

Nestle India Ltd.



Nestle India Ltd.

Steady recovery

CMP INR 17,230	Target INR 19,088	Potential Upside 10.8%	Market Cap (INR Mn) INR 1,661,243	Recommendation ACCUMULATE	Sector FMCG
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Result highlights

- For Q3CY20, Nestle India reported revenue growth of 10.1% YoY (+16.1% QoQ) to INR 35,417 mn
- Domestic Sales increased by 10.2% YoY largely driven by volume & mix. Along with this, Export Sales increased by 9.4%.
- EBITDA margin improved by 158bps YoY to 24.9% (+44bps QoQ) mainly due effective inventory management and other expenses
- Net Profit declined marginally by 1.4% YoY / (up by 20.7%) to INR 5,871 mn with NPM of 16.6% (down 194bps YoY / up 62bps QoQ); largely attributed to higher tax expenses. However, the tax expenses of Q3CY19 is not comparable due to lower tax rate pertaining to that period
- The company declared an interim dividend of INR 135 per share for CY20

MARKET DATA

Shares O/S (Mn)	96
Equity Cap (INR Mn)	36,737
Mkt Cap (INR Mn)	1,661,243
52 Wk H/L (INR)	18,301/12,589
Volume Avg (3m K)	134
Face Value (INR)	10
Bloomberg Code	NEST IN

KEY FINANCIALS

Particulars (INR mn)	CY17	CY18	CY19	CY20E	CY21E
Revenue	101,922	112,923	123,689	1,34,821	1,50,089
EBITDA	22,214	27,324	28,892	33,435	37,072
PAT	12,252	16,069	19,695	22,962	25,941
Adj PAT	13,500	17,217	19,944	22,962	25,941
EPS (INR)	127.07	166.67	204.28	238.15	269.05
Adj. EPS (INR)	140.02	178.57	206.86	238.15	269.05
EBITDA Margin (%)	21.8%	24.2%	23.4%	24.8%	24.7%
NPM (%)	12.0%	14.2%	15.9%	17.0%	17.3%

Source: Company, KRChoksey Research

Revenue growth back to normal in Q3CY21

After posting flat revenue in Q2 led by supply chain issues, the revenue growth trajectory back to pre-covid level with 10.1% YoY growth. The company witnessed double-digit growth in the brands such as Maggi noodles, Maggi sauces, KitKat, Nestlé Munch, Nescafé Classic, and Nescafé Sunrise, driven by in-home consumption. All production facilities are operating at pre-covid level. The e-commerce channel grew by 97% in the quarter and contributes 4% to domestic sales. Out of consumption items like Confectionary items show marginal recovery but remained impacted during the quarter. Along with this, Nestle continued to work closely with Coffee farmers, Spice growers and have extended support by sourcing substantial quantity from farmers in Karnataka through Nestle's suppliers to ensure there is no distress.

Revenue grew by 7.7% YoY to INR 9,872.6 Cr in 9MCY2020 affected by supply disruptions during lockdown in April / May. Gross margins fell by 115 bps to 57.2% due to supply chain issues in Q1/Q2. Cost rationalization helped EBIT expand by 98 bps to 24.7%. Operating profit grew by 12% YoY to INR 2,448.9 Cr. PAT to grow by 13.8% y-o-y to Rs. 1,702.7 crore led by lower tax expenses.

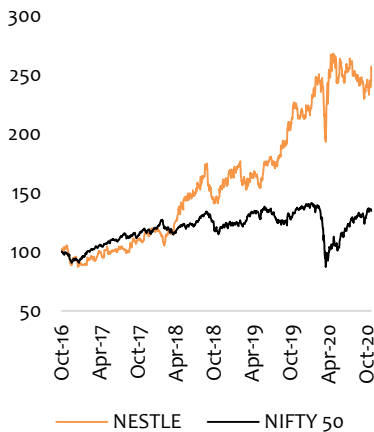
Margins improved on back of lower COGS and Other expenses

In Q3CY20, EBITDA margin expanded 158bps YoY to 24.9% (+44bps QoQ) mainly due effective inventory management and lower other expenses as a % of sales (22.7% in Q3CY2020 vs 24.2% in Q3CY2019). Cost rationalization also helped in improving margins. Other income declined 39%YoY due to lower average liquidity and lower yields.

