

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	1992.2 / 24.3
52-Week Range (INR)	21053 / 16000
1, 6, 12 Rel. Per (%)	4/1/9
12M Avg Val (INR M)	1223

#### Financials & Valuations (INR b)

Y/E Dec	2022	2023E	2024E
Sales	169.0	193.5	228.3
Sales Gr. (%)	14.6	14.5	18.0
EBITDA	37.1	44.0	53.4
Margin (%)	22.0	22.7	23.4
Adj. PAT	23.9	28.8	34.6
Adj. EPS (INR)	247.9	298.3	358.7
EPS Gr. (%)	3.1	20.3	20.2
BV/Sh.(INR)	255.0	253.4	272.1

#### Ratios

RoE (%)	105.2	117.4	136.5
RoCE (%)	98.6	110.3	128.3
Payout (%)	84.7	100.6	94.8

#### Valuations

P/E (x)	83.3	69.3	57.6
P/BV (x)	81.0	81.5	75.9
EV/EBITDA (x)	52.9	44.7	36.9
Div. Yield (%)	1.0	1.5	1.6

#### Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	62.8	62.8	62.8
DII	9.2	9.1	8.6
FII	12.1	12.1	12.0
Others	16.0	16.1	16.6

FII Includes depository receipts

**CMP: INR20,663      TP: INR20,500 (-1%)      Neutral**

## Big beat in a challenging environment; Revenue growth at a 10 year high

- NEST's 1QCY23 numbers beat our expectations on all parameters, with overall sales growth of 21% v/s our estimate of 9%. It was driven by double-digit growth across product categories, led by a better mix, healthy volume and better pricing, along with rapid acceleration in the out-of-home (OOH) business during the quarter.
- Gross margin contracted 150bp YoY/110bp QoQ to 53.8% and was 70bp lower than our expectation. The management commentary highlights early signs of a softening in the costs of edible oils, wheat and packaging materials, even as the costs of fresh milk, fuels and green coffee are expected to remain firm in the near-to-medium term.
- We value the stock at 55x Mar'25E EPS to arrive at our TP of INR20,500. We reiterate our **Neutral** stance on fair valuations.

### An all-round beat

- NEST reported net sales growth of 21% YoY to INR48.3b (est. INR43.4b), led by a healthy balance of pricing, volume and mix.
- Domestic sales grew 21.2% YoY. Export sales grew 24.9% YoY to INR2.0b. OOI decreased 25.7% to INR221m.
- EBITDA grew 19.7% YoY to INR11.1b (est. INR9.5b).
- PBT increased 24.3% YoY to INR10.0b (est. INR8.3b).
- Adj. PAT rose 25.8% YoY to INR7.5b (est. INR6.2b).
- Gross margin declined by ~150bp YoY to 53.8% (est. 54.5%).

### Category performance

- **Prepared Dishes and Cooking Aids:** The category delivered strong growth across all products.
- **Milk Products and Nutrition:** It posted strong double-digit growth despite commodity pressure. MILKMAID delivered strong growth. GERBER Cereals and CEREGROW Grain Selection performed well.
- **Confectionery** delivered robust growth, driven by KITKAT and MUNCH.
- **Beverages: NESCAFE recorded its highest-ever market share.** NESCAFE RTD and OOH delivered strong growth.
- **Pet Foods:** Launched a new product in cat's portfolio.

### Key highlights from the management commentary

- It achieved the highest revenue growth for any quarter in the last 10 years (ex 3QCY16, due to exceptional low base in 3QCY15).
- **Out-Of-Home (OOH):** It posted a strong performance. Growth has been secular across brands, geographies, and channels.
- **E-commerce** delivered strong performance, with significant growth in quick commerce.
- Costs of **fresh milk, fuels, and green coffee are expected to remain firm** because of a continued increase in demand and volatility.
- RURBAN growth was complemented by strong momentum in metro and mega cities, along with strong growth in rural led by volumes.

**Valuation and view**

- There are no material changes to our CY23 and CY24 EPS estimates.
- The long-term narrative for revenue and earnings growth is 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.
- NEST's valuation at 57.6x CY24E P/E is expensive and does 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 INR20,500. We reiterate our Neutral rating on the stock.

