

April 25, 2024

Q1CY24 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY24E	CY25E	CY24E	CY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,695		2,695	
Sales (Rs. m)	2,15,431	2,41,023	2,15,431	2,41,023
% Chng.	-	-	-	-
EBITDA (Rs. m)	51,480	57,515	51,480	57,515
% Chng.	-	-	-	-
EPS (Rs.)	34.9	39.0	34.9	39.0
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Dec	CY22	CY23	CY24E	CY25E
Sales (Rs. bn)	169	191	215	241
EBITDA (Rs. bn)	38	45	51	58
Margin (%)	22.2	23.6	23.9	23.9
PAT (Rs. bn)	24	30	34	38
EPS (Rs.)	25.3	31.5	34.9	39.0
Gr. (%)	4.5	24.7	10.7	11.7
DPS (Rs.)	21.0	24.2	25.5	30.0
Yield (%)	0.8	0.9	1.0	1.2
RoE (%)	110.6	109.4	96.4	88.2
RoCE (%)	150.1	145.4	133.1	122.0
EV/Sales (x)	14.6	12.9	11.4	10.2
EV/EBITDA (x)	65.4	54.5	47.9	42.7
PE (x)	101.4	81.3	73.5	65.8
P/BV (x)	100.5	79.9	63.7	53.3

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.2,771 / Rs.2,031
Sensex / Nifty	74,339 / 22,570
Market Cap	Rs.2,471bn / \$ 29,653m
Shares Outstanding	964m
3M Avg. Daily Value	Rs.2493.81m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.10
Domestic Institution	9.04
Public & Others	16.09
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.4)	5.6	24.0
Relative	(2.4)	(9.0)	0.3

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Cerelac Issue, rising RM near term headwinds

Quick Pointers:

- Sustains strong growth amid tough environment, trajectory to continue
- Margins are near peak given expected inflation in Cocoa, Coffee and Milk
- Recent controversy around Baby food and KitKat might impact volumes

NEST displayed another quarter of strong topline led by growth across segments despite tough economic environment. 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 drivers remain intact, led by 1) sustained expansion in rural reach (~20-25% of sales) 2) healthy innovation pipeline 3) huge scope of growth in coffee, RTD & Chocolates and 4) higher growth in channels like E-Com and MT and 5) strong traction in Pet care segment.

We believe NEST volume growth might suffer in the near term due to 1) negative publicity and ensuing probe (FSSAI) around cerelac and KitKat (higher sugar content) and 2) expected increase in chocolate prices (KitKat, Munch) on account of more than 175% jump in cocoa prices since Dec23. NEST has sustained investments in expanding product portfolio with expected launch of Nespresso by end of CY24 and JV with Dr. Reddy's Labs has to bring science-backed nutritional solutions to more consumers.

We believe that gains from soft RM has been derived, and incremental margin expansion will come at a tepid pace given expected inflation in cereals, grains, and coffee, cocoa and milk prices. We factor in EBITDA margin expansion of 28bps, which will enable 11.2%, PAT CAGR over CY23-25. Although we remain constructive in long term, however expect back ended returns given headwinds around Cerelac, rising commodities and rich valuations of 64.2x CY25 EPS. Maintain 'Accumulate'.

Sales up by 9%, PAT up by 23%: Revenues grew by 9% YoY to Rs52.7bn (PLe: Rs52bn) with domestic/ export sales up by 8.9%/ 19%. Gross margins expanded by 299bps YoY to 56.8% (PLe: 57%), however it dropped 180bps QoQ. EBITDA grew by 20.6% YoY to Rs13.4bn (PLe:Rs 12.3bn); Margins expanded by 243bps YoY to 25.4% (PLe:23.5%) as increase in other expenses was far lower than GM expansion. Adjusted PAT grew by 23% YoY to Rs9.2bn (PLe:Rs 8.3bn)

