16 April 2021

Annual Report Update | Sector: Consumer

Nestle India

BSE SENSEX	S&P CNX
48,832	14,618

Stock Info

Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	1662 / 22.4
52-Week Range (INR)	18821 / 15104
1, 6, 12 Rel. Per (%)	6/-10/-63
12M Avg Val (INR M)	2523
Free float (%)	37.2

Financials Snapshot (INR b) – CY ending

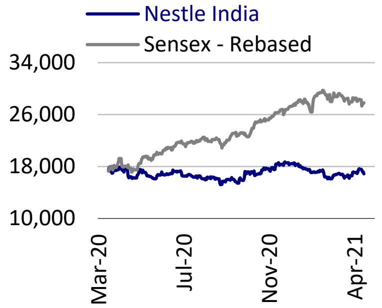
Y/E Dec	2020	2021E	2022E
Sales	133.5	150.0	172.7
Sales Gr. (%)	7.9	12.4	15.1
EBITDA	32.2	36.8	42.3
Margins (%)	24.1	24.5	24.5
Adj. PAT	21.0	24.5	28.4
Adj. EPS (INR)	217.4	254.4	294.4
EPS Gr. (%)	7.6	17.0	15.7
BV/Sh.(INR)	209.4	227.3	249.9
Ratios			
RoE (%)	106.5	116.5	123.4
RoCE (%)	110.2	120.6	127.2
Payout (%)	92.0	92.4	91.7
Valuations			
P/E (x)	79.3	67.8	58.6
P/BV (x)	82.3	75.9	69.0
EV/EBITDA (x)	50.7	44.2	38.4
Div. Yield (%)	1.2	1.4	1.6

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	62.8	62.8	62.8
DII	7.8	8.9	9.0
FII	12.8	11.5	12.1
Others	16.7	16.8	16.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR17,238 TP: INR18,300 (+6%) Neutral

Improvements encouraging for long-term growth

Maintain Neutral on expensive valuations

Nestlé's (NEST) CY20 annual report highlights its underlying strengths, which makes it one of the strongest topline growth opportunities in the Indian Consumer universe. Key takeaways are as follows:

- **Barring 2QCY20, where all Consumer companies, especially those with their own manufacturing facilities, faced supply-chain issues due to the sudden COVID-led lockdown, the company reported 10-11% sales growth in three quarters in CY20. This means that for four consecutive years (excluding revival from the CY15 *Maggi* crisis in CY16) the company reported double-digit, or close to double-digit, sales growth, which is better than peers. Sales growth in CY20 was led by volumes (2.6% volume growth out of 8.1% gross sales growth) and mix, and was broad based with: a) close to eight-year high sales growth in Milk and Nutrition (its largest segment at 46% of sales, which surpassed overall sales growth with 8.8% growth in CY20), b) another year of double-digit (11.8%) growth in Prepared Dishes, and c) healthy (6.7% YoY) sales growth in the Chocolates and Confectionery segment despite being more discretionary and urban trade dependent, both of which were weak for large parts of CY20. Encouragingly, the annual report also states that the company is finally witnessing market share gain in this category.**
- **The pace of new launches, while lower than preceding years due to the management's focus on the core, amid the COVID-19 pandemic, was still healthy compared to peers. Since CY16, NEST has launched 80 (including nine in CY20) new products. In a recent analyst meet (Feb'21), the company stated that these products contributed a healthy 4.3% of sales in CY20 v/s 3.4% in CY19. With 40-50 products in the pipeline, the pace of new launches is likely to remain healthy going forward.**
- **Ad spends at 6% of domestic sales (down 70bp YoY) has been close to elevated levels in recent years, unlike peers who reported a sharper decline to save costs.**
- **The business has been improving its efficiency over the years. While the number of employees has remained flattish in the last five years, sales per employee have consistently improved to ~INR17m per employee in CY20 from ~INR12m in CY16. Similarly, net FATR increased to ~5.5x in CY20 from ~3x in CY16. There has been a slight increase though in NWC days (up three days on an average basis from negative three days in CY19 to nil days in CY20 and up by four days on a year-end basis from negative two days to two days, with inventory days increasing slightly). FCF/PAT conversion remained robust at 94% in CY20.**
- **Valuations are expensive at 59x CY22E EPS, thus, preventing us from turning constructive on the stock.**

Broad based growth led by volume and mix

- Growth across segments was broad based, led by volume growth (2.6% volume growth out of 8.2% sales growth) and mix improvement, as its largest segment, Milk and Nutrition – a higher realization category grew faster than overall gross sales growth of 8.1%.
- Barring Beverages (~11% of CY20 sales), other segments reported strong growth including 8.8% growth in its largest category –Milk and Nutrition (46% of CY20 sales, close to its highest growth since CY14). However, there was some disappointment as realization contributed to this entire growth

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given that volumes were flat (down 0.4%). CY20 was another year of double-digit sales growth in Prepared Dishes (largely *Maggi* – 29% of sales). The Chocolates and Confectionery segment posted lower growth in CY20 as compared to the over 15-17% growth in the preceding two years. However, the 6.7% sales growth was actually remarkable, given the high base and headwinds in both urban and Modern Trade consumption for a large part of CY20, especially as the company is gaining market share in this category. Beverages were affected by the impact on out-of-home (Hotels, restaurants, and offices) demand for coffee as well as lower exports to Turkey. However, the management stated that market share gains were significant in *Nescafe*.

- With NEST's focus on volume-led double-digit growth in Foods, backed by new launches, the prospects of topline growth remain bright. This would also be supported by ad spends, benefits of cluster-based approach, distribution expansion, and usage of Analytics.

New products doing well, cluster-based approach working well

- The company launched 80 new products since CY16, which now contributes 4.3% of sales. Sales growth and support for new products comes from elevated (6%) ad spends, as a percentage of sales, in recent years, unlike other Staple peers who witnessed a sharp decline in this metric in FY21.
- As mentioned in our analyst meet note, the management underlined the increasing opportunity from rural India. From 7,000 villages in CY16, NEST is now present in 89,000 villages. The management is targeting 120,000 villages by CY24. At 25%, share of rural in Nestlé India's sales is lower than peers.
- The management also shared more on its successes from the recently introduced 'cluster-based approach' and stated: 'Through the cluster-based approach, which is powered by Data and technology, the company has made a deeper penetration into newer markets, unleashed growth potential, and created a transparent planning process.'

Improving efficiency, fixed asset turns, and working capital dips slightly

- The business has been improving its efficiency over the years. While the number of employees has remained flattish in the last five years, sales per employee have consistently improved to ~INR17m per employee in CY20 from ~INR12m in CY16. Net FATR has also increased to ~5.5x in CY20 from ~3x in CY16.
- Upcoming capex of INR26b over the next 3-4 years could impact the improvement in fixed asset turnover.
- NWC days worsened from negative three days in CY19 to nil days in CY20 and by four days on a year-end basis from negative two days to two days, with inventory days increasing slightly.
- Subsequent to good growth, improving metrics and higher payout (92% in CY20 following 165% in CY19) are well ahead of the 40-60% levels until CY18. RoEs too surpassed 100% for the first time since CY10.

Remarkable improvement/targeted changes in sustainability efforts

- NEST has done remarkably well to reduce energy consumption by 48%, water usage per tonne of production by 52%, direct GHG emissions by 53%, and waste-water generation by 56% during CY05-20.

- The management also engaged with 3,000 rice and sugarcane farmers to preserve shared water resources and is working with 100,000 dairy farmers and 3,500 coffee farmers to improve water management practices.
- During the COVID-19 led lockdown in CY20, the company stood by 100,000 dairy farmers and bought every drop of milk that was offered by them. The management also worked closely with 3,500 coffee farmers, 1,250 spice growers, and extended its support, via its suppliers, to numerous farmers in Karnataka by sourcing a substantial quantity of tomatoes from them to reduce distress.
- The management reiterated its intention to move to 100% recyclable or reusable packaging by CY25.
- Recyclable packaging: Successfully applied single polymer recyclable packaging solution for noodles, chocolates, confectionery products, and several *Maggi* variants. *KitKat* and *Milkybar Moosha* transitioned to mono material polypropylene laminate in CY20. This follows a move to mono materials in *Maggi* and *Much* in CY19.

Valuation and view

- The INR26b capex (spread over 3-4 years) announced with its 3QCY20 result and resumption of healthy marketing spends in 4Q suggests that the management's confidence remains high on both its near and long term growth prospects.
- While the ongoing partial lockdowns could boost near-term sales, the long term narrative for NEST's revenue and earnings growth remains even more attractive. Successful implementation of its growth strategy in recent years is a positive. The Packaged Foods segment in India offers immense growth opportunities. This is particularly true for a company with a strong pedigree and distribution strength.
- Valuations at 59x CY22E EPS are expensive and offer limited upside from a one-year perspective. We value the company at 60x Mar'23E EPS to arrive at our TP of INR18,300. We maintain our **Neutral** stance.

