

October 19, 2023

## Q3CY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	CY24E	CY25E	CY24E	CY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	25,471		23,585	
Sales (Rs. m)	1,95,477	2,21,611	1,96,326	2,20,858
% Chng.	(0.4)	0.3		
EBITDA (Rs. m)	46,085	52,307	44,943	51,508
% Chng.	2.5	1.6		
EPS (Rs.)	314.3	348.8	308.3	346.2
% Chng.	1.9	0.7		

### Key Financials - Standalone

Y/e Dec	CY22	CY23E	CY24E	CY25E
Sales (Rs. bn)	169	195	222	248
EBITDA (Rs. bn)	38	46	52	59
Margin (%)	22.2	23.6	23.6	24.0
PAT (Rs. bn)	24	30	34	38
EPS (Rs.)	252.7	314.3	348.8	395.7
Gr. (%)	4.5	24.4	11.0	13.5
DPS (Rs.)	210.0	242.0	210.0	240.0
Yield (%)	0.9	1.0	0.9	1.0
RoE (%)	110.6	110.1	91.9	76.8
RoCE (%)	150.1	150.0	127.8	106.8
EV/Sales (x)	13.2	11.4	10.1	9.0
EV/EBITDA (x)	59.4	48.5	42.9	37.6
PE (x)	92.1	74.0	66.7	58.8
P/BV (x)	91.2	73.7	52.5	39.6

### Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.23,600 / Rs.17,880
Sensex / Nifty	65,877 / 19,671
Market Cap	Rs.2,243bn/ \$ 26,937m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1364.02m

### Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.10
Domestic Institution	9.32
Public & Others	15.82
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.9	12.6	20.0
Relative	4.6	2.1	7.4

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## Long term outlook positive

### Quick Pointers:

- Low to mid- single domestic volume growth on late festival season
- Deficient rainfall likely to impact RM pricing in maize, Coffee, sugar, spices and oilseeds, limiting incremental margin expansion.

**We increase CY24/25 EPS estimates by 1.9%/0.7% and target price to Rs25471 (Rs23585 earlier) on rollover, margin beat in 3Q23 and double digit domestic sales growth (despite late festival season). NEST continues to report broad based growth across segments, markets (Metros, T1-6 cities & rural markets) and channels (MT, OOH and E-commerce). Long term growth drivers remain intact, led by 1) sustained expansion in rural reach (~20-25% of sales) 2) healthy innovation pipeline (Masala Millet and KitKat premium portfolio in 3Q23), 3) huge scope of growth in segments like coffee, RTD & Chocolates and 4) higher growth in channels like E-Com and MT and 5) strong traction in nascent Pet care segment.**

**We believe most of the gains from soft RM has been derived and incremental margin expansion will come at a tepid pace as shortfall in production is likely to keep prices of edible oils, Coffee, sugar, spices and wheat firm in the near to medium term. We expect volume growth to improve as Maggi LUP price revision has mostly come in the base and 4Q will also get a boost from late Diwali. LT growth drivers look intact given significant capex plans of the company. We factor in EBITDA margin expansion of 40bps beyond CY23 (23.6% with 140bps improvement). We introduce CY25 earnings estimate with 12.2% EPS CAGR over CY23-25. We expect steady returns despite rich valuations of 58.8x Sep25 EPS. Maintain 'Accumulate'.**

**Sales up by 9.5%, PAT up by 20.7%:** Revenues grew by 9.5% YoY to Rs50.4bn (PLe: Rs51.8bn) with domestic sales up by 10.3%. Gross margins expanded by 381bps YoY/167bps QoQ to 56.5% (PLe: 54.8%) due to higher net realizations. EBITDA grew by 21.6% YoY to Rs12.3bn (PLe: Rs 12.0bn); Margins expanded by 245bps YoY/167bps QoQ to 24.4% (PLe:23.1%). Adjusted PAT grew by 20.7% YoY to Rs8.1bn (PLe: Rs 8.0bn). Board declares a second interim dividend of Rs140/share (Rs167/share in 9MCY23). Approved a stock split 1:10.