**Quarterly performance**

(INR b)

Y/E December	CY22				CY23				CY22	CY23E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Net Sales</b>	<b>39.9</b>	<b>40.4</b>	<b>46.0</b>	<b>42.6</b>	<b>48.3</b>	<b>46.0</b>	<b>51.1</b>	<b>48.1</b>	<b>169.0</b>	<b>193.5</b>	<b>43.4</b>	<b>11.3%</b>
YoY Change (%)	10.6	16.1	18.5	13.6	21.0	14.0	11.0	13.0	14.6	14.5	9.0	
<b>Gross Profit</b>	<b>22.1</b>	<b>21.8</b>	<b>24.2</b>	<b>23.4</b>	<b>26.0</b>	<b>25.1</b>	<b>28.3</b>	<b>27.3</b>	<b>91.5</b>	<b>106.7</b>	<b>23.6</b>	
Margin (%)	55.3	54.0	52.7	54.9	53.8	54.5	55.5	56.8	54.1	55.2	54.5	
<b>EBITDA</b>	<b>9.3</b>	<b>8.5</b>	<b>10.1</b>	<b>9.8</b>	<b>11.1</b>	<b>10.4</b>	<b>11.8</b>	<b>10.7</b>	<b>37.1</b>	<b>44.0</b>	<b>9.5</b>	<b>16.3%</b>
Margins (%)	23.2	21.0	21.9	22.9	23.0	22.6	23.1	22.2	22.0	22.7	22.0	
YoY Growth (%)	(0.3)	1.8	6.1	15.7	19.7	22.5	16.8	9.1	4.1	18.4	2.6	
Depreciation	1.0	1.0	1.0	1.0	1.0	1.3	1.3	1.3	4.0	4.9	1.1	
Interest	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	1.5	1.7	0.4	
Other income	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.0	1.2	0.3	
<b>PBT</b>	<b>8.1</b>	<b>7.3</b>	<b>9.1</b>	<b>8.6</b>	<b>10.0</b>	<b>9.0</b>	<b>10.3</b>	<b>9.3</b>	<b>32.6</b>	<b>38.6</b>	<b>8.3</b>	<b>21.0%</b>
Tax	2.1	1.9	2.4	2.3	2.5	2.3	2.6	2.4	8.7	9.8	2.1	
Rate (%)	26.2	25.3	26.3	26.8	25.3	25.6	25.6	25.6	26.6	25.5	25.2	
<b>Adjusted PAT</b>	<b>6.0</b>	<b>5.5</b>	<b>6.7</b>	<b>6.3</b>	<b>7.5</b>	<b>6.7</b>	<b>7.7</b>	<b>6.9</b>	<b>23.9</b>	<b>28.8</b>	<b>6.2</b>	<b>20.9%</b>
YoY Change (%)	(0.9)	3.9	7.4	11.6	25.8	22.7	15.0	9.0	3.1	20.3	3.4	

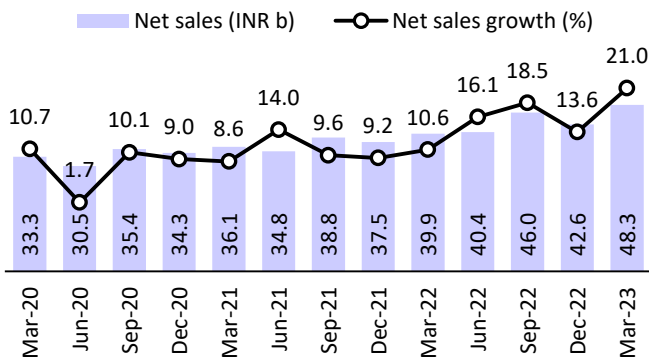
E: MOFSL Estimates

**Key Performance Indicators**

Y/E December	CY22				CY23
	1Q	2Q	3Q	4Q	1Q
<b>2Y average growth (%)</b>					
Sales	9.6	15.0	14.1	11.4	15.8
EBITDA	7.9	5.9	6.0	13.6	9.7
PAT	6.1	4.7	5.3	16.9	12.5
<b>% of Sales</b>					
COGS	44.7	46.0	47.3	45.1	46.2
Employee Expenses	10.0	10.1	9.1	9.6	9.4
Other Expenses	22.1	22.8	21.6	22.4	21.4
Depreciation	2.6	2.5	2.1	2.3	2.1
<b>YoY change (%)</b>					
COGS	19.2	24.3	26.6	19.0	25.0
Employee Expenses	8.2	7.9	8.2	4.6	87.4
Other Expenses	8.2	19.6	20.9	5.7	79.6
Other Income	-27.7	-34.3	-9.0	8.0	57.1
EBIT	-1.7	1.2	6.4	18.9	22.6