Exhibit 1: NEST's segment-wise performance

	CY11	CY12	CY13	CY14	CY15	CY16*	CY17	CY18	CY19	CY20
Volume (MT)										
Milk Products	147,984	140,386	138,772	135,591	131,980	128,751	130,796	137,066	138,941	138,402
Beverages	26,692	25,353	27,717	24,673	22,130	22,092	24,423	27,013	26,380	20,772
Prepared Dishes and Cooking Aids	219,041	236,554	245,443	254,553	103,138	176,871	210,427	240,879	264,072	281,392
Chocolate and Confectionery	52,678	47,745	46,718	41,080	33,083	35,289	36,803	42,197	49,033	50,358
Total	**446,395**	**450,038**	**458,650**	**455,897**	**290,331**	**363,003**	**402,449**	**447,155**	**478,426**	**490,924**
Volume (as a percentage of total)										
Milk Products (MT)	33%	31%	30%	30%	45%	35%	33%	31%	29%	28%
Beverages (MT)	6%	6%	6%	5%	8%	6%	6%	6%	6%	4%
Prepared Dishes and Cooking Aids (MT)	49%	53%	54%	56%	36%	49%	52%	54%	55%	57%
Chocolate and Confectionery	12%	11%	10%	9%	11%	10%	9%	9%	10%	10%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Volume growth										
Milk Products	2.5%	-5.1%	-1.1%	-2.3%	-2.7%	-2.4%	1.6%	4.8%	1.4%	-0.4%
Beverages	0.9%	-5.0%	9.3%	-11.0%	-10.3%	-0.2%	10.6%	10.6%	-2.3%	-21.3%
Prepared Dishes and Cooking Aids	13.2%	8.0%	3.8%	3.7%	-59.5%	71.5%	19.0%	14.5%	9.6%	6.6%
Chocolate and Confectionery	-1.5%	-9.4%	-2.2%	-12.1%	-19.5%	6.7%	4.3%	14.7%	16.2%	2.7%
Total	**6.8%**	**0.8%**	**1.9%**	**-0.6%**	**-36.3%**	**25.0%**	**10.9%**	**11.1%**	**7.0%**	**2.6%**
Weighted average volume growth	**7.2%**	**1.3%**	**2.0%**	**-0.3%**	**-25.3%**	**34.6%**	**11.5%**	**11.3%**	**7.2%**	**3.0%**
Price (INR/kg)										
Milk Products	226	275	293	337	354	360	368	378	407	444
Beverages	400	443	478	543	604	582	568	564	569	711
Prepared Dishes and Cooking Aids	98	103	110	116	127	131	129	129	132	139
Chocolate and Confectionery	209	245	275	305	336	332	332	332	335	348
Total	**172**	**191**	**205**	**222**	**290**	**259**	**252**	**251**	**257**	**271**
Price growth										
Milk Products	17.8%	21.4%	6.7%	15.0%	4.9%	1.8%	2.4%	2.7%	7.5%	9.2%
Beverages	17.8%	10.6%	7.9%	13.7%	11.2%	-3.6%	-2.4%	-0.7%	1.0%	24.8%
Prepared Dishes and Cooking Aids	10.3%	4.4%	7.0%	5.8%	9.5%	2.8%	-1.8%	0.2%	2.8%	4.9%
Chocolate and Confectionery	14.4%	17.3%	12.4%	10.8%	10.1%	-1.2%	0.0%	0.0%	1.0%	3.9%
Total	**12.6%**	**10.9%**	**7.2%**	**8.6%**	**30.7%**	**-10.7%**	**-2.8%**	**-0.4%**	**2.5%**	**5.3%**
Weighted average price growth	**15.2%**	**14.6%**	**7.7%**	**11.6%**	**7.3%**	**0.9%**	**0.3%**	**1.2%**	**4.5%**	**9.0%**
Gross Sales (INR m)										
Milk Products	33,510	38,594	40,712	45,752	46,694	46,350	48,196	51,876	56,518	61,488
Beverages	10,684	11,227	13,241	13,398	13,360	12,861	13,870	15,226	15,018	14,763
Prepared Dishes and Cooking Aids	21,545	24,302	26,982	29,613	13,141	23,176	27,071	31,053	34,982	39,108
Chocolate and Confectionery	10,997	11,696	12,864	12,532	11,109	11,709	12,214	14,007	16,435	17,543
Total	**76,736**	**85,819**	**93,799**	**101,295**	**84,304**	**94,096**	**101,351**	**112,162**	**122,953**	**1,32,902**
Gross sales (as a percentage of total)										
Milk Products	44%	45%	43%	45%	55%	49%	48%	46%	46%	46%
Beverages	14%	13%	14%	13%	16%	14%	14%	14%	12%	11%
Prepared Dishes and Cooking Aids	28%	28%	29%	29%	16%	25%	27%	28%	28%	29%
Chocolate and Confectionery	14%	14%	14%	12%	13%	12%	12%	12%	13%	13%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Gross sales growth										
Milk Products	20.7%	15.2%	5.5%	12.4%	2.1%	-0.7%	4.0%	7.6%	8.9%	8.8%
Beverages	18.8%	5.1%	17.9%	1.2%	-0.3%	-3.7%	7.8%	9.8%	-1.4%	-1.7%
Prepared Dishes and Cooking Aids	24.9%	12.8%	11.0%	9.7%	-55.6%	76.4%	16.8%	14.7%	12.7%	11.8%
Chocolate and Confectionery	12.7%	6.4%	10.0%	-2.6%	-11.4%	5.4%	4.3%	14.7%	17.3%	6.7%
Total	**20.3%**	**11.8%**	**9.3%**	**8.0%**	**-16.8%**	**11.6%**	**7.7%**	**10.7%**	**9.6%**	**8.1%**

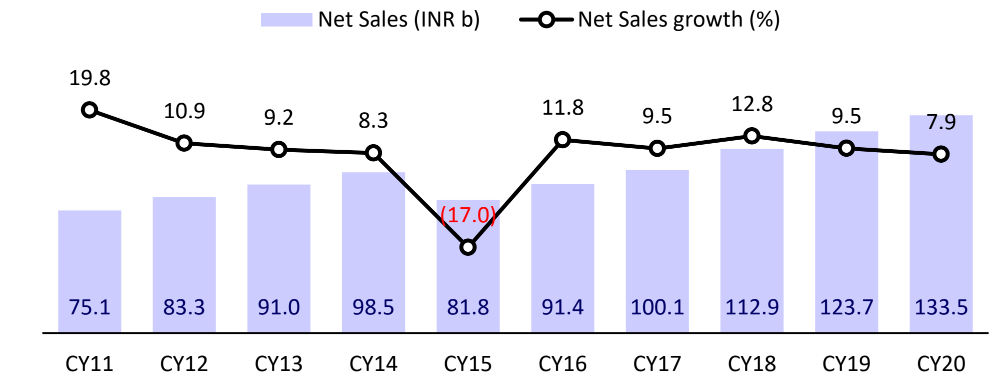
*Slight impact from the implementation of Goods & Services Tax (GST) on CY16 financials

Source: Company, MOFSL

Strong domestic volume growth in a tepid environment

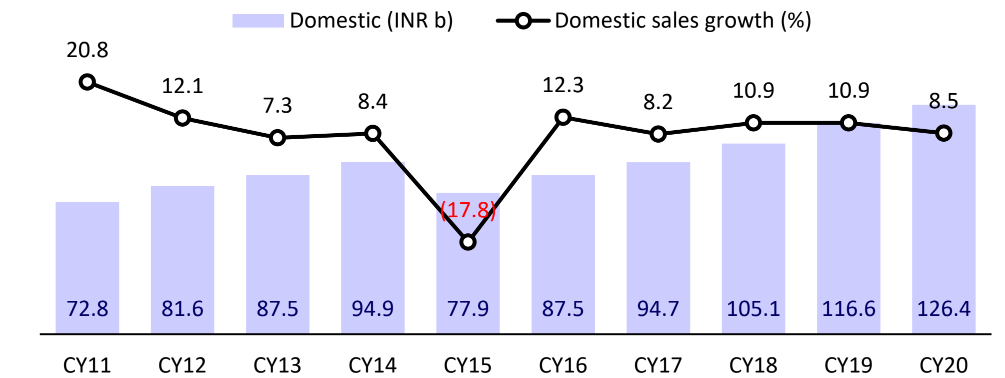
- Focus on volume growth has been very clear since Mr. Suresh Narayanan took over the reins of the company. Average realization declined to INR271/kg in CY20 from INR290/kg in CY15 (Exhibit 1). CY20 saw a sharp increase in realizations. It was only the second year when realization increased after three consecutive years of decline. This is the second year of pricing growth for NEST under Mr. Narayanan's five-year tenure so far. Before Mr. Narayanan, realization had gone up rapidly (~70%) to INR290/kg in CY15 from INR172/kg in CY11), clearly highlighting the disproportionate focus of the earlier management on pricing.
- Prepared Dishes and Cooking volumes continued to grow, aided by higher in-home consumption led by the COVID-19 pandemic.
- Net sales rose 7.9% YoY to INR133.5b in CY20.
- Domestic sales growth stood at 8.5% in CY20 — a noteworthy performance despite a) two consecutive years of double-digit domestic topline growth in the base and b) facing nationwide lockdowns in two quarters. This indicates a vast opportunity in the domestic Foods' category and NEST's success in its own initiatives.

Exhibit 2: Net sales grew 7.9% YoY to INR133.5b in CY20



Source: Company, MOFSL

Exhibit 3: Domestic sales grew 8.5% YoY to INR126.4b in CY20

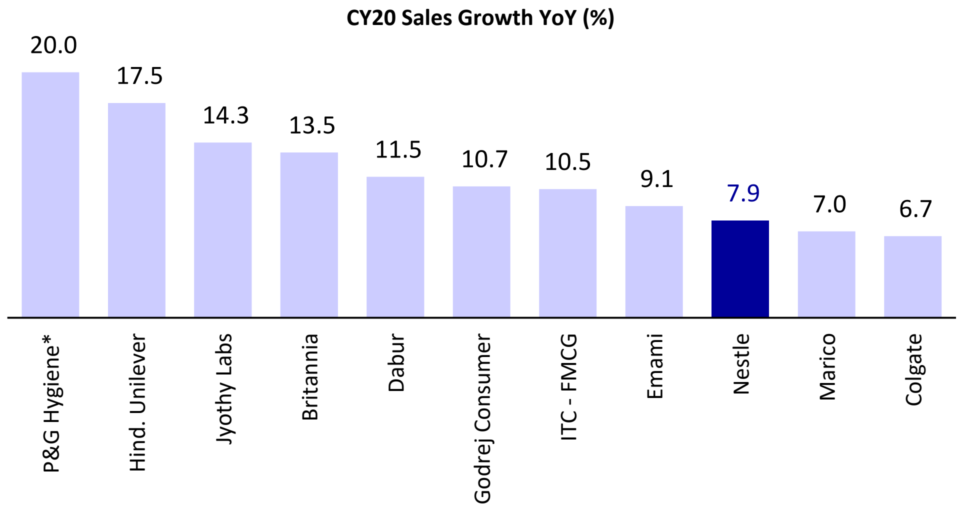


Source: Company, MOFSL

- Sales growth v/s peers in CY20 were commendable as NEST faced two quarters of disruption as against only one for most peers (being March year-ending companies). It is important to note that the company has consistently delivered close to double-digit sales growth in the past three years. This consistency is highly commendable considering NEST's large size.

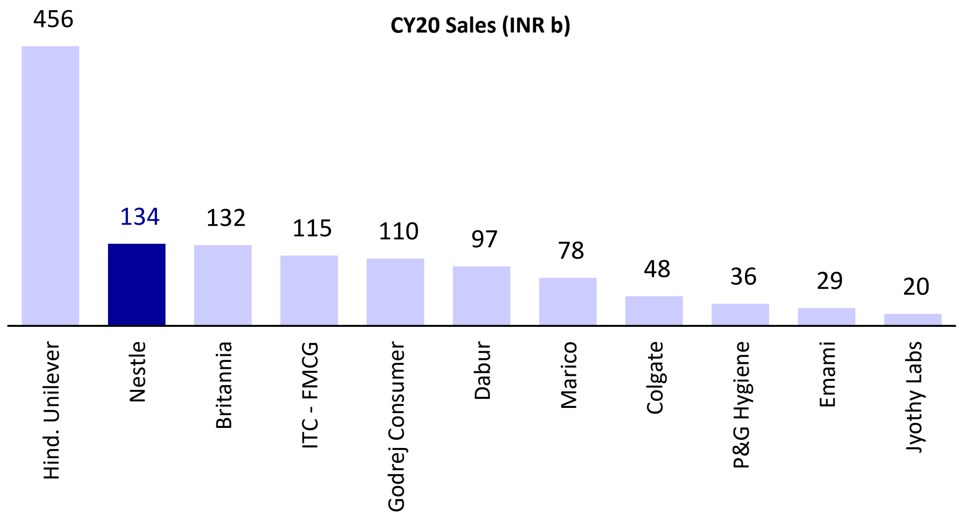
- On a three-year basis, NEST has outperformed most peers in terms of sales CAGR, barring P&G Hygiene (PGHH).
- On a five-year basis, NEST has done exceptionally well, with sales CAGR clearly the best among peers, primarily due to a lower base in CY15, resulting from the *Maggi* crisis of CY15.

