

July 27, 2023

## Q2CY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	CY24E	CY25E	CY24E	CY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	23,585		22,600	
Sales (Rs. m)	2,20,858	2,46,198	2,22,703	2,48,270
% Chng.	(0.8)	(0.8)		
EBITDA (Rs. m)	51,508	58,307	52,497	59,432
% Chng.	(1.9)	(1.9)		
EPS (Rs.)	346.2	391.0	351.6	398.4
% Chng.	(1.5)	(1.9)		

### Key Financials - Standalone

Y/e Dec	CY21	CY22	CY23E	CY24E
Sales (Rs. bn)	147	169	196	221
EBITDA (Rs. bn)	35	38	45	52
Margin (%)	24.0	22.2	22.9	23.3
PAT (Rs. bn)	23	24	30	33
EPS (Rs.)	241.8	252.7	308.3	346.2
Gr. (%)	11.2	4.5	22.0	12.3
DPS (Rs.)	200.0	210.0	235.0	200.0
Yield (%)	0.9	0.9	1.1	0.9
RoE (%)	117.6	110.6	107.8	90.1
RoCE (%)	156.2	150.1	145.5	124.2
EV/Sales (x)	14.6	12.7	10.9	9.7
EV/EBITDA (x)	60.5	57.0	47.7	41.8
PE (x)	92.3	88.4	72.4	64.5
P/BV (x)	110.6	87.5	70.5	49.4

### Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.23,395 / Rs.17,880
Sensex / Nifty	66,267 / 19,660
Market Cap	Rs.2,153bn/ \$ 26,269m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1553.71m

### Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.38
Domestic Institution	9.05
Public & Others	15.81
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.4)	16.2	20.4
Relative	(5.6)	4.0	1.4

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## LT drivers intact, Accumulate on declines

### Quick Pointers:

- 5% domestic volume growth; Broad based growth across product segments, Metros, Tier 1 to 6 towns and rural India.
- RM basket mixed; Margins to remain range bound in CY23

**We cut our CY23/24 EPS estimates by 1.1%/1.5% following lower than expected margins, even as volume growth at 5% remains healthy in a scenario of Maggi LUP (low unit price pack) price increase and commodity inflation in milk. We believe incremental margin expansion will come at tepid pace given that prices of Milk (40% of RM basket), Coffee and recent floods have potential to increase food inflation in coming quarters. NEST continues to witness growth across product segments in Metros, T1-6 cities & rural markets with growth of all channels like MT, OOH and E-commerce. Long term growth drivers remain intact, led by 1) sustained expansion in rural reach (~ 20% of sales) 2) healthy innovation pipeline (Munch breakfast cereals, Resource Fiber choice and Everyday Zero launched in 2Q23), 3) huge scope of growth in segments like coffee, RTD & Chocolates and 4) higher growth in channels like E-Com and MT.**

**Although we expect NEST to gain from lower costs of palm oil, but firm prices of milk, fuel and coffee will prevent any meaningful margin expansion. We factor in EBIDTA margin improvement of 80bps in CY23 and 120bps over CY22-24. We estimate 17.1% PAT CAGR over CY22-24. We expect moderate returns given rich valuations of 61.9x June24 EPS. Maintain 'Accumulate' rating with a DCF based TP of Rs23,585 (Rs22,600 earlier).**

**Sales up by 15.1%, PAT up by 30.0%:** Revenues grew by 15.1% YoY to Rs46.6bn (PLe: Rs 47.6bn) with domestic/export sales up by 14.6%/ 25.4%. Gross margins expanded by 93bps YoY/101bps QoQ to 54.8% (PLe: 54.5%) due to higher net realizations partly offset by commodity cost increases in milk and its derivatives, wheat flour, edible oil and coffee. EBITDA grew by 25.4% YoY to Rs10.6bn (PLe: Rs 11.1bn); margins expanded by 186bps YoY/-25bps QoQ to 22.7% (PLe:23.4%). Adjusted PAT grew by 30% YoY to Rs7bn (PLe: Rs 7.3bn)

**Strong growth across key brands, input pressures moderating:** MAGGI noodles, KITKAT, MUNCH, MILKMAID, NESCAFÉ Classic, Sunrise and GOLD reported strong growth led by 1) media campaigns, 2) innovations and 3) increased engagement. MAGGI volumes are gradually recovering as price increase in LUP from Rs5 to Rs7 is getting absorbed. NEST will continue to benefit from innovations in Metros and Tier 1 cities and distribution expansion in rural India (~20% of sales).

