

Retail Equity Research Nestle India Limited

Food Products

BSE CODE: 500790

NSE CODE: NESTLEIND

Bloomberg CODE: NEST:IN

SENSEX: 57,301

BUY

12 Months Investment period

Rating as per Large Cap

CMP Rs. 18,091 TARGET Rs. 19,995 RETURN 11%
(Closing: 22-02-22) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Domestic sales emerge as a major growth driver

Nestle India Ltd., a subsidiary of Nestle S.A., is a food processing company, primarily into manufacturing of milk products and other food products such as beverages and cereals.

- Revenue grew 10.2% to Rs. 14,709cr in CY21, due to domestic sales which accounted for 95% of total revenue. Domestic sales growth is largely driven by increased volume and mix. Also, strong growth momentum in key brands supported revenue.
- EBITDA margin rose 60bps YoY to 23.2%. PAT for Q4CY21 was at Rs. 387cr, a YoY decline of 20.0%.
- The company's diversified product portfolio and enhanced distribution network will continue to drive revenue. This along with increasing focus on e-commerce and new initiatives will enhance product penetration. We reiterate our BUY rating on the stock with a revised target price of Rs. 19,995 based on 60x CY23E adj. EPS.

Strong demand for major brands aids topline performance

Q4CY21 standalone revenue increased by 8.9% YoY to reach Rs. 3,739cr. Similarly, total sales and domestic sales for CY21 increased by 10.2% and 10.7% respectively. Domestic sales growth was largely driven by increased volume and mix. Strong growth momentum continued in Maggi Noodles due to increased availability. Key brands such as Kitkat, Munch and Nescafe Classic registered significant growth throughout the year. Growth in e-commerce channel was supported by new formats such as Quick Commerce and Click & Mortar. Export sales, however, registered decline, and reduced by 1.2% mainly due to lower coffee exports and a change in product mix.

One-off exceptional expense impacts PAT

In Q4CY21, company's gross profit was reported at Rs. 2,133cr (vs. Rs. 2,028cr in Q4CY20). For the full year CY21, gross profit was at Rs. 8,390cr as compared to Rs. 7,676 cr in CY20. EBITDA improved by 12.2% to Rs. 3,592cr, and margin improved to 24.4%. However, PAT for Q4CY21 was at Rs. 387cr, a YoY decline of 20.0%. This is mainly due to an exceptional expense of Rs. 237cr incurred due to change in employee benefit pension plan and transfer of liabilities to the insurer. For CY2021, PAT rose to Rs. 2,145cr, registering an improvement of 3.0%. The company is focusing on achieving cost efficiencies and price hikes to offset the negative impact of commodity price inflation.

Key highlights

- Rural market contributed around 20-25% of total sales aided by distribution expansion.
- Sales from innovative products was at 5% in CY21, an increase from 1.5% in 2016.
- The Board approved a final dividend of Rs. 65 per equity share, amounting to Rs. 6,267mn. The total dividend payout for 2021 is Rs. 200 per share.

Valuation

Nestle's strong product portfolio, increasing popularity of e-commerce channel, new product launches and distribution drives led to revenue growth in CY2021. Expansion of product offerings and exploring new opportunities remain key growth drivers. The company also received approval from the government for its proposal under the PLI Scheme. This will provide impetus to the manufacturing initiatives. Reduced intensity of the pandemic, cost initiatives and improvement in volumes are expected to support company performance. Hence, we reiterate our BUY rating on the stock with a forward target price of Rs. 19,995 using a target multiple of 60x CY23E adj. EPS.

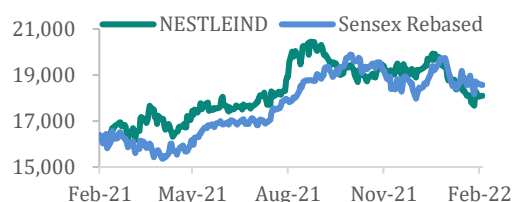
Company Data

Market Cap (cr)	Rs. 174,424
Enterprise Value (cr)	Rs. 173,597
Outstanding Shares (cr)	9.6
Free Float	37.0%
Dividend Yield	1.1%
52 week high	Rs. 20,600
52 week low	Rs. 15,900
6m average volume	3,158
Beta	0.4
Face value	Rs. 10

Shareholding %	Q2CY21	Q3FCY21	Q4CY21
Promoters	62.8	62.8	62.8
FII's	12.4	12.3	12.4
MFs/Insti	7.9	8.0	7.9
Public	13.4	13.3	13.3
Others	3.5	3.6	3.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-6.8%	-7.5%	10.4%
Absolute Sensex	-3.3%	4.3%	13.4%
Relative Return*	-3.5%	-11.7%	-2.9%

