

Strong growth in smaller cities aid growth...

Nestlé posted strong results with 10.2% domestic revenue growth led by robust demand for noodles category supported by continued trend of higher 'at-home' consumption. Export sales were also up 9.4%. Though our channel check suggested dismal growth numbers, especially in infant food category, we believe this was only Metro cities (Delhi, Mumbai and Bangalore) phenomenon. There was strong growth in tier 2, tier 3 cities. Further, e-commerce sales also increased 97% in Q3CY20. It is now contributing 4% to overall sales. Operating profit increased 17.6% to ₹ 883.6 crore. Operating margins improved 158 bps to 24.9%. The expansion in margins was a result of 54 bps gross margins expansion & 175 bps saving in overhead spends (largely due to lower advertisement spends). Net profit was down 1.4% to ₹ 587.1 crore mainly due to lower tax in the base quarter due to changes in the corporate tax rate last year.

Net beneficiary of 'at-home' consumption trend

Nestlé witnessed a sudden surge in demand for noodles as consumption for packaged instant food increased significantly in the last six months. Though initially the company faced supply issues due to closure of factories in April, supplies improved significantly in Q3CY20. Moreover, there were robust demand conditions from smaller urban cities. Further, new launches across categories are gaining traction (71 new products launched in the last five years contributing 3.4% to sales). The company expanded its breakfast ready to eat in Maggi Poha & Maggi Upma, which would have gained traction during pandemic. We believe the company has been a net beneficiary of a change in consumption trend in the last six months. We expect the packaged food category to continue to drive growth, going forward. We estimate 9.3% revenue CAGR in CY19-22E with the expectation of 12.1% CAGR in the prepared dishes segment (Maggi product portfolio).

Commodity prices to remain soft; large capex announced

Milk prices were soaring until March 2020. However, the lockdown led to a sudden crash in milk prices given most restaurants, cafés were shut. This resulted in lower milk procurement prices for Nestlé that is benefiting it in term of gross margin expansion. Moreover, with milk flush season nearing, we believe milk prices would remain soft, going forward. We estimate 200 bps gross margin expansion in next two years. However, with normalisation of advertisement spends, we expect only 60 bps operating margin expansion by CY22E. The company would be commissioning its new plant in Sanand that would be a dedicated Maggi facility. Moreover, it has also announced ₹ 2600 crore of capex in next three to four years.

Valuation & Outlook

In CY20, the company announced a dividend of ₹ 196 /share, which is ~88% dividend payout. We believe the strong revenue growth and margin expansion would continue, going forward, given the slew of new launches is increasing contribution to sales & benign commodity prices scenario is here to stay. The stock is trading at premium valuation multiples. We maintain our target price of ₹ 18000/share with a **HOLD** rating.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	152951
Total Debt (CY19)	53.1
Cash & Investments (CY19)	2,315.5
EV	150,688.7
52 week H/L (₹)	18369 / 10120
Equity capital	96.4
Face value (₹)	10.0

Key Highlights

- Domestic sales increased 10.2% led by healthy growth in Maggi portfolio, chocolates & coffee segments
- E-commerce sales increased 97%. It is contributing 4% to overall sales
- Operating margins expanded 158 bps with 54 bps gross margins expansion & reduction in A&P spends
- Maintain HOLD recommendation with target price of ₹ 18000/share

