

Nestle India (NEST IN)

Rating: ACCUMULATE | CMP: Rs17,096 | TP: Rs18,450

April 20, 2021

Q1CY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY22E	CY23E	CY21E	CY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	18,450		17,364	
Sales (Rs. m)	1,49,512	1,66,951	1,49,644	1,67,233
% Chng.	(0.1)	(0.2)		
EBITDA (Rs. m)	36,073	40,167	35,312	39,232
% Chng.	2.2	2.4		
EPS (Rs.)	244.2	278.7	243.8	277.5
% Chng.	0.2	0.4		

Key Financials - Standalone

Y/e Dec	CY19	CY20	CY21E	CY22E
Sales (Rs. bn)	124	134	150	167
EBITDA (Rs. bn)	30	32	36	40
Margin (%)	23.9	24.1	24.1	24.1
PAT (Rs. bn)	20	21	24	27
EPS (Rs.)	206.7	217.4	244.2	278.7
Gr. (%)	15.8	5.2	12.3	14.1
DPS (Rs.)	306.0	196.0	210.0	215.0
Yield (%)	1.8	1.1	1.2	1.3
RoE (%)	71.4	106.5	109.4	105.1
RoCE (%)	91.0	141.3	143.7	136.7
EV/Sales (x)	13.1	12.2	10.9	9.7
EV/EBITDA (x)	55.1	50.5	45.0	40.2
PE (x)	82.7	78.6	70.0	61.3
P/BV (x)	85.9	81.6	72.2	58.2

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.18,844 / Rs.15,100
Sensex / Nifty	47,706 / 14,296
Market Cap	Rs.1,648bn / \$ 22,011m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.4118.34m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.29
Domestic Institution	7.95
Public & Others	17.00
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.9	5.2	0.7
Relative	8.6	(10.6)	(33.2)

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Growth Momentum to Continue

Quick Pointers:

- Domestic Sales achieved a 10.7% growth on a strong base in Q1CY20 largely driven by volume and mix.
- Demand in Out of Home channels improved sequentially.
- E-Commerce channel grew by 66% and contributed 3.8% of domestic sales.

Nestlé posted a strong set of numbers backed by double digit growth across key brands and improving Out of home demand. Fresh set of Lockdowns across the nation on account of increased Covid cases will increase pantry stocking aiding volumes for key brands.

We believe NEST's decision to capitalize on rural growth by increasing village coverage by 33% using 30-40% of relevant products and launching rural centric products will result in strong long term growth given rural and semi-urban markets are growing at 2-2.5x of urban. NEST will continue its innovation led growth strategy given high success rate of new products and expect to launch 40-50 new products.

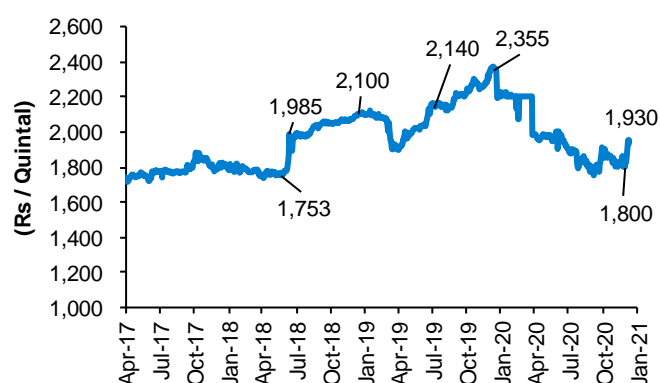
Capex announcement of Rs26bn will allow NEST to meet capacity constraints in key segments including Maggi. Input costs are likely to remain higher as the company has been witnessing headwinds in commodity prices. We estimate 13.2% PAT CAGR over CY20-22 and assign TP of Rs 18,450 on DCF basis (Rs17,364 earlier). Retain Accumulate, however expect back ended returns given rich valuations of 61.4xCY22 EPS.