**Strong growth across key brands, input pressures set to increase:** MAGGI noodles, KITKAT, MUNCH, MILKMAID, NESCAFÉ Classic, Sunrise and GOLD reported strong growth led by 1) media campaigns, 2) innovations and 3) increased engagement. NEST will continue to benefit from innovations in Metros & Tier 1 cities and sustained distribution expansion in rural India (~20-25% of sales).

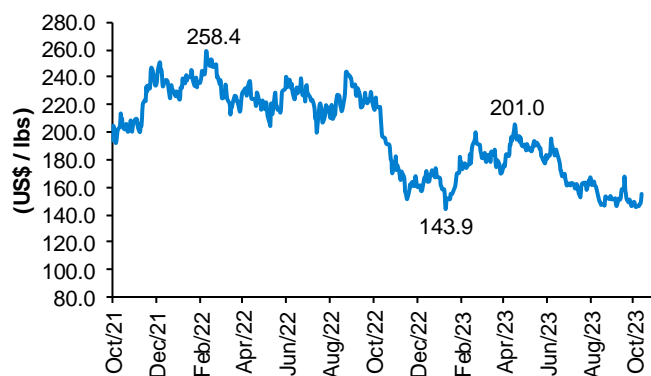
**Expect GM to remain range bound:** NEST may see higher commodity prices across maize, sugar, oilseeds and spices due to adverse monsoons while Robusta coffee prices are elevated & are expected to remain volatile. We expect range bound GM given that ~50% of RM basket is firm and set to rise given adverse weather patterns.

**Exhibit 1: 3QCY23 Results: Revenue up 9.5% YoY; Gross margins expand 381bps YoY/167bps QoQ**

Y/e Dec (Rs mn)	3QCY23	3QCY22	YoY gr. (%)	2QCY23	9MCY23	9MCY22	YoY gr. (%)
<b>Net Sales</b>	<b>50,368</b>	<b>46,018</b>	<b>9.5</b>	<b>46,585</b>	<b>145,259</b>	<b>126,402</b>	<b>14.9</b>
Gross Profit	28,452	24,241	17.4	25,535	79,977	68,118	17.4
<i>% of NS</i>	<i>56.5</i>	<i>52.7</i>	<i>3.8</i>	<i>54.8</i>	<i>55.1</i>	<i>53.9</i>	<i>1.2</i>
Other Expenses	16,165	14,141	14.3	14,947	46,002	40,304	14.1
<b>EBITDA</b>	<b>12,287</b>	<b>10,101</b>	<b>21.6</b>	<b>10,588</b>	<b>33,975</b>	<b>27,814</b>	<b>22.2</b>
<i>Margins (%)</i>	<i>24.4</i>	<i>21.9</i>	<i>2.4</i>	<i>22.7</i>	<i>23.4</i>	<i>22.0</i>	<i>1.4</i>
Depreciation	1,112	982	13.2	1,074	3,202	3,044	5.2
Interest	314	372	(15.6)	328	1,012	1,097	(7.8)
Other Income	333	306	8.6	240	909	715	27.2
<b>PBT</b>	<b>11,195</b>	<b>9,053</b>	<b>23.7</b>	<b>9,427</b>	<b>30,670</b>	<b>24,387</b>	<b>25.8</b>
Tax	3,139	2,379	32.0	2,410	8,088	6,484	24.7
<i>Effective tax rate (%)</i>	<i>28.0</i>	<i>26.3</i>		<i>25.6</i>	<i>26.4</i>	<i>26.6</i>	
<b>Adjusted PAT</b>	<b>8,055</b>	<b>6,674</b>	<b>20.7</b>	<b>7,017</b>	<b>22,583</b>	<b>17,903</b>	<b>26.1</b>