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Key Financial Summary

Key Financials	CY18	CY19	CY20E	CY21E	CY22E	CAGR (CY19-22E)
Net Sales	11216.2	12295.3	13351.8	14667.3	16109.7	9.4%
EBITDA	2759.8	2864.3	3252.8	3620.4	4022.3	12.0%
EBITDA Margin %	24.6	23.3	24.4	24.7	25.0	
Net Profit	1606.9	1969.6	2154.5	2443.3	2740.3	11.6%
EPS (₹)	166.66	204.27	223.45	253.40	284.21	
P/E	95.2	77.7	71.0	62.6	55.8	
RoNW %	45.6	101.9	119.1	139.2	160.6	
RoCE (%)	42.9	56.9	59.9	66.6	73.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q3CY20	Q3CY20E	Q3CY19	YoY (%)	Q2CY20	QoQ (%)	Comments
Total Operating Income	3,541.7	3,065.5	3,215.8	10.1	3,050.5	16.1	Nestlé reported strong revenues growth of 10.1% supported by robust growth in noodles, chocolate & coffee segments
Operating Income	16.3	9.6	16.5	-1.3	9.0	80.4	
Raw Material Expenses	1,484.3	1,258.3	1,365.0	8.7	1,331.9	11.4	With the decline in milk prices & lower packaging cost, gross margins expanded 54 bps
Employee Expenses	369.7	358.1	322.0	14.8	369.6	0.0	
Other operating Expenses	804.2	680.9	777.4	3.4	601.4	33.7	Overhead spends still benefited less from lower advertisement rates during the quarter
EBITDA	883.6	768.2	751.4	17.6	747.6	18.2	
EBITDA Margin (%)	24.9	25.1	23.4	158 bps	24.5	44 bps	
Depreciation	91.1	83.6	78.0	16.8	92.4	-1.4	
Interest	40.5	31.6	29.9	35.2	40.8	-0.9	
Other Income	34.5	36.5	56.4	-38.9	37.9	-9.1	Other income declined 38.9% mainly on account of special dividend paid by company last year, which resulted in lower cash equivalent investments
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
PBT	786.5	689.5	699.9	12.4	652.3	20.6	
Tax Outgo	199.4	173.7	104.5	90.9	165.7	20.4	
PAT	587.1	515.7	595.4	-1.4	486.6	20.7	Net profit declined 1.4% on account of lower tax rate in base quarter
Adjusted PAT	587.1	515.7	595.4	-1.4	486.6	20.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY20E			CY21E			CY22E	Comments
	Old	New	% Change	Old	New	% Change	New	
Net Sales	13,286.5	13,351.8	0.5	15,103.2	14,667.3	-2.9	16,109.7	We marginally change our estimates for CY21 given the impact of Covid induced lockdown was minimal in CY20. Hence, base year numbers would not be favourable for higher growth. We are introducing CY22 numbers
EBITDA	3230.4	3252.8	0.7	3712.2	3620.4	-2.5	4022.3	
EBITDA Margin(%)	24.3	24.4	5 bps	24.6	24.7	10 bps	25.0	
PAT	2195.6	2154.5	-1.9	2565.0	2443.3	-4.7	2740.3	We change our capex & subsequently depreciation estimates according to announcement by the management
EPS (₹)	227.7	223.4	-1.9	266.0	253.4	-4.7	284.2	