Exhibit 4: NEST delivers a resilient performance despite facing two quarters of COVID-19 led disruptions v/s peers (March year ending)



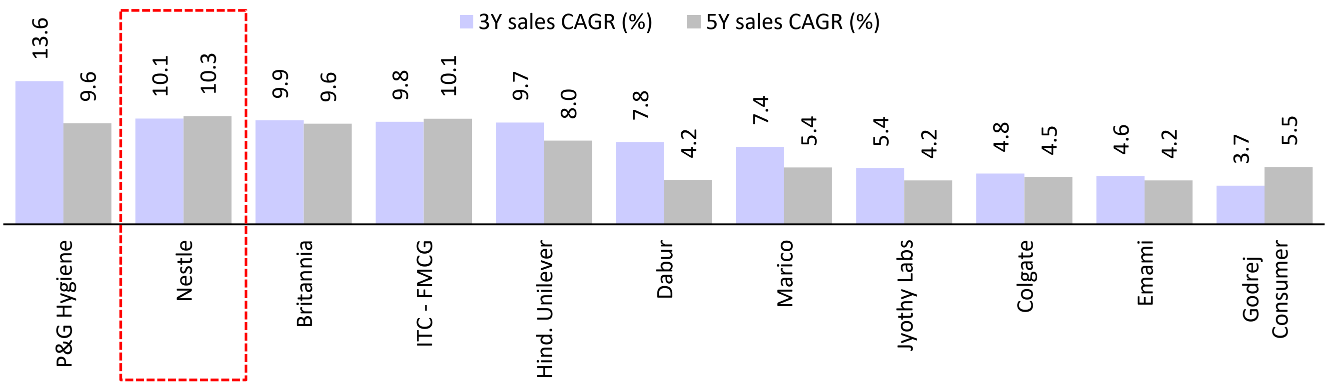
Peer group sales growth for FY21E considered (All peers March ending; June ending for PG) Source: Company, MOFSL
** PGHH sales growth for FY21E (June ending) is higher due to a lower base effect.*

Exhibit 5: NEST is one of the largest Consumer companies in India



Peer group sales growth for FY21E considered (All peers March ending; June ending for PG) Source: Company, MOFSL

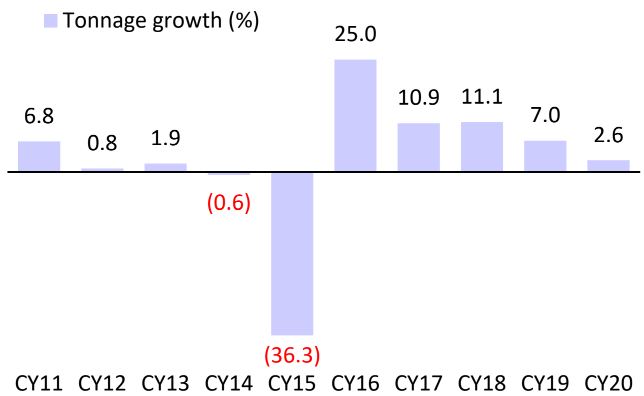
Exhibit 6: NEST outperforms most peers on a three-year and five-year sales CAGR (lower base for five-year CAGR owing to the *Maggi* crisis in CY15)



Peer group sales growth for FY21E considered (All peers March ending; June ending for PG) Source: Company, MOFSL

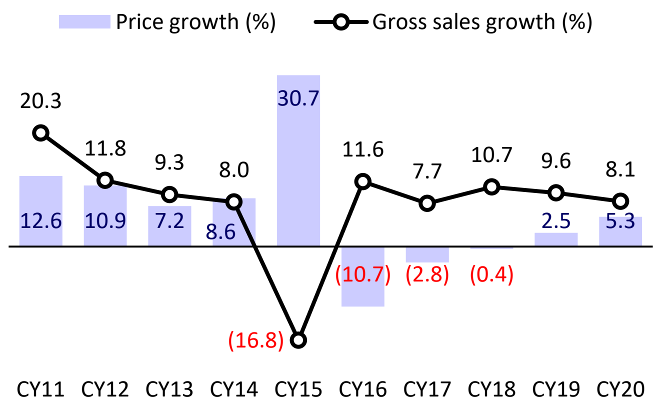
- Volumes had plunged sharply in CY15 due to the *Maggi* crisis. Volume growth in CY16 and CY17 could be attributed to recovery from the trough of CY15 (the company started emerging completely out of the crisis only in 2HCY16). NEST's 2.6% volume growth in CY20, on top of 7% volume growth in CY19, is rather commendable, especially in a constrained environment.

Exhibit 7: Overall tonnage grew 2.6% in CY20…



Source: Company, MOFSL

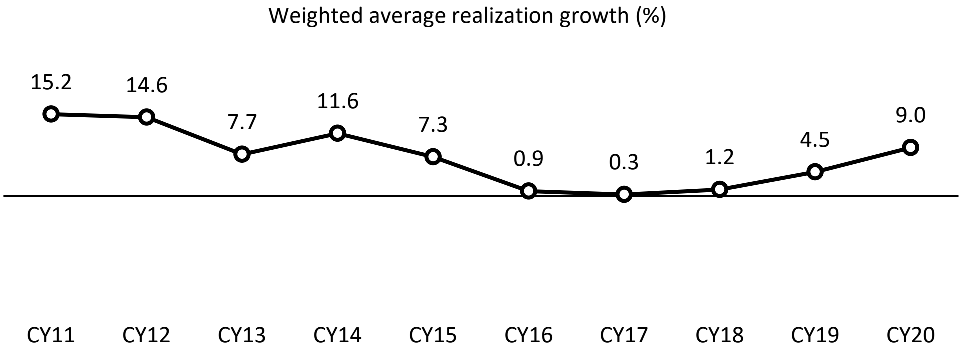
Exhibit 8: …leading to gross sales growth of 8.1% YoY



Source: Company, MOFSL

- Weighted average realization growth, which was inordinately high in the past years, was flattish during CY16-18. Although weighted average realization growth of 9% in CY20 is higher than the recent trend, it is due to the price hikes taken by NEST during CY19 to pass on significant inflation in raw materials, especially in dairy, as well as improvement in the mix. This high level of weighted average realization growth is likely to correct going forward.

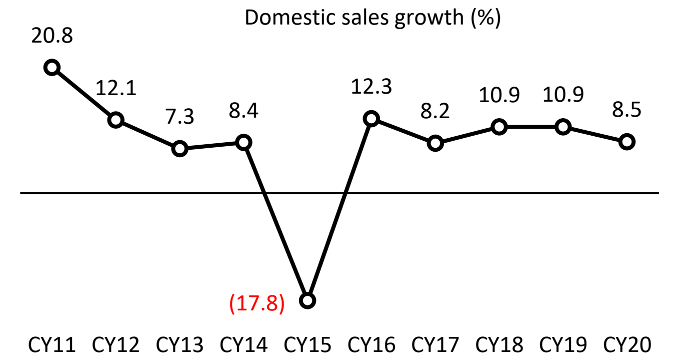
Exhibit 9: Weighted average realization growth up 9% in CY20



Source: Company, MOFSL

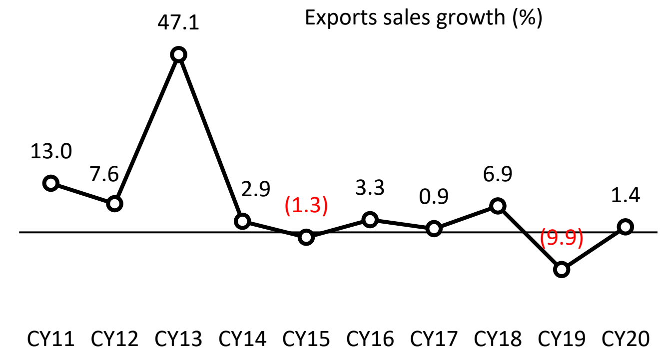
- Export sales grew 1.4% to INR6.5b in CY20 – slower than overall sales growth due to lower coffee exports to Turkey. As a proportion of gross sales, exports declined 30bp YoY to 4.9% in CY20. The proportion of domestic sales to overall sales rose 30bp YoY to 95.1%.

Exhibit 10: Domestic sales grew 8.5% YoY in CY20



Source: Company, MOFSL

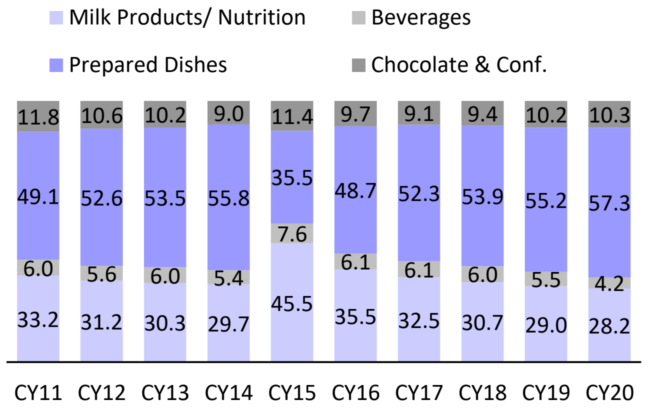
Exhibit 11: Exports grew 1.4% YoY in CY20



Source: Company, MOFSL

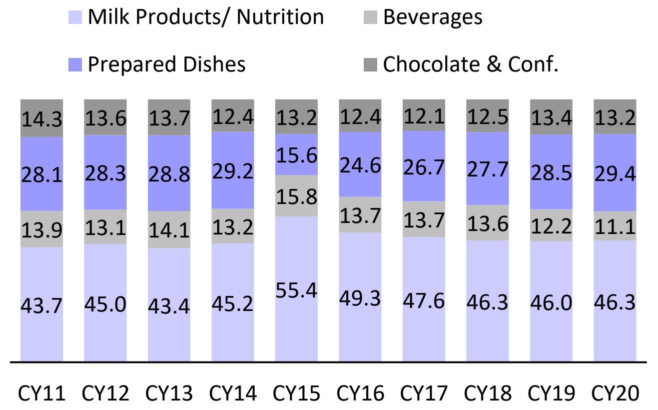
- Exports registered 4.8% volume growth in CY20, led by Prepared Dishes and Cooking Aids, Milk Products, and Nutrition.
- *Maggi* continued to grow among the Indian diaspora, recording its highest ever exports to United States, Canada, United Kingdom, European Union, Australia, and New Zealand, despite supply-chain disruptions.
- NEST continues to explore new markets for categories such as Prepared Dishes and Cooking Aids, Chocolates, and Confectionery in the Middle East.

