

Sanand plant to aid growth of core categories...

About the stock Nestlé India (NIL) is the largest food company in India with over ₹ 13000 crore of sales. It is broadly present in infant & baby food products, noodles, chocolates & beverages categories. In the last five years, the company has forayed into newer categories and launched more than 80 new products.

- The company has eight manufacturing facilities while a new plant in Sanand, Gujarat got commissioned during the quarter. Its major brands include Maggi, Nescafe, KitKat, Cerelac among others

Q3CY21 Results: Nestlé India reported Q3FY21 results.

- Sales were up 9.6% YoY with strong traction in core brands
- EBITDA was at ₹ 948.5 crore, up 7.3% YoY, with margins at 24.4%
- Consequent PAT was at ₹ 617.9 crore (up 5.2% YoY)

What should investors do? Nestlé India's share price has given return of 180% in the last five years (from ₹ 6869 in October 2016 to ₹ 19278 in October 2021).

- We maintain our estimates with sustainable sale growth in core brands as supply issues resolved by commissioning of new manufacturing facility
- We continue to maintain our HOLD rating on the stock

Target Price and Valuation: We value the stock at ₹ 20450, valuing the business 65x FY24 earnings

Key triggers for future price performance:

- The company is undertaking a capex of ₹ 2600 crore in the next three to four years to expand the capacity of its existing products
- NIL is increasing its rural footprint from 0.9 lakh villages to 1.2 lakh villages in the next four years
- With the reduction in Covid-19 cases & vaccination drive, urban demand is likely to pick up. The product portfolio of NIL is urban centric
- Commissioning of Sanand facility would aid revenue growth in core brands given packaged foods saw high demand in the last 18 months

Alternate Stock Idea: We like Zydus Wellness in our FMCG coverage.

- It is growing at a steady pace in nascent categories with strong presence in health, nutrition space & margin expansion possibilities
- Trading at significant discount to FMCG peers. BUY with TP of ₹ 2,800



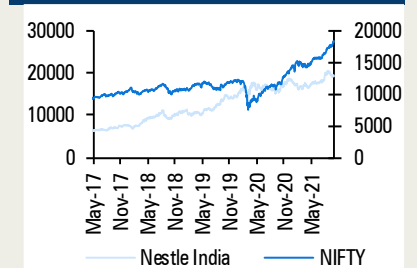
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	185686
Total Debt (CY20)	97.5
Cash & Investments (CY20)	2,880.2
EV	182,902.9
52 week H/L (₹)	20599 / 15773
Equity capital	96.4
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	62.8	62.8	62.8	62.8
FII	12.8	12.3	12.4	12.3
DII	7.7	7.9	7.9	8.0
Others	16.7	17.0	16.9	16.9

Price Chart



Recent event & key risks

- NIL's ninth plant in Sanand was commissioned during the quarter
- Key Risk:** (i) Incessant increase in commodity costs to pressurise margins (ii) strong growth in core categories could be upside risk

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Key Financial Summary

Key Financials	CY19	CY20	5 Year CAGR (CY15-CY20)	CY21E	CY22E	CY23E	CAGR (CY20-23E)
Net Sales	12295.3	13290.2	10.3	14763.6	16145.7	17822.4	10.3%
EBITDA	2864.3	3201.5	14.4	3656.9	4055.2	4555.1	12.5%
EBITDA Margin %	23.3	24.1		24.8	25.1	25.6	
Net Profit	1969.6	2082.4	29.9	2410.0	2695.4	3029.6	13.3%
EPS (₹)	204.27	215.97	29.9	249.95	279.55	314.21	13.3%
P/E	94.3	89.2		77.0	68.9	61.3	
RoNW %	101.9	86.5		87.8	86.3	83.1	
RoCE (%)	56.9	50.9		54.9	56.4	57.5	