Source: Company, ICICI Direct Research

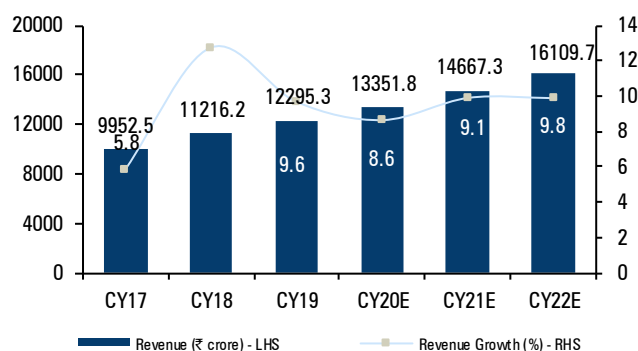
Exhibit 3: Assumptions

	Current					Earlier				Comments
	CY16	CY17	CY18	CY19E	CY20E	CY21E	CY22E	CY20E	CY21E	
Gross Sales (₹ crore)										
Milk Product and Nutrition	4,635.0	4,819.6	5,187.6	5,651.8	6,228.9	6,736.5	7,354.9	6,228.9	6,996.3	
Beverages	1,286.1	1,387.0	1,522.6	1,501.8	1,547.1	1,672.8	1,790.9	1,516.8	1,687.3	We change our segment sales numbers given noodles sales have been strong in the current year
Prepared dishes	2,317.6	2,707.1	3,105.3	3,498.2	3,883.0	4,356.7	4,928.3	3,848.0	4,518.3	
Chocolate & confectionery	1,170.9	1,221.4	1,400.7	1,643.5	1,692.8	1,901.3	2,035.6	1,692.8	1,901.3	
Volume Growth (%)										
Overall Volume Growth	25.0	10.9	11.1	7.0	8.5	8.2	9.4	7.9	11.4	We change our CY21 volume numbers given base quarter is not witnessing major disruption due to pandemic
Milk Product and	-2.4	1.6	4.8	1.4	7.0	5.0	6.0	7.0	8.0	
Beverages	-0.2	10.6	10.6	-2.3	2.0	6.0	6.0	0.0	8.0	
Prepared dishes	71.5	19.0	14.5	9.6	11.0	10.0	12.0	10.0	14.0	
Chocolate & confectionery	6.7	4.3	14.7	16.2	3.0	8.0	6.0	3.0	8.0	

Source: Company, ICICI Direct Research

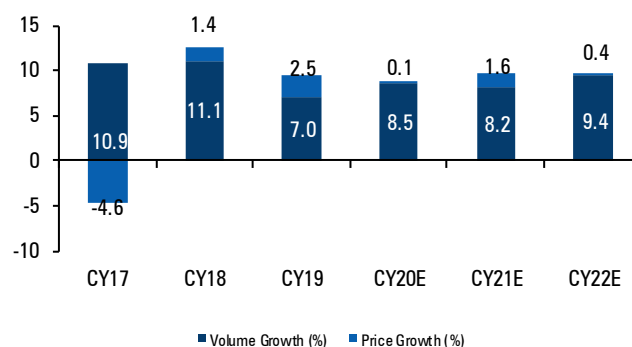
Key Metrics

Exhibit 4: Revenue growth trend



Source: Company, ICICI Direct Research

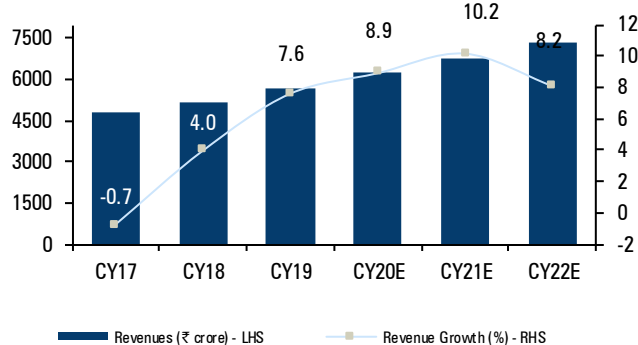
Exhibit 5: Volume growth to drive revenue