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

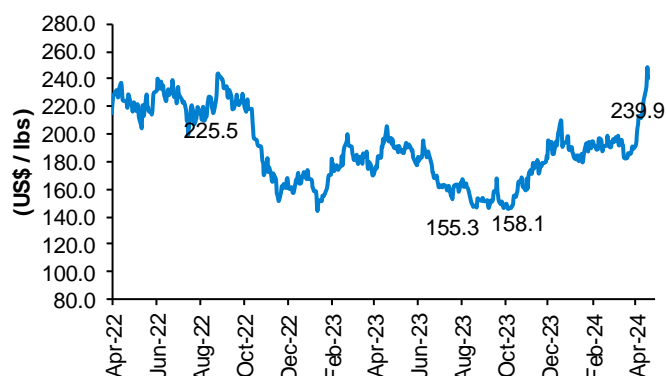
GM expansion to peak out as commodity prices near bottom: NEST's gross margins might be close to a peak levels as input costs of Milk (seasonal uptick likely in summer), Palmoil and sugar have bottomed out. In addition, prices of coffee are up 15% QoQ while cocoa prices are up 178% since Dec23.

Exhibit 1: 4QCY23 Results: Revenue up 9% YoY; Gross margins expand 300bps YoY & contract 180bps QoQ

Y/e Dec (Rs mn)	1QCY24	1QCY23	YoY gr. (%)	4QCY23	QoQ gr. (%)	FY24(15mos)	CY22 (15 mos)
Net Sales	52,677	48,305	9.0	46,004	14.5	243,940	217,275
Gross Profit	29,918	25,990	15.1	26,959	11.0	141,569	116,950
<i>% of NS</i>	<i>56.8</i>	<i>53.8</i>	<i>3.0</i>	<i>58.6</i>	<i>-1.8</i>	<i>58.0</i>	<i>53.8</i>
Other Expenses	16,532	14,890	11.0	15,829	4.4	83,078	68,779
EBITDA	13,386	11,100	20.6	11,130	20.3	58,491	48,172
<i>Margins (%)</i>	<i>25.4</i>	<i>23.0</i>	<i>2.4</i>	<i>24.2</i>	<i>1.2</i>	<i>24.0</i>	<i>22.2</i>
Depreciation	1,089	1,017	7.1	1,087	0.2	5,378	5,047
Interest	262	370	(29.2)	230	14.2	1,503	1,916
Other Income	268	337	(20.6)	303	(11.7)	1,480	1,347
PBT	12,404	10,049	23.4	9,043	37.2	53,090	42,556
Tax	3,164	2,538	24.7	2,309	37.1	13,560	11,333
<i>Effective tax rate (%)</i>	<i>25.5</i>	<i>25.3</i>		<i>25.5</i>		<i>25.5</i>	<i>26.6</i>
Adjusted PAT	9,240	7,511	23.0	6,735	37.2	39,529	31,223

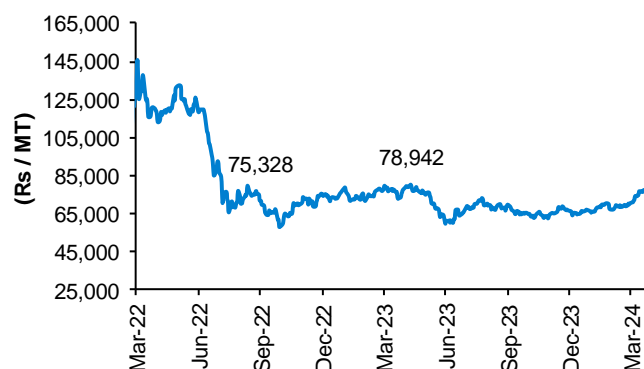
Source: Company, PL, * NEST changed year ended from Dec to March