Key takeaways of recent quarter

Q3CY21 Results: Strong demand in noodles, infant foods, chocolates

- Revenues witnessed growth of 9.6% to ₹ 3865 crore, led by 10.1% growth in the domestic business and muted 1.3% growth in export sales. The domestic business largely grew through volumes and mix
- The company saw strong growth in Maggi noodles, Maggi Masala ae magic despite high base quarter (saw strong growth in noodles due to high 'at-home' consumption). However, high base adverse impact was seen in Maggi sauces
- In milk products category, infant food category & Milkmaid saw strong growth during the quarter. All brands within chocolate category saw high double digit growth propelled by media campaigns & promotion activity. Within beverage segment, Nescafe classic saw penetration led growth
- Gross margins saw steep dip of 239 bps in Q3 due to high inflation in edible oil & crude based packaging costs. We believe firm milk prices would have also impacted the margins adversely. NIL believes scrapping of import duty on edible oil beyond March 2022 could result in cooling off prices. We believe milk prices will also cool off with improved supply in winter flushing season
- The company commissioned its ninth manufacturing facility in Sanand, Gujarat. We believe this would ease off supply pressure in core categories given strong demand traction in packaged foods categories
- E-commerce has become an important channel for NIL and is contributing high-single digits to sales. The channel is also developing new models like quick commerce leading to quick delivery times. Ecommerce sales have seen acceleration on the back of convenience & pandemic led growth
- The company has launched Maggi noodles & POLO in Middle Eastern markets. Similarly, Crunch wafers have been introduced in Asean markets
- NIL has seen strong growth in smaller towns across categories. The company is also expanding its rural footprint with the aim of increasing its reach to 1.2 lakh villages by 2024
- The company was able to protect its operating margins at 24.4% (52 bps contraction) despite steep raw material inflation. It continued its saving programme even after the normalisation from pandemic

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)				P/E(x)		RoE (%)			RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Hindustan Unilever (HINLEV)	2479	2750	Hold	582416	12.9	9.1	8.4	25.6	26.2	26.3	63.0	55.9	51.0	19.5	21.5	23.0	25.0	27.6	29.5
ITC Limited (ITC)	247	240	Hold	303617	9.1	9.0	10.7	36.6	37.6	37.9	20.6	18.3	16.4	24.2	25.9	27.4	30.8	33.9	36.4
Nestle (NESIND)	19278	20450	Hold	185686	7.9	11.1	9.4	24.8	25.1	25.6	77.0	68.9	61.3	87.8	86.3	83.1	54.9	56.4	57.5
Tata Consumer (TATGLO)	827	900	Buy	76209	13.3	8.1	9.5	13.7	14.1	14.5	66.6	57.9	50.2	7.6	8.4	9.3	9.1	9.9	10.8

Source: Company, ICICI Direct Research

The growth in Nestlé was largely contributed by volumes & change in product mix. The company commissioned its ninth plant in Sanand, Gujarat during the quarter. We believe NIL would be able to witness higher volume growth with the commissioning of new facilities given noodles, chocolates & infant foods categories are witnessing stronger traction. Further, the company is increasing its penetration levels in rural India by increasing its distribution reach in hinterland. The e-commerce channel has also become important channel for packaged foods category for NIL and is growing faster than other channels. Though inflationary pressure related to crude & edible oil remains high, we believe milk based inflation will cool-off with expected higher supply in peak flushing season in winters. We remain positive on Nestlé's growth prospects, going forward. We maintain our HOLD rating on the stock with a target price of ₹ 20450/share.

Exhibit 2: Variance Analysis

Particulars (₹ crore)	Q3CY21	Q2CY21E	Q2CY20	YoY (%)	Q1CY21	QoQ (%)	Comments
Total Operating Income	3,882.6	3,928.8	3,541.7	9.6	3,476.7	11.7	Net sales witnessed growth of 9.6% largely driven by volumes. Maggi Noodles, Masala-ae-magic, Chocolates & infant food & Nescafe classic saw strong growth during the quarter
Operating Income	17.6	16.5	16.3	8.0	14.4	22.6	
Raw Material Expenses	1,719.8	1,716.6	1,484.3	15.9	1,494.8	15.1	Gross margins contracted 239 bps mainly on account of steep inflation in edible oils & crude based packaging costs
Employee Expenses	388.3	388.3	369.7	5.0	378.3	2.6	Employee spends to sales was lower due to high production based incentives in base quarter
Other operating Expenses	826.0	829.3	804.2	2.7	755.6	9.3	Overhead spends remain lower on the back of continued cost rationalisation measures
EBITDA	948.5	965.5	883.6	7.3	848.0	11.9	
EBITDA Margin (%)	24.4	25.3	24.9	-52 bps	24.4	4 bps	Operating margins contracted by 52 bps due to lower employee & overhead spends
Depreciation	95.5	95.5	91.1	4.9	95.3	0.3	
Interest	51.9	51.9	40.5	28.3	51.7	0.4	
Other Income	33.7	33.7	34.5	-2.3	29.5	14.2	
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
PBT	834.8	880.9	786.5	6.1	730.5	14.3	
Tax Outgo	216.9	227.1	199.4	8.8	191.9	13.0	
PAT	617.9	653.8	587.1	5.2	538.6	14.7	Net profit grew at slower pace 5.2%
Adjusted PAT	617.9	653.8	587.1	5.2	538.6	14.7	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	CY21E			CY22E			CY23E			
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Net Sales	14,763.6	14,763.6	0.0	16,145.7	16,145.7	0.0	17,822.4	17,822.4	0.0	No change in our estimates
EBITDA	3656.9	3656.9	0.0	4055.2	4055.2	0.0	4555.1	4555.1	0.0	
EBITDA Margin(%)	24.8	24.8	0 bps	25.1	25.1	0 bps	25.6	25.6	0 bps	
PAT	2410.0	2410.0	0.0	2695.4	2695.4	0.0	3029.6	3029.6	0.0	
EPS (₹)	249.9	249.9	0.0	279.6	279.6	0.0	314.2	314.2	0.0	