Source: Company, ICICI Direct Research

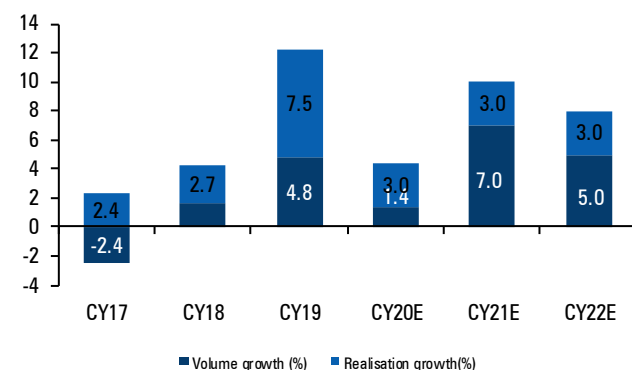
Milk products & nutrition

Exhibit 6: Revenue to grow at 9.2% CAGR in CY19-22E



Source: Company, ICICI Direct Research

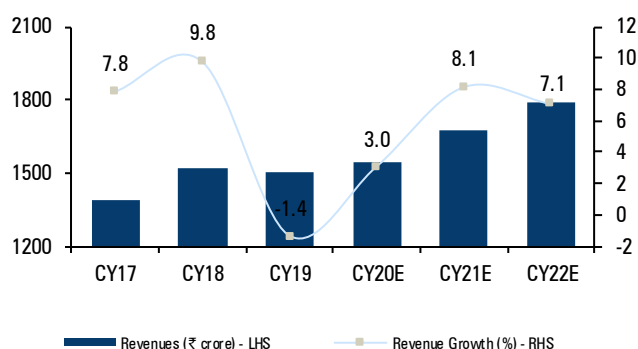
Exhibit 7: Revenue growth to be mix of volume & price growth



Source: Company, ICICI Direct Research

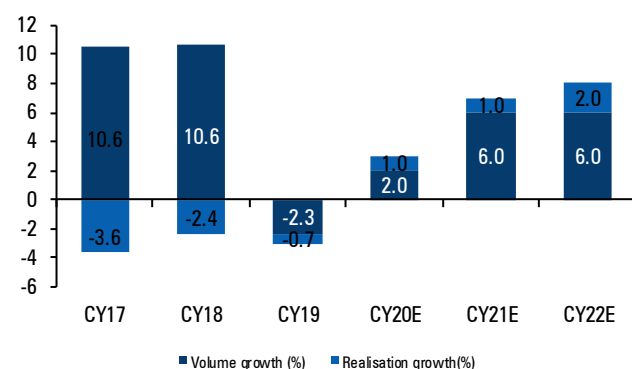
Beverages

Exhibit 8: Beverages revenue growth expected at 6% CAGR during CY19-22E



Source: Company, ICICI Direct Research

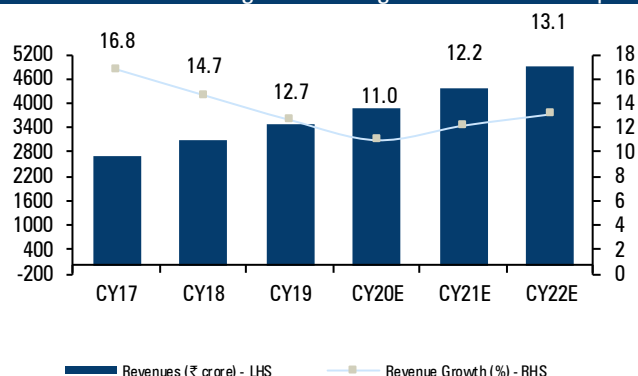
Exhibit 9: Volume growth has not been significantly impacted by lockdown



