

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	1891.7 / 22.9
52-Week Range (INR)	21053 / 16000
1, 6, 12 Rel. Per (%)	-1/-2/3
12M Avg Val (INR M)	1217

Financials & Valuations (INR b)

Y/E Dec	2022	2023E	2024E
Sales	169.0	191.2	226.3
Sales Gr. (%)	14.9	13.2	18.4
EBITDA	37.1	43.6	53.1
Margin (%)	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. (%)	3.0	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 (%)	100.8	103.7	97.6

Valuations

P/E (x)	79.1	67.9	56.3
P/BV (x)	76.9	80.3	77.7
EV/EBITDA (x)	50.2	42.8	35.2
Div. Yield (%)	1.3	1.5	1.7

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

CMP: INR19,621 TP: INR19,875 (+1%) Neutral

In-line results; volumes under pressure

- NEST declared an in-line set of results; however, the tonnage dip in 4QCY22 (as shared in the company presentation) compared to preceding quarters indicate that the high inflation is likely to curb volume growth in the near-term.
- The company is planning a capex of INR50b over the next three years, which is expected to boost volume growth, especially in Prepared Dishes (Maggi) and Chocolates and Confectionary over the medium term. Valuations of 56xCY24 EPS fully capture the stock's upside potential over the next year. We reiterate our Neutral stance on the stock.

Results in line with estimates

- **NEST** reported net sales growth of 13.8% YoY to INR42.6b (in-line), led by improved volume and mix. Domestic sales grew 14.1% YoY. Export sales grew 17.1% YoY to INR1.7b. OOI decreased 29%YoY to INR235m.
- EBITDA grew 14.8% YoY to INR9.8b (in-line).
- PBT grew 18.3% YoY to INR8.6b (est. INR8.2b).
- Adj. PAT grew 10.2% YoY to INR6.3b (in-line).
- Gross margin declined ~210bp YoY to 54.9% (est. 55.1%).
- The Board has recommended a final dividend of INR75.

Category performance

- **Prepared Dishes and Cooking Aids:** The company recorded strong growth momentum, led by a healthy balance of product mix, pricing, and volume growth in Maggi Noodles and Maggi Masala-ae-Magic.
- **Milk Products and Nutrition:** Milkmaid and Ready-to-Drink (RTD) registered strong growth. Milk inflation has been adversely impacting milk products.
- **Confectionery** gained market share and delivered robust growth, driven by Kitkat and Munch.
- **Beverages:** Nescafe Classic, Nescafe Sunrise, and Nescafe Gold registered double-digit growth. Nescafe RTD and 'out of home' also delivered strong double-digit growth.

Key highlights from the management commentary

- They registered ~5% overall volume growth and ~6% domestic volume growth in CY22 to 550k tons from 522k tons in CY21. There have been lower tonnage sales in 4QCY22. Low Unit Packs (LUPs), especially Maggi Chotu Packs, have been adversely impacted to some extent because of price increases.
- Tonnage sold dipped to 126k tons in 4QCY22 from 138k tons in 1QCY22, 138k tons in 2QCY22, and 148k tons in 3QCY22.
- Average commodity inflation clocked a ~3% CAGR over 2018-20. CY22 witnessed 18.5% commodity inflation.
- Royalty agreement is up for renewal in 2024.
- Incurred a capex of INR5b in CY22 and this is expected to increase to INR13b in CY23 and INR20b in CY24, as part of plans for capex of around INR50b over the next three years.

Valuation and view

- Changes to the model have led to ~6%/2% reduction in CY23/CY24 EPS, respectively. However, sales forecasts have been increased in CY24, owing to capacity expansion and good momentum in prepared dishes and chocolate volumes.
- 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.
- However, even as some major input prices have started to soften, NEST continues to face commodity cost headwinds. With four consecutive years of ad-spends-to-sales decline up to CY21 and indications that ad-spends were muted in CY22 as well (amount not disclosed explicitly), the buffer to protect EBITDA margin erosion from gross margin pressures is limited.
- NEST's valuation at 56x CY24E P/E is expensive and does not offer any significant upside from a one-year perspective. We value the company at 55x Mar'25 EPS to arrive at our TP of INR19,875. We reiterate our Neutral rating on the stock.