Exhibit 2: Coffee prices inch up 15.1%YoY & 14% QoQ



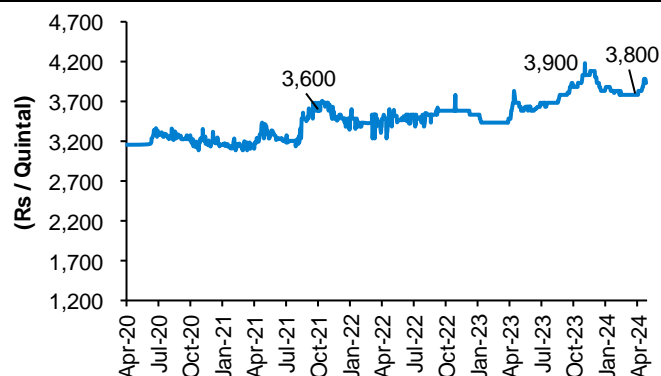
Source: Company, PL

Exhibit 3: Palmoil down 7.1% YoY and 7.4% QoQ



Source: Company, PL

Exhibit 4: Sugar prices up 10.9% YoY but down 3.6% QoQ



Source: Company, PL

Exhibit 5: SMP prices down 1.6% YoY & 2.8% QoQ



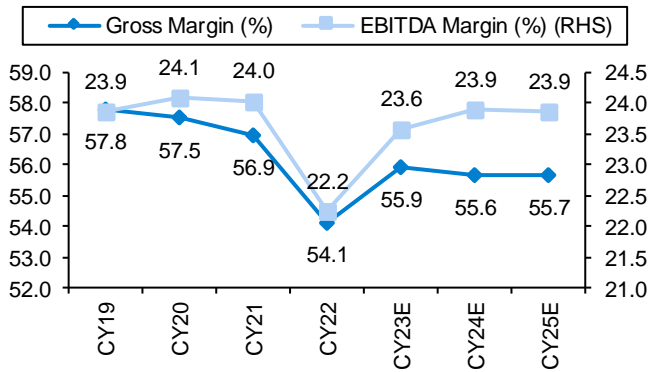
Source: Bloomberg, PL

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

Y/e March	CY20	CY21	CY22	CY23E	CY24E	CY25E
Milk Products						
Volume (MT)	1,38,402	1,34,669	134,034	1,36,125	1,39,528	1,43,016
<i>Volume growth</i>	-0.4%	-2.7%	-0.5%	1.6%	2.5%	2.5%
Sales Value (Rs m)	61,488	62,686	68,157	75,309	81,052	86,401
<i>Growth in Value</i>	8.8%	1.9%	8.7%	10.5%	7.6%	6.6%
<i>% of sales</i>	46.3%	42.8%	40.6%	39.6%	37.8%	36.0%
Beverages						
Volume (MT)	20,772	24,507	28,020	30,654	33,719	36,417
Value (Rs m)	14,763	16,918	20,188	23,720	27,396	30,476
<i>Growth in Volume</i>	-21.3%	18.0%	14.3%	9.4%	10.0%	8.0%
<i>Growth in Value</i>	-1.7%	14.6%	19.3%	17.5%	15.5%	11.2%
<i>%Sales</i>	11.1%	11.6%	12.0%	12.5%	12.8%	12.7%
Prepared Dishes & Cooking Aids						
Volume (MT)	2,81,392	3,27,659	348,225	3,65,497	4,05,702	4,54,386
Value (Rs m)	39,108	45,501	53,006	60,531	69,205	79,835
<i>Growth in Volume</i>	6.6%	16.4%	5.7%	5.0%	11.0%	12.0%
<i>Growth in Value</i>	11.8%	16.3%	15.7%	14.2%	14.3%	15.4%
<i>%Sales</i>	29.4%	31.1%	31.6%	31.8%	32.3%	33.3%
Chocolate & Confectionery						
Volume (MT)	50,358	55,648	62,401	68,953	78,607	88,825
Value (Rs.mn)	17,301	19,501	22,305	25,140	29,232	33,693
Realisation (Rs./Kg)	344	350	357	365	372	379
<i>Growth in volume</i>	2.7%	10.5%	12.1%	10.5%	14.0%	13.0%
<i>Growth in Value</i>	5.3%	12.7%	14.4%	12.7%	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%