*over or under performance to benchmark index



Standalone (cr)	CY21A	CY22E	CY23E
Sales	14,709	16,229	18,381
Growth (%)	10.2	10.3	13.3
EBITDA	3,592	4,241	4,804
EBITDA Margin (%)	24.4	26.1	26.1
Adj. PAT	2,381	2,763	3,186
Growth (%)	14.4	16.0	15.3
Adj. EPS	247.0	286.6	330.5
Growth (%)	14.4	16.0	15.3
P/E	79.8	63.1	54.7
P/B	91.2	73.9	65.0
EV/EBITDA	52.7	40.9	36.1
ROE (%)	102.9	117.1	118.8
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q4CY21	Q4CY20	YoY Growth %	Q3CY21	QoQ Growth %	CY21	CY20	YoY Growth %
Revenue	3,739	3,433	8.9	3,883	(3.7)	14,709	13,350	10.2
EBITDA	866	777	11.4	948	(8.7)	3,592	3,202	12.2
EBITDA margins	23.2	22.6	60bps	24.4	(120bps)	24.4	24.0	40bps
Depreciation	106	96	10.7	96	10.7	390	370	5.3
EBIT	760	682	11.5	852	(10.9)	3,201	2,831	13.1
Interest	44	42	3.8	52	(16.0)	201	164	22.5
Other Income	27	31	(10.7)	34	(18.8)	120	146	(17.6)
Exceptional Items	(237)	-	n.m.	-	n.m.	(237)	-	n.m.
PBT	507	670	(24.3)	834	(39.2)	2,884	2,813	2.5
Tax	121	187	(35.5)	217	(44.4)	739	730	1.2
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	387	483	(20.0)	617	(37.4)	2,145	2,082	3.0
Adjustments	237	-	n.m.	-	n.m.	237	-	n.m.
Adj. PAT	623	483	28.9	617	0.9	2,381	2,082	14.4
No. of shares	9.6	9.6	-	9.6	-	9.6	9.6	-
Adj. EPS (Rs.)	64.6	50.1	28.9	64.0	0.9	247.0	216.0	14.3

Change in Estimates

Year / Rs. Cr	Old estimates		New estimates		Change %	
	CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
Revenue	16,959	19,158	16,229	18,381	(4.3)	(4.1)
EBITDA	4,190	4,733	4,241	4,804	1.2	1.5
Margins (%)	24.7	24.7	26.1	26.1	140bps	140bps
Adj. PAT	2,882	3,285	2,763	3,186	(4.1)	(3.0)
Adj. EPS	298.9	340.7	286.6	330.5	(4.1)	(3.0)

PROFIT & LOSS

Y.E December (Rs. cr)	CY19A	CY20A	CY21A	CY22E	CY23E
Revenue	12,369	13,350	14,709	16,229	18,381
% change	9.5	7.9	10.2	10.3	13.3
EBITDA	2,926	3,202	3,592	4,241	4,804
% change	8.9	9.4	12.2	18.1	13.3
Depreciation	370	370	390	509	491
EBIT	2,556	2,831	3,201	3,732	4,312
Interest	129	164	201	105	123
Other Income	247	146	(116)	133	146
PBT	2,673	2,813	2,884	3,760	4,335
% change	10.1	5.2	2.5	30.4	15.3
Tax	705	730	739	996	1,149
Tax Rate (%)	26.4	26.0	25.6	26.5	26.5
Reported PAT	1,968	2,082	2,145	2,763	3,186
Adj*	-	-	237	-	-
Adj PAT	1,968	2,082	2,381	2,763	3,186
% change	22.5	5.8	14.4	16.0	15.3
No. of shares (cr)	9.6	9.6	9.6	9.6	9.6
Adj EPS (Rs.)	204.2	216.0	247.0	286.6	330.5
% change	22.5	5.8	14.4	16.0	15.3
DPS (Rs.)	342.0	200.0	200.0	258.0	297.1
CEPS (Rs.)	242.6	254.4	287.5	339.4	381.5