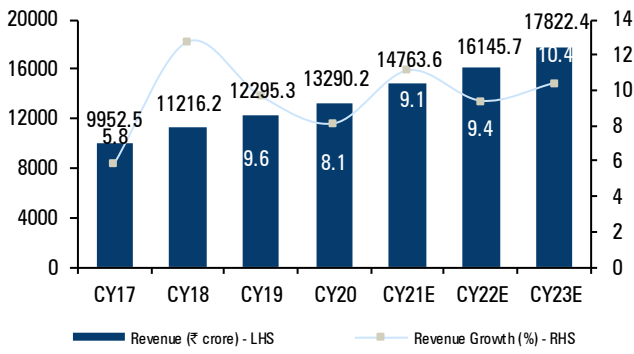
Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current						Earlier			Comments
	CY18	CY19	CY20	CY21E	CY22E	CY23E	CY21E	CY22E	CY23E	
Gross Sales (₹ crore)										
Milk Product and Nutrition	5,187.6	5,651.8	6,148.8	6,779.0	7,331.5	7,926.8	6,779.0	7,331.5	7,926.8	No change in estimates
Beverages	1,522.6	1,501.8	1,476.3	1,626.2	1,741.0	1,900.2	1,626.2	1,741.0	1,900.2	
Prepared dishes	3,105.3	3,498.2	3,910.8	4,387.9	4,963.6	5,670.4	4,387.9	4,963.6	5,670.4	
Chocolate & confectionery	1,400.7	1,643.5	1,754.3	1,970.4	2,109.6	2,324.9	1,970.4	2,109.6	2,324.9	
Volume Growth (%)										
Overall Volume Growth	11.1	7.0	2.6	8.3	9.2	9.7	8.3	9.2	9.7	
Milk Product and Nutrition	4.8	1.4	-0.4	5.0	5.0	6.0	5.0	5.0	6.0	
Beverages	10.6	-2.3	-21.3	8.0	6.0	7.0	8.0	6.0	7.0	
Prepared dishes	14.5	9.6	6.6	10.0	12.0	12.0	10.0	12.0	12.0	
Chocolate & confectionery	14.7	16.2	2.7	8.0	6.0	7.0	8.0	6.0	7.0	