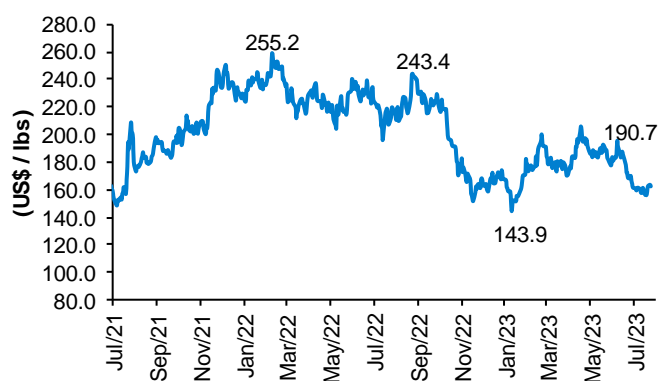
**Expect GM to remain range bound:** NEST continues to see softening in commodity prices across edible oils, wheat, packaging materials & fuel. Milk prices have been stable while Robusta coffee prices are elevated & are expected to remain volatile. We expect range bound GM given that ~50% of RM basket is firm and weather patterns might see further increase in input prices.

**Exhibit 1: 2QCY23 Results: Revenue up 15.1% YoY; Gross margins expand 93bps YoY/101bps QoQ**

Y/e Dec (Rs mn)	2QCY23	2QCY22	YoY gr. (%)	1QCY23	1HCY23	1HCY22	YoY gr. (%)
<b>Net Sales</b>	<b>46,585</b>	<b>40,457</b>	<b>15.1</b>	<b>48,305</b>	<b>94,891</b>	<b>80,383</b>	<b>18.0</b>
Gross Profit	25,535	21,801	17.1	25,990	51,525	43,877	17.4
<i>% of NS</i>	<i>54.8</i>	<i>53.9</i>	<i>0.9</i>	<i>53.8</i>	<i>54.3</i>	<i>54.6</i>	<i>-0.3</i>
Other Expenses	14,947	13,358	11.9	14,890	29,837	26,163	14.0
<b>EBITDA</b>	<b>10,588</b>	<b>8,442</b>	<b>25.4</b>	<b>11,100</b>	<b>21,688</b>	<b>17,713</b>	<b>22.4</b>
<i>Margins (%)</i>	<i>22.7</i>	<i>20.9</i>	<i>1.9</i>	<i>23.0</i>	<i>22.9</i>	<i>22.0</i>	<i>0.8</i>
Depreciation	1,074	1,017	5.6	1,017	2,091	2,062	1.4
Interest	328	370	(11.3)	370	698	726	(3.8)
Other Income	240	194	23.6	337	576	408	41.2
<b>PBT</b>	<b>9,427</b>	<b>7,249</b>	<b>30.0</b>	<b>10,049</b>	<b>19,476</b>	<b>15,334</b>	<b>27.0</b>
Tax	2,410	1,850	30.3	2,538	4,948	4,105	20.5
<i>Effective tax rate (%)</i>	<i>25.6</i>	<i>25.5</i>		<i>25.3</i>	<i>25.4</i>	<i>26.8</i>	
<b>Adjusted PAT</b>	<b>7,017</b>	<b>5,399</b>	<b>30.0</b>	<b>7,511</b>	<b>14,528</b>	<b>11,229</b>	<b>29.4</b>