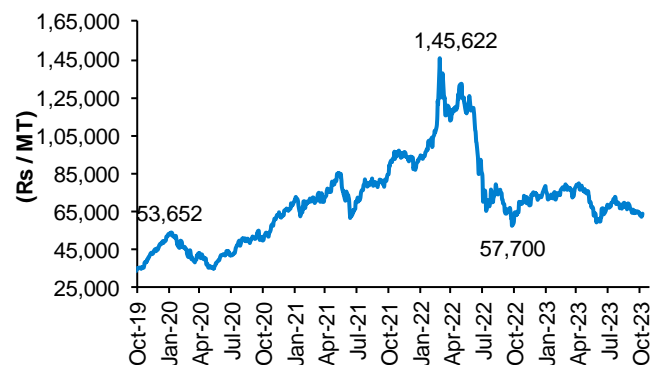
Source: Company, PL

**Exhibit 2: Coffee prices down 29.9% YoY but up 15.7% QoQ**



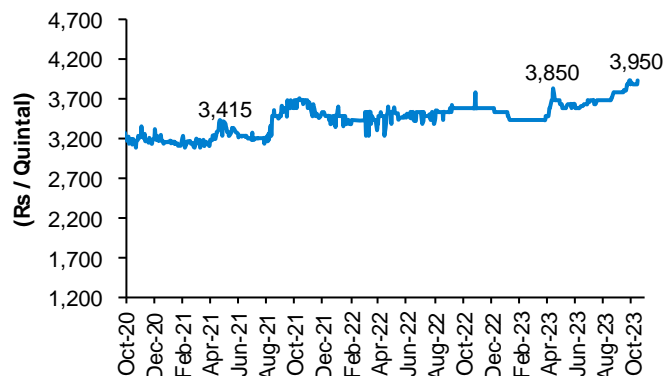
Source: Company, PL

**Exhibit 3: Palmoil down 4.2% YoY and 2.8% QoQ**



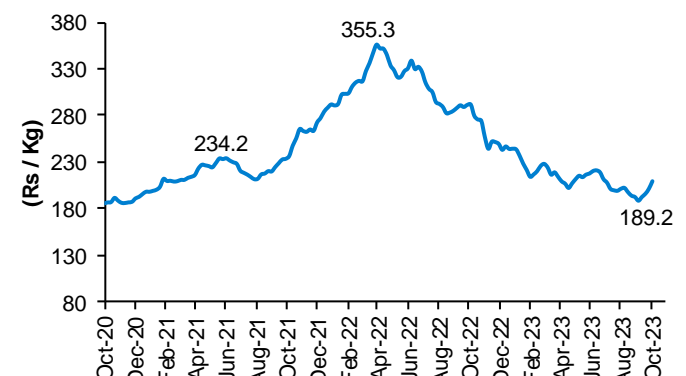
Source: Company, PL

**Exhibit 4: Sugar prices up 6.0% YoY and 3.1% QoQ**



Source: Company, PL

**Exhibit 5: SMP prices down 32.3% YoY and 7.1% QoQ**



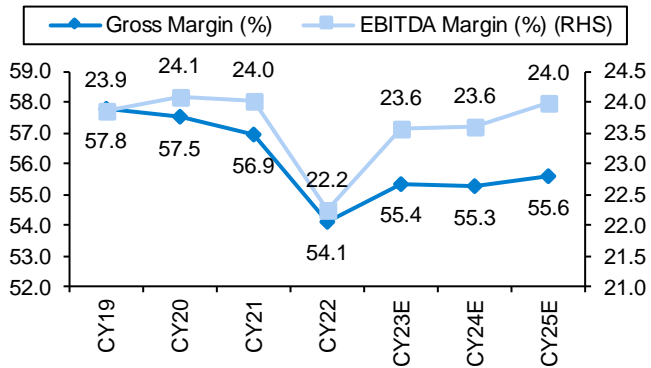
Source: Bloomberg, PL

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

Y/e March	CY20	CY21	CY22	CY23E	CY24E	CY25E
<b>Milk Products</b>						
Volume (MT)	1,38,402	1,34,669	134,034	1,37,385	1,40,819	1,44,340
<i>Volume growth</i>	-0.4%	-2.7%	-0.5%	2.5%	2.5%	2.5%
Sales Value (Rs m)	61,488	62,686	68,157	76,847	82,707	88,166
<i>Growth in Value</i>	8.8%	1.9%	8.7%	12.8%	7.6%	6.6%
<i>% of sales</i>	46.3%	42.8%	40.6%	39.5%	37.5%	35.7%
<b>Beverages</b>						
Volume (MT)	20,772	24,507	28,020	30,542	33,596	36,284