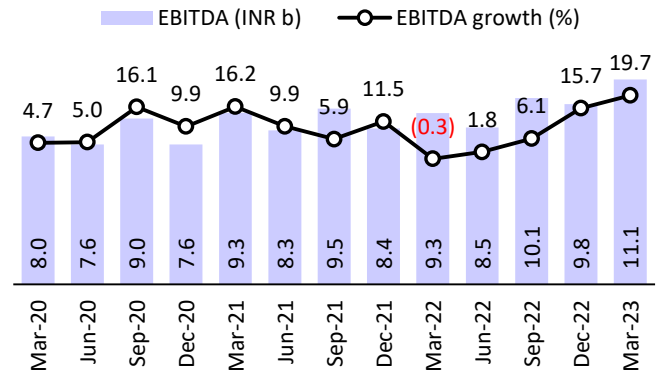
Key Exhibits

Exhibit 1: Net sales up 21.0% YoY to INR48.3b



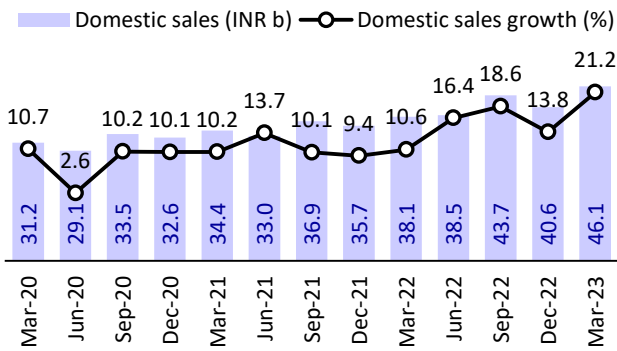
Sources: Company reports, MOFSL

Exhibit 2: EBITDA rose 19.7% YoY to INR11.1b



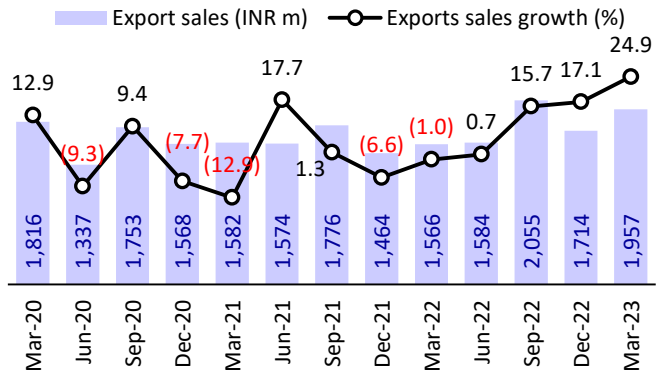
Source: Company reports, MOFSL

Exhibit 3: Domestic sales rose 21.2% YoY to INR46.1b



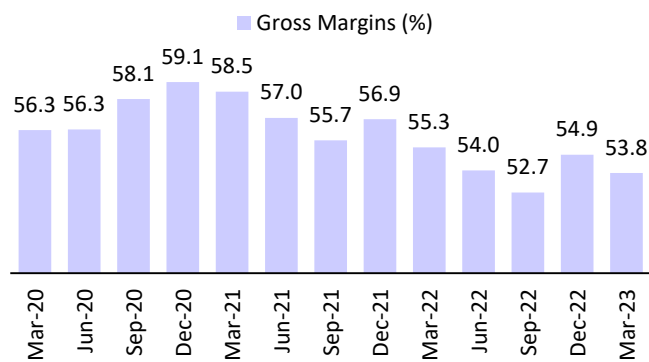
Sources: Company reports, MOFSL

Exhibit 4: Exports grew 24.9% YoY to INR1,957m



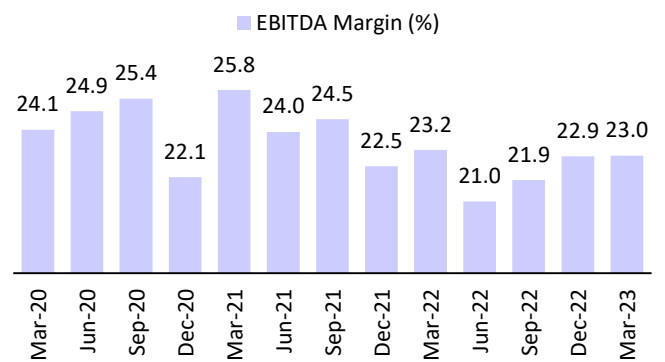
Sources: Company reports, MOFSL

Exhibit 5: Gross margin contracted ~150bp YoY to 53.8%



Sources: Company reports, MOFSL

Exhibit 6: EBITDA margin was flat YoY at 23.0%



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 CAGRs in the 7-9% range over CY12-22.
- The past five years have registered accelerated growth (~11% sales CAGR), with an EBITDA/PAT CAGR of 11%/14%, 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: a) focus on volume-led, double-digit sales growth, b) over 90 product launches since CY16, c) back-up launches, with a sharp increase in ad spends, and d) focus on distribution expansion (more recently).