CASH FLOW

Y.E December (Rs. cr)	CY19A	CY20A	CY21A	CY22E	CY23E
Net inc. + Depn.	2,339	2,453	2,535	3,272	3,678
Non-cash adj.	21	154	(321)	(69)	(69)
Changes in W.C	(64)	(152)	57	(88)	(391)
C.F. Operation	2,295	2,454	2,271	3,116	3,219
Capital exp.	(152)	(474)	(731)	(406)	(184)
Change in inv.	(16)	-	(1,379)	-	-
Other invest.CF	251	153	153	-	-
C.F - Investment	83	(321)	(1,957)	(406)	(184)
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(2,950)	(1,890)	(1,928)	(2,488)	(2,865)
Other finance.CF	(651)	(66)	(90)	(105)	(123)
C.F - Finance	(3,602)	(1,956)	(2,019)	(2,593)	(2,988)
Chg. in cash	(1,223)	177	(1,704)	118	47
Closing cash	1,308	1,770	735	853	900

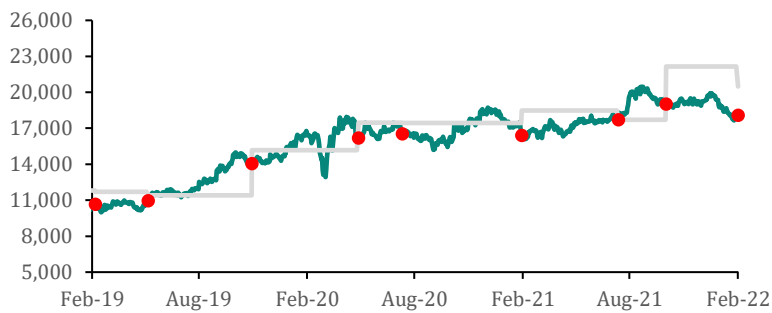
BALANCE SHEET

Y.E December (Rs. cr)	CY19A	CY20A	CY21A	CY22E	CY23E
Cash	1,308	1,770	735	853	900
Accounts Receivable	124	165	165	195	221
Inventories	1,283	1,416	1,580	1,667	2,266
Other Cur. Assets	1,102	834	258	466	560
Investments	744	741	711	711	711
Gross Fixed Assets	3,637	4,111	4,842	5,248	5,432
Net Fixed Assets	2,198	1,541	2,748	2,796	2,455
CWIP	143	639	246	95	128
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	271	794	1,767	1,691	1,805
Total Assets	7,173	7,900	8,210	8,474	9,045
Current Liabilities	2,191	2,489	2,597	2,569	2,785
Provisions	2,907	3,268	3,285	3,301	3,334
Debt Funds	53	35	34	34	34
Other Liabilities	103	88	210	210	210
Equity Capital	96	96	96	96	96
Reserves & Surplus	1,822	1,923	1,988	2,264	2,586
Shareholder's Fund	1,919	2,019	2,084	2,360	2,682
Minority Interest	-	-	-	-	-
Total Liabilities	7,173	7,900	8,210	8,474	9,045
BVPS (Rs.)	199	209	216	245	278

RATIOS

Y.E December	CY19A	CY20A	CY21A	CY22E	CY23E
Profitab. & Return					
EBITDA margin (%)	23.7	24.0	24.4	26.1	26.1
EBIT margin (%)	20.7	21.2	21.8	23.0	23.5
Net profit mgn.(%)	15.9	15.6	14.6	17.0	17.3
ROE (%)	102.6	103.1	102.9	117.1	118.8
ROCE (%)	129.6	137.8	151.1	155.9	158.8
W.C & Liquidity					
Receivables (days)	3.7	4.5	4.1	4.4	4.4
Inventory (days)	89.6	91.1	91.3	91.3	109.5
Payables (days)	104.2	97.6	100.2	96.6	96.6
Current ratio (x)	1.7	1.7	1.1	1.2	1.4
Quick ratio (x)	1.1	1.1	0.4	0.4	0.4
Turnover & Leverage					
Gross asset T.O (x)	3.5	3.4	3.3	3.2	3.4
Total asset T.O (x)	1.6	1.8	1.8	1.9	2.1
Int. coverage ratio (x)	19.8	17.2	15.9	35.5	35.1
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	11.4	13.2	12.9	10.7	9.4
EV/EBITDA (x)	48.3	54.8	52.7	40.9	36.1
P/E (x)	72.4	85.2	79.8	63.1	54.7
P/BV (x)	74.3	87.8	91.2	73.9	65.0

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
27-May-19	HOLD	11,400
19-Nov-19	HOLD	15,170
18-May-20	HOLD	17,460
31-Jul-20	HOLD	17,430
19-Feb-21	BUY	18,490
2-Aug-21	BUY	17,720
22-Oct-21	BUY	22,150
23-Feb-22	BUY	19,995

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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