Quarterly performance

(INR b)

Y/E December	CY21				CY22				CY21	CY22	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Sales	36.1	34.8	38.8	37.4	39.8	40.4	45.9	42.6	147.1	169.0	43.4	-1.9%
YoY Change (%)	8.6	14.0	9.6	8.9	10.2	16.1	18.2	13.8	10.2	14.9	16.0	
Gross Profit	21.1	19.8	21.6	21.3	22.0	21.8	24.2	23.4	83.9	91.5	23.9	
Margin (%)	58.5	57.0	55.7	57.0	55.4	54.0	52.8	54.9	57.0	54.1	55.1	
EBITDA	9.3	8.3	9.5	8.5	9.3	8.5	10.2	9.8	35.7	37.1	9.3	4.9%
Margins (%)	25.8	24.0	24.5	22.8	23.4	21.0	22.1	22.9	24.3	22.0	21.5	
YoY Growth (%)	16.2	9.9	5.9	12.4	0.1	1.8	6.8	14.8	10.9	4.1	9.4	
Depreciation	0.9	1.0	1.0	1.1	1.0	1.0	1.0	1.0	3.9	4.0	1.0	
Interest	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	2.0	1.5	0.4	
Other income	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3	1.2	1.0	0.3	
PBT	8.1	7.2	8.4	7.3	8.1	7.3	9.1	8.6	31.0	32.6	8.2	5.7%
Tax	2.1	1.9	2.2	1.6	2.1	1.9	2.4	2.3	7.7	8.7	1.9	
Rate (%)	25.8	26.8	25.9	21.4	26.0	25.3	26.1	26.8	25.0	26.6	23.3	
Adjusted PAT	6.0	5.2	6.2	5.7	6.0	5.5	6.7	6.3	23.2	23.9	6.3	0.8%
YoY Change (%)	13.1	5.4	3.2	23.6	(0.3)	3.9	8.5	10.2	10.8	3.0	9.3	

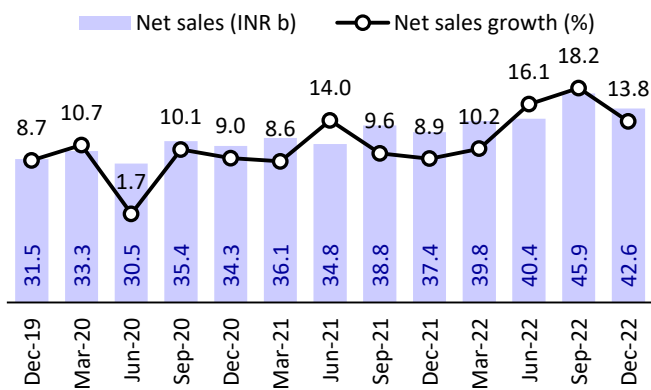
E: MOFSL Estimates

Key Performance Indicators

Y/E December	CY21				CY22			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
Sales	9.7	7.8	9.9	9.0	9.4	15.0	13.9	11.4
EBITDA	10.4	7.5	11.0	11.1	8.1	5.9	6.3	13.6
PAT	12.7	8.3	1.5	11.4	6.4	4.7	5.8	16.9
% of Sales								
COGS	41.5	43.0	44.3	43.0	44.6	46.0	47.2	45.1
Employee Expenses	10.2	10.9	10.0	10.3	10.0	10.1	9.1	9.6
Other Expenses	22.6	22.1	21.2	23.9	22.0	22.8	21.5	22.4
Depreciation	2.6	2.7	2.5	2.8	2.6	2.5	2.1	2.3
YoY change (%)								
COGS	3.1	12.2	15.9	14.4	18.6	24.3	26.1	19.6
Employee Expenses	2.7	2.4	5.0	-4.1	7.8	7.9	7.6	5.3
Other Expenses	14.3	30.3	4.2	3.1	7.7	19.6	20.2	6.3
Other Income	-30.8	-22.3	-2.3	-10.7	-27.7	-34.3	-9.0	8.1
EBIT	17.9	10.9	6.0	12.6	-1.2	1.2	7.2	17.8