- Sales up 8.6%, PAT up 13.1%:** Net sales grew 8.6% to Rs 36.11bn (Est Rs 36.74bn). Gross margins up 220bps to 58.5% (Est 58.5%) due to lower commodity prices mainly milk and its derivatives, however the company has recently witnessed headwinds in commodity and packaging materials. EBITDA grew by 16.2% to Rs 9.30bn (Est Rs 8.75bn). EBITDA margins up by 170bps to 25.8% (Est 23.8%) on account of higher GRMs mainly. PBT at Rs 8.12bn up 14.2% YoY. Adj. PAT grew by 13.1% to Rs 6.03bn (Est Rs 5.84bn).
- Double digit growth across key brands:** Key brands like MAGGI NOODLES, KITKAT, NESCAFÉ CLASSIC, MAGGI SAUCES, MILKMAID, MAGGI MASALA-AE-MAGIC posted double digit growth, boosted by increased in home consumption. Demand in Out of Home channels has improved sequentially. E-Commerce channel grew by 66% and contributed 3.8% of domestic sales
- Gross margins up 220bps to 58.5%:** Lower commodity prices, particularly milk & its derivatives enabled GRM expansion however NEST has witnessed headwind in commodity prices lately due to 51.9%/9.9% increase in Palm oil and SMP prices.

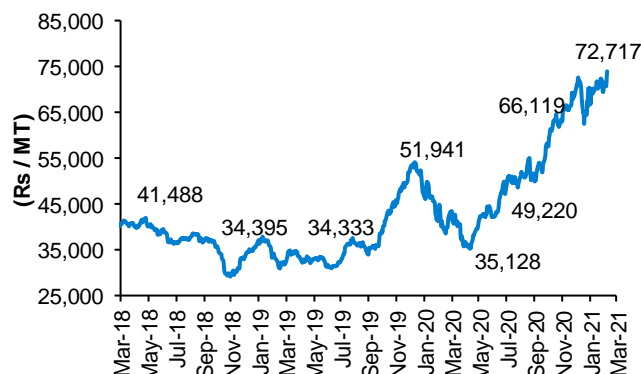
Exhibit 1: Q1CY21 Results: Revenue up 8.6% margins expand due to higher GRM's

Y/e Dec (Rs mn)	Q1CY21	Q1CY20	YoY gr. (%)	Q4CY20	CY20	CY19	YoY gr. (%)
Net Sales	36,108	33,253	8.6	34,326	1,33,500	1,23,689	7.9
Gross Profit	21,132	18,720	12.9	20,281	76,761	71,450	7.4
% of NS	58.5	56.3	2.2	59.1	57.5	57.8	-0.3
Other Expenses	11,829	10,714	10.4	12,542	44,497	42,115	5.7
EBITDA	9,303	8,006	16.2	7,739	32,264	29,335	10.0
Margins (%)	25.8	24.1	1.7	22.5	24.2	23.7	0.5
Depreciation	936	914	2.5	955	3,704	3,562	4.0
Interest	540	410	31.9	420	1,642	1,264	29.9
Other Income	297	429	(30.8)	306	1,459	2,469	(40.9)
PBT	8,123	7,111	14.2	6,670	28,377	26,978	5.2
Tax	2,096	1,784	17.5	1,869	7,304	7,112	2.7
Effective tax rate (%)	25.8	25.1		28.0	25.7	26.4	
Adjusted PAT	6,027	5,327	13.1	4,802	21,074	19,866	6.1