Source: Company, ICICI Direct Research

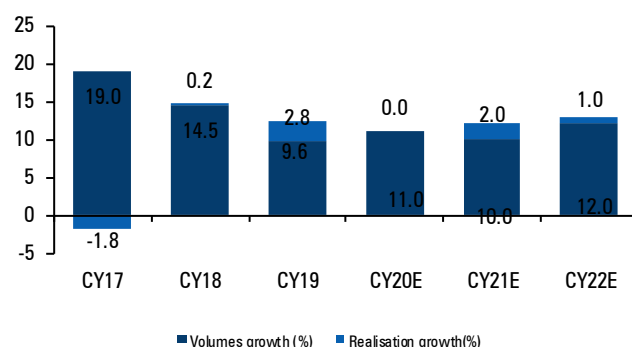
Prepared dishes

Exhibit 10: Volumes to grow with high in-home consumption



Source: Company, ICICI Direct Research

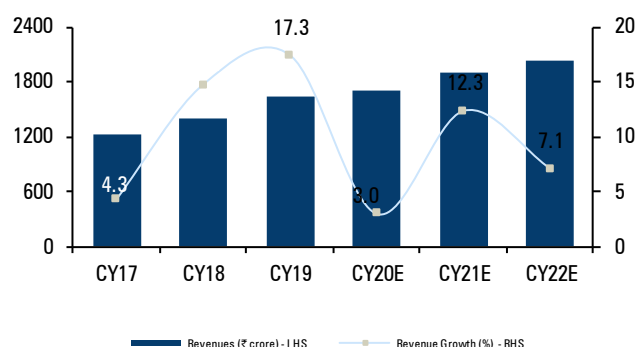
Exhibit 11: Growth aided by strong demand for convenient food



Source: Company, ICICI Direct Research

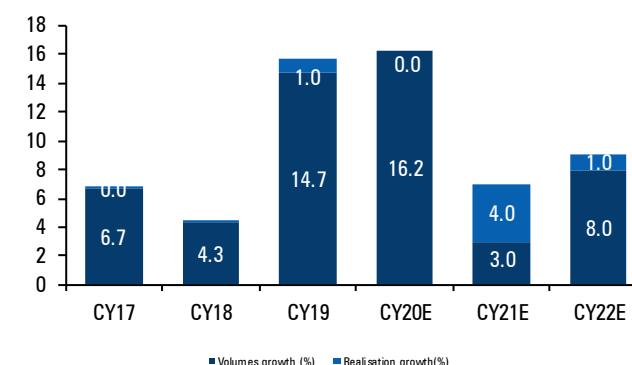
Chocolate & confectionery

Exhibit 12: : Sales to gain traction, going forward



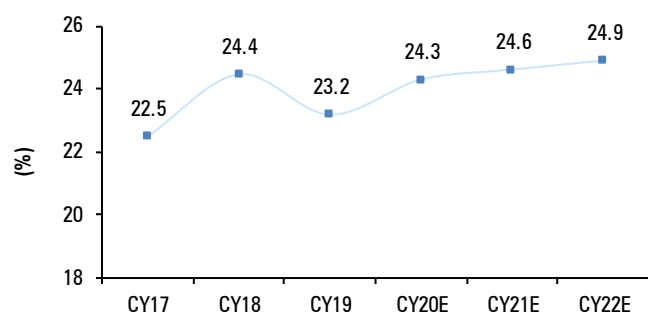
Source: Company, ICICI Direct Research

Exhibit 13: Volume growth to come back in CY21E



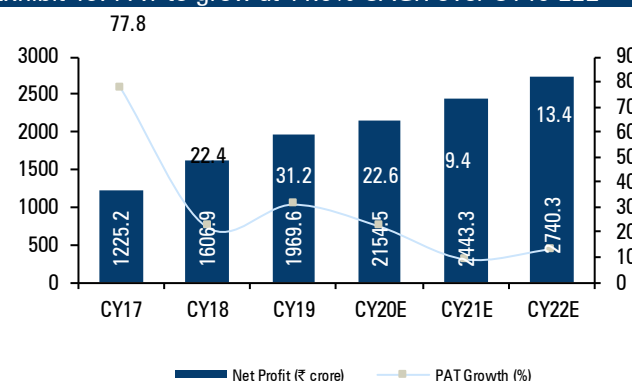
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA margin to remain elevated



