	2022	2023E	2024E
Share Capital	1.0	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	23.6	22.6	23.4
Net Worth	**34.2**	**36.7**	**19.2**	**20.2**	**20.8**	**24.6**	**23.5**	**24.3**
Loans	0.4	0.4	0.5	1.5	2.7	2.7	2.7	2.7
Capital Employed	**34.6**	**37.1**	**19.7**	**21.7**	**23.5**	**27.3**	**26.3**	**27.1**
Gross Block	33.6	34.9	34.9	40.0	51.2	54.7	67.7	87.7
Less: Accum. Depn.	7.4	10.8	13.8	18.2	21.2	24.3	29.6	36.3
Net Fixed Assets	**26.2**	**24.0**	**21.1**	**21.8**	**29.9**	**30.4**	**38.1**	**51.5**
Capital WIP	0.9	1.1	1.4	6.4	2.5	3.6	3.6	3.6
Investments	19.8	26.6	18.3	15.5	22.2	22.2	22.8	19.8
Current	13.9	19.3	10.1	7.2	0.6	2.2	2.4	1.4
Non-current	5.9	7.3	8.2	8.3	21.6	20.1	20.5	18.4
Curr. Assets, L&A	**26.7**	**29.2**	**30.9**	**35.1**	**27.2**	**33.3**	**29.5**	**29.8**
Inventory	9.0	9.7	12.8	14.2	15.8	19.3	17.0	19.9
Account Receivables	0.9	1.2	1.2	1.6	1.7	1.9	1.6	1.8
Cash and Bank Balance	14.6	16.1	13.1	17.7	7.4	9.5	7.5	4.4
Others	2.2	2.2	3.7	1.6	2.4	2.6	3.3	3.6
Curr. Liab. and Prov.	**37.8**	**43.2**	**51.9**	**57.3**	**58.6**	**62.5**	**68.0**	**77.9**
Account Payables	9.8	12.4	14.9	15.2	17.3	19.3	22.6	26.1
Other Liabilities	4.2	4.6	7.0	8.4	7.0	9.5	7.6	9.0
Provisions	23.8	26.2	29.9	33.7	34.2	33.7	37.9	42.8
Net Curr. Assets	**-11.1**	**-14.0**	**-21.0**	**-22.2**	**-31.4**	**-29.2**	**-38.6**	**-48.1**
Def. Tax Liability	-1.2	-0.6	-0.1	0.2	0.3	0.3	0.3	0.3
Appl. of Funds	**34.6**	**37.1**	**19.7**	**21.7**	**23.5**	**27.3**	**26.3**	**27.1**

E: MOFSL Estimates

Financials and valuations

Y/E December	2017	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)								
EPS	**140.0**	**178.6**	**202.0**	**217.4**	**240.6**	**247.9**	**289.2**	**348.3**
Cash EPS	175.5	213.4	240.4	255.8	281.1	289.7	344.0	417.6
BV/Share	354.8	381.0	199.0	209.4	216.2	255.0	244.2	252.5
DPS	86.0	115.0	342.0	200.0	200.0	210.0	300.0	340.0
Payout (%)	61.4	64.4	169.3	92.0	83.1	84.7	103.7	97.6
Valuation (x)								
P/E	135.2	106.0	93.7	87.1	78.7	76.3	65.5	54.4
Cash P/E	107.8	88.7	78.7	74.0	67.3	65.3	55.0	45.3
EV/Sales	17.9	15.8	14.5	13.4	12.2	10.6	9.4	8.0
EV/EBITDA	80.6	65.2	61.8	55.8	50.4	48.4	41.2	34.0
P/BV	53.4	49.7	95.1	90.4	87.6	74.2	77.5	75.0
Dividend Yield (%)	0.5	0.6	1.8	1.1	1.1	1.1	1.6	1.8
Return Ratios (%)								
RoE	40.3	48.5	69.7	106.5	113.0	105.2	115.8	140.2
RoCE	41.7	50.2	71.9	107.2	109.4	98.6	108.8	131.1
Working Capital Ratios								
Debtor (Days)	3.2	4.1	3.7	4.5	4.1	4.2	3.0	3.0
Asset Turnover (x)	2.8	3.1	4.3	6.5	6.6	6.7	7.2	8.6
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement

Y/E December	2017	2018	2019	2020	2021	2022	2023E	2024E
OP/(loss) before Tax	18.4	24.3	26.7	28.1	28.8	32.6	38.3	46.4
Int./Div. Received	1.4	2.5	2.4	1.4	1.2	0.5	1.4	1.2
Depn. and Amort.	3.4	3.4	3.7	3.7	3.9	4.0	5.3	6.7
Interest Paid	0.0	0.0	0.0	0.2	0.0	0.0	1.7	1.9
Direct Taxes Paid	6.0	8.8	6.7	7.0	7.3	8.4	10.1	12.2
Incr in WC	3.7	4.1	1.6	1.0	-1.5	-0.3	7.5	6.4
CF from Operations	**18.2**	**20.5**	**23.0**	**24.5**	**22.7**	**27.4**	**41.3**	**48.0**
Others	0.6	-2.6	11.7	4.4	-5.6	2.5	1.1	0.5
Incr in FA	2.0	1.6	1.5	4.7	7.3	5.4	13.0	20.0
Free Cash Flow	**16.2**	**18.9**	**21.4**	**19.8**	**15.4**	**22.0**	**28.3**	**28.0**
Pur of Investments	1.1	1.6	0.2	0.0	0.0	1.2	0.6	-3.0
CF from Invest.	**-2.4**	**-5.8**	**10.0**	**-0.4**	**-12.9**	**-4.0**	**-12.6**	**-16.5**
Incr in Debt	0.0	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	20.2	28.9	32.8
Others	-1.7	-2.3	-6.5	-0.7	-0.9	-1.0	-1.7	-1.9
CF from Fin. Activity	**-10.0**	**-13.2**	**-36.0**	**-19.6**	**-20.2**	**-21.2**	**-30.6**	**-34.7**
Incr/Decr of Cash	**5.8**	**1.5**	**-3.0**	**4.6**	**-10.3**	**2.1**	**-1.9**	**-3.1**
Add: Opening Balance	8.8	14.6	16.1	13.1	17.7	7.4	9.5	7.5
Closing Balance	**14.6**	**16.1**	**13.1**	**17.7**	**7.4**	**9.5**	**7.5**	**4.4**

E: MOFSL Estimates

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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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