Exhibit 12: Volume mix



Source: Company, MOFSL

Exhibit 13: Sales mix

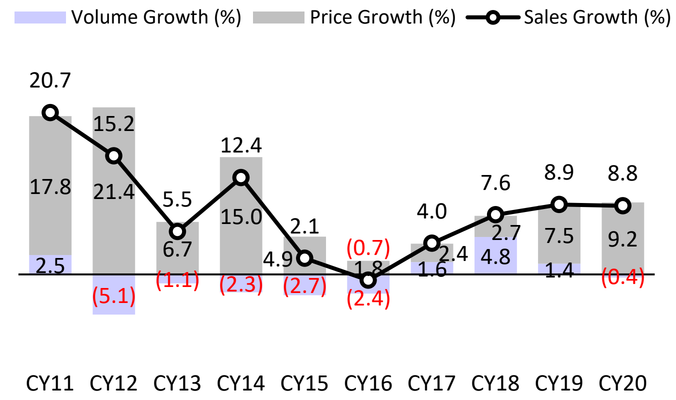


Source: Company, MOFSL

Maggi drives volumes, non-*Maggi* volumes decline YoY

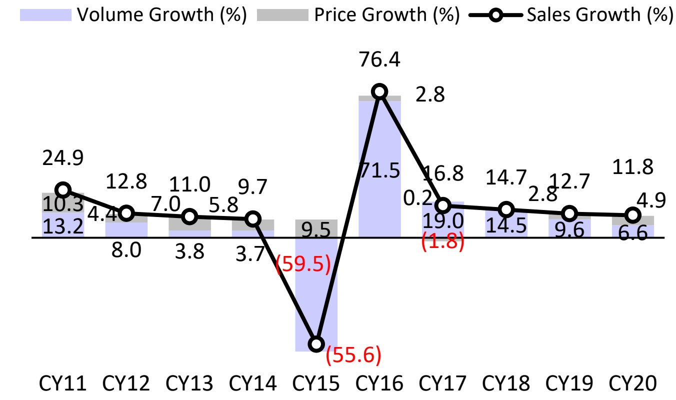
- NEST does not share detailed segmental data of sales and volumes in its quarterly results, and thus, we get this data only from the annual report.
- Overall volume growth was driven by continued strong volumes in the Prepared Dishes (*Maggi)* portfolio (57%/29.4% of total volumes/sales in CY20), which grew 6.6% YoY. This segment delivered sales growth of 11.8% in CY20, down from 12.7% in CY19.
- The non-*Maggi* portfolio registered a volume decline of 2.2% in CY20 (Exhibit 18), led by a sharp (21.3%) volume decline in Beverages and flattish volume growth in Milk products, owing to lower OOH consumption during the year.
- **Milk and Nutrition** (28% of total volumes and 46% of total sales) fell from its eight-year high volume growth of 4.8% in CY18 to -0.4% in CY20. While the segment delivered higher (8.8%) value growth in CY20, it was largely driven by realization growth.
- This was a good performance despite challenges linked to commodity price fluctuation in CY20. NEST mitigated these challenges by identifying and implementing efficiency improvements across the value chain.
- The company continued to build a strong Toddler portfolio with the launch of Lactogrow Toddler.
- NEST introduced a smaller 200g SKU of Resource High Protein and Resource Diabetic in key channels, increasing awareness. It expanded its offerings in the Weight Management category by launching Optifast vanilla flavor variant.

Exhibit 14: Performance of Milk Products and Nutrition



Source: Company, MOFSL

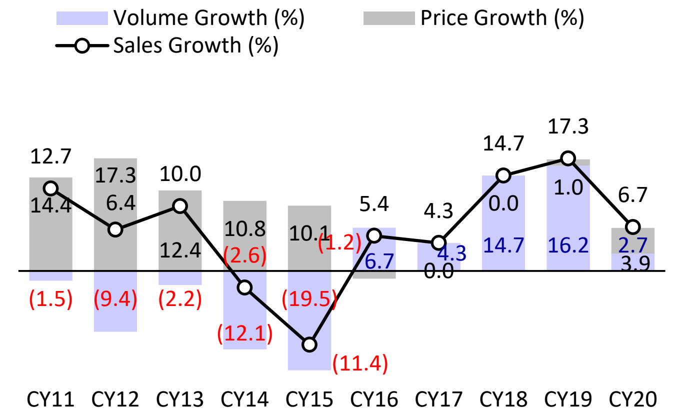
Exhibit 15: Performance of Prepared Dishes and Cooking Aids



Source: Company, MOFSL

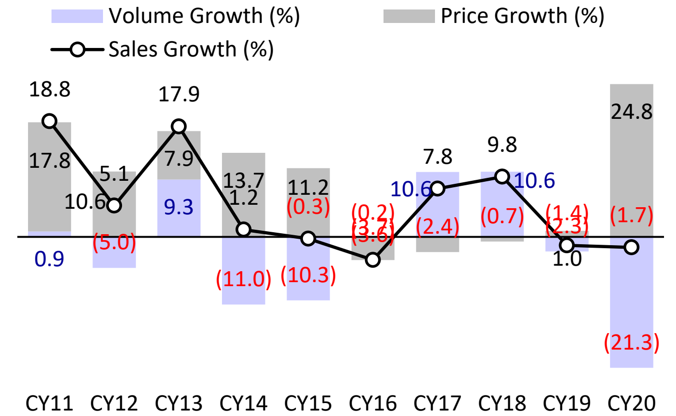
- The **Chocolates and Confectionary segment** (10% of total volumes and 13% of total sales in CY20) witnessed tepid volume growth (2.7%) in CY20. Volume growth was on a strong base (16.2% growth in CY19) – the highest pace of growth for the category since CY10.
- The segment saw strong growth and market share gains in a challenging year.
- Launched innovations like *Nestle Polo Extra Strong* and *Nestle Polo Paan* as well as a new *KitKat* packaging, with 'glow in the dark' packs.
- Volume growth was disappointing (down 21.3% YoY) in the **Beverages segment** (4% of total volumes and 11% of total sales in CY20) due to the impact on out-of-home (Hotels, restaurants, and offices) demand for coffee as well as lower exports to Turkey. This led to a sales decline of only 1.7% YoY for the segment, aided by strong realization growth.
- *Nescafe* saw significant market share gains in CY20.
- *Nescafe Gold* enabled premiumization of *Nescafe* customers. As more people stayed home during the year, indulgences like this did well.

Exhibit 16: Confectionery performance



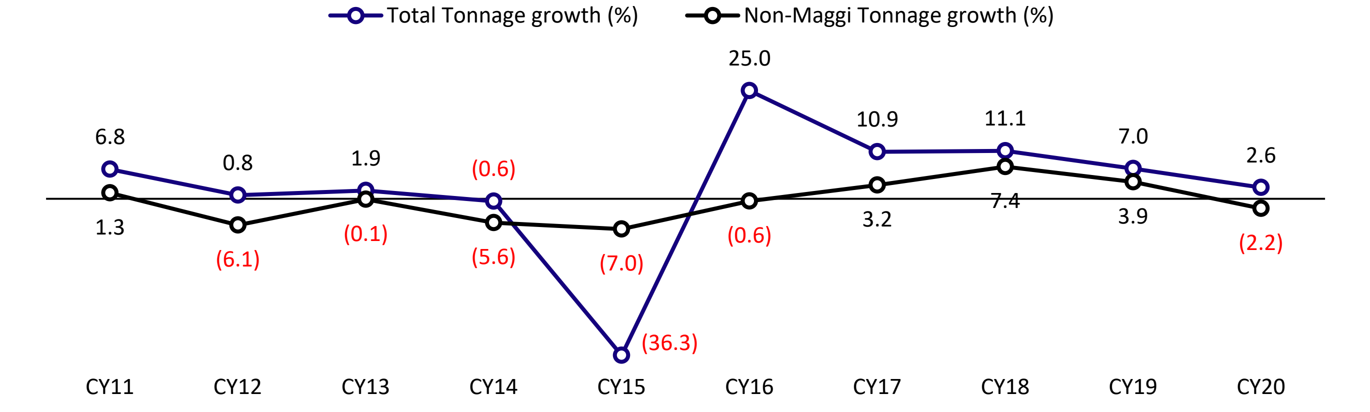
Source: Company, MOFSL

Exhibit 17: Performance of Powdered and Liquid Beverage



Source: Company, MOFSL

Exhibit 18: Tonnage of non-*Maggi* portfolio declines in CY20



Source: Company, MOFSL

Brand extensions/new launches/product re-launches/introduction of variants

- Among the most interesting aspects of NEST in recent years is the pick-up in the pace of new launches. The company has seen a much healthier new launch pipeline since CY16 compared to the past. While new launches slowed down in CY17-18 v/s CY16 levels, CY19-20 saw a much more robust show.
- The company has launched 80 innovations/renovations since CY16. These past efforts have begun to show results, with new innovations/renovations contributing 4.3% to domestic sales in CY20.
- With 40-50 products in the pipeline, the pace of new launches is likely to remain healthy going forward.
- On the consumer engagement front, NEST extended its **AskNestlé 2.0** platform in Hindi. AskNestlé is a website that provides real-time and personalized advice on nutrition.

Exhibit 19: New launches/re-launches/variants introduced over the years

Year	CY14	CY15	CY16	CY17	CY18	CY19	CY20
No. of launches	**Seven**	**Three**	**19 (39 including variants and re-launches)**	**Nine (17 including variants and re-launches)**	**14 (20 including variants)**	**20 (24 including variants and re-launches)**	**14 (18 including variants and re-launches)**
1	Maggi Oats Noodles	Re-launched Maggi Noodles	Maggi Hot Heads: Four variants	Maggi Nutri-licious Noodles: Two variants	KitKat duo strawberry variant	Maggi Nutrilicious Atta Noodles	Maggi Atta Spinach Noodles
2	Nestlé KitKat Senses Milk	Munch Nuts	Maggi No Onion No Garlic Masala	Maggi Masalas of India: Four variants	Munch Crunch-O-Nuts	Maggi Fusian Noodles (three variants)	Maggi Fried Rice Masala - Classic Veg
3	Nestlé KitKat Senses Dark	Cerelac Stage 5	Maggi Hot Heads Cuppa Noodles	Nestle a+ Grekyo greek yogurts: Three variants	Nesplus Breakfast cereals: Four variants	LACTOGEN 1 with L. reuteri (re-launch)	Maggi Fried Rice Masala - Chilli Garlic
4	Nestlé KitKat Senses Extra Smooth		Maggi Cuppa Masala	Nan Excella Pro	Nescafe Ready-to-Drink Cans	Pre-NAN with DHA and ARA (re-launch)	Maggi Paneer-ae Magic Shahi Paneer
5	Nestle Masala Buttermilk		Maggi Cuppa Chilly Chow	Nestle Resource High Protein: Three variants	Maggi Special Masala noodles	Maggi Fusian Chilli Garlic Sauce	Maggi Kadhai Paneer Masala mix
6	Nestle Lassi		Maggi Cup-a-licious Soups: Six variants	Milo Ready-to-Drink beverage	Maggi dip & spread: Two variants	Maggi Liquid Seasoning	Maggi Yummy Capsica
7	NAN Lo-Lac		Nestle a+ Grekyo: Four variants	KITKAT Dessert Delight	KitKat Dessert Delight Brownie Kubes	Maggi Professional Thai Curry Pastes (2 variants)	Maggi Chatpata Tomato
8			Nestle Everyday Masala Fusion Dairy Whitener: Six variants	Milkybar (Re-launch)	Nescafé E-Smart Coffee Machine (all-in-one travel mug and coffee machine)	KitKat Dessert Delight Rich Chocolate Fudge	Maggi Desi Cheesey
9			Nescafe RTD: Three variants	Milkybar Moosha	Maggi Nutri-licious Baked Noodles	Munch Crisp-Pop	Koko Krunch cereal
10			Ceregrow		Nestle Les Recettes De l'Atelier	Milkybar Moosha Cocoa Crispies	Lactogrow Toddler
11			Nestle a+ Pro-grow		Nestle Everyday Chai life: Three variants	Milo	Nestlé POLO Extra Strong
12			Renovation of Cerelac with Iron		Nangrow	Nestlé a+ Banglar Mishti Doi	Nestlé POLO Paan
13			Nescafe Sunrise Insta-filter		Nan Pro with DHA (re-launch)	Cerelac Organic Cereals*	Optifast vanilla flavor
14			Nestea Iced Tea: Three variants		Nan Excellapro (re-launch)	Ceregrow Organic Cereals*	NESPLUS (renovation)
15			Nescafe Latte			Cerelac Ragi	
16			Kitkat Duo			Optifast	
17			Nestle Munch Trio			Maggi Upma	
18			Barone Charge			Maggi Poha	
19			New Alpino			Nescafe Cappuccino (renovation)	
20						Nestea Ready-to-Drink Iced Tea (two variants)	

*The company has not shared the number of variants for Cerelac and Ceregrow Organic Cereals

Source: Company, MOFSL

- New launches were the one area where the management has clearly walked-the-talk on their stated intention after the change of guard in Jul'15. Stakeholder interaction was another area where the company has delivered. More recently, these have been allied with low price hikes and increase in advertising. The emphasis on volume growth is clearly becoming more evident unlike in the past.