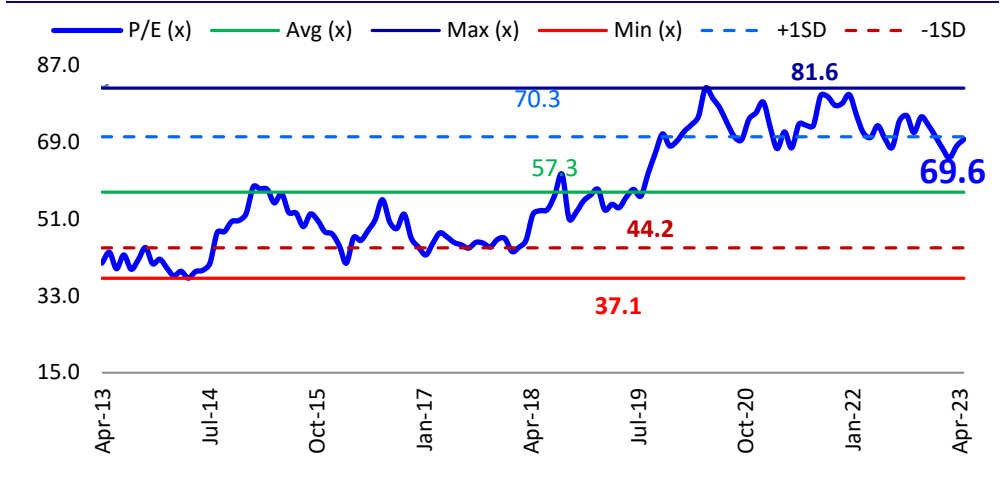
### Reiterate Neutral rating

- There are no material changes to our CY23 and CY24 EPS estimates.
- The long-term narrative for revenue and earnings growth is 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.
- NEST's valuation at 57.6x CY24E P/E is expensive and does 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 INR20,500. We reiterate our Neutral rating on the stock.

#### Exhibit 7: No material changes to our estimates

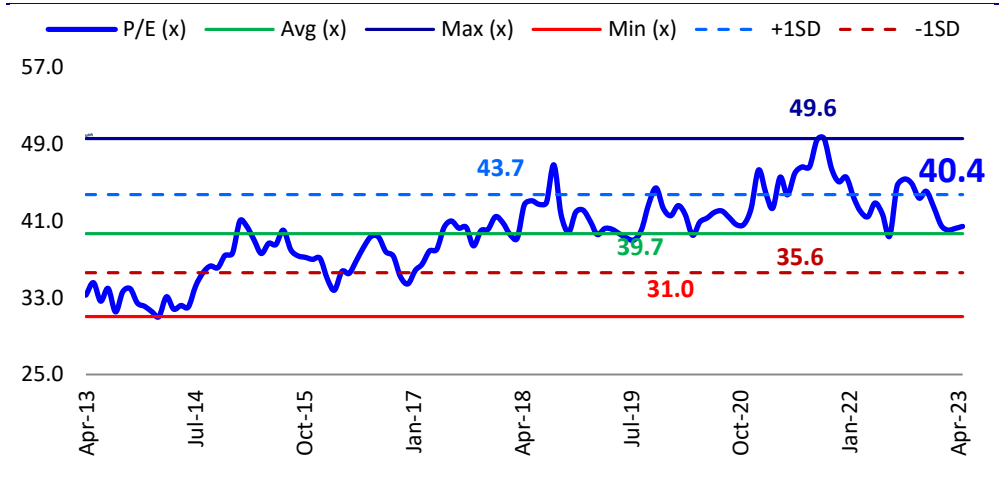
(INR b)	New		Old		Change	
	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Net Sales	193.5	228.3	191.2	226.3	1.2	0.9
EBITDA	44.0	53.4	43.6	53.1	0.9	0.6
Adjusted PAT	28.8	34.6	27.9	33.6	3.2	3.0