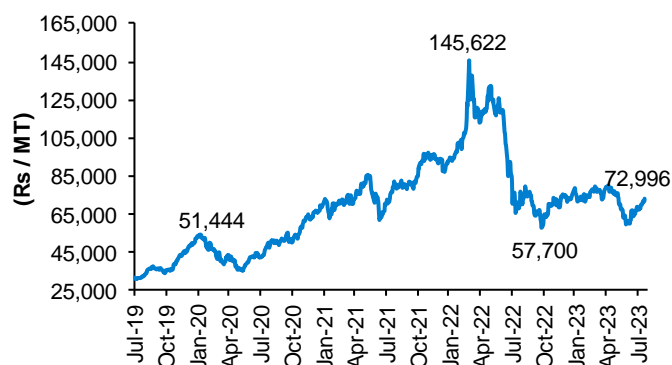
Source: Company, PL

**Exhibit 2: Coffee prices down 17.9% YoY but up 6.7% QoQ**



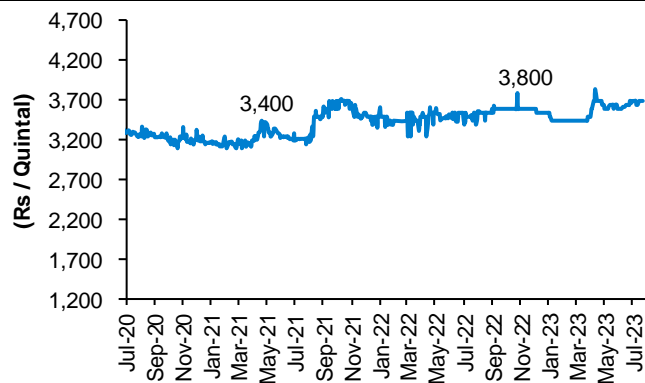
Source: Company, PL

**Exhibit 3: Palmoil down 39.1% YoY and 7.2% QoQ**



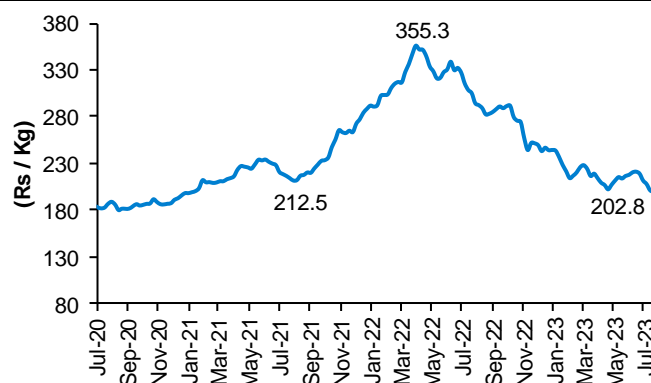
Source: Company, PL

**Exhibit 4: Sugar prices up 3.8% YoY and 5.4% QoQ**



Source: Company, PL

**Exhibit 5: SMP prices down 35.9% YoY and 4.7% QoQ**



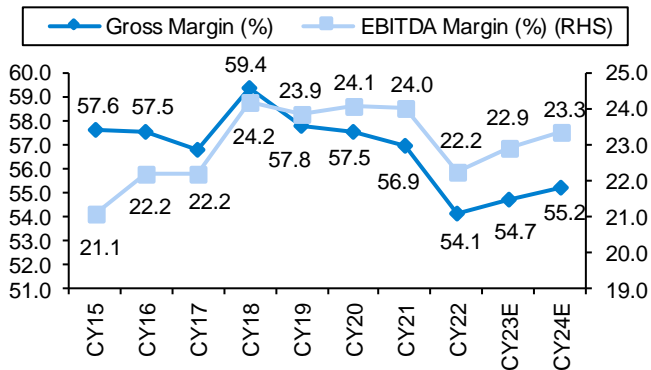
Source: Bloomberg, PL

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

Y/e March	CY19	CY20	CY21	CY22	CY23E	CY24E
<b>Milk Products</b>						
Volume (MT)	1,38,941	1,38,402	1,34,669	134,034	137,385	140,819
<i>Volume growth</i>	<i>1.4%</i>	<i>-0.4%</i>	<i>-2.7%</i>	<i>-0.5%</i>	<i>2.5%</i>	<i>2.5%</i>
Sales Value (Rs m)	56,518	61,488	62,686	68,157	76,847	82,707
<i>Growth in Value</i>	<i>8.9%</i>	<i>8.8%</i>	<i>1.9%</i>	<i>8.7%</i>	<i>12.8%</i>	<i>7.6%</i>
<i>% of sales</i>	<i>46.0%</i>	<i>46.3%</i>	<i>42.8%</i>	<i>40.6%</i>	<i>39.3%</i>	<i>37.6%</i>
<b>Beverages</b>						
Volume (MT)	26,380	20,772	24,507	28,020	30,542	33,596
Value (Rs m)	15,018	14,763	16,918	20,188	23,765	26,795
<i>Growth in Volume</i>	<i>-2.3%</i>	<i>-21.3%</i>	<i>18.0%</i>	<i>14.3%</i>	<i>9.0%</i>	<i>10.0%</i>