Exhibit 20: Financial overview

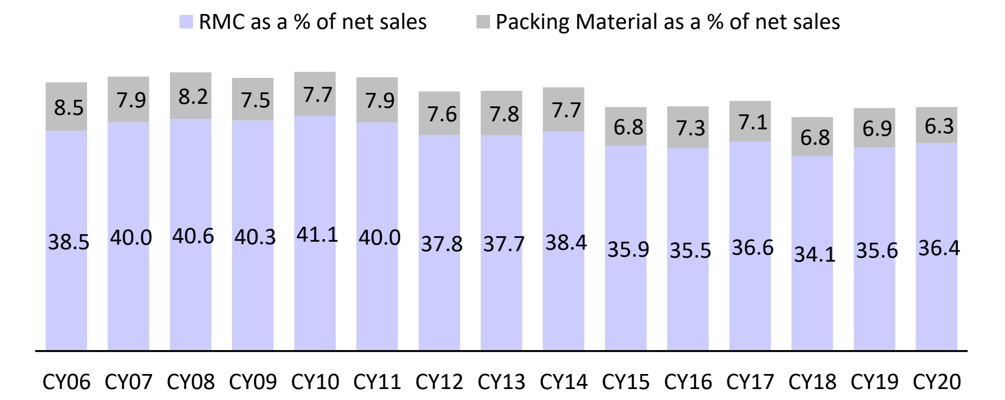
	CY15	%	CY16	%	CY17	%	CY18	%	CY19	%	CY20	%
Total Revenue	**81,753**	**100.0**	**91,413**	**100.0**	**100,096**	**100.0**	**112,923**	**100.0**	**123,689**	**100.0**	**1,33,500**	**100.0**
Raw Material Consumed	34,689	42.4	38,828	42.5	43,269	43.2	45,902	40.6	52,239	42.2	56,739	42.5
Gross Profit	**47,064**	**57.6**	**52,585**	**57.5**	**56,827**	**56.8**	**67,020**	**59.4**	**71,450**	**57.8**	**76,761**	**57.5**
Employee Benefit Expense	9,516	11.6	9,414	10.3	10,577	10.6	11,732	10.4	13,036	10.5	15,109	11.3
Other Expenses												
Power and Fuel	2,220	2.7	2,328	2.5	2,884	2.9	3,442	3.0	3,405	2.8	3,137	2.3
Repairs	1,056	1.3	1,213	1.3	1,167	1.2	1,082	1.0	1,086	0.9	1,113	0.8
A&P spends	5,252	6.4	4,996	5.5	5,060	5.1	7,294	6.5	7,854	6.3	7,636	5.7
Freight and Transport	3,870	4.7	4,401	4.8	4,773	4.8	5,256	4.7	5,524	4.5	5,806	4.3
Royalty	3,342	4.1	3,980	4.4	4,590	4.6	5,419	4.8	6,019	4.9	6,529	4.9
Others	5,343	6.5	5,953	6.5	5,563	5.6	5,472	4.8	5,635	4.6	5,278	4.0
EBITDA	**16,466**	**20.1**	**20,301**	**22.2**	**22,214**	**22.2**	**27,324**	**24.2**	**28,892**	**23.4**	**32,155**	**24.1**
Less: Interest Expense	33		909		919		1,120		1,198		1,642	
Less: Depreciation	3,473		3,537		3,423		3,357		3,164		3,704	
Add: Other Income	1,101		1,509		1,769		2,589		2,469		1,459	
Profit before Tax (PBT)	**14,062**	**17.2**	**17,365**	**19.0**	**19,641**	**19.6**	**25,437**	**22.5**	**26,984**	**21.8**	**28,268**	**21.2**

Source: Company, MOFSL

Gross and operating margin

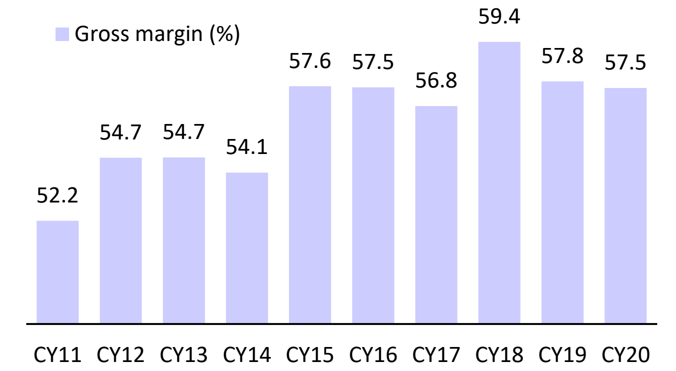
- Net sales rose 7.9% YoY to INR133.5b in CY20. Material costs increased at a faster pace of 8.6% YoY, leading to a gross margin of 57.5% in CY20, down 30bp YoY. Gross margin is higher compared to the company's track record of 51-56% levels seen in the first half of the last decade.
- Consumption of raw materials grew 9.5% YoY. Its proportion to net sales decreased by 230bp YoY to 32.5%. Packing material (6.3% of sales in CY20) contributed 60bp to gross margin expansion. A 13.2% decline in outsourced manufacturing of goods and change in inventory led to a gross margin impact of 40bp and 70bp, respectively.

Exhibit 21: Packaging material costs could increase going forward



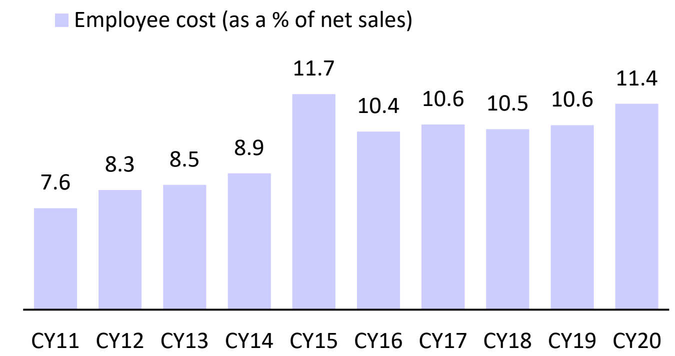
Source: Company, MOFSL

Exhibit 22: Gross margin contracts by 30bp YoY in CY20



Source: Company, MOFSL

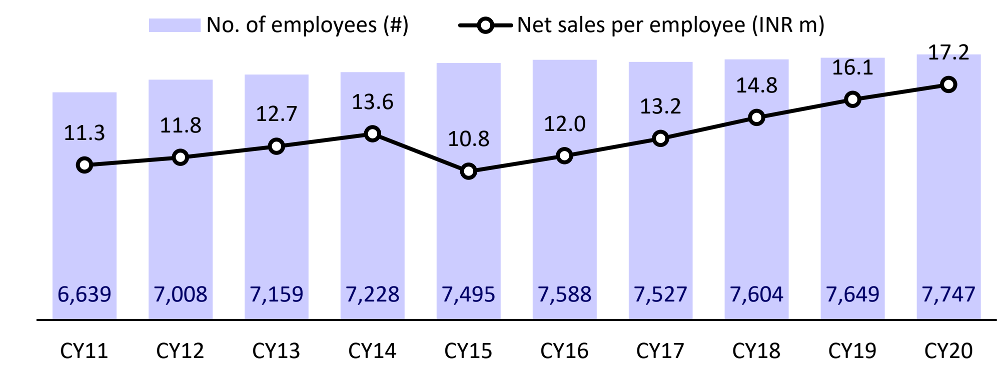
Exhibit 23: Employee costs (including training expenses) rose 80bp to 11.4% in CY20



Source: Company, MOFSL

- The company has stopped sharing breakdown of key raw material costs from CY17.
- Employee costs (including training expense) increased 15.9% YoY to INR15.1b (up 80bp YoY to 11.4% of sales) in CY20.

Exhibit 24: Sales per employee is at a record high

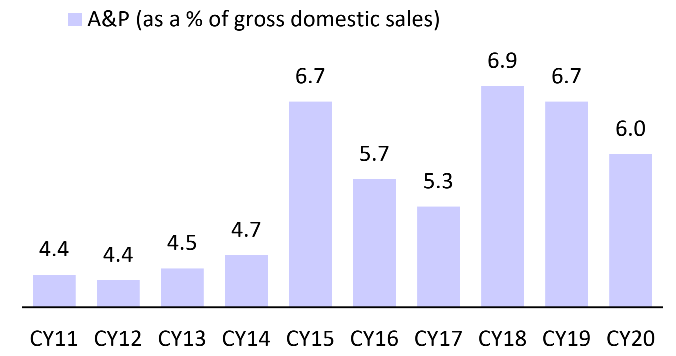


Source: Company, MOFSL

- Advertising and sales promotion (A&P) costs fell 2.8% YoY to INR7.6b in CY20. NEST does not share A&P costs in its quarterly results, and thus, we get this data only from the annual report.

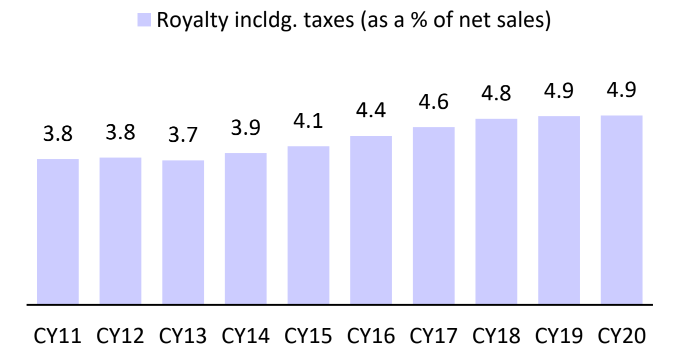
- As a percentage of domestic sales, NEST's A&P expense declined 70bp YoY to 6%. As a percentage of net sales, A&P fell 70bp YoY to 5.7%.