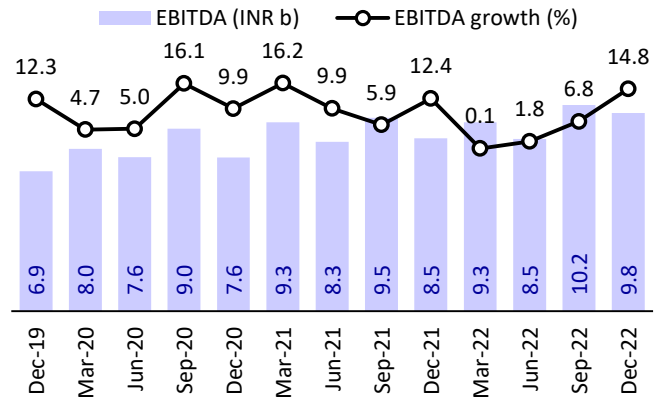
Key Exhibits

Exhibit 1: Net sales up 13.8% YoY to INR42.6b



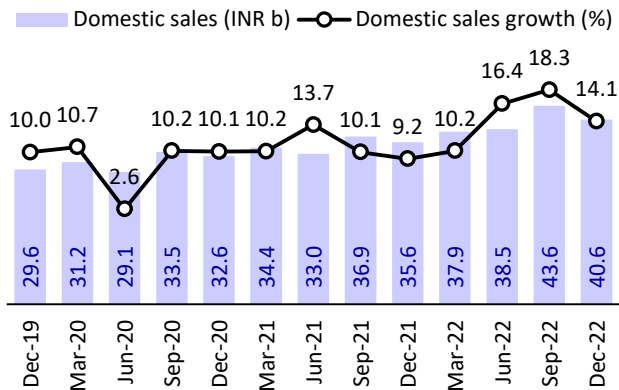
Sources: Company reports, MOFSL

Exhibit 2: EBITDA rose 14.8% YoY to INR9.8b



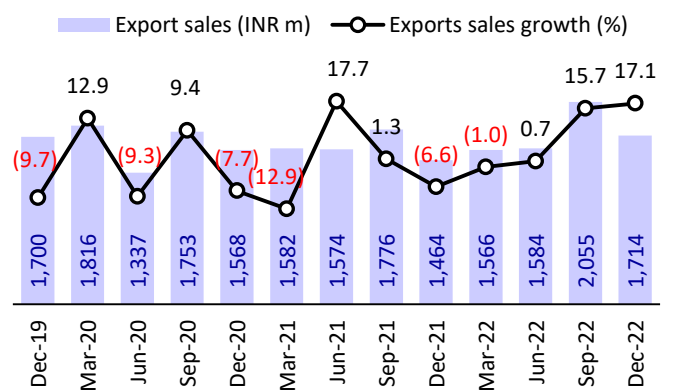
Source: Company reports, MOFSL

Exhibit 3: Domestic sales rose 14.1% YoY to INR40.6b



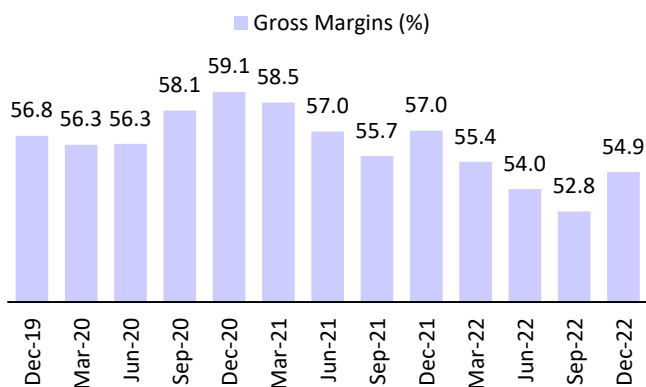
Sources: Company reports, MOFSL

Exhibit 4: Exports grew 17.1% YoY to INR1,714m



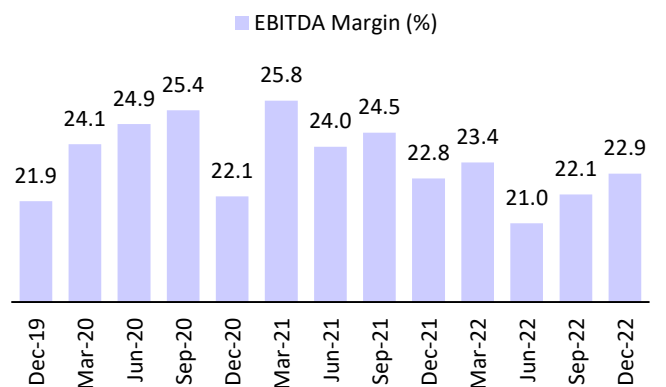
Sources: Company reports, MOFSL

Exhibit 5: Gross margin contracted ~210bp YoY to 54.9%



Sources: Company reports, MOFSL

Exhibit 6: EBITDA margin was flat YoY at 22.9%



Sources: Company reports, MOFSL



Highlights from the management commentary

Environment and outlook

- CY22 witnessed the highest domestic sales growth at 14.8% since 2011. All the four quarters delivered double-digit growth.
- The company registered a 5% overall volume growth and a ~6% domestic volume growth in CY22 to 550k tons from 522k tons in CY21. There have been lower tonnage sales in 4QCY22. Low Unit Packs (LUPs), especially Maggi Chotu Packs, have been adversely impacted to some extent because of price increases.
- Tonnage sold dipped to 126k tons in 4QCY22 v/s 138k tons in 1QCY22, 138k tons in 2QCY22 and 148k tons in 3QCY22.
- Megacities sales grew in the 12-23% range last year, metros grew in the 15-21%, range, Town Class 1 grew in the 14-19% range, Town Class 2-6 growth slowed to 5-13% (affected most severely by inflation). On the other hand, sales from villages grew in the 15-26% range in the four quarters of CY22, off a small base.
- Direct reach now stands at 1.5m and the overall reach stands at 5.1m outlets. It has now exceeded pre- maggi crisis in terms of overall reach.