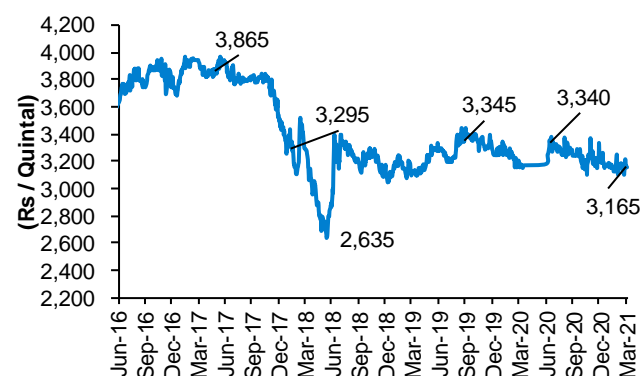
Source: Company, PL

Exhibit 2: Wheat prices down 13.1% YoY, but up 5.9% QoQ


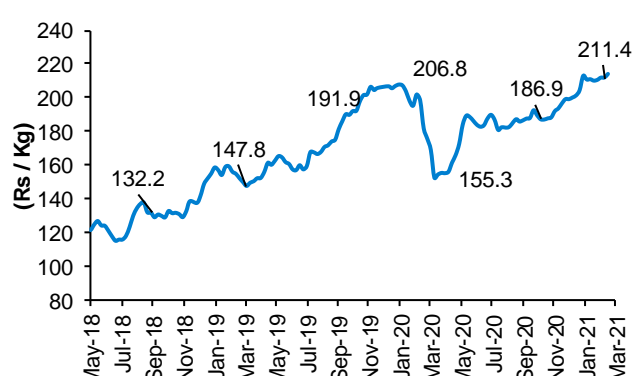
Source: Company, PL

Exhibit 3: Palmoil prices up 51.9% YoY, 16% QoQ


Source: Company, PL

Exhibit 4: Sugar down 1.2% YoY and 0.4% QoQ


Source: Company, PL

Exhibit 5: SMP prices up 9.9% YoY


Source: Bloomberg, PL

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

Y/e March	CY17	CY18	CY19	CY20	CY21E	CY22E
Milk Products						
Volume (MT)	1,30,796	1,37,066	1,38,941	1,38,402	1,45,322	1,51,135
Volume growth	1.6%	4.8%	1.4%	-0.4%	5.0%	4.0%
Sales Value (Rs m)	48,196	51,876	56,518	61,488	67,145	72,624
Growth in Value	4.0%	7.6%	8.9%	8.8%	9.2%	8.2%
% of sales	47.6%	46.3%	46.0%	46.3%	45.2%	43.7%
Beverages						
Volume (MT)	24,423	27,013	26,380	20,772	22,226	23,115
Value (Rs m)	13,870	15,226	15,018	14,763	16,112	17,091
Growth in Volume	10.6%	10.6%	-2.3%	-21.3%	7.0%	4.0%
Growth in Value	7.8%	9.8%	-1.4%	9.1%	6.1%	6.1%
%Sales	13.7%	13.6%	12.2%	11.1%	10.8%	10.3%
Prepared Dishes & Cooking Aids						
Volume (MT)	2,10,427	2,40,879	2,64,072	2,81,392	3,15,159	3,62,433
Value (Rs m)	27,071	31,053	34,982	39,108	44,677	52,406
Growth in Volume	19.0%	14.5%	9.6%	6.6%	12.0%	15.0%
Growth in Value	16.8%	14.7%	12.7%	11.8%	14.2%	17.3%
%Sales	26.7%	27.7%	28.5%	29.4%	30.0%	31.6%
Chocolate & Confectionery						
Volume (MT)	36,803	42,197	49,033	50,358	58,415	66,009
Value (Rs m)	12,214	14,007	16,435	17,301	20,471	23,594
Growth in Volume	4.3%	14.7%	16.2%	2.7%	16.0%	13.0%
Growth in Value	4.3%	14.7%	17.3%	5.3%	18.3%	15.3%
%Sales	12.1%	12.5%	13.4%	13.0%	13.8%	14.2%