Planned Capex of INR 2,600 Cr. over next 3-4 years; augurs well for future growth

The company announced Capex investment INR 2,600 Cr over next 3-4 years to develop new factory in Sanand, Gujarat and enhance exiting capacities. With new investment, the company is looking at expanding its production for Maggi product line; augurs well for future growth in the light of increase in demand for Noodle products.

SHARE PRICE PERFORMANCE

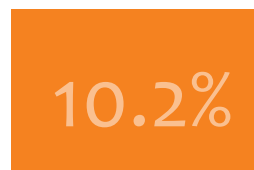


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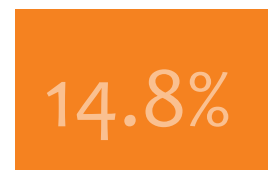
SENSEX	40,522
NIFTY	11,889

SHARE HOLDING PATTERN (%)

Particulars	Sep-20	Jun-20	Mar-20
Promoters	62.76	62.76	62.76
FIs	11.51	12.10	11.81
DIs	8.91	8.78	9.19
Others	16.82	16.36	16.24
Total	100	100	100



Revenue CAGR between CY19 and CY21E



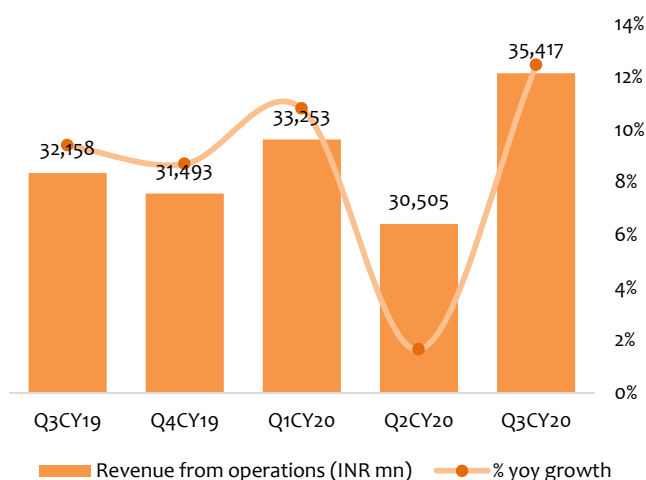
PAT CAGR between CY19 and CY21E

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Valuation and view

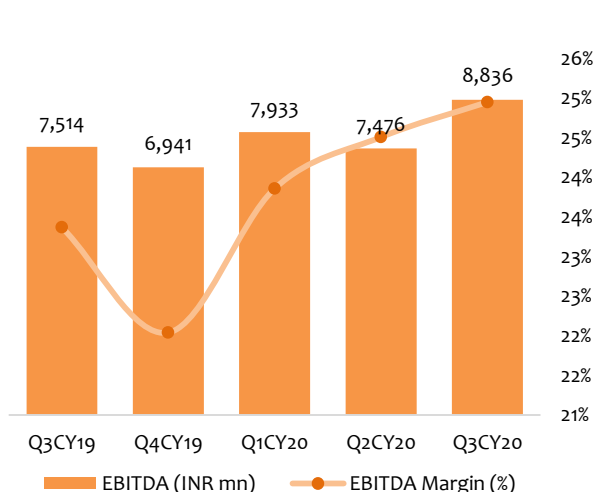
Despite the slowdown in the economic activity, being defensive nature of business, Nestle India has fared well amid supply disruption and rebound well in Q3 with sustained growth in the volume and product mix. Overall we remain positive on the back of resilient business with favorable industry outlook, strong brand presence with diversified product mix and high ROE. Besides, the company is well positioned to capitalize on the change in consumer behavior with increase in at-home consumption with more of in-house cooking. In the long-run, the company is likely to benefit from the planned capex of INR 2,600 Cr in the greenfield facility building. We expect the topline to grow at a CAGR of 10.2% between CY19 to CY21. **Currently, the stock is trading at a P/E multiple (on TTM basis) of ~80x which is an expensive valuation and indicates premium valuation in FMCG basket. Since our last recommendation (24th September 2020), the stock price has rallied by ~12%. We continue to apply a forward P/E multiple of 71x (same as earlier) on CY21E EPS of INR 269 to arrive at a target price of INR 19,088 per share; an upside potential of 10.8%. We believe the valuation looks stretched from now and offers limited upside; hence, we revised our rating to “ACCUMULATE” (previous rating “BUY”) on the shares of Nestle India.**