Exhibit 25: Ad spends decline 70bp in CY20



Source: Company, MOFSL

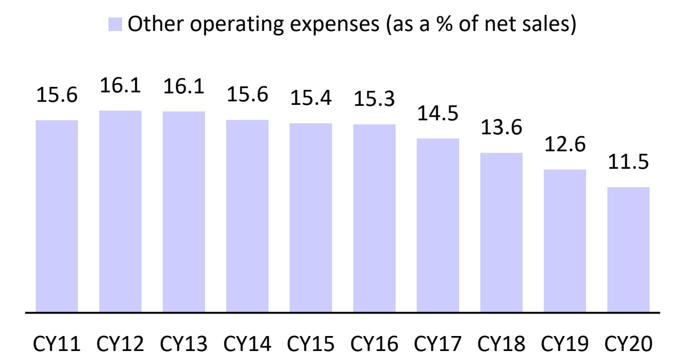
Exhibit 26: Royalty expenses flat at 4.9%



Source: Company, MOFSL

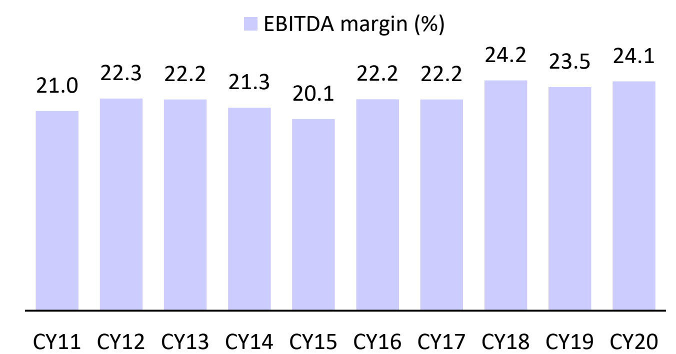
- Royalty, or general license fees (including withholding tax on general license fees), as a percentage of domestic sales remained flat YoY at 5.2% in CY20. Excluding withholding of tax, royalty as a percentage of domestic sales was flat YoY at 4.7%. Royalty expense, as a percentage of net sales, remained flat at 4.9% in CY20.
- EBITDA margin grew 60bp YoY to 24.1% in CY20, led by 90bp savings on other expenses and a 70bp decrease in ad spends-to-sales ratio. Negative contributors to EBITDA margin included a 30bp decline in gross margin and 80bp increase in employee costs-to-sales ratio. Absolute EBITDA increased 9% YoY to INR32.2b as compared to a 7.9% growth in sales.

Exhibit 27: Other operating expenses fell sharply (110bp YoY)…



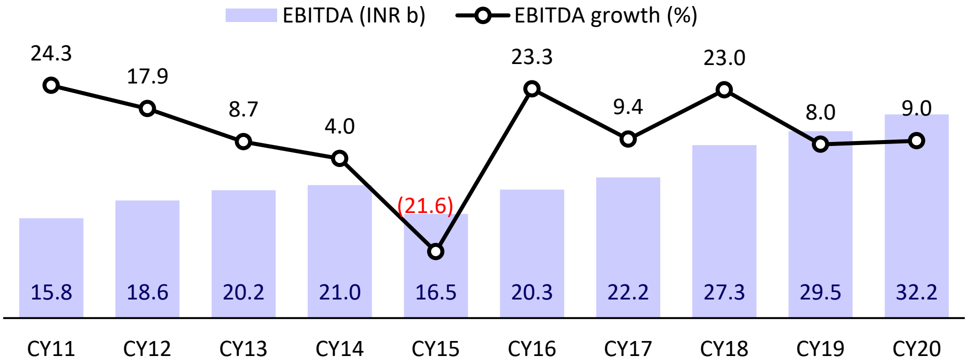
Source: Company, MOFSL

Exhibit 28: …while EBITDA margin expands 60bp YoY to 24.1%



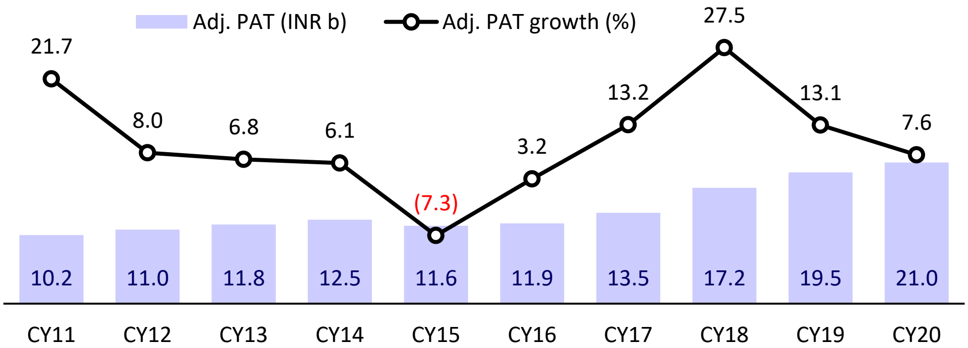
Source: Company, MOFSL

Exhibit 29: EBITDA grew 9% YoY to INR32.2b in CY20



Source: Company, MOFSL

Exhibit 30: Adjusted PAT grew 5.2% YoY to INR21b in CY20

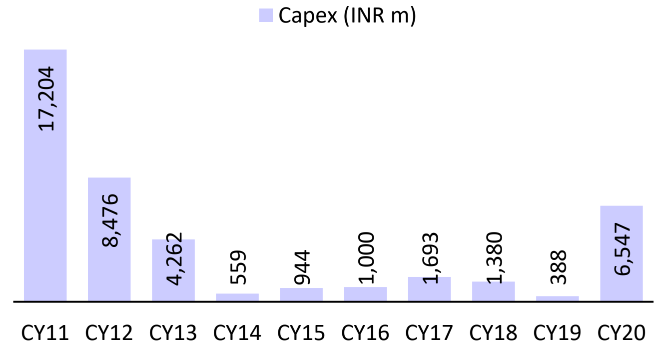


Source: Company, MOFSL

Capex, fixed assets, working capital, and cash flows

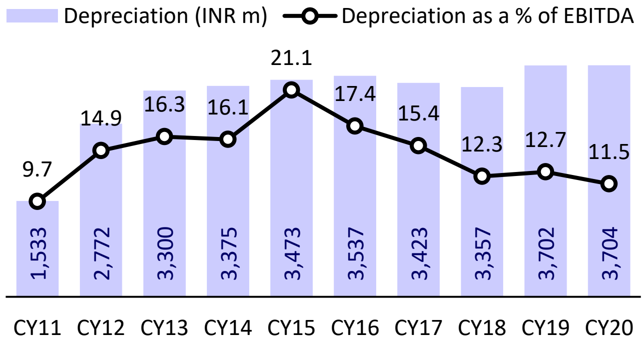
- Capex for CY20 stood at INR6.5b, with capex-to-sales ratio up 460bp YoY to 4.9%. Depreciation stood at INR3.7b. CY20 is the first year, after seven years in a row, where annual capex has been ahead of depreciation, which in turn, has led to an increase in net fixed assets + CWIP.
- Upcoming capex of INR26b over the next 3-4 years could result in increased net fixed assets, possibly impacting improvement in fixed asset turnover.

Exhibit 31: Capex stood at INR6.5b in CY20



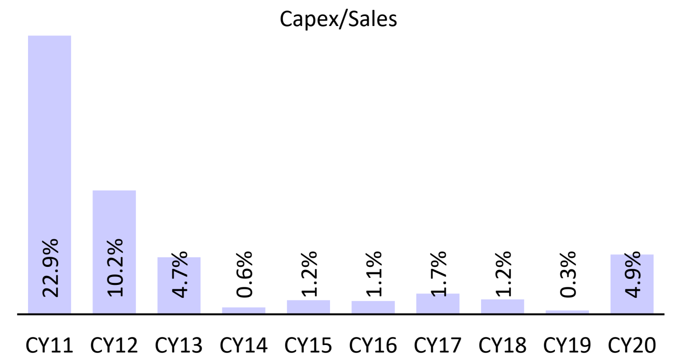
Source: Company, MOFSL

Exhibit 32: Depreciation, as a percentage of EBITDA, stood at 11.5% in CY20 down from 12.5% in CY19



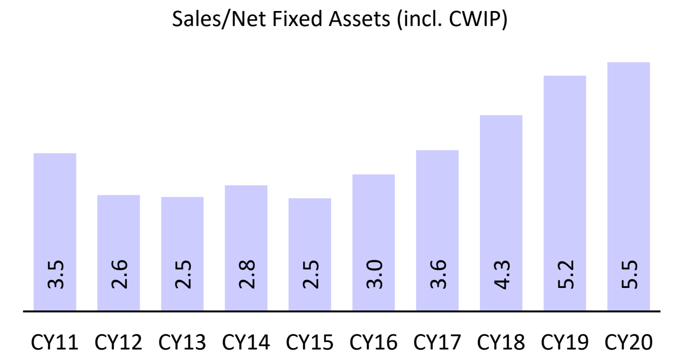
Source: Company, MOFSL

Exhibit 33: Capex saw a resurgence in CY20



Source: Company, MOFSL

Exhibit 34: Asset turnover increases YoY



Source: Company, MOFSL

- Debtor days remained at an historical average of ~3-4 days. Inventory days increased by four days YoY to 37 days. However, creditor days increased by a day YoY to 41 days. Net working capital (NWC) days worsened from negative three days in CY19 to nil days in CY20. This is still the third year of non-positive working capital days.

Exhibit 35: Cash conversion cycle remains healthy in CY20

Cash conversion cycle (on an avg. basis)	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20
Inventory Days	32	33	30	29	37	35	34	30	33	37
Add: Trade Receivable Days	4	4	3	3	4	4	3	3	4	4
Less: Trade Payable Days	30	22	24	25	33	31	33	36	40	41
Cash Conversion Cycle	**6**	**15**	**10**	**7**	**8**	**8**	**5**	**(2)**	**(3)**	**0**

Source: Company, MOFSL

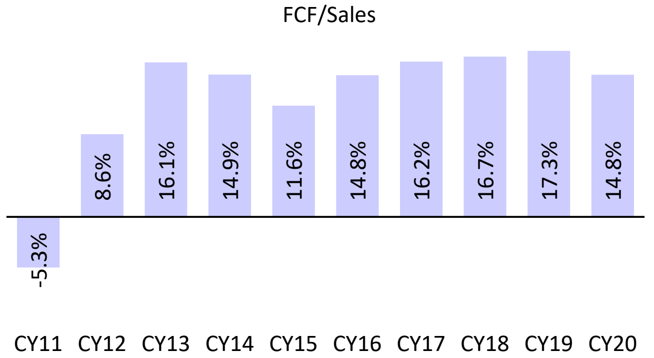
Exhibit 36: Breakup of inventory days

On an average basis	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20
Inventory days	**32**	**32**	**30**	**29**	**37**	**35**	**34**	**30**	**33**	**37**
Raw material days	10	9	8	10	12	13	12	10	12	14
Packing material days	1	1	1	1	1	1	1	1	1	2
Work-in-progress days	4	5	4	3	4	3	4	4	3	4
Finished goods and stock-in-trade days	15	16	14	14	18	16	15	14	14	15
Stores and spares days	2	2	2	2	2	2	2	2	2	2

Source: Company, MOFSL

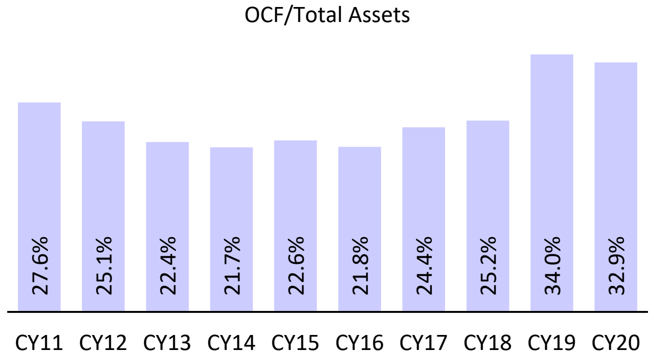
- Operating cash flow/free cash flow grew/fell 6.9%/7.6% YoY to INR24.5b/19.8b in CY20. The decline in FCF was on account of the significant capex of INR6.5b during the year.
- Operating cash flow/free cash flow has delivered 10.5%/6.9% CAGR over the last three years. This was led by P&L improvements and NWC days being back to negative/zero levels for the past three years on lower inventory levels and higher creditors.
- Inventory days have increased to 37 days in CY20 from 33 days in CY19, essentially due to RM days rising to 14 days from 12 days. This is likely due to prudent stocking of materials in the wake of COVID-19 led disruptions to supplies, which may normalize going forward.