<i>Growth in Value</i>	<i>-1.4%</i>	<i>-1.7%</i>	<i>14.6%</i>	<i>19.3%</i>	<i>17.7%</i>	<i>12.8%</i>
<i>%Sales</i>	<i>12.2%</i>	<i>11.1%</i>	<i>11.6%</i>	<i>12.0%</i>	<i>12.2%</i>	<i>12.2%</i>
<b>Prepared Dishes &amp; Cooking Aids</b>						
Volume (MT)	2,64,072	2,81,392	3,27,659	348,225	376,083	424,974
Value (Rs m)	34,982	39,108	45,501	53,006	62,971	72,936
<i>Growth in Volume</i>	<i>9.6%</i>	<i>6.6%</i>	<i>16.4%</i>	<i>5.7%</i>	<i>8.0%</i>	<i>13.0%</i>
<i>Growth in Value</i>	<i>12.7%</i>	<i>11.8%</i>	<i>16.3%</i>	<i>15.7%</i>	<i>18.8%</i>	<i>15.8%</i>
<i>%Sales</i>	<i>28.5%</i>	<i>29.4%</i>	<i>31.1%</i>	<i>31.6%</i>	<i>32.2%</i>	<i>33.2%</i>
<b>Chocolate &amp; Confectionery</b>						
Volume (MT)	49,033	50,358	55,648	62,401	71,137	81,096
Value (Rs.mn)	16,435	17,301	19,501	22,305	25,936	30,158
Realisation (Rs./Kg)	335	344	350	357	365	372
<i>Growth in volume</i>	<i>16.2%</i>	<i>2.7%</i>	<i>10.5%</i>	<i>12.1%</i>	<i>14.0%</i>	<i>14.0%</i>
<i>Growth in Value</i>	<i>17.3%</i>	<i>5.3%</i>	<i>12.7%</i>	<i>14.4%</i>	<i>16.3%</i>	<i>16.3%</i>
<i>Growth in Realisations</i>	<i>1.0%</i>	<i>2.5%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>
<i>% Sales</i>	<i>13.4%</i>	<i>13.0%</i>	<i>13.3%</i>	<i>13.3%</i>	<i>13.3%</i>	<i>13.7%</i>