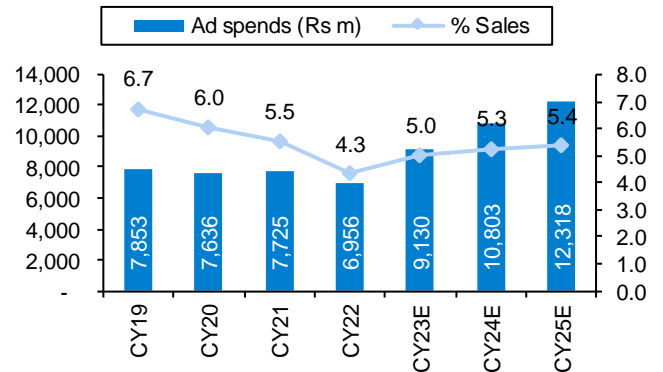
Source: Company, PL

Exhibit 7: Gross Margins to turn flattish



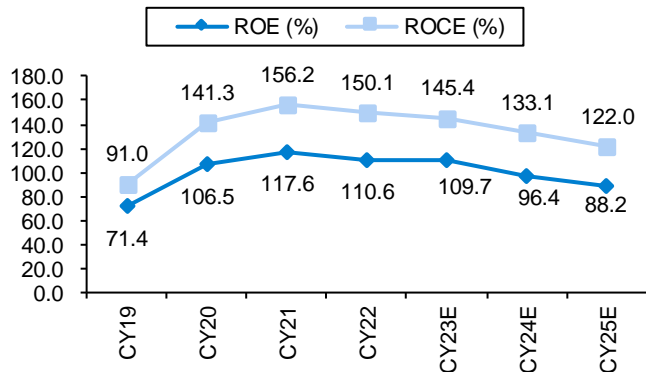
Source: Company, PL

Exhibit 8: Ad spends to increase gradually



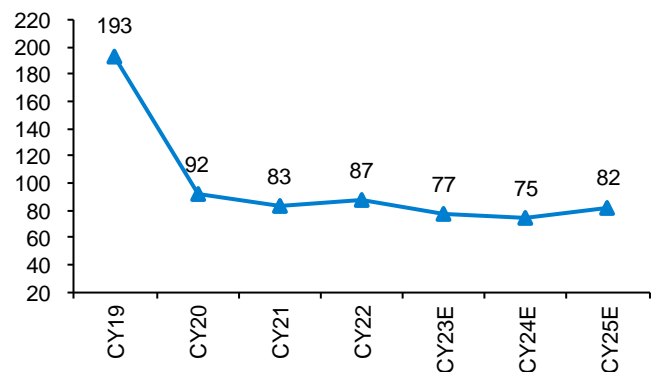
Source: Company, PL

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	CY23	CY24E	CY25E
Net Revenues	1,68,970	1,91,264	2,15,431	2,41,023
YoY gr. (%)	14.6	13.2	12.6	11.9
Cost of Goods Sold	77,499	84,327	95,565	1,06,888
Gross Profit	91,471	1,06,937	1,19,865	1,34,135
Margin (%)	54.1	55.9	55.6	55.7
Employee Cost	16,355	18,492	20,255	22,544
Other Expenses	17,821	22,048	24,276	27,018
EBITDA	37,583	45,106	51,480	57,515
YoY gr. (%)	6.1	20.0	14.1	11.7
Margin (%)	22.2	23.6	23.9	23.9
Depreciation and Amortization	4,030	4,289	4,666	5,239
EBIT	33,553	40,817	46,813	52,276
Margin (%)	19.9	21.3	21.7	21.7
Net Interest	1,546	1,193	2,129	2,347
Other Income	1,010	1,212	884	962
Profit Before Tax	33,017	40,779	45,568	50,891
Margin (%)	19.5	21.3	21.2	21.1
Total Tax	8,655	10,396	11,939	13,333
Effective tax rate (%)	26.2	25.5	26.2	26.2
Profit after tax	24,362	30,382	33,629	37,558
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	24,362	30,382	33,629	37,558
YoY gr. (%)	4.5	24.7	10.7	11.7
Margin (%)	14.4	15.9	15.6	15.6
Extra Ord. Income / (Exp)	(163)	(395)	(564)	(624)
Reported PAT	24,199	29,987	33,066	36,933
YoY gr. (%)	14.2	23.9	10.3	11.7
Margin (%)	14.3	15.7	15.3	15.3
Other Comprehensive Income	1,119	(318)	(500)	(500)
Total Comprehensive Income	25,319	29,669	32,566	36,433
Equity Shares O/s (m)	964	964	964	964
EPS (Rs)	25.3	31.5	34.9	39.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY22	CY23	CY24E	CY25E
Non-Current Assets				
Gross Block	76,972	83,758	93,499	1,06,452
Tangibles	76,972	83,758	93,499	1,06,452
Intangibles	-	-	-	-
Acc: Dep / Amortization	46,535	50,530	55,117	60,421
Tangibles	46,535	50,530	55,117	60,421
Intangibles	-	-	-	-
Net fixed assets	30,436	33,228	38,382	46,031
Tangibles	30,436	33,228	38,382	46,031
Intangibles	-	-	-	-
Capital Work In Progress	3,584	12,231	20,000	17,000
Goodwill	-	-	-	-
Non-Current Investments	6,160	4,886	6,352	6,441
Net Deferred tax assets	256	(116)	119	253
Other Non-Current Assets	14,449	15,003	15,180	15,560
Current Assets				
Investments	10,697	10,576	4,287	11,991
Inventories	19,288	18,733	23,197	25,208
Trade receivables	1,919	2,026	2,349	2,628
Cash & Bank Balance	932	1,190	2,342	1,259
Other Current Assets	1,381	2,391	2,630	2,893
Total Assets	89,787	1,00,942	1,15,715	1,30,231
Equity				
Equity Share Capital	964	964	964	964
Other Equity	23,627	29,963	37,844	45,353
Total Network	24,592	30,927	38,808	46,317
Non-Current Liabilities				
Long Term borrowings	267	262	267	267
Provisions	32,052	29,063	36,119	38,513
Other non current liabilities	2,080	2,667	2,099	2,193
Current Liabilities				
ST Debt / Current of LT Debt	34	52	34	34
Trade payables	19,338	20,018	24,873	27,820
Other current liabilities	11,426	17,837	13,515	15,087
Total Equity & Liabilities	89,787	1,00,942	1,15,715	1,30,231