Exhibit 37: FCF-to-sales ratio declines YoY



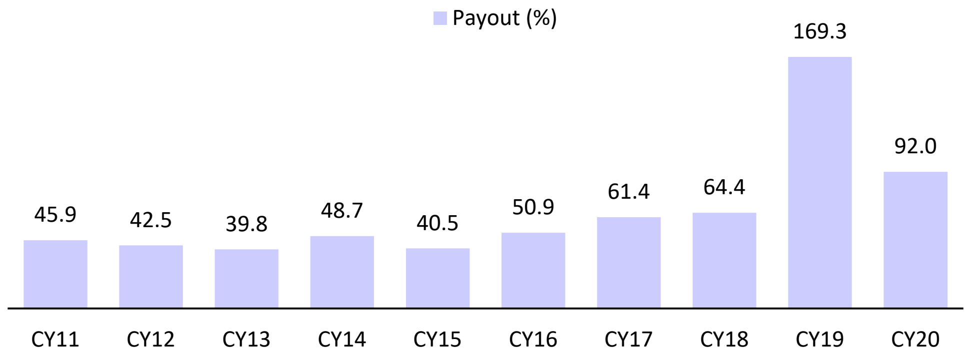
Source: Company, MOFSL

Exhibit 38: OCF/total assets remains steady but falls YoY



Source: Company, MOFSL

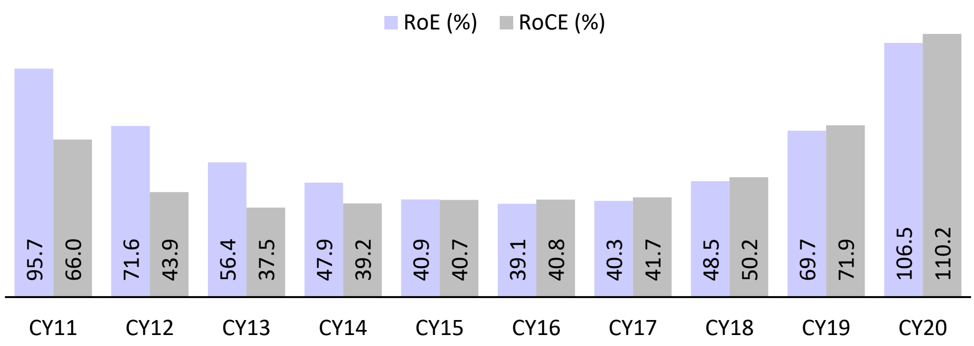
Exhibit 39: Payout ratio remains high, but declines YoY due to a special dividend in CY19



Source: Company, MOFSL

- As cash and cash equivalents increased significantly over CY15-18, the company declared a special dividend, leading to a sharp payout (169%) in CY19 v/s 64% in CY18. NEST continued its higher payout levels in CY20 with a 92% payout.
- With higher dividend payouts in CY19-20, return ratios improved significantly in CY20. RoE/RoCE rose to 106.5%/110.2% in CY20 from 69.7%/71.9% in CY19.

Exhibit 40: RoE and RoCE improve significantly in CY20 due to higher payouts



Source: Company, MOFSL

Exhibit 41: Details of loans and investments

(INR m)	CY20	Interest rate p.a (%)	Purpose	Loans o/s
PURINA PetCare India Pvt (fellow subsidiary)	350	6.97	General business purpose	0

Source: Company, MOFSL

Exhibit 42: Breakdown of total investment

Particulars	(NR m)		As a percentage of total investments	
	CY19	CY20	CY19	CY20
Total investment	**17,511**	**14,638**	**100**	**100**
Current investments	10,075	7,229	58	49
Treasury Bills - Government Securities	5,475	7,229	31	49
Certificate of Deposits with banks	746	0	4	0
Commercial Papers	745	0	4	0
Short Term Bonds	0	0	0	0
Mutual Funds – Debt	3,109	0	18	0
Non-current investments	7,436	7,408	42	51
Tax free Bonds	7,247	7,220	41	49
Equity shares of Sahyadri Agro and Dairy Pvt	189	189	1	1

Source: Company, MOFSL

Sustainability

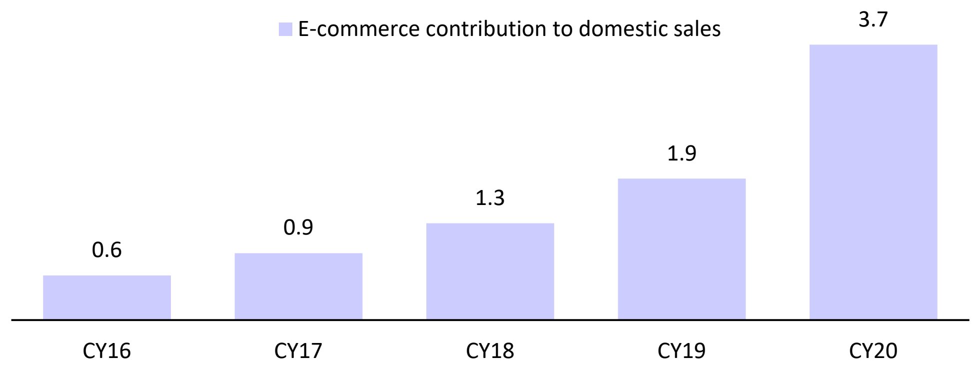
- In the last 15 years, NEST has reduced water usage (per tonne of production) by 52%, waste water by ~56%, CO_2 emission by 53%, and energy consumption by 48%. The management aims for net zero greenhouse emissions by CY50.
- Lower greenhouse gas emissions in CY20 were enabled by the purchase of solar power at the Choladi factory and partial replacement of fossil fuel with green fuel for hot air generation.
- *Maggi*, *Nescafe,* and *KitKat* have become plastic neutral in CY19. NEST has achieved this by managing an equivalent or higher amount of plastic waste than that generated through consumption of these brands.
- From a packaging perspective, the company has begun transitioning to mono material (designed for better recycling), a process that has been initiated in two key brands – *Maggi* and *Munch* – in CY19. By CY25, the company's vision is to ensure 100% reusable/recyclable packaging. NEST has also spearheaded efforts to ensure that none of its product packaging (including plastics) ends up in landfills or as litter by CY25.
- As part of its Extended Producer Responsibility (EPR) initiative on end-to-end management of plastic waste, the company achieved EPR of 20,137MT through plastic waste management.
- NEST has continued building enduring relationships with ~100,000 dairy farmers, ~3,500 coffee farmers, and over 1,250 spice farmers.

Process improvements

- During CY20, the management focused on acceleration of projects pertaining to localization of products that were being imported.
- Restrictions on road transportation during the ensuing COVID-19 lockdown led to delays in the supply of essential products to consumers. NEST provided its own transportation and manpower services to impacted suppliers, ensuring uninterrupted accessibility of its products to consumers.

- The company directly procured ingredients from suppliers and used alternative packaging formats to help bring its products faster to the market.
- Technology implementation, leading to transparency and speed, has benefited all stakeholders in the value chain, including dairy farmers, who now receive e-slips on their mobile phones and online payment systems on a regular basis.
- Nearly 40% of NEST's invoices are managed digitally.

Exhibit 43: Growing contribution of e-commerce to domestic sales



Source: Company, MOFSL

Other salient talking points from the annual report

- Through the cluster-based approach, which is powered by Data and technology, the company has made a deeper penetration into newer markets, unleashed growth potential, and created a transparent planning process.
- R&D spends stood at INR233m (recurring) and at INR26m (capital R&D). Total R&D spends in CY20 at INR259m constituted 0.2% of net sales.

Exhibit 44: R&D expenditure as a percentage of sales stood at 0.2%

R&D expenditure (INR m)	CY19	CY20
Capital	32	26
Recurring	201	233
Total	**233**	**259**
R&D expenditure as a percentage of net sales	**0.2**	**0.2**

Source: Company, MOFSL

- In CY20, total remuneration of NEST'S MD Mr. Suresh Narayanan was INR171.9m (up 6.3% YoY). Mr. David McDaniel, Director - Finance & Control and CFO earned INR49.2m in CY20 (up 4.9% YoY v/s that paid to Mr. Shobinder Duggal, former Director - Finance & Control and CFO).

Exhibit 45: MD's remuneration rose 6.3% in CY20; median remuneration increase stood at 9%

Name of the employee	Designation	CY19	CY20
Mr. Suresh Narayanan	Chairman and Managing Director	161.7	171.9
% increase YoY		45.9	6.3
Mr. Shobinder Duggal/ Mr. David Steven McDaniel[#]	Director - Finance & Control and CFO	46.9	49.2
% increase YoY		10.6	4.9

[#]Appointed as Whole-time Director, designated as Executive Director – Finance & Control and Chief Financial Officer with effect from 1st Mar'20

Source: Company, MOFSL

- During CY20, earnings from exports stood at INR6.5b. Of this, INR2.3b were INR earnings from Nepal and Bhutan. Forex earnings stood at INR4.2b.
- Foreign exchange outgo was INR27.9b, which includes general license fees, imports, dividend paid, and travel expenses.
- Contingent liabilities and commitments at the end of CY20 stood at INR3.2b (indirect taxes and capital expenditure commitments).
- The company met its CSR commitment spends of INR463m for CY20.