Source: Company, PL

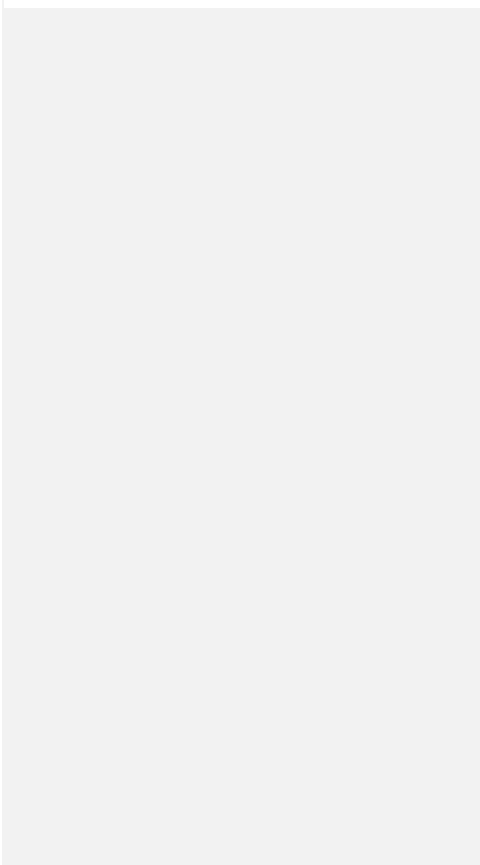
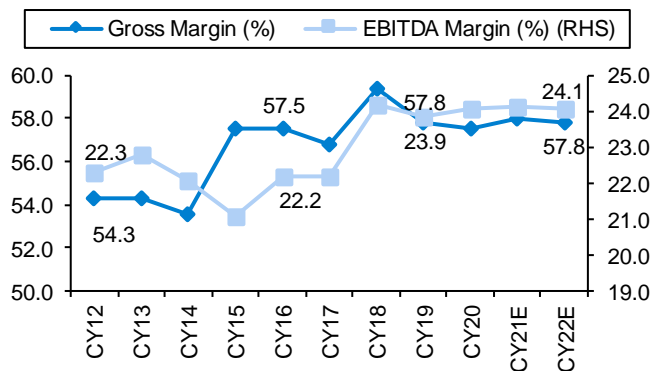
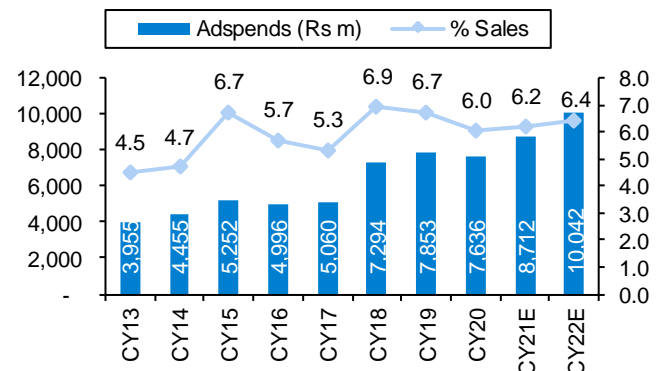
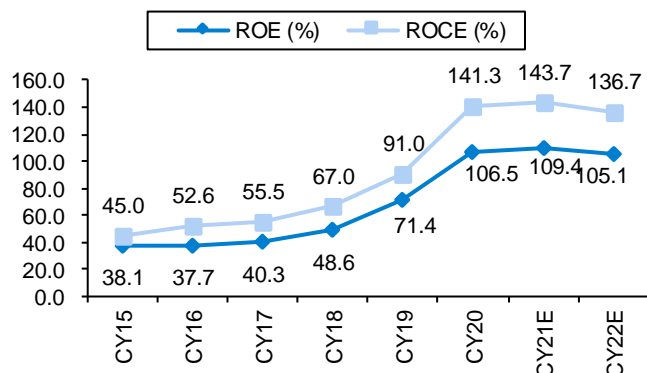