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY22	CY23	CY24E	CY25E
PBT	33,017	40,779	45,568	50,891
Add. Depreciation	4,030	4,289	4,666	5,239
Add. Interest	1,546	1,193	2,129	2,347
Less Financial Other Income	1,010	1,212	884	962
Add. Other	(2,339)	(4,691)	2,035	(1,394)
Op. profit before WC changes	36,253	41,569	54,399	57,083
Net Changes-WC	(3,743)	6,312	1,913	(5,863)
Direct tax	(8,655)	(10,396)	(11,939)	(13,333)
Net cash from Op. activities	23,855	37,485	44,373	37,886
Capital expenditures	(5,642)	(15,728)	(17,589)	(9,888)
Interest / Dividend Income	2,084	2,208	1,972	2,156
Others	1,505	805	(805)	-
Net Cash from Inv. activities	(2,052)	(12,715)	(16,422)	(7,732)
Issue of share cap. / premium	384	(1)	(99)	-
Debt changes	(40)	14	(14)	-
Dividend paid	(20,247)	(23,333)	(24,586)	(28,925)
Interest paid	(1,546)	(1,193)	(2,129)	(2,347)
Others	-	-	-	-
Net cash from Fin. activities	(21,449)	(24,512)	(26,828)	(31,272)
Net change in cash	354	257	1,123	(1,117)
Free Cash Flow	18,214	21,757	26,784	27,998