- Products launched since 2015 contributed 5.4% of sales in CY22. 110 new products have been launched in the last seven years. As of now, focus is on Core product launches.

Segmental and geographical highlights

- Milk and nutrition sales grew 9.5% (2.5-3% volume growth) in CY22 and contribute 40.4% of sales.
- Prepared Dishes and Cooking Aids (Maggi) sales grew 15.6% in CY22 and contribute 32.2% of sales.
- Chocolates and Confectionary sales grew 25% and contribute 16% of sales. The market grew 10-12% YoY, and hence, Nestle gained share in the broader category as well as the wafers segment.
- Beverages grew 19.2% YoY and contributes 11.4% of sales.
- Out of Home (Nestle Professional) has completely revived and is now 20% ahead of pre-covid levels.
- E-commerce grew 41% YoY to 6.5% of sales in CY22.
- ~80% of sales are still from traditional trade.
- Chocolates and Confectionary and Noodles are the key areas of incremental capex.
- The company aims to reach 120,000 villages by CY24. NEST already covers 91,683 villages, up from ~40,739 two years ago. 'Haat' rural market activity engagement increased nearly 10x compared to the past year and RURBAN smart stores increased to 16,000 in CY22 from 3,500 in CY20.

Costs and margins

- Food inflation remains very high.
- Average commodity inflation stood at ~3% CAGR 2018-20. CY22 witnessed 18.5% commodity inflation.
- 'SHARK' program resulted in cost savings of 150-160bp. 3,000-4,000 people worked at various times on these projects.
- NEST has taken judicious price increases.

- Absolute ad-spend is at 1.4x of 2017 levels, but has come down from 1.5x levels earlier.
- Royalty agreement comes up for renewal in 2024.