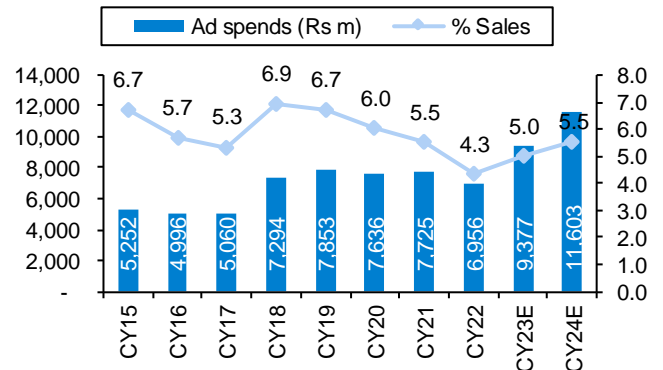
Source: Company, PL

**Exhibit 1: Gross Margins to improve in CY23/24**



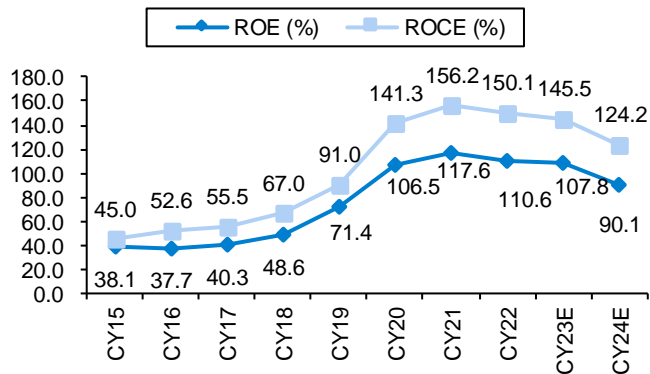
Source: Company, PL

**Exhibit 2: Ad spends to increase gradually**



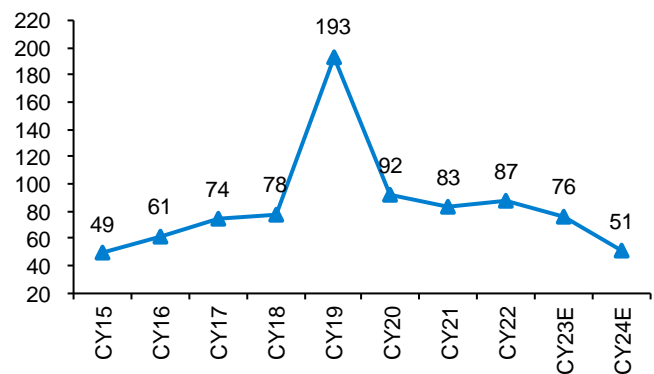
Source: Company, PL

**Exhibit 3: ROE and ROCE remain healthy**

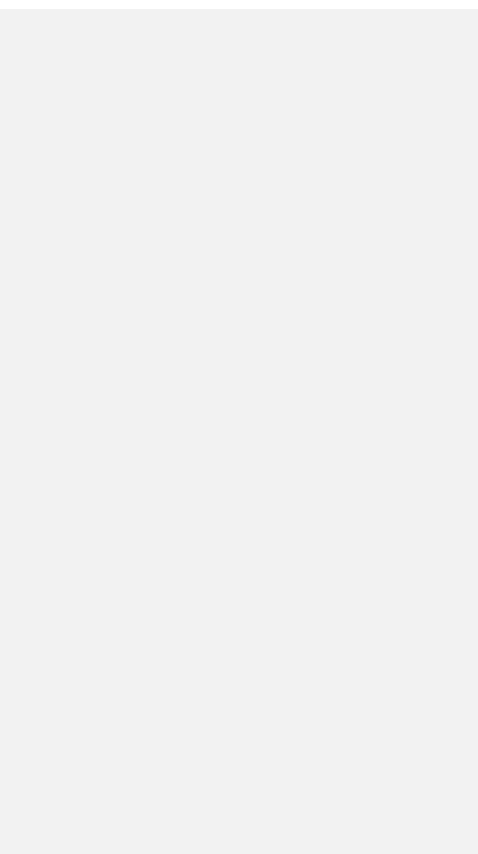


Source: Company, PL

**Exhibit 4: Expect lower dividend payout in CY23/24**



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Dec	CY21	CY22	CY23E	CY24E
<b>Net Revenues</b>	<b>1,47,406</b>	<b>1,68,970</b>	<b>1,96,326</b>	<b>2,20,858</b>
YoY gr. (%)	10.4	14.6	16.2	12.5
Cost of Goods Sold	63,482	77,499	89,005	98,913
Gross Profit	83,924	91,471	1,07,321	1,21,945
Margin (%)	56.9	54.1	54.7	55.2
Employee Cost	15,299	16,355	18,559	20,766
Other Expenses	16,879	17,821	21,961	25,413
<b>EBITDA</b>	<b>35,426</b>	<b>37,583</b>	<b>44,943</b>	<b>51,508</b>
YoY gr. (%)	10.2	6.1	19.6	14.6
Margin (%)	24.0	22.2	22.9	23.3
Depreciation and Amortization	3,910	4,030	4,379	5,120
<b>EBIT</b>	<b>31,516</b>	<b>33,553</b>	<b>40,564</b>	<b>46,388</b>
Margin (%)	21.4	19.9	20.7	21.0
Net Interest	2,017	1,546	1,952	2,151
Other Income	1,202	1,010	1,290	567
<b>Profit Before Tax</b>	<b>30,700</b>	<b>33,017</b>	<b>39,902</b>	<b>44,805</b>
Margin (%)	20.8	19.5	20.3	20.3
Total Tax	7,389	8,655	10,175	11,425
Effective tax rate (%)	24.1	26.2	25.5	25.5
<b>Profit after tax</b>	<b>23,311</b>	<b>24,362</b>	<b>29,727</b>	<b>33,380</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>23,311</b>	<b>24,362</b>	<b>29,727</b>	<b>33,380</b>
YoY gr. (%)	11.2	4.5	22.0	12.3