Revenue increased on the back of momentum in volume and product mix



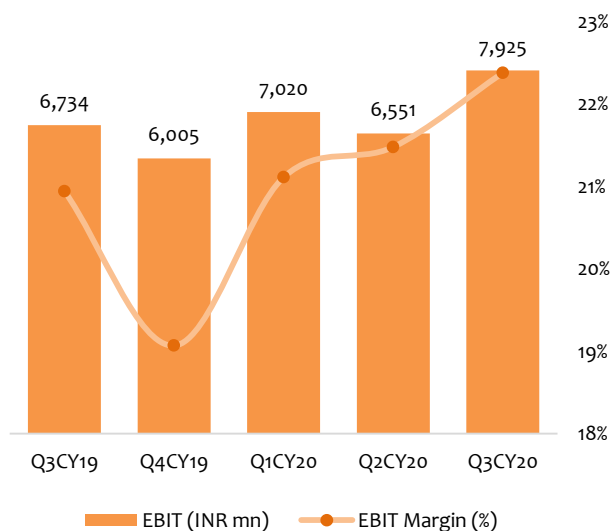
Source: Company, KRChoksey Research

Cost efficiencies led to steady margin despite overall inflation in raw material prices



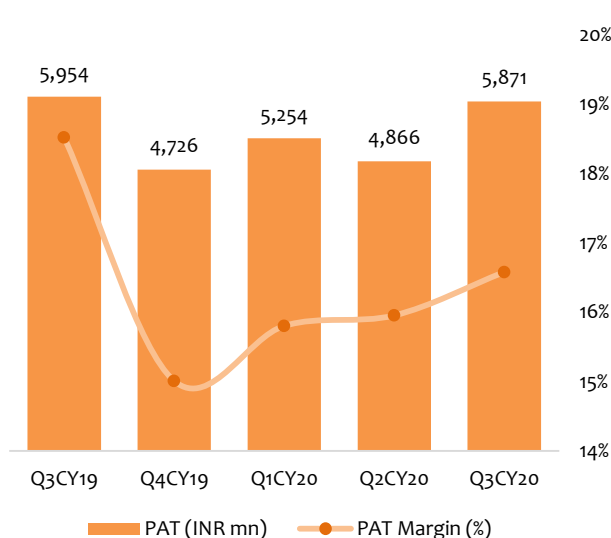
Source: Company, KRChoksey Research

Robust growth is seen in EBIT sequentially



Source: Company, KRChoksey Research

Profitability improved sequentially



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR mn)	CY17	CY18	CY19	CY20E	CY21E
Non-current assets					
Property, plant and equipment	26,162	24,006	22,267	23,031	24,929
Capital work-in-progress	942	1,052	1,433	1,433	1,433
Financial assets					
Investments	5,853	7,334	7,436	7,436	7,436
Loans	464	401	470	470	470
Other non-current assets	832	718	804	857	954
Total non-current assets	34,252	33,511	32,410	33,228	35,223
Current assets					
Inventories	9,025	9,656	12,831	11,826	13,197
Financial assets					
Investments	13,936	19,251	10,075	10,075	10,075
Trade receivables	890	1,246	1,243	1,477	1,645
Cash and cash equivalents	14,477	15,988	12,932	17,639	24,089
Other Balances with Banks	97	113	149	149	149
Loans	288	179	125	125	125
Other financial assets	428	525	558	627	698
Other current assets	170	224	260	267	298
Total current assets	39,374	47,370	38,172	42,410	50,525
TOTAL ASSETS	73,626	80,881	70,582	75,637	85,747
EQUITY AND LIABILITIES					
Equity					
Equity share capital	964	964	964	964	964
Other equity	33,242	35,773	18,358	22,776	27,767
Total equity	34,206	36,737	19,323	23,740	28,731
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Borrowings	351	351	531	351	351
Deferred tax liabilities, (net)	1,220	588	180	180	180
Provisions	22,916	24,649	29,069	29,429	32,762
Total non-current liabilities	24,493	25,594	29,784	29,966	33,300
Current liabilities					
Financial liabilities					
Borrowings	0	0	0	0	0
Trade payables	9,846	12,404	14,947	15,403	17,188
Other financial liabilities	3,140	3,162	4,315	4,315	4,315
Other current liabilities	1,066	1,411	1,359	1,359	1,359
Provisions	875	1,573	855	855	855
Total current liabilities	14,927	18,550	21,475	21,931	23,716
Total liabilities	39,420	44,143	51,259	51,897	57,016
TOTAL EQUITY AND LIABILITIES	73,626	80,881	70,582	75,637	85,747