**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	2022	2023E	2024E
<b>Net Sales</b>	<b>100.1</b>	<b>112.9</b>	<b>123.7</b>	<b>133.5</b>	<b>147.4</b>	<b>169.0</b>	<b>193.5</b>	<b>228.3</b>
Change (%)	9.5	12.8	9.5	7.9	10.4	14.6	14.5	18.0
<b>Gross Profit</b>	<b>56.8</b>	<b>67.0</b>	<b>71.4</b>	<b>76.8</b>	<b>83.9</b>	<b>91.5</b>	<b>106.7</b>	<b>130.5</b>
Margin (%)	56.8	59.4	57.8	57.5	56.9	54.1	55.2	57.2
Other Expenditure	34.6	39.7	42.4	44.6	48.3	54.3	62.8	77.1
<b>EBITDA</b>	<b>22.2</b>	<b>27.3</b>	<b>29.1</b>	<b>32.2</b>	<b>35.7</b>	<b>37.1</b>	<b>44.0</b>	<b>53.4</b>
Change (%)	9.4	23.0	6.3	10.7	10.9	4.1	18.4	21.5
Margin (%)	22.2	24.2	23.5	24.1	24.2	22.0	22.7	23.4
Depreciation	3.4	3.4	3.7	3.7	3.9	4.0	4.9	6.4
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	1.2	1.3
<b>PBT</b>	<b>19.6</b>	<b>25.4</b>	<b>26.5</b>	<b>28.3</b>	<b>30.9</b>	<b>32.6</b>	<b>38.6</b>	<b>46.4</b>
Change (%)	13.1	29.5	4.3	6.6	9.4	5.2	18.6	20.2
Margin (%)	19.6	22.5	21.4	21.2	21.0	19.3	20.0	20.3
Tax	6.1	8.2	7.1	7.3	7.7	8.7	9.8	11,838
Tax Rate (%)	31.3	32.3	26.6	25.8	25.0	26.6	25.5	25.5
<b>Adjusted PAT</b>	<b>13.5</b>	<b>17.2</b>	<b>19.5</b>	<b>21.0</b>	<b>23.2</b>	<b>23.9</b>	<b>28.8</b>	<b>34.6</b>
Change (%)	13.2	27.5	13.1	7.6	10.6	3.1	20.3	20.2
Margin (%)	13.5	15.2	15.7	15.7	15.7	14.1	14.9	15.1
<b>Reported PAT</b>	<b>12.3</b>	<b>16.1</b>	<b>19.2</b>	<b>20.8</b>	<b>21.2</b>	<b>23.9</b>	<b>28.8</b>	<b>34.6</b>

Balance Sheet								(INR b)
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	23.5	25.3
<b>Net Worth</b>	<b>34.2</b>	<b>36.7</b>	<b>19.2</b>	<b>20.2</b>	<b>20.8</b>	<b>24.6</b>	<b>24.4</b>	<b>26.2</b>
Loans	0.4	0.4	0.5	1.5	2.7	2.7	2.7	2.7
<b>Capital Employed</b>	<b>34.6</b>	<b>37.1</b>	<b>19.7</b>	<b>21.7</b>	<b>23.5</b>	<b>27.3</b>	<b>27.1</b>	<b>28.9</b>
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	29.2	35.6
<b>Net Fixed Assets</b>	<b>26.2</b>	<b>24.0</b>	<b>21.1</b>	<b>21.8</b>	<b>29.9</b>	<b>30.4</b>	<b>38.5</b>	<b>52.2</b>
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
<b>Curr. Assets, L&amp;A</b>	<b>26.7</b>	<b>29.2</b>	<b>30.9</b>	<b>35.1</b>	<b>27.2</b>	<b>33.3</b>	<b>31.0</b>	<b>31.6</b>
Inventory	9.0	9.7	12.8	14.2	15.8	19.3	17.2	20.3
Account Receivables	0.9	1.2	1.2	1.6	1.7	1.9	1.6	1.9
Cash and Bank Balance	14.6	16.1	13.1	17.7	7.4	9.5	8.9	5.9
Others	2.2	2.2	3.7	1.6	2.4	2.6	3.4	3.6
<b>Curr. Liab. and Prov.</b>	<b>37.8</b>	<b>43.2</b>	<b>51.9</b>	<b>57.3</b>	<b>58.6</b>	<b>62.5</b>	<b>69.1</b>	<b>78.5</b>
Account Payables	9.8	12.4	14.9	15.2	17.3	19.3	23.5	26.5
Other Liabilities	4.2	4.6	7.0	8.4	7.0	9.5	7.7	9.1
Provisions	23.8	26.2	29.9	33.7	34.2	33.7	37.9	42.9
<b>Net Curr. Assets</b>	<b>-11.1</b>	<b>-14.0</b>	<b>-21.0</b>	<b>-22.2</b>	<b>-31.4</b>	<b>-29.2</b>	<b>-38.1</b>	<b>-46.9</b>
Def. Tax Liability	-1.2	-0.6	-0.1	0.2	0.3	0.3	0.3	0.3
<b>Appl. of Funds</b>	<b>34.6</b>	<b>37.1</b>	<b>19.7</b>	<b>21.7</b>	<b>23.5</b>	<b>27.3</b>	<b>27.1</b>	<b>28.9</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E December	2017	2018	2019	2020	2021	2022	2023E	2024E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>140.0</b>	<b>178.6</b>	<b>202.0</b>	<b>217.4</b>	<b>240.6</b>	<b>247.9</b>	<b>298.3</b>	<b>358.7</b>
Cash EPS	175.5	213.4	240.4	255.8	281.1	289.7	349.1	424.8
BV/Share	354.8	381.0	199.0	209.4	216.2	255.0	253.4	272.1
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	100.6	94.8