Margin (%)	15.8	14.4	15.1	15.1
Extra Ord. Income / (Exp)	(2,115)	(163)	(513)	(569)
<b>Reported PAT</b>	<b>21,196</b>	<b>24,199</b>	<b>29,214</b>	<b>32,811</b>
YoY gr. (%)	1.8	14.2	20.7	12.3
Margin (%)	14.4	14.3	14.9	14.9
Other Comprehensive Income	(1,514)	1,119	(500)	(500)
Total Comprehensive Income	19,682	25,319	28,714	32,311
<b>Equity Shares O/s (m)</b>	<b>96</b>	<b>96</b>	<b>96</b>	<b>96</b>
<b>EPS (Rs)</b>	<b>241.8</b>	<b>252.7</b>	<b>308.3</b>	<b>346.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Dec	CY21	CY22	CY23E	CY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>73,419</b>	<b>76,972</b>	<b>86,654</b>	<b>1,03,816</b>
Tangibles	73,419	76,972	86,654	1,03,816
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>43,473</b>	<b>46,535</b>	<b>50,657</b>	<b>55,698</b>
Tangibles	43,473	46,535	50,657	55,698
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>29,946</b>	<b>30,436</b>	<b>35,997</b>	<b>48,117</b>
Tangibles	29,946	30,436	35,997	48,117
Intangibles	-	-	-	-
Capital Work In Progress	2,462	3,584	11,000	20,000
Goodwill	-	-	-	-
Non-Current Investments	7,599	6,160	6,286	6,371
Net Deferred tax assets	258	256	765	1,336
Other Non-Current Assets	14,746	14,449	14,810	15,180
<b>Current Assets</b>				
Investments	7,430	10,697	3,907	1,099
Inventories	15,927	19,288	21,981	23,968
Trade receivables	1,660	1,919	2,141	2,408
Cash & Bank Balance	557	932	3,660	1,171
Other Current Assets	1,141	1,381	1,519	1,671
<b>Total Assets</b>	<b>82,341</b>	<b>89,787</b>	<b>1,02,862</b>	<b>1,22,202</b>
<b>Equity</b>				
Equity Share Capital	964	964	964	964
Other Equity	18,500	23,627	29,584	42,612