Source: Company, ICICI Direct Research

Exhibit 15: PAT to grow at 11.6% CAGR over CY19-22E

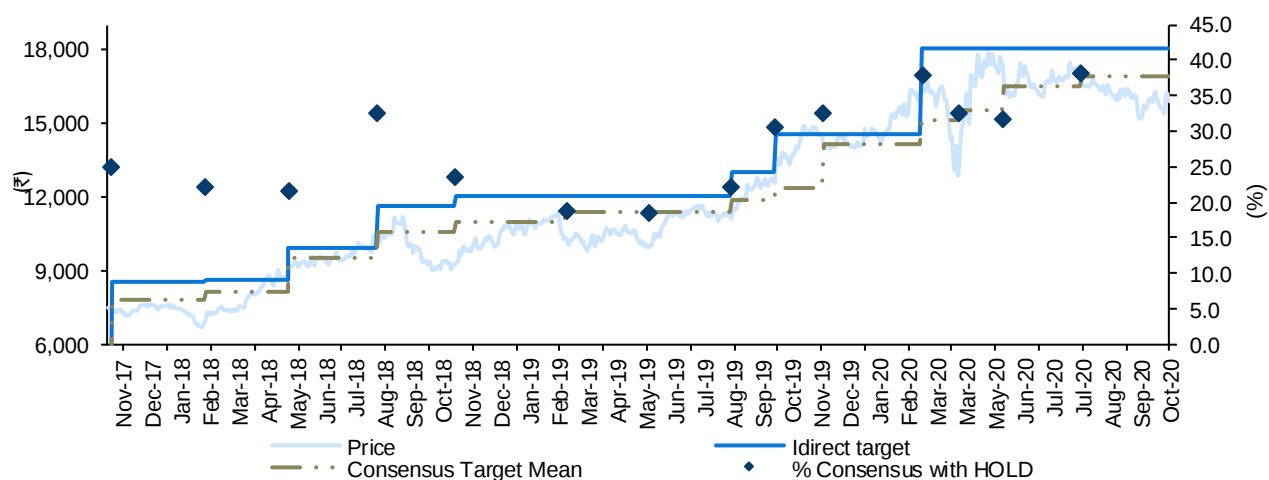


Source: Company, ICICI Direct Research

Exhibit 16: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY19	12295.3	9.6	204.3	22.6	77.7	53.0	101.9	56.9
CY20E	13351.8	8.6	223.4	9.4	71.0	46.7	119.1	59.9
CY21E	14667.3	9.9	253.4	13.4	62.6	42.1	139.2	66.6
CY22E	16109.7	9.8	284.2	12.2	55.8	37.9	160.6	73.7

Source: Company, ICICI Direct Research

Exhibit 17: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 18: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Nestle Sa	6/30/2020	34.3	33.05	0.00
2	Maggi Enterprises Lt	6/30/2020	28.5	27.46	0.00
3	Life Insurance Corp	6/30/2020	2.0	1.92	-1.01
4	Axis Asset Managemen	9/30/2020	1.6	1.54	0.04
5	Sbi Funds Management	9/30/2020	1.4	1.31	0.00
6	Vanguard Group	9/30/2020	0.9	0.84	-0.01
7	Blackrock	10/22/2020	0.8	0.80	0.02
8	Uti Asset Management	9/30/2020	0.5	0.49	0.02
9	Icici Prudential Lif	9/30/2020	0.5	0.45	0.05
10	St James'S Place Plc	3/31/2020	0.4	0.38	0.00

Source: Reuters, ICICI Direct Research

Exhibit 19: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	62.8	62.8	62.8	62.76	62.76
FII	12.6	12.1	11.8	12.1	11.51
DII	8.5	8.9	9.1	8.7	8.9
Others	16.1	16.3	16.3	16.4	16.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 20: Profit and loss statement ₹ crore				
(Year-end December)	CY19	CY20E	CY21E	CY22E
Total operating Income	12,368.9	13,399.6	14,720.0	16,167.6
Growth (%)	9.5	8.3	9.9	9.8
Raw Material Expenses	5,223.9	5,740.7	6,303.4	6,877.5
Employee Expenses	1,263.0	1,468.7	1,540.1	1,659.3
Marketing Expenses	0.0	0.0	0.0	0.0
Administrative Expenses	63.2	93.5	88.0	96.7
Other expenses	2,954.5	2,843.9	3,168.1	3,511.9
Total Operating Expenditure	9,504.6	10,146.8	11,099.6	12,145.3
EBITDA	2,864.3	3,252.8	3,620.4	4,022.3
Growth (%)	3.8	13.6	11.3	11.1
Depreciation	316.4	369.9	377.2	391.7
Interest	119.8	165.5	153.6	160.0
Other Income	246.9	166.8	176.8	192.9
PBT	2,675.0	2,884.2	3,266.4	3,663.5
Others	0.0	0.0	0.0	0.0
Total Tax	705.4	729.7	823.1	923.2
PAT	1,969.6	2,154.5	2,443.3	2,740.3
Growth (%)	22.6	9.4	13.4	12.2
EPS (₹)	204.3	223.4	253.4	284.2