Valuation and View

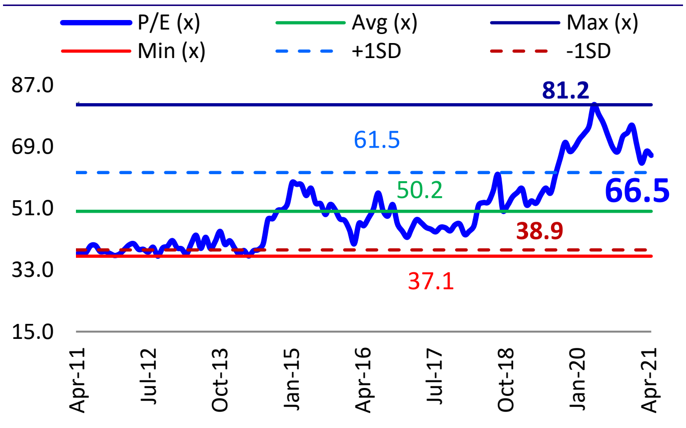
- The INR26b capex (spread over 3-4 years) announced with its 3QCY20 result and resumption of healthy marketing spends in 4Q suggests that the management's confidence remains high on both its near and long term growth prospects.
- While the ongoing partial lockdowns could boost near-term sales, the long term narrative for NEST's revenue and earnings growth remains even more attractive. Successful implementation of its growth strategy in recent years is a positive. The Packaged Foods segment in India offers immense growth opportunities. This is particularly true for a company with a strong pedigree and distribution strength.
- Valuations at 59x CY22E EPS are expensive and offer limited upside from a one-year perspective. We value the company at 60x Mar'23E EPS to arrive at our TP of INR18,300. We maintain our **Neutral** stance.

Exhibit 46: Retain our EPS estimates for CY21E/CY22E

	New		Old		Change (%)	
INR m	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Net Sales	150.0	172.7	150.1	172.8	0.0	0.0
EBITDA	36.8	42.3	36.6	42.1	0.3	0.3
Adjusted PAT	24.5	28.4	24.5	28.1	0.3	0.9

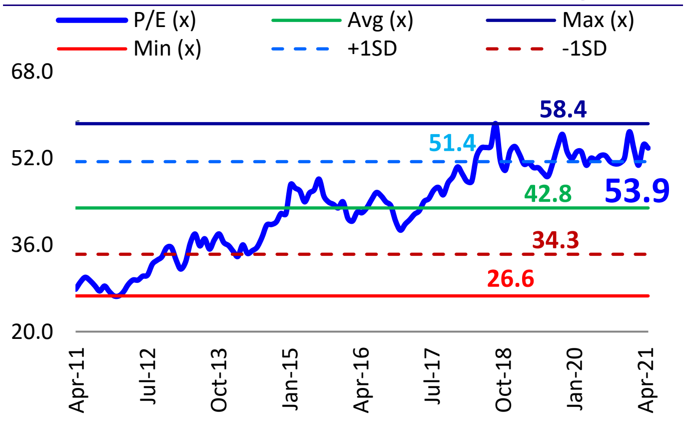
Source: Company, MOFSL

Exhibit 47: NEST's P/E (x)



Source: Company, MOFSL

Exhibit 48: P/E (x) for the Consumer sector excluding ITC



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E December	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Net Sales	**91.4**	**100.1**	**112.9**	**123.7**	**133.5**	**150.0**	**172.7**	**195.5**
Change (%)	11.8	9.5	12.8	9.5	7.9	12.4	15.1	13.2
Gross Profit	**52.6**	**56.8**	**67.0**	**71.4**	**76.8**	**87.1**	**100.8**	**115.9**
Margin (%)	57.5	56.8	59.4	57.8	57.5	58.0	58.4	59.3
Other Expenditure	32.3	34.6	39.7	42.4	44.6	50.3	58.6	66.5
EBITDA	**20.3**	**22.2**	**27.3**	**29.1**	**32.2**	**36.8**	**42.3**	**49.4**
Change (%)	23.3	9.4	23.0	6.3	10.7	14.3	14.9	16.9
Margin (%)	22.2	22.2	24.2	23.5	24.1	24.5	24.5	25.3
Depreciation	3.5	3.4	3.4	3.7	3.7	3.9	4.4	5.1
Int. and Fin. Ch.	0.9	0.9	1.1	1.3	1.6	1.7	1.8	1.9
Other Inc.- Rec.	1.5	1.8	2.6	2.5	1.5	1.7	1.9	3.5
PBT	**17.4**	**19.6**	**25.4**	**26.5**	**28.3**	**32.8**	**38.0**	**45.9**
Change (%)	23.5	13.1	29.5	4.3	6.6	16.0	15.7	21.0
Margin (%)	19.0	19.6	22.5	21.4	21.2	21.9	22.0	23.5
Tax	5.4	6.1	8.2	7.1	7.3	8.3	9.6	11.6
Tax Rate (%)	31.3	31.3	32.3	26.6	25.8	25.2	25.2	25.2
Adjusted PAT	**11.9**	**13.5**	**17.2**	**19.5**	**21.0**	**24.5**	**28.4**	**34.4**
Change (%)	3.2	13.2	27.5	13.1	7.6	17.0	15.7	21.0
Margin (%)	13.0	13.5	15.2	15.7	15.7	16.3	16.4	17.6
Non-rec. (Exp)/Inc.	1.9	1.2	1.1	0.2	0.1	0.2	0.2	0.2
Reported PAT	**10.0**	**12.3**	**16.1**	**19.2**	**20.8**	**24.4**	**28.2**	**34.2**

Balance Sheet								(INR b)
Y/E December	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	31.9	33.2	35.8	18.2	19.2	20.9	23.1	29.3
Net Worth	**32.8**	**34.2**	**36.7**	**19.2**	**20.2**	**21.9**	**24.1**	**30.3**
Loans	0.3	0.4	0.4	0.5	0.3	0.3	0.3	0.3
Capital Employed	**33.2**	**34.6**	**37.1**	**19.7**	**20.5**	**22.3**	**24.4**	**30.6**
Gross Block	31.0	33.6	34.9	34.9	36.5	42.5	49.5	56.5
Less: Accum. Depn.	3.6	7.4	10.8	13.8	16.8	20.7	25.2	30.2
Net Fixed Assets	**27.3**	**26.2**	**24.0**	**21.1**	**19.7**	**21.7**	**24.3**	**26.2**
Capital WIP	1.9	0.9	1.1	1.4	6.4	6.4	6.4	6.4
Investments	17.6	19.8	26.6	18.3	15.5	17.2	18.3	19.4
Current	12.8	13.9	19.3	10.1	7.2	8.7	9.5	10.5
Non-current	4.7	5.9	7.3	8.2	8.3	8.6	8.7	8.9
Curr. Assets, L&A	**21.4**	**26.7**	**29.2**	**30.9**	**37.2**	**39.0**	**44.6**	**52.0**
Inventory	9.4	9.0	9.7	12.8	14.2	14.2	17.0	16.6
Account Receivables	1.0	0.9	1.2	1.2	1.6	1.2	1.4	1.6
Cash and Bank Balance	8.8	14.6	16.1	13.1	17.7	19.2	21.4	25.4
Others	2.2	2.2	2.2	3.7	3.7	4.3	4.8	8.4
Curr. Liab. and Prov.	**33.4**	**37.8**	**43.2**	**51.9**	**58.5**	**62.3**	**69.3**	**73.5**
Account Payables	8.0	9.8	12.4	14.9	15.2	17.1	19.5	21.6
Other Liabilities	5.1	4.2	4.6	7.0	9.5	8.9	10.3	7.8
Provisions	20.3	23.8	26.2	29.9	33.7	36.2	39.5	44.2
Net Curr. Assets	**-12.0**	**-11.1**	**-14.0**	**-21.0**	**-21.3**	**-23.3**	**-24.7**	**-21.5**
Def. Tax Liability	-1.6	-1.2	-0.6	-0.1	0.2	0.2	0.2	0.2
Appl. of Funds	**33.2**	**34.6**	**37.1**	**19.7**	**20.5**	**22.3**	**24.4**	**30.6**

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E December	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Basic (INR)								
EPS	**123.7**	**140.0**	**178.6**	**202.0**	**217.4**	**254.4**	**294.4**	**356.3**
Cash EPS	160.4	175.5	213.4	240.4	255.8	295.3	340.4	409.0
BV/Share	340.4	354.8	381.0	199.0	209.4	227.3	249.9	314.3
DPS	63.0	86.0	115.0	342.0	200.0	235.0	270.0	290.0
Payout (%)	50.9	61.4	64.4	169.3	92.0	92.4	91.7	81.4
Valuation (x)								
P/E	139.4	123.1	96.5	85.3	79.3	67.8	58.6	48.4
Cash P/E	107.5	98.2	80.8	71.7	67.4	58.4	50.6	42.1
EV/Sales	17.9	16.3	14.3	13.2	12.2	10.8	9.4	8.3
EV/EBITDA	80.6	73.3	59.3	56.1	50.7	44.2	38.4	32.8
P/BV	50.6	48.6	45.2	86.6	82.3	75.9	69.0	54.9
Dividend Yield (%)	0.4	0.5	0.7	2.0	1.2	1.4	1.6	1.7
Return Ratios (%)								
RoE	39.1	40.3	48.5	69.7	106.5	116.5	123.4	126.3
RoCE	40.8	41.7	50.2	71.9	110.2	120.6	127.2	129.9
Working Capital Ratios								
Debtor (Days)	3.8	3.2	4.1	3.7	4.5	3.0	3.0	3.0
Asset Turnover (x)	2.8	2.8	3.1	4.3	6.6	7.1	7.5	7.1
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement								(INR b)
Y/E December	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
OP/(loss) before Tax	15.5	18.4	24.3	26.7	28.1	32.8	37.8	44.3
Int./Div. Received	1.4	1.4	2.5	2.4	1.4	1.7	1.9	3.5
Depn. and Amort.	3.5	3.4	3.4	3.7	3.7	3.9	4.4	5.1
Interest Paid	0.0	0.0	0.0	0.0	0.2	1.7	1.8	1.9
Direct Taxes Paid	5.0	6.0	8.8	6.7	7.0	8.3	9.6	11.6
Incr in WC	2.0	3.7	4.1	1.6	1.0	3.6	3.6	0.8
CF from Operations	**14.7**	**18.2**	**20.5**	**23.0**	**24.5**	**32.1**	**36.2**	**37.0**
Others	-1.5	0.6	-2.6	11.7	4.4	1.5	1.8	5.0
Incr in FA	1.1	2.0	1.6	1.5	4.7	6.0	7.0	7.0
Free Cash Flow	**13.5**	**16.2**	**18.9**	**21.4**	**19.8**	**26.1**	**29.2**	**30.0**
Pur of Investments	1.5	1.1	1.6	0.2	0.0	1.7	1.0	1.1
CF from Invest.	**-4.2**	**-2.4**	**-5.8**	**10.0**	**-0.4**	**-6.2**	**-6.2**	**-3.1**
Incr in Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	5.6	8.3	10.9	29.5	18.9	22.7	26.0	28.0
Others	-1.0	-1.7	-2.3	-6.5	-0.7	-1.7	-1.8	-1.9
CF from Fin. Activity	**-6.7**	**-10.0**	**-13.2**	**-36.0**	**-19.6**	**-24.4**	**-27.8**	**-29.9**
Incr/Decr of Cash	**3.8**	**5.8**	**1.5**	**-3.0**	**4.6**	**1.5**	**2.2**	**4.0**
Add: Opening Balance	5.0	8.8	14.6	16.1	13.1	17.7	19.2	21.4
Closing Balance	**8.8**	**14.6**	**16.1**	**13.1**	**17.7**	**19.2**	**21.4**	**25.4**

E: MOFSL Estimates

NOTES

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Investment Rating	**Expected return (over 12-month)**
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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