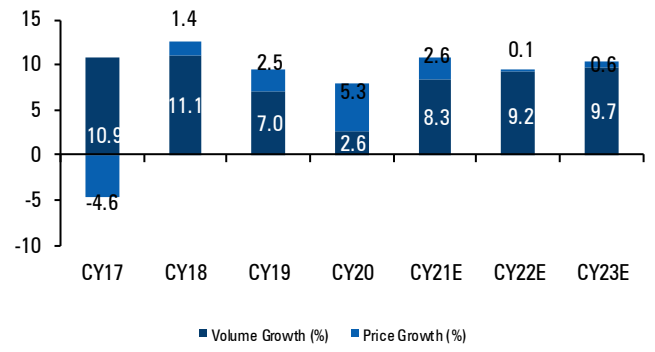
Source: ICICI Direct Research

Exhibit 5: Revenue growth trend



Source: ICICI Direct Research, Company

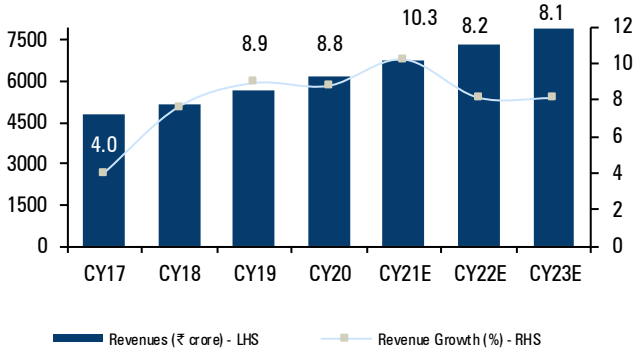
Exhibit 6: Volume growth to drive revenue



Source: ICICI Direct Research, Company

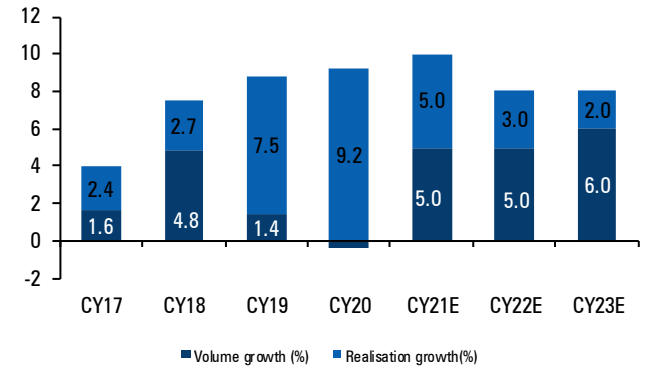
Milk products & nutrition

Exhibit 7: Improved product mix to aid EBITDA margins



Source: ICICI Direct Research, Company

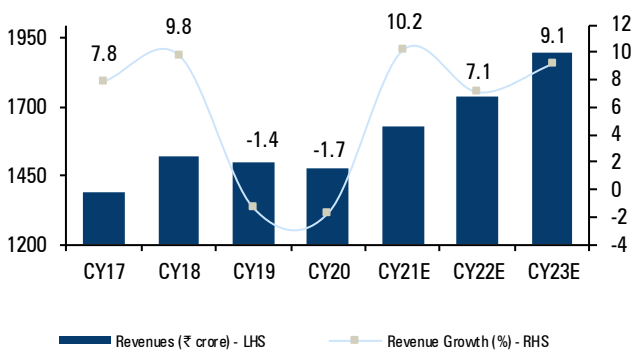
Exhibit 8: Revenue growth to be mix of volume & price growth



Source: ICICI Direct Research, Company

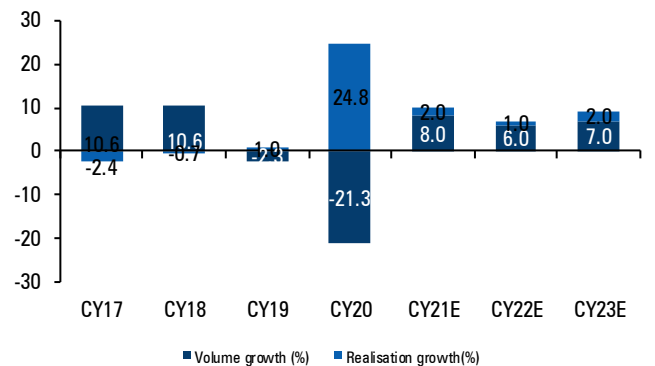
Beverages

Exhibit 9: Beverages revenue growth expected at 8.8% CAGR during CY20-23E



Source: ICICI Direct Research, Company

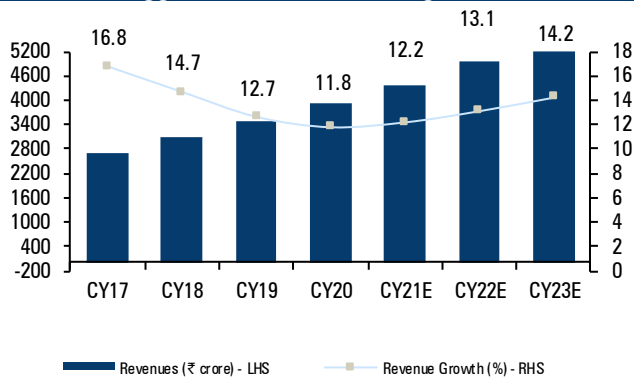
Exhibit 10: Beverage segment volume & value growth %