Source: Company, ICICI Direct Research

Exhibit 21: Cash flow statement ₹ crore				
(Year-end December)	CY19	CY20E	CY21E	CY22E
Profit after Tax	1,969.6	2,154.5	2,443.3	2,740.3
Add: Depreciation	316.4	369.9	377.2	391.7
(Inc)/dec in Current Assets	617.8	-563.6	-467.5	-348.1
Inc/(dec) in CL	292.6	120.5	183.3	241.0
CF from operating activities	3,196.2	2,081.3	2,536.2	3,024.9
(Inc)/dec in LT loans & adv	-6.8	47.0	0.0	0.0
(Inc)/dec in other investments	-10.2	-20.0	-20.0	-20.0
(Inc)/dec in Fixed Assets	-180.6	-477.6	-520.0	-520.0
Others	401.0	299.6	100.0	100.0
CF from investing activities	194.8	-70.6	-440.0	-440.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	18.0	0.0	0.0	0.0
Dividend paid & dividend tax	-3,957.1	-2,277.2	-2,498.0	-2,788.5
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	246.0	0.0	0.0	0.0
CF from financing activities	-3,693.0	-2,277.2	-2,498.0	-2,788.5
Net Cash flow	-302.0	-266.5	-401.8	-203.6
Opening Cash	1,610.1	1,308.1	1,041.5	639.7
Closing Cash	1,308.1	1,041.5	639.7	436.2

Source: Company, ICICI Direct Research

Exhibit 22: Balance sheet ₹ crore				
(Year-end December)	CY19	CY20E	CY21E	CY22E
Liabilities				
Equity Capital	96.4	96.4	96.4	96.4
Reserve and Surplus	1,835.8	1,713.1	1,658.4	1,610.2
Total Shareholders funds	1,932.3	1,809.5	1,754.8	1,706.6
Total Debt	53.1	53.1	53.1	53.1
Deferred Tax Liability	18.0	18.0	18.0	18.0
Long Term Provisions	2,906.9	3,206.9	3,306.9	3,406.9
Total Liabilities	4,910.7	5,087.5	5,132.8	5,184.6
Assets				
Gross Block	3,785.4	4,085.4	4,585.4	5,085.4
Less: Acc Depreciation	1,401.2	1,771.1	2,148.3	2,539.9
Net Block	2,226.7	2,314.3	2,437.1	2,545.5
Capital WIP	143.3	163.3	183.3	203.3
Total Fixed Assets	2,370.0	2,477.6	2,620.4	2,748.8
LT Loans & Advances	47.0	0.0	0.0	0.0
Inventory	1,283.1	1,390.0	1,607.4	1,765.4
Debtors	124.3	128.0	140.6	154.5
Loans and Advances	12.5	146.3	160.7	176.5
Current Investments	1,089.3	1,408.3	1,631.5	1,791.9
Cash	1,308.1	1,041.5	639.7	436.2
Total Current Assets	3,817.2	4,114.2	4,180.0	4,324.6
Creditors	1,494.7	1,463.2	1,607.4	1,765.4
Provisions	85.5	256.1	241.1	264.8
Other Current Liabilities	567.4	548.7	602.8	662.0
Total Current Liabilities	2,147.5	2,268.0	2,451.3	2,692.3
Net Current Assets	1,669.7	1,846.3	1,728.7	1,632.3
Application of Funds	4,910.7	5,087.5	5,132.8	5,184.6