<b>Total Network</b>	<b>19,464</b>	<b>24,592</b>	<b>30,548</b>	<b>43,576</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	275	267	267	267
Provisions	32,853	32,052	34,021	36,225
Other non current liabilities	2,103	2,080	2,105	2,113
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	66	34	34	34
Trade payables	17,482	19,338	23,166	25,745
Other current liabilities	10,100	11,426	12,722	14,243
<b>Total Equity &amp; Liabilities</b>	<b>82,341</b>	<b>89,787</b>	<b>1,02,862</b>	<b>1,22,202</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Dec	CY21	CY22	CY23E	CY24E
PBT	30,700	33,017	39,902	44,805
Add. Depreciation	3,910	4,030	4,379	5,120
Add. Interest	2,017	1,546	1,952	2,151
Less Financial Other Income	1,202	1,010	1,290	567
Add. Other	(17,840)	(2,339)	(2,273)	(1,562)
Op. profit before WC changes	18,787	36,253	43,959	50,514
Net Changes-WC	16,974	(3,743)	8,717	4,385
Direct tax	(7,389)	(8,655)	(10,175)	(11,425)
<b>Net cash from Op. activities</b>	<b>28,372</b>	<b>23,855</b>	<b>42,502</b>	<b>43,474</b>
Capital expenditures	(8,139)	(5,642)	(17,355)	(26,241)
Interest / Dividend Income	1,958	2,084	2,259	1,678
Others	301	1,505	-	-
<b>Net Cash from Invt. activities</b>	<b>(5,880)</b>	<b>(2,052)</b>	<b>(15,095)</b>	<b>(24,563)</b>
Issue of share cap. / premium	(1,127)	384	(100)	-
Debt changes	(8)	(40)	-	-
Dividend paid	(19,283)	(20,247)	(22,658)	(19,283)
Interest paid	(2,017)	(1,546)	(1,952)	(2,151)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(22,435)</b>	<b>(21,449)</b>	<b>(24,709)</b>	<b>(21,434)</b>
<b>Net change in cash</b>	<b>58</b>	<b>354</b>	<b>2,697</b>	<b>(2,522)</b>
Free Cash Flow	20,233	18,214	25,147	17,233