Source: Company Data, PL Research

Key Financial Metrics

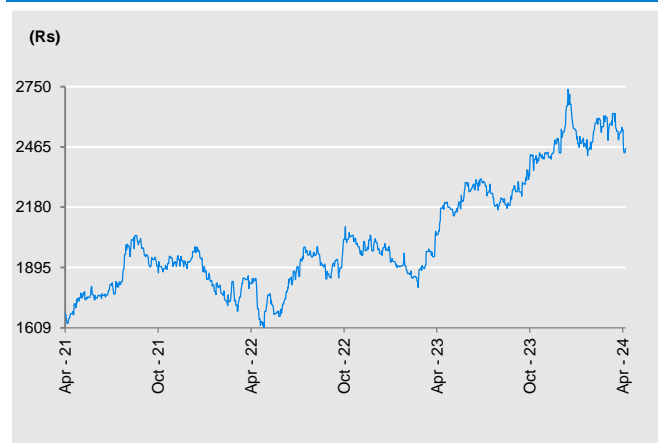
Y/e Dec	CY22	CY23	CY24E	CY25E
Per Share(Rs)				
EPS	25.3	31.5	34.9	39.0
CEPS	29.4	36.0	39.7	44.4
BVPS	25.5	32.1	40.3	48.0
FCF	18.9	22.6	27.8	29.0
DPS	21.0	24.2	25.5	30.0
Return Ratio(%)				
RoCE	150.1	145.4	133.1	122.0
ROIC	42.9	45.8	42.9	44.7
RoE	110.6	109.4	96.4	88.2
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.4)	(0.2)	(0.3)
Net Working Capital (Days)	4	1	1	0
Valuation(x)				
PER	101.4	81.3	73.5	65.8
P/B	100.5	79.9	63.7	53.3
P/CEPS	29.4	36.0	39.7	44.4
EV/EBITDA	65.4	54.5	47.9	42.7
EV/Sales	14.6	12.9	11.4	10.2
Dividend Yield (%)	0.8	0.9	1.0	1.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q2CY23	Q3CY23	Q4CY23	Q1CY24
Net Revenue	46,585	50,368	46,004	52,677
YoY gr. (%)	15.1	9.5	8.1	9.0
Raw Material Expenses	21,050	21,916	19,046	22,759
Gross Profit	25,535	28,452	26,959	29,918
Margin (%)	54.8	56.5	58.6	56.8
EBITDA	10,588	12,287	11,130	13,386
YoY gr. (%)	25.4	21.6	13.9	20.6
Margin (%)	22.7	24.4	24.2	25.4
Depreciation / Depletion	1,074	1,112	1,087	1,089
EBIT	9,515	11,176	10,043	12,297
Margin (%)	20.4	22.2	21.8	23.3
Net Interest	328	314	230	262
Other Income	240	333	303	268
Profit before Tax	9,427	11,195	10,116	12,303
Margin (%)	20.2	22.2	22.0	23.4
Total Tax	2,410	3,139	2,309	3,164
Effective tax rate (%)	25.6	28.0	22.8	25.7
Profit after Tax	7,017	8,055	7,808	9,139
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,017	8,055	7,808	9,139
YoY gr. (%)	30.0	20.7	23.5	21.7
Margin (%)	15.1	16.0	17.0	17.3
Extra Ord. Income / (Exp)	(33)	1,026	(1,252)	204
Reported PAT	6,983	9,081	6,556	9,342
YoY gr. (%)	36.9	37.3	4.4	26.8
Margin (%)	15.0	18.0	14.3	17.7
Other Comprehensive Income	(28)	(27)	248	(111)
Total Comprehensive Income	6,956	9,054	6,804	9,231
Avg. Shares O/s (m)	964	964	964	964
EPS (Rs)	7.3	8.4	8.1	9.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-24	Accumulate	2,695	2,507
2	08-Feb-24	Accumulate	2,699	2,500
3	08-Jan-24	Accumulate	2,679	2,619
4	25-Oct-23	Accumulate	2,547	2,425
5	19-Oct-23	Accumulate	2,547	2,326
6	07-Oct-23	Accumulate	2,359	2,291
7	27-Jul-23	Accumulate	2,359	2,233
8	06-Jul-23	Accumulate	2,260	2,310

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Reduce	2,698	2,857
2	Avenue Supermarts	BUY	4,704	4,716
3	Britannia Industries	Hold	5,157	4,793
4	Colgate Palmolive	Reduce	2,174	2,622
5	Dabur India	Accumulate	535	503
6	Emami	Accumulate	496	457
7	Hindustan Unilever	Accumulate	2,543	2,260
8	ITC	Accumulate	488	426
9	Jubilant FoodWorks	Hold	507	448
10	Kansai Nerolac Paints	Reduce	288	281
11	Marico	Hold	554	510
12	Metro Brands	Hold	1,063	1,038
13	Mold-tek Packaging	Hold	891	871
14	Nestle India	Accumulate	2,695	2,507
15	Pidilite Industries	Accumulate	2,764	3,019
16	Restaurant Brands Asia	Accumulate	137	101
17	Titan Company	Accumulate	3,817	3,682
18	Westlife Foodworld	Hold	820	814

PL's Recommendation Nomenclature (Absolute Performance)

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

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