Source: Company, ICICI Direct Research

Exhibit 23: Key ratios ₹ crore				
(Year-end December)	CY19	CY20E	CY21E	CY22E
Per share data (₹)				
EPS	204.3	223.4	253.4	284.2
Cash EPS	237.1	261.8	292.5	324.8
BV	200.4	187.7	182.0	177.0
DPS	342.0	196.0	215.0	240.0
Cash Per Share	145.3	183.7	222.8	263.4
Operating Ratios (%)				
EBITDA Margin	23.2	24.3	24.6	24.9
PBT / Net Sales	21.8	21.6	22.3	22.7
PAT Margin	16.0	16.1	16.7	17.0
Inventory days	38.1	38.0	40.0	40.0
Debtor days	3.7	3.5	3.5	3.5
Creditor days	44.4	40.0	40.0	40.0
Return Ratios (%)				
RoE	101.9	119.1	139.2	160.6
RoCE	56.9	59.9	66.6	73.7
RoIC	70.4	74.3	75.3	79.9
Valuation Ratios (x)				
P/E	77.7	71.0	62.6	55.8
EV / EBITDA	53.0	46.7	42.1	37.9
EV / Net Sales	12.3	11.4	10.4	9.5
Market Cap / Sales	12.4	11.5	10.4	9.5
Price to Book Value	79.2	84.5	87.2	89.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.4	1.4	1.4
Quick Ratio	0.6	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 24: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Colgate (COLPAL)	1,465	1,700	Buy	38,812	30.0	33.4	35.4	48.8	43.9	41.4	8.6	8.4	7.7	60.7	83.5	100.8	51.2	64.2	78.0
Dabur India (DABIND)	519	565	Buy	88,708	8.2	8.8	10.3	63.4	58.9	50.6	10.2	10.1	8.7	26.1	24.0	24.7	21.9	20.9	21.4
Hindustan Unilever (HINLEV)	2,144	2,500	Buy	510,548	31.2	32.4	38.8	68.7	66.2	55.3	13.3	12.0	10.4	89.5	24.5	28.5	85.7	18.6	21.9
ITC Limited (ITC)	171	250	Buy	218,801	12.5	11.7	13.0	13.7	14.5	13.1	4.7	4.6	4.1	29.4	28.3	36.1	23.8	21.7	27.7
Jyothy Lab (JYOLAB)	143	150	Hold	5,141	4.3	5.3	5.8	33.2	26.9	24.5	3.1	2.9	2.6	24.3	29.7	29.9	21.7	24.2	24.1
Marico (MARLIM)	359	380	Hold	45,802	8.1	8.5	9.6	44.4	42.2	37.5	6.3	6.2	5.5	41.0	42.3	46.2	34.5	35.6	39.5
Nestle (NESIND)	15,865	18,000	Hold	152,951	204.3	223.4	253.4	77.7	71.0	62.6	12.4	11.5	10.4	56.9	59.9	66.6	101.9	119.1	139.2
Tata Consumer Products (TATGLO)	473	525	Buy	49,578	5.0	9.8	11.7	94.7	48.4	40.5	5.1	4.6	4.3	6.9	8.8	9.4	4.6	6.6	7.5
VST Industries (VSTIND)	3,405	4,450	Buy	5,530	196.9	202.1	222.6	17.3	16.9	15.3	4.5	4.6	3.9	52.1	46.3	44.8	38.6	34.2	33.0
Varun Beverage (VARBEV)	670	700	Hold	19,948	16.4	9.7	17.8	41.0	68.8	37.6	2.8	3.3	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,851	2,300	Buy	10,725	24.6	43.4	66.4	75.3	42.7	27.9	6.1	5.8	5.1	5.9	7.0	8.3	5.4	5.9	8.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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