Exhibit 7: Gross Margins expected to have peaked out


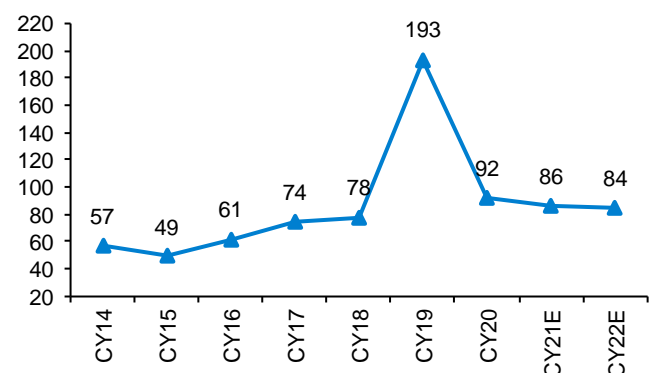
Source: Company, PL

Exhibit 8: Ad-spend is likely to remain flat going forward


Source: Company, PL

Exhibit 9: ROE and ROCE increased due to special dividend


Source: Company, PL

Exhibit 10: One-time dividend boosted payout in CY19


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY19	CY20	CY21E	CY22E
Net Revenues	1,23,689	1,33,500	1,49,512	1,66,951
YoY gr. (%)	9.5	7.9	12.0	11.7
Cost of Goods Sold	52,239	56,739	62,818	70,386
Gross Profit	71,450	76,761	86,694	96,565
Margin (%)	57.8	57.5	58.0	57.8
Employee Cost	12,582	15,010	16,356	17,933
Other Expenses	15,570	15,660	17,659	20,027
EBITDA	29,508	32,155	36,073	40,167
YoY gr. (%)	8.0	9.0	12.2	11.3
Margin (%)	23.9	24.1	24.1	24.1
Depreciation and Amortization	3,702	3,704	4,766	4,931
EBIT	25,806	28,451	31,307	35,236
Margin (%)	20.9	21.3	20.9	21.1
Net Interest	1,291	1,642	1,766	1,925
Other Income	2,469	1,459	1,924	2,596
Profit Before Tax	26,984	28,268	31,465	35,907
Margin (%)	21.8	21.2	21.0	21.5
Total Tax	7,051	7,304	7,920	9,038
Effective tax rate (%)	26.1	25.8	25.2	25.2
Profit after tax	19,933	20,964	23,545	26,869
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	19,933	20,964	23,545	26,869
YoY gr. (%)	15.8	5.2	12.3	14.1
Margin (%)	16.1	15.7	15.7	16.1
Extra Ord. Income / (Exp)	(249)	(140)	(156)	(175)
Reported PAT	19,684	20,825	23,389	26,694
YoY gr. (%)	22.5	5.8	12.3	14.1
Margin (%)	15.9	15.6	15.6	16.0
Other Comprehensive Income	(1,548)	(922)	(500)	(500)
Total Comprehensive Income	18,137	19,902	22,889	26,194
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	206.7	217.4	244.2	278.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY19	CY20	CY21E	CY22E
Non-Current Assets				
Gross Block	60,886	62,217	73,043	76,089
Tangibles	60,886	62,217	73,043	76,089
Intangibles	-	-	-	-
Acc: Dep / Amortization	37,471	40,423	44,421	48,661
Tangibles	37,471	40,423	44,421	48,661
Intangibles	-	-	-	-
Net fixed assets	23,415	21,794	28,622	27,428
Tangibles	23,415	21,794	28,622	27,428
Intangibles	-	-	-	-
Capital Work In Progress	1,433	6,386	5,000	5,250
Goodwill	-	-	-	-
Non-Current Investments	7,906	7,874	8,003	8,072
Net Deferred tax assets	(134)	199	595	1,047
Other Non-Current Assets	804	894	966	1,079
Current Assets				
Investments	22,746	24,447	24,872	34,488
Inventories	12,831	14,165	12,963	14,333
Trade receivables	1,243	1,649	1,528	1,638
Cash & Bank Balance	410	481	511	695
Other Current Assets	260	387	425	468
Total Assets	71,729	78,997	84,358	95,462
Equity				
Equity Share Capital	964	964	964	964
Other Equity	18,225	19,229	21,871	27,336
Total Network	19,189	20,193	22,835	28,300
Non-Current Liabilities				
Long Term borrowings	531	317	204	204
Provisions	29,069	32,683	35,230	38,025
Other non current liabilities	900	879	766	718
Current Liabilities				
ST Debt / Current of LT Debt	-	31	-	-
Trade payables	14,915	15,166	14,629	16,391
Other current liabilities	6,990	9,729	10,694	11,824
Total Equity & Liabilities	71,729	78,997	84,358	95,463