Source: ICICI Direct Research, Company

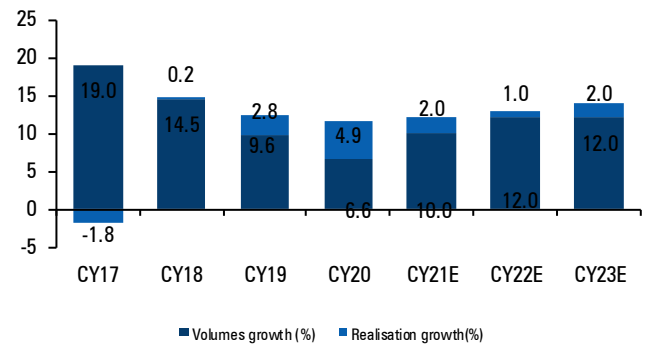
Prepared dishes

Exhibit 11: Maggi noodles continues to grow at faster



Source: ICICI Direct Research, Company

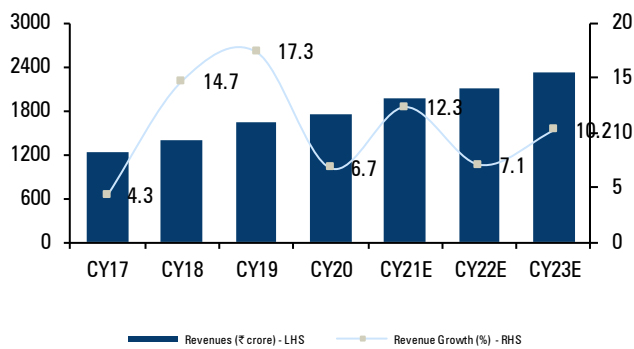
Exhibit 12: Strong volume growth trend



Source: ICICI Direct Research, Company

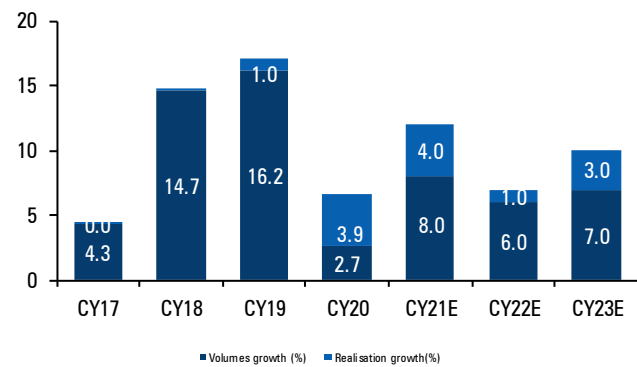
Chocolate & confectionery

Exhibit 13: Sales to gain traction, going forward



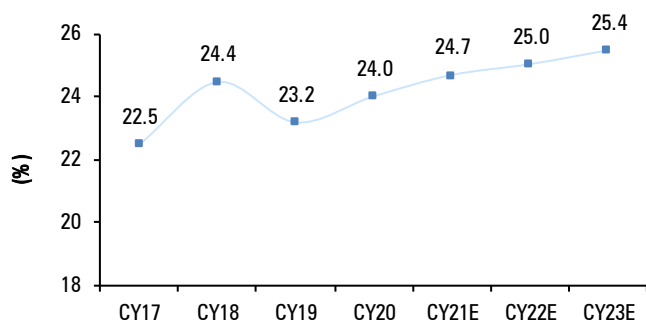
Source: ICICI Direct Research, Company

Exhibit 14: Volumes to recover in CY21E



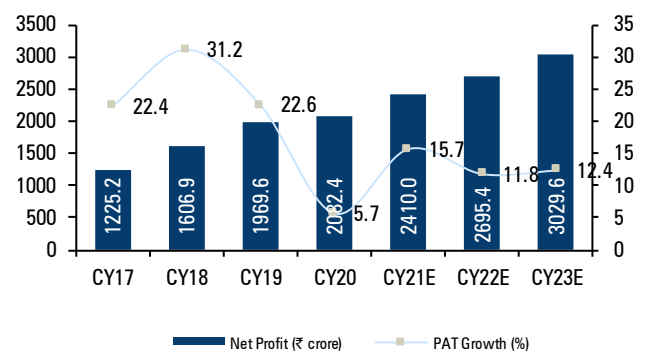
Source: ICICI Direct Research, Company

Exhibit 15: EBITDA margin to remain at elevated levels



Source: ICICI Direct Research, Company

Exhibit 16: PAT to grow at 13.8% CAGR over CY20-23E



Source: ICICI Direct Research, Company

Exhibit 17: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY20	13290.2	8.1	216.0	5.7	83.3	53.6	86.5	50.9
CY21E	14763.6	11.1	249.9	15.7	72.0	47.2	87.8	54.9
CY22E	16145.7	9.4	279.6	11.8	64.4	42.6	86.3	56.4
CY23E	17822.4	10.4	314.2	12.4	57.3	37.9	83.1	57.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Total operating income	13,350.0	14,829.5	16,218.2	17,902.1
Growth (%)	7.9	11.1	9.4	10.4
Raw Material Expenses	5,673.9	6,374.4	6,947.9	7,590.4
Employee Expenses	1,501.0	1,594.5	1,663.0	1,835.7
Marketing Expenses	1,371.1	0.0	0.0	0.0
Administrative Expenses	60.4	88.6	96.9	106.9
Other expenses	1,542.2	3,115.1	3,455.2	3,814.0
Total Operating Expenditure	10,148.5	11,172.5	12,162.9	13,347.0
EBITDA	3,201.5	3,656.9	4,055.2	4,555.1
Growth (%)	11.8	14.2	10.9	12.3
Depreciation	370.4	382.9	429.4	498.2
Interest	164.2	213.9	200.3	184.6
Other Income	145.9	161.8	178.0	178.0
PBT	2,812.8	3,221.9	3,603.5	4,050.3
Others	0.0	0.0	0.0	0.0
Total Tax	730.4	811.9	908.1	1,020.7
PAT	2,082.4	2,410.0	2,695.4	3,029.6
Growth (%)	5.7	15.7	11.8	12.4
EPS (₹)	216.0	249.9	279.6	314.2

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Profit after Tax	2,082.4	2,410.0	2,695.4	3,029.6
Add: Depreciation	370.4	382.9	429.4	498.2