Value (Rs m)	14,763	16,918	20,188	23,765	27,449	30,534
<i>Growth in Volume</i>	-21.3%	18.0%	14.3%	9.0%	10.0%	8.0%
<i>Growth in Value</i>	-1.7%	14.6%	19.3%	17.7%	15.5%	11.2%
<i>%Sales</i>	11.1%	11.6%	12.0%	12.2%	12.4%	12.4%
<b>Prepared Dishes &amp; Cooking Aids</b>						
Volume (MT)	2,81,392	3,27,659	348,225	3,72,601	4,21,039	4,71,564
Value (Rs m)	39,108	45,501	53,006	62,104	72,283	83,386
<i>Growth in Volume</i>	6.6%	16.4%	5.7%	7.0%	13.0%	12.0%
<i>Growth in Value</i>	11.8%	16.3%	15.7%	17.2%	16.4%	15.4%
<i>%Sales</i>	29.4%	31.1%	31.6%	31.9%	32.8%	33.8%
<b>Chocolate &amp; Confectionery</b>						
Volume (MT)	50,358	55,648	62,401	70,513	80,385	90,835
Value (Rs.mn)	17,301	19,501	22,305	25,708	29,894	34,455
Realisation (Rs./Kg)	344	350	357	365	372	379
<i>Growth in volume</i>	2.7%	10.5%	12.1%	13.0%	14.0%	13.0%
<i>Growth in Value</i>	5.3%	12.7%	14.4%	15.3%	16.3%	15.3%
<i>Growth in Realisations</i>	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
<i>% Sales</i>	13.0%	13.3%	13.3%	13.2%	13.6%	14.0%