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY19	CY20	CY21E	CY22E
PBT	26,984	28,268	31,465	35,907
Add. Depreciation	3,702	3,704	4,766	4,931
Add. Interest	1,291	1,642	1,766	1,925
Less Financial Other Income	2,469	1,459	1,924	2,596
Add. Other	(444)	650	(743)	(1,158)
Op. profit before WC changes	31,533	34,263	37,254	41,604
Net Changes-WC	(84)	1,083	1,563	1,279
Direct tax	(7,051)	(7,304)	(7,920)	(9,038)
Net cash from Op. activities	24,398	28,042	30,897	33,846
Capital expenditures	(1,703)	(6,444)	(9,627)	(3,428)
Interest / Dividend Income	2,469	1,459	1,924	2,596
Others	12,095	(1,674)	(425)	(9,617)
Net Cash from Inv. activities	12,861	(6,659)	(8,128)	(10,449)
Issue of share cap. / premium	(34)	3	-	-
Debt changes	180	(183)	(144)	-
Dividend paid	(35,562)	(18,897)	(20,247)	(20,729)
Interest paid	(1,291)	(1,642)	(1,766)	(1,925)
Others	(551)	(593)	(582)	(558)
Net cash from Fin. activities	(37,259)	(21,312)	(22,739)	(23,212)
Net change in cash	0	71	30	185
Free Cash Flow	22,696	21,599	21,270	30,418

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY19	CY20	CY21E	CY22E
Per Share(Rs)				
EPS	206.7	217.4	244.2	278.7
CEPS	245.1	255.9	293.6	329.8
BVPS	199.0	209.4	236.8	293.5
FCF	235.4	224.0	220.6	315.5
DPS	306.0	196.0	210.0	215.0
Return Ratio(%)				
RoCE	91.0	141.3	143.7	136.7
ROIC	53.1	52.6	53.1	58.5
RoE	71.4	106.5	109.4	105.1
Balance Sheet				
Net Debt : Equity (x)	(1.2)	(1.2)	(1.1)	(1.2)
Net Working Capital (Days)	(2)	2	0	(1)
Valuation(x)				
PER	82.7	78.6	70.0	61.3
P/B	85.9	81.6	72.2	58.2
P/CEPS	245.1	255.9	293.6	329.8
EV/EBITDA	55.1	50.5	45.0	40.2
EV/Sales	13.1	12.2	10.9	9.7
Dividend Yield (%)	1.8	1.1	1.2	1.3

Source: Company Data, PL Research

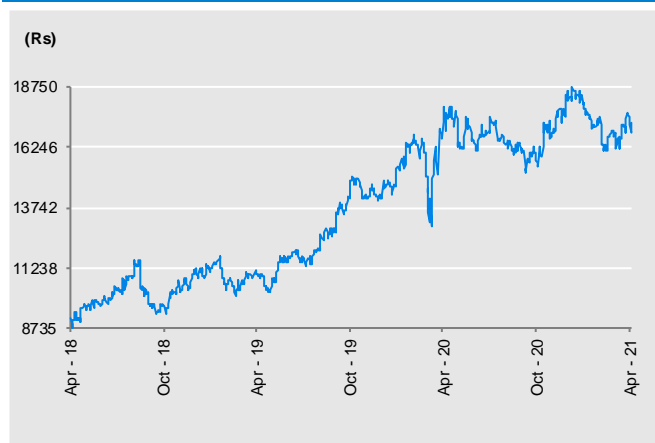
Quarterly Financials (Rs m)