(Inc)/dec in Current Assets	93.9	-1,168.5	-335.5	-407.0
Inc/(dec) in CL	345.0	186.6	246.1	298.6
CF from operating activities	2,891.8	1,811.0	3,035.5	3,419.4
(Inc)/dec in LT loans & adv	0.4	46.6	0.0	0.0
(Inc)/dec in other investments	2.8	-20.0	-20.0	-20.0
(Inc)/dec in Fixed Assets	-818.4	-920.0	-920.0	-820.0
Others	365.1	77.9	100.0	100.0
CF from investing activities	-478.9	-706.3	-840.0	-740.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	44.3	0.0	0.0	0.0
Dividend paid & dividend tax	-1,889.8	-2,073.0	-2,314.1	-2,506.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	281.9	0.0	0.0	0.0
CF from financing activities	-1,563.6	-2,073.0	-2,314.1	-2,506.9
Net Cash flow	849.2	-968.3	-118.6	172.5
Opening Cash	1,308.1	2,157.3	1,189.0	1,070.4
Closing Cash	2,157.3	1,189.0	1,070.4	1,242.8

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Liabilities				
Equity Capital	96.4	96.4	96.4	96.4
Reserve and Surplus	2,310.3	2,647.3	3,028.7	3,551.3
Total Shareholders funds	2,406.8	2,743.7	3,125.1	3,647.8
Total Debt	97.5	97.5	97.5	97.5
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long Term Provisions	3,268.3	3,368.3	3,468.3	3,568.3
Total Liabilities	5,794.6	6,209.5	6,690.8	7,313.5
Assets				
Gross Block	3,951.0	4,851.0	5,751.0	6,551.0
Less: Acc Depreciation	1,771.5	2,154.4	2,583.8	3,082.0
Net Block	2,179.4	2,696.5	3,167.2	3,468.9
Capital WIP	638.6	658.6	678.6	698.6
Total Fixed Assets	2,818.0	3,355.1	3,845.7	4,167.5
LT Loans & Advances	46.6	0.0	0.0	0.0
Inventory	1,416.5	1,617.9	1,769.4	1,953.1
Debtors	164.9	161.8	176.9	195.3
Loans and Advances	13.2	161.8	176.9	195.3
Current Investments	820.6	1,642.2	1,795.9	1,982.4
Cash	2,157.3	1,189.0	1,070.4	1,242.8
Total Current Assets	4,572.5	4,772.7	4,989.6	5,569.0
Creditors	1,516.6	1,779.7	1,946.3	2,148.5
Provisions	106.0	242.7	265.4	293.0
Other Current Liabilities	870.0	656.7	713.5	782.4
Total Current Liabilities	2,492.6	2,679.1	2,925.3	3,223.9
Net Current Assets	2,079.9	2,093.5	2,064.3	2,345.2
Application of Funds	5,794.6	6,209.5	6,690.8	7,313.5