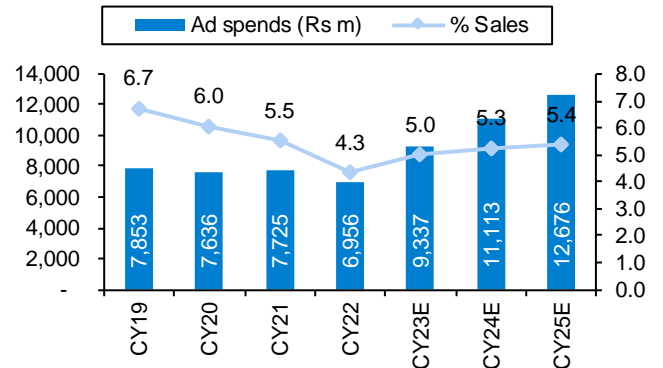
Source: Company, PL

**Exhibit 7: Gross Margins to improve in CY23/24**



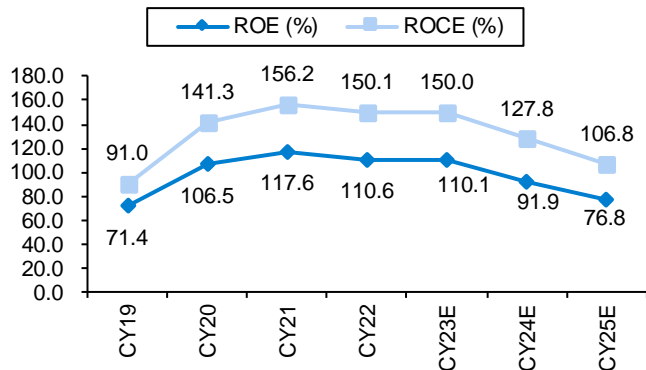
Source: Company, PL

**Exhibit 8: Ad spends to increase gradually**



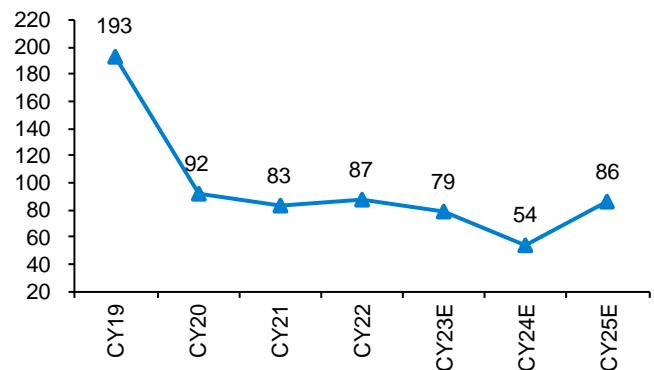
Source: Company, PL

**Exhibit 9: ROE and ROCE remain healthy**



Source: Company, PL

**Exhibit 10: Expect lower dividend payout in CY23/24**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
<b>Net Revenues</b>	<b>1,68,970</b>	<b>1,95,477</b>	<b>2,21,611</b>	<b>2,48,035</b>
YoY gr. (%)	14.6	15.7	13.4	11.9
Cost of Goods Sold	77,499	87,278	99,146	1,10,203
Gross Profit	91,471	1,08,199	1,22,465	1,37,832
Margin (%)	54.1	55.4	55.3	55.6
Employee Cost	16,355	18,479	20,837	23,200
Other Expenses	17,821	21,867	24,970	27,801
<b>EBITDA</b>	<b>37,583</b>	<b>46,085</b>	<b>52,307</b>	<b>59,476</b>
YoY gr. (%)	6.1	22.6	13.5	13.7
Margin (%)	22.2	23.6	23.6	24.0
Depreciation and Amortization	4,030	4,366	5,156	6,095
<b>EBIT</b>	<b>33,553</b>	<b>41,720</b>	<b>47,151</b>	<b>53,381</b>
Margin (%)	19.9	21.3	21.3	21.5
Net Interest	1,546	1,948	2,154	2,375
Other Income	1,010	1,290	567	690
<b>Profit Before Tax</b>	<b>33,017</b>	<b>41,061</b>	<b>45,564</b>	<b>51,697</b>
Margin (%)	19.5	21.0	20.6	20.8
Total Tax	8,655	10,758	11,938	13,544
Effective tax rate (%)	26.2	26.2	26.2	26.2
<b>Profit after tax</b>	<b>24,362</b>	<b>30,303</b>	<b>33,626</b>	<b>38,152</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>24,362</b>	<b>30,303</b>	<b>33,626</b>	<b>38,152</b>
YoY gr. (%)	4.5	24.4	11.0	13.5
Margin (%)	14.4	15.5	15.2	15.4
Extra Ord. Income / (Exp)	(163)	(512)	(570)	(631)
<b>Reported PAT</b>	<b>24,199</b>	<b>29,791</b>	<b>33,057</b>	<b>37,521</b>
YoY gr. (%)	14.2	23.1	11.0	13.5
Margin (%)	14.3	15.2	14.9	15.1
Other Comprehensive Income	1,119	(500)	(500)	(500)
Total Comprehensive Income	25,319	29,291	32,557	37,021
<b>Equity Shares O/s (m)</b>	<b>96</b>	<b>96</b>	<b>96</b>	<b>96</b>
<b>EPS (Rs)</b>	<b>252.7</b>	<b>314.3</b>	<b>348.8</b>	<b>395.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>76,972</b>	<b>86,358</b>	<b>1,04,637</b>	<b>1,25,898</b>
Tangibles	76,972	86,358	1,04,637	1,25,898
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>46,535</b>	<b>50,644</b>	<b>55,721</b>	<b>61,881</b>
Tangibles	46,535	50,644	55,721	61,881
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>30,436</b>	<b>35,714</b>	<b>48,915</b>	<b>64,017</b>