Y/e Dec	Q2CY20	Q3CY20	Q4CY20	Q1CY21
Net Revenue	30,505	35,417	34,326	36,108
YoY gr. (%)	1.7	10.1	9.0	8.6
Raw Material Expenses	13,319	14,843	14,045	14,976
Gross Profit	17,186	20,574	20,281	21,132
Margin (%)	56.3	58.1	59.1	58.5
EBITDA	7,584	8,935	7,739	9,303
YoY gr. (%)	7.2	17.6	15.0	16.2
Margin (%)	24.9	25.2	22.5	25.8
Depreciation / Depletion	924	911	955	936
EBIT	6,660	8,024	6,784	8,367
Margin (%)	21.8	22.7	19.8	23.2
Net Interest	408	405	420	540
Other Income	379	345	306	297
Profit before Tax	6,631	7,965	6,670	8,123
Margin (%)	21.7	22.5	19.4	22.5
Total Tax	1,657	1,994	1,869	2,096
Effective tax rate (%)	25.0	25.0	28.0	25.8
Profit after Tax	4,975	5,970	4,802	6,027
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,975	5,970	4,802	6,027
YoY gr. (%)	11.1	(1.1)	2.6	13.1
Margin (%)	16.3	16.9	14.0	16.7
Extra Ord. Income / (Exp)	(109)	(100)	32	(5)
Reported PAT	4,866	5,871	4,833	6,022
YoY gr. (%)	11.1	(1.4)	2.2	14.6
Margin (%)	16.0	16.6	14.1	16.7
Other Comprehensive Income	(290)	(506)	224	(200)
Total Comprehensive Income	4,576	5,365	5,057	5,821
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	51.6	61.9	49.8	62.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Apr-21	Accumulate	17,364	17,417
2	27-Feb-21	Accumulate	17,364	16,102
3	16-Feb-21	Hold	17,364	17,217
4	07-Jan-21	Hold	17,640	18,515
5	05-Nov-20	Hold	17,640	17,221
6	23-Oct-20	Hold	15,122	15,865
7	08-Oct-20	Reduce	14,496	16,305
8	28-Jul-20	Reduce	14,089	17,095
9	08-Jul-20	Reduce	14,609	16,912
10	12-May-20	Reduce	13,127	17,462

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,622
2	Avenue Supermarts	BUY	3,195	2,880
3	Bajaj Electricals	BUY	1,033	991
4	Britannia Industries	BUY	4,189	3,795
5	Burger King India	BUY	221	145
6	Colgate Palmolive	Hold	1,685	1,551
7	Crompton Greaves Consumer Electricals	BUY	447	374
8	Dabur India	Accumulate	550	552
9	Emami	BUY	568	507
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Hold	1,128	1,026
12	Hindustan Unilever	BUY	2,509	2,400
13	ITC	BUY	248	214
14	Jubilant FoodWorks	Accumulate	3,279	2,862
15	Kansai Nerolac Paints	BUY	653	596
16	Marico	Accumulate	441	407
17	Nestle India	Accumulate	17,364	17,417
18	Pidilite Industries	Hold	1,739	1,886
19	Polycab India	BUY	1,480	1,376
20	Titan Company	Accumulate	1,663	1,518
21	Titan Company	Accumulate	1,663	1,518
22	Voltas	Hold	1,000	977
23	Westlife Development	BUY	618	496

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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