Source: Company Data, PL Research

**Key Financial Metrics**

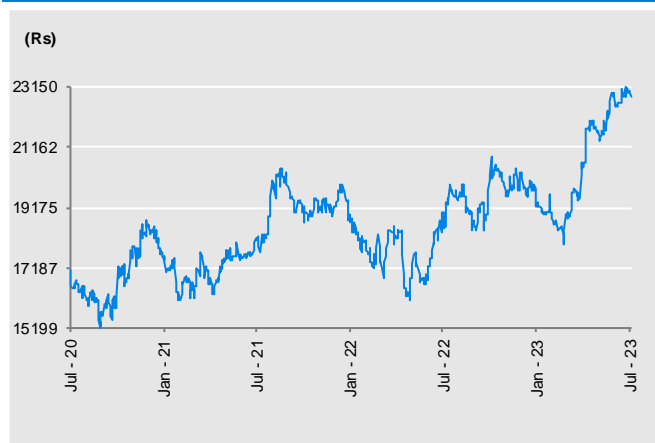
Y/e Dec	CY21	CY22	CY23E	CY24E
<b>Per Share(Rs)</b>				
EPS	241.8	252.7	308.3	346.2
CEPS	282.3	294.5	353.7	399.3
BVPS	201.9	255.1	316.8	452.0
FCF	209.9	188.9	260.8	178.7
DPS	200.0	210.0	235.0	200.0
<b>Return Ratio(%)</b>				
RoCE	156.2	150.1	145.5	124.2
ROIC	42.4	42.9	42.6	38.7
RoE	117.6	110.6	107.8	90.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.2)	0.0
Net Working Capital (Days)	0	4	2	1
<b>Valuation(x)</b>				
PER	92.3	88.4	72.4	64.5
P/B	110.6	87.5	70.5	49.4
P/CEPS	280.1	292.1	350.9	396.1
EV/EBITDA	60.5	57.0	47.7	41.8
EV/Sales	14.6	12.7	10.9	9.7
Dividend Yield (%)	0.9	0.9	1.1	0.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Dec	Q3CY22	Q4CY22	Q1CY23	Q2CY23
<b>Net Revenue</b>	<b>46,018</b>	<b>42,568</b>	<b>48,305</b>	<b>46,585</b>
YoY gr. (%)	18.5	13.6	21.0	15.1
Raw Material Expenses	21,777	19,215	22,315	21,050
Gross Profit	24,241	23,353	25,990	25,535
Margin (%)	52.7	54.9	53.8	54.8
<b>EBITDA</b>	<b>10,101</b>	<b>9,769</b>	<b>11,100</b>	<b>10,588</b>
YoY gr. (%)	6.1	15.7	19.7	25.4
Margin (%)	21.9	22.9	23.0	22.7
Depreciation / Depletion	982	987	1,017	1,074
<b>EBIT</b>	<b>9,119</b>	<b>8,782</b>	<b>10,083</b>	<b>9,515</b>
Margin (%)	19.8	20.6	20.9	20.4
Net Interest	372	448	370	328
Other Income	306	296	337	240
<b>Profit before Tax</b>	<b>9,053</b>	<b>8,630</b>	<b>10,049</b>	<b>9,427</b>
Margin (%)	19.7	20.3	20.8	20.2
Total Tax	2,379	2,310	2,538	2,410
Effective tax rate (%)	26.3	26.8	25.3	25.6
<b>Profit after Tax</b>	<b>6,674</b>	<b>6,319</b>	<b>7,511</b>	<b>7,017</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>6,674</b>	<b>6,319</b>	<b>7,511</b>	<b>7,017</b>
YoY gr. (%)	7.4	5.0	25.8	30.0
Margin (%)	14.5	14.8	15.5	15.1
Extra Ord. Income / (Exp)	(60)	(39)	(145)	(33)
<b>Reported PAT</b>	<b>6,615</b>	<b>6,281</b>	<b>7,366</b>	<b>6,983</b>
YoY gr. (%)	7.1	65.5	24.7	36.9
Margin (%)	14.4	14.8	15.2	15.0
Other Comprehensive Income	31	1,075	(512)	(28)
<b>Total Comprehensive Income</b>	<b>6,645</b>	<b>7,355</b>	<b>6,854</b>	<b>6,956</b>
Avg. Shares O/s (m)	96	96	96	96
<b>EPS (Rs)</b>	<b>69.2</b>	<b>65.5</b>	<b>77.9</b>	<b>72.8</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Accumulate	22,600	23,099
2	25-Apr-23	Accumulate	22,600	20,670
3	11-Apr-23	Accumulate	22,070	19,530
4	16-Feb-23	Accumulate	21,021	19,629
5	06-Jan-23	Accumulate	20,201	19,890
6	19-Oct-22	Accumulate	20,111	19,388
7	04-Oct-22	Accumulate	20,178	18,966
8	28-Jul-22	Accumulate	19,721	19,112

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	3,527	3,400
2	Avenue Supermarts	BUY	4,574	3,678
3	Britannia Industries	Hold	4,800	5,174
4	Colgate Palmolive	Hold	1,869	1,898
5	Dabur India	Accumulate	590	592
6	Emami	Accumulate	517	427
7	Hindustan Unilever	Hold	2,775	2,700
8	ITC	Accumulate	455	474
9	Jubilant FoodWorks	Hold	490	476
10	Kansai Nerolac Paints	Accumulate	328	320
11	Marico	Accumulate	550	528
12	Mold-tek Packaging	Hold	968	1,074
13	Nestle India	Accumulate	22,600	23,099
14	Pidilite Industries	Hold	2,664	2,649
15	Restaurant Brands Asia	Accumulate	146	112
16	Titan Company	Accumulate	3,242	3,088
17	Westlife Foodworld	Accumulate	800	864

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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