Tangibles	30,436	35,714	48,915	64,017
Intangibles	-	-	-	-
Capital Work In Progress	3,584	11,000	20,000	17,000
Goodwill	-	-	-	-
Non-Current Investments	6,160	6,283	6,374	6,466
Net Deferred tax assets	256	364	483	619
Other Non-Current Assets	14,449	14,810	15,180	15,560
<b>Current Assets</b>				
Investments	10,697	3,890	1,102	7,404
Inventories	19,288	21,587	24,032	25,948
Trade receivables	1,919	2,132	2,416	2,705
Cash & Bank Balance	932	4,160	436	(59)
Other Current Assets	1,381	1,519	1,671	1,838
<b>Total Assets</b>	<b>89,787</b>	<b>1,02,254</b>	<b>1,21,491</b>	<b>1,42,471</b>
<b>Equity</b>				
Equity Share Capital	964	964	964	964
Other Equity	23,627	29,486	41,795	55,677
<b>Total Network</b>	<b>24,592</b>	<b>30,450</b>	<b>42,759</b>	<b>56,641</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	267	267	267	267
Provisions	32,052	34,013	36,224	38,688
Other non current liabilities	2,080	2,105	2,113	2,207
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	34	34	34	34
Trade payables	19,338	22,716	25,805	28,683
Other current liabilities	11,426	12,670	14,288	15,951
<b>Total Equity &amp; Liabilities</b>	<b>89,787</b>	<b>1,02,254</b>	<b>1,21,491</b>	<b>1,42,471</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Dec	CY22	CY23E	CY24E	CY25E
PBT	33,017	41,061	45,564	51,697
Add. Depreciation	4,030	4,366	5,156	6,095
Add. Interest	1,546	1,948	2,154	2,375
Less Financial Other Income	1,010	1,290	567	690
Add. Other	(2,339)	(1,873)	(1,111)	(1,094)
Op. profit before WC changes	36,253	45,502	51,763	59,072
Net Changes-WC	(3,743)	8,637	4,495	(4,264)
Direct tax	(8,655)	(10,758)	(11,938)	(13,544)
<b>Net cash from Op. activities</b>	<b>23,855</b>	<b>43,381</b>	<b>44,320</b>	<b>41,263</b>
Capital expenditures	(5,642)	(17,059)	(27,358)	(18,196)
Interest / Dividend Income	2,084	2,255	1,681	1,913
Others	1,505	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(2,052)</b>	<b>(14,804)</b>	<b>(25,677)</b>	<b>(16,283)</b>
Issue of share cap. / premium	384	(100)	-	-
Debt changes	(40)	-	-	-
Dividend paid	(20,247)	(23,333)	(20,247)	(23,140)
Interest paid	(1,546)	(1,948)	(2,154)	(2,375)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(21,449)</b>	<b>(25,381)</b>	<b>(22,401)</b>	<b>(25,514)</b>
<b>Net change in cash</b>	<b>354</b>	<b>3,196</b>	<b>(3,758)</b>	<b>(534)</b>
Free Cash Flow	18,214	26,322	16,962	23,067