Other points

- Millets is now being used in Nestle CEREGRW, Nestle A+, and Maggi.
- Gender diversity stands at 48.7% now. Women in leadership positions have increased to 67% from 17%.
- Global CEO has stated that capex and investments could be INR50b over the next three years.
- LUPs contribute $\sim 1/3^{\text{rd}}$ of the total volumes and this is expected to come down going ahead.

Valuation and view

What has happened over the last 10 years?

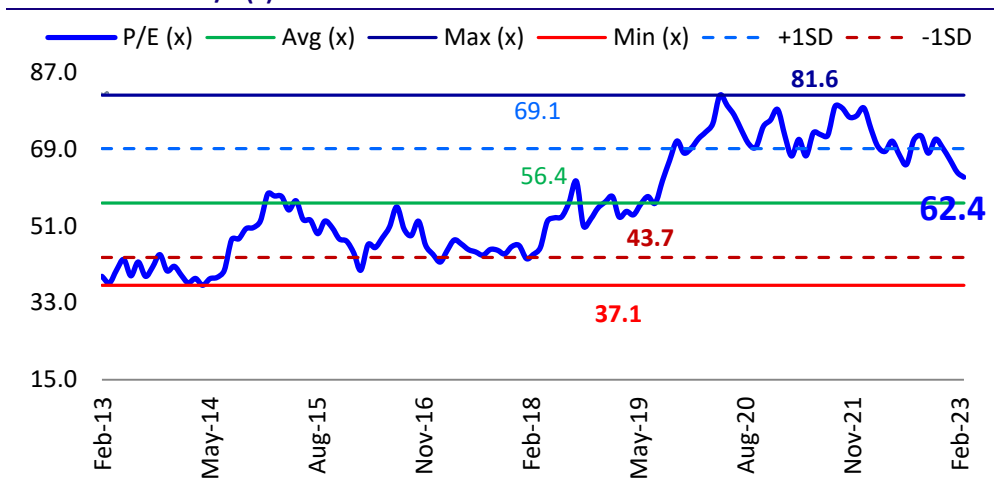
- After experiencing weak growth on all fronts in the first half of the decade, NEST has done well in the second half, particularly in the last four years.
- Its decadal performance has been modest, with sales/EBITDA/PAT CAGR in the 7-9% range over CY11-21.
- The past five years have registered accelerated growth ($\sim 10\%$ sales CAGR), with an EBITDA/PAT CAGR of 12%/14%, respectively, despite several macro disruptions – demonetization, GST rollout, the COVID-19 pandemic, and commodity cost headwinds – impairing the FMCG sector.
- Starting with damage control since the Maggi crisis in CY15, the management has initiated a series of measures, including: 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

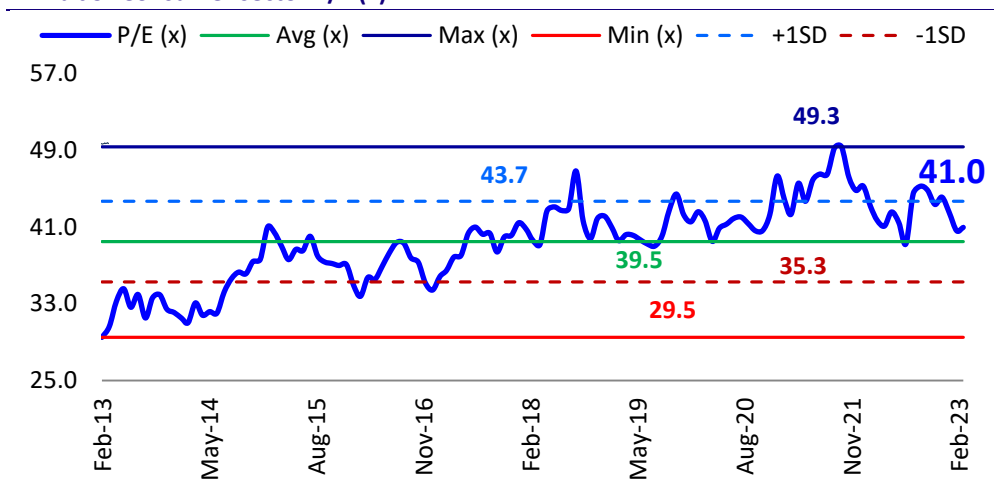
- Changes to the model have led to $\sim 6\%/2\%$ reduction in CY23/CY24 EPS even as sales forecasts have been increased in CY24 because of capacity expansion and good momentum in prepared dishes and chocolate volumes.
- The long-term narrative for revenue and earnings growth is highly attractive. The 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.
- However, even as some major input prices have started to soften, NEST continues to face commodity cost headwinds. With four consecutive years of ad-spends-to-sales decline up to CY21 and indications that ad-spends were muted in CY22 as well (amount not disclosed explicitly), the buffer to protect EBITDA margin erosion from gross margin pressures is limited.
- NEST's valuation at 56x CY24E P/E is expensive and does not offer any significant upside from a one-year perspective. We value the company at 55x Mar'25 EPS to arrive at our TP of INR19,875. We reiterate our Neutral rating on the stock.