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end December)	CY20	CY21E	CY22E	CY23E
Per share data (₹)				
EPS	216.0	249.9	279.6	314.2
Cash EPS	254.4	289.7	324.1	365.9
BV	249.6	284.6	324.1	378.3
DPS	196.0	215.0	240.0	260.0
Cash Per Share	183.7	223.4	268.0	319.6
Operating Ratios (%)				
EBITDA Margin	24.0	24.7	25.0	25.4
PBT / Net Sales	21.2	21.8	22.3	22.7
PAT Margin	15.7	16.3	16.7	17.0
Inventory days	38.9	40.0	40.0	40.0
Debtor days	4.5	4.0	4.0	4.0
Creditor days	41.7	44.0	44.0	44.0
Return Ratios (%)				
RoE	86.5	87.8	86.3	83.1
RoCE	50.9	54.9	56.4	57.5
RoIC	93.5	74.2	72.6	74.8
Valuation Ratios (x)				
P/E	83.3	72.0	64.4	57.3
EV / EBITDA	53.6	47.2	42.6	37.9
EV / Net Sales	12.9	11.7	10.7	9.7
Market Cap / Sales	13.1	11.8	10.7	9.7
Price to Book Value	72.1	63.3	55.5	47.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.0	1.4	1.4	1.4
Quick Ratio	0.4	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
Colgate (COLPAL)	1,614	2,000	Buy	43,899	39.2	42.6	47.6	41.2	37.9	33.9	8.5	7.8	7.1	110.9	111.9	112.4	85.1	85.8	86.2
Dabur India (DABIND)	593	740	Buy	104,789	10.6	12.0	13.4	56.1	49.5	44.3	9.7	8.8	7.9	25.8	27.1	27.7	22.3	23.1	23.1
Hindustan Unilever (HINLEV)	2,479	2,750	Hold	582,416	39.3	44.3	48.6	63.0	55.9	51.0	11.4	10.5	9.6	25.0	27.6	29.5	19.5	21.5	23.0
ITC Limited (ITC)	247	240	Hold	261,086	12.0	13.5	15.1	20.5	18.3	16.4	5.0	4.6	4.1	31.3	33.6	35.6	24.2	25.9	27.4
Jyothy Lab (JYOLAB)	161	180	Hold	6,248	5.7	6.5	7.1	28.1	24.8	22.6	3.0	2.8	2.6	25.2	27.0	28.5	21.0	22.6	23.9
Marico (MARLIM)	561	630	Buy	70,503	10.4	11.5	12.5	54.1	48.7	44.7	7.6	7.0	6.6	42.8	46.6	48.3	38.4	40.4	41.7
Nestle (NESIND)	19,278	20,450	Hold	185,686	249.9	279.6	314.2	77.1	69.0	61.4	12.6	11.5	10.4	54.9	56.4	57.5	87.8	86.3	83.1
Tata Consumer Products (TAT)	827	900	Buy	76,209	12.4	14.3	16.5	66.6	57.9	50.2	5.8	5.4	4.9	9.1	9.9	10.8	7.6	8.4	9.3
VST Industries (VSTIND)	3,599	3,850	Hold	5,384	231.1	255.2	272.6	15.6	14.1	13.2	4.4	4.1	3.8	45.0	48.2	54.5	33.4	36.0	40.8
Varun Beverage (VARBEV)	851	950	Buy	34,166	14.2	19.3	22.4	59.8	44.1	38.0	4.3	3.8	3.4	17.5	22.9	26.6	15.5	17.9	17.9
Zydus Wellness (ZYDWEL)	2,226	2,800	Buy	14,164	57.8	68.3	77.7	38.5	32.6	28.6	6.7	6.1	5.5	7.5	8.7	9.6	7.7	9.0	10.0

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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