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Dec	CY22	CY23E	CY24E	CY25E
<b>Per Share(Rs)</b>				
EPS	252.7	314.3	348.8	395.7
CEPS	294.5	359.6	402.2	458.9
BVPS	255.1	315.8	443.5	587.5
FCF	188.9	273.0	175.9	239.3
DPS	210.0	242.0	210.0	240.0
<b>Return Ratio(%)</b>				
RoCE	150.1	150.0	127.8	106.8
ROIC	42.9	44.3	39.3	39.5
RoE	110.6	110.1	91.9	76.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.3)	0.0	(0.1)
Net Working Capital (Days)	4	2	1	0
<b>Valuation(x)</b>				
PER	92.1	74.0	66.7	58.8
P/B	91.2	73.7	52.5	39.6
P/CEPS	296.4	362.0	404.9	462.0
EV/EBITDA	59.4	48.5	42.9	37.6
EV/Sales	13.2	11.4	10.1	9.0
Dividend Yield (%)	0.9	1.0	0.9	1.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Dec	Q4CY22	Q1CY23	Q2CY23	Q3CY23
<b>Net Revenue</b>	<b>42,568</b>	<b>48,305</b>	<b>46,585</b>	<b>50,368</b>
YoY gr. (%)	13.6	21.0	15.1	9.5
Raw Material Expenses	19,215	22,315	21,050	21,916
Gross Profit	23,353	25,990	25,535	28,452
Margin (%)	54.9	53.8	54.8	56.5
<b>EBITDA</b>	<b>9,769</b>	<b>11,100</b>	<b>10,588</b>	<b>12,287</b>
YoY gr. (%)	15.7	19.7	25.4	21.6
Margin (%)	22.9	23.0	22.7	24.4
Depreciation / Depletion	987	1,017	1,074	1,112
<b>EBIT</b>	<b>8,782</b>	<b>10,083</b>	<b>9,515</b>	<b>11,176</b>
Margin (%)	20.6	20.9	20.4	22.2
Net Interest	448	370	328	314
Other Income	296	337	240	333
<b>Profit before Tax</b>	<b>8,630</b>	<b>10,049</b>	<b>9,427</b>	<b>11,195</b>
Margin (%)	20.3	20.8	20.2	22.2
Total Tax	2,310	2,538	2,410	3,139
Effective tax rate (%)	26.8	25.3	25.6	28.0
<b>Profit after Tax</b>	<b>6,319</b>	<b>7,511</b>	<b>7,017</b>	<b>8,055</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>6,319</b>	<b>7,511</b>	<b>7,017</b>	<b>8,055</b>
YoY gr. (%)	5.0	25.8	30.0	20.7
Margin (%)	14.8	15.5	15.1	16.0
Extra Ord. Income / (Exp)	(39)	(145)	(33)	1,026
<b>Reported PAT</b>	<b>6,281</b>	<b>7,366</b>	<b>6,983</b>	<b>9,081</b>
YoY gr. (%)	65.5	24.7	36.9	37.3
Margin (%)	14.8	15.2	15.0	18.0
Other Comprehensive Income	1,075	(512)	(28)	(27)
<b>Total Comprehensive Income</b>	<b>7,355</b>	<b>6,854</b>	<b>6,956</b>	<b>9,054</b>
Avg. Shares O/s (m)	96	96	96	96
<b>EPS (Rs)</b>	<b>65.5</b>	<b>77.9</b>	<b>72.8</b>	<b>83.5</b>

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Accumulate	23,585	22,912
2	27-Jul-23	Accumulate	23,585	22,325
3	06-Jul-23	Accumulate	22,600	23,099
4	25-Apr-23	Accumulate	22,600	20,670
5	11-Apr-23	Accumulate	22,070	19,530
6	16-Feb-23	Accumulate	21,021	19,629
7	06-Jan-23	Accumulate	20,201	19,890

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,571	3,196
2	Avenue Supermarts	BUY	4,724	3,920
3	Britannia Industries	Hold	4,612	4,538
4	Colgate Palmolive	Hold	1,869	1,993
5	Dabur India	Accumulate	597	547
6	Emami	Accumulate	524	527
7	Hindustan Unilever	Hold	2,837	2,499
8	ITC	Accumulate	475	442
9	Jubilant FoodWorks	Hold	490	533
10	Kansai Nerolac Paints	Accumulate	351	324
11	Marico	Hold	581	537
12	Metro Brands	Accumulate	1,231	1,088
13	Mold-tek Packaging	Hold	956	892
14	Nestle India	Accumulate	23,585	22,912
15	Pidilite Industries	Hold	2,610	2,454
16	Restaurant Brands Asia	Accumulate	142	125
17	Titan Company	Accumulate	3,312	3,310
18	Westlife Foodworld	Hold	958	955

**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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