### Valuation (x)

P/E	147.6	115.7	102.3	95.0	85.9	83.3	69.3	57.6
Cash P/E	117.7	96.8	85.9	80.8	73.5	71.3	59.2	48.6
EV/Sales	19.6	17.3	15.9	14.7	13.3	11.6	10.1	8.6
EV/EBITDA	88.2	71.4	67.5	61.0	55.1	52.9	44.7	36.9
P/BV	58.2	54.2	103.8	98.7	95.6	81.0	81.5	75.9
Dividend Yield (%)	0.4	0.6	1.7	1.0	1.0	1.0	1.5	1.6

### Return Ratios (%)

RoE	40.3	48.5	69.7	106.5	113.0	105.2	117.4	136.5
RoCE	41.7	50.2	71.9	107.2	109.4	98.6	110.3	128.3

### 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	8.2

### Leverage Ratio

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

Y/E December	2017	2018	2019	2020	2021	2022	2023E	2024E
<b>(INR b)</b>								
OP/(loss) before Tax	18.4	24.3	26.7	28.1	28.8	32.6	38.6	46.4
Int./Div. Received	1.4	2.5	2.4	1.4	1.2	0.5	1.2	1.3
Deprn. and Amort.	3.4	3.4	3.7	3.7	3.9	4.0	4.9	6.4
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	9.8	11.8
Incr in WC	3.7	4.1	1.6	1.0	-1.5	-0.3	8.3	5.8
<b>CF from Operations</b>	<b>18.2</b>	<b>20.5</b>	<b>23.0</b>	<b>24.5</b>	<b>22.7</b>	<b>27.4</b>	<b>42.4</b>	<b>47.4</b>
Others	0.6	-2.6	11.7	4.4	-5.6	2.5	1.2	1.3
Incr in FA	2.0	1.6	1.5	4.7	7.3	5.4	13.0	20.0
<b>Free Cash Flow</b>	<b>16.2</b>	<b>18.9</b>	<b>21.4</b>	<b>19.8</b>	<b>15.4</b>	<b>22.0</b>	<b>29.4</b>	<b>27.4</b>
Pur of Investments	1.1	1.6	0.2	0.0	0.0	1.2	0.6	-3.0
<b>CF from Invest.</b>	<b>-2.4</b>	<b>-5.8</b>	<b>10.0</b>	<b>-0.4</b>	<b>-12.9</b>	<b>-4.0</b>	<b>-12.4</b>	<b>-15.7</b>
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
<b>CF from Fin. Activity</b>	<b>-10.0</b>	<b>-13.2</b>	<b>-36.0</b>	<b>-19.6</b>	<b>-20.2</b>	<b>-21.2</b>	<b>-30.6</b>	<b>-34.7</b>
<b>Incr/Decr of Cash</b>	<b>5.8</b>	<b>1.5</b>	<b>-3.0</b>	<b>4.6</b>	<b>-10.3</b>	<b>2.1</b>	<b>-0.6</b>	<b>-3.0</b>
Add: Opening Balance	8.8	14.6	16.1	13.1	17.7	7.4	9.5	8.9
<b>Closing Balance</b>	<b>14.6</b>	<b>16.1</b>	<b>13.1</b>	<b>17.7</b>	<b>7.4</b>	<b>9.5</b>	<b>8.9</b>	<b>5.9</b>

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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