Source: Company, KRChoksey Research

Nestle India Ltd.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR mn)	CY17	CY18	CY19	CY20E	CY21E
Revenues	101,922	112,923	123,689	1,34,821	1,50,089
COGS	43,269	45,902	52,239	56,220	62,737
Gross profit	58,653	67,020	71,450	78,600	87,352
Employee cost	10,175	11,242	12,630	14,156	15,759
Other expenses	26,265	28,455	29,929	31,009	34,520
EBITDA	22,214	27,324	28,892	33,435	37,072
EBITDA Margin	21.8%	24.2%	23.4%	24.8%	24.7%
Depreciation & amortization	3,423	3,357	3,164	3,236	3,602
EBIT	18,791	23,967	25,728	30,200	33,470
Other income	1,769	2,589	2,469	2,173	2,173
Interest expense	2,167	1,120	1,198	1,757	1,054
PBT	18,393	24,290	26,750	30,615	34,588
Tax	6,141	8,220	7,054	7,654	8,647
PAT	12,252	16,069	19,695	22,962	25,941
Adj. PAT	13,500	17,217	19,944	22,962	25,941
EPS (INR)	127.07	166.67	204.28	238.15	269.05
Adj. EPS	140.02	178.57	206.86	238.15	269.05

Exhibit 3: Cash Flow Analysis

Particulars (INR mn)	CY17	CY18	CY19	CY20E	CY21E
Net Cash Generated From Operations	18,178	20,525	22,337	27,067	31,878
Net Cash Flow from/(used in) Investing Activities	(1,306)	(524)	830	(1,879)	(3,424)
Net Cash Flow from Financing Activities	(9,966)	(13,174)	(35,399)	(20,481)	(22,004)
Net Inc/Dec in cash equivalents	6,906	6,826	(12,233)	4,708	6,450
Opening Balance	8,693	14,477	15,988	12,931	17,639
Closing Balance Cash and Cash Equivalents	14,477	15,988	12,931	17,639	24,089

Exhibit 4: Ratio Analysis

Key Ratio	CY17	CY18	CY19	CY20E	CY21E
EBITDA Margin (%)	21.8%	24.2%	23.4%	24.8%	24.7%
Tax rate (%)	33.4%	33.8%	26.4%	25.0%	25.0%
Net Profit Margin (%)	12.0%	14.2%	15.9%	17.0%	17.3%
RoE (%)	35.8%	43.7%	101.9%	96.7%	90.3%
RoCE (%)	54.4%	64.6%	129.6%	125.4%	115.1%
EPS (INR)	127.07	166.67	204.28	238.15	269.05

Source: Company, KRChoksey Research

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Nestle India Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
27-Oct-20	17,230	19,088	ACCUMULATE	Buy	More than 15%
24-Sep-20	15,366	19,088	BUY	Accumulate	5% – 15%
13-May-20	17,462	19,088	ACCUMULATE	Hold	0 – 5%
15-Apr-20	16,600	19,088	BUY	Reduce	-5% – 0
14-Feb-20	16,356	17,514	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

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