Exhibit 7: We reduce our CY23/CY24 EPS by ~6%/2%, respectively

(INR b)	New		Old		Change	
	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Net Sales	191.2	226.3	191.5	216.4	-0.1	4.6
EBITDA	43.6	53.1	44.9	51.4	-2.9	3.2
Adjusted PAT	27.9	33.6	29.7	34.3	-6.2	-2.1

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

Y/E December	2017	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	100.1	112.9	123.7	133.5	147.1	169.0	191.2	226.3
Change (%)	9.5	12.8	9.5	7.9	10.2	14.9	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	57.0	54.1	56.5	57.5
Other Expenditure	34.6	39.7	42.4	44.6	48.2	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	24.3	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	31.0	32.6	38.0	45.7
Change (%)	13.1	29.5	4.3	6.6	9.5	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	10.8	3.0	16.6	20.4
Margin (%)	13.5	15.2	15.7	15.7	15.8	14.1	14.6	14.8
Non-rec. (Exp)/Inc.	1.2	1.1	0.2	0.1	1.8	0.0	0.0	0.0
Reported PAT	12.3	16.1	19.2	20.8	21.4	23.9	27.9	33.6

Balance Sheet

Y/E December	2017	2018	2019	2020	2021	2022E	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	27.0
Gross Block	33.6	34.9	34.9	40.0	51.2	55.7	68.7	88.7
Less: Accum. Depn.	7.4	10.8	13.8	18.2	21.2	25.3	30.5	37.2
Net Fixed Assets	26.2	24.0	21.1	21.8	29.9	30.4	38.2	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	68.1	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	42.9
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	27.0

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December Basic (INR)	2017	2018	2019	2020	2021	2022E	2023E	2024E
EPS	140.0	178.6	202.0	217.4	240.8	247.9	289.2	348.3
Cash EPS	175.5	213.4	240.4	255.8	281.3	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	250.0	300.0	340.0
Payout (%)	61.4	64.4	169.3	92.0	83.0	100.8	103.7	97.6
Valuation (x)								
P/E	140.1	109.9	97.1	90.2	81.5	79.1	67.9	56.3
Cash P/E	111.8	92.0	81.6	76.7	69.8	67.7	57.0	47.0
EV/Sales	18.6	16.4	15.0	13.9	12.7	11.0	9.7	8.3
EV/EBITDA	83.6	67.7	64.1	57.8	52.3	50.2	42.8	35.2
P/BV	55.3	51.5	98.6	93.7	90.8	76.9	80.3	77.7
Dividend Yield (%)	0.4	0.6	1.7	1.0	1.0	1.3	1.5	1.7
Return Ratios (%)								
RoE	40.3	48.5	69.7	106.5	113.2	105.2	115.8	140.2
RoCE	41.7	50.2	71.9	107.2	109.5	98.6	108.8	131.1
Working Capital Ratios								
Debtor (Days)	3.2	4.1	3.7	4.5	4.1	3.0	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	2022E	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	7.4	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

Explanation of Investment Rating	
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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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