

## Accumulate

### Resilient Performance; Maintain Accumulate

- Nestlé's Q4CY20 revenues came in line with our estimates with 10% volume and mix growth in the domestic market.
- In-house consumption brands witnessed double digit growth – supported by improved supply situation. Out of home categories continues to report sequential improvement.
- E-com business (3.7% contribution) witnessed strong acceleration with 111% growth. Exports decreased 7.7% YoY.
- We have marginally tweaked our CY21E and CY22E EPS estimates at Rs 259 (-2.0%), Rs 290 (-1.5%) respectively to factor in Q4 performance. Considering niche play and unique positioning in multiple categories, we believe that the stock would continue to command higher premium compared to peers. Valuing the stock at 60x CY22E EPS, we have arrived at TP of Rs 17,667. Maintain Accumulate. Buy on dips.

### Revenues in line; APAT was a miss

Net Sales stood at Rs 34.3bn, up 9.0% YoY in Q4CY20. EBITDA increased by 12.0% YoY to Rs 7.8bn. EBITDA margin expanded by 60bps to 22.6% as 230bps expansion in GM was partially offset by 150/20bps increase in employee cast/other expenses. RM costs decline can be largely attributed to benign dairy prices. Increase in employee cost is attributed to higher incentives in view of COVID and finalisation of long-term compensation arrangements for most factory employees. Other expenses remained stable due to reduction in overheads with restricted operations. APAT increased 2.3% YoY to Rs 4.8bn – below our estimates.

### Double digit growth continues in domestic market

During Q4CY20, domestic business posted 10.1% increase driven by volume and mix growth. Though Out of Home categories continued to witness headwinds, higher sales of MAGGI Noodles, MAGGI Sauces, KITKAT, NESCAFÉ CLASSIC & NESCAFÉ SUNRISE boost overall sales. With increasing contribution of e-com, overall portfolio is expected to gain traction. Further, the company plans to invest Rs 26bn in existing facilities and greenfield facility in Sanand over 3-4 years likely to strengthen supply. We believe that this would help the company to boost production to maintain consistent growth in coming years

### Q4CY20 Result (Rs Mn)

Particulars	Q4CY20	Q4CY19	YoY (%)	Q3CY20	QoQ (%)
Revenue	34,326	31,493	9.0	35,417	(3.1)
Total Expense	26,555	24,552	8.2	26,581	(0.1)
EBITDA	7,770	6,941	12.0	8,836	(12.1)
Depreciation	955	936	2.1	911	4.8
EBIT	6,815	6,005	13.5	7,925	(14.0)
Other Income	306	447	(31.5)	345	(11.2)
Interest	420	311	34.9	405	3.8
EBT	6,702	6,141	9.1	7,865	(14.8)
Tax	1,869	1,415	32.1	1,994	(6.3)
RPAT	4,833	4,726	2.3	5,871	(17.7)
APAT	4,833	4,726	2.3	5,871	(17.7)
			(bps)		(bps)
Gross Margin (%)	59.1	56.8	231	58.1	99
EBITDA Margin (%)	22.6	22.0	60	24.9	(231)
NPM (%)	14.1	15.0	(93)	16.6	(250)
Tax Rate (%)	27.9	23.0	485	25.4	253
EBIT Margin (%)	19.9	19.1	79	22.4	(252)

CMP	Rs 17,217
Target / Upside	Rs 17,667 / 3%
NIFTY	15,314

### Scrip Details

Equity / FV	Rs 964mn / Rs 10
Market Cap	Rs 1,660bn
	USD 23bn
52-week High/Low	Rs 18,844/ 12,200
Avg. Volume (no)	141,287
Bloom Code	NEST IN

Price Performance	1M	3M	12M
Absolute (%)	(3)	2	5
Rel to NIFTY (%)	(3)	2	12

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	62.8	62.8	62.8
MF/Banks/FIs	8.7	8.7	7.7
FIIIs	12.1	12.1	12.8
Public / Others	16.4	16.4	16.7

### Valuation (x)

	CY20A	CY21E	CY22E
P/E	79.7	66.5	59.4
EV/EBITDA	51.1	43.5	39.1
ROE (%)	105.4	108.4	92.5
RoACE (%)	110.2	113.5	97.3

### Estimates (Rs mn)

	CY20A	CY21E	CY22E
Revenue	133,500	149,564	164,785
EBITDA	32,014	37,480	41,444
PAT	20,824	24,979	27,953
EPS (Rs.)	216.0	259.1	289.9

**VP - Research: Sachin Bobade**  
 Tel: +91 22 40969731  
 E-mail: sachinb@dolatcapital.com

**Associate: Nikhat Koor**  
 Tel: +91 22 40969764  
 E-mail: nikhatk@dolatcapital.com

### Exhibit 1: Actual V/s DART estimate

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	34,326	34,604	(0.8)	
EBITDA	7,770	8,492	(8.5)	
EBITDA margin %	22.6	24.5	(190)	Employee and other expenses were higher than estimates
APAT	4,833	5,643	(14.3)	Cascading effect of lower than expected EBITDA

Source: Company, DART

### Exhibit 2: Change in estimates

	CY21E			CY22E		
	New	Old	Change %	New	Old	Change %
Revenue	149,564	149,923	(0.2)	164,785	165,181	(0.2)
EBITDA	37,480	37,569	(0.2)	41,444	41,528	(0.2)
EBITDA Margin	25.1	25.1	0 bps	25.2	25.1	0 bps
PAT	24,979	25,489	(2.0)	27,953	28,385	(1.5)
EPS (Rs)	259.1	264.4	(2.0)	290.0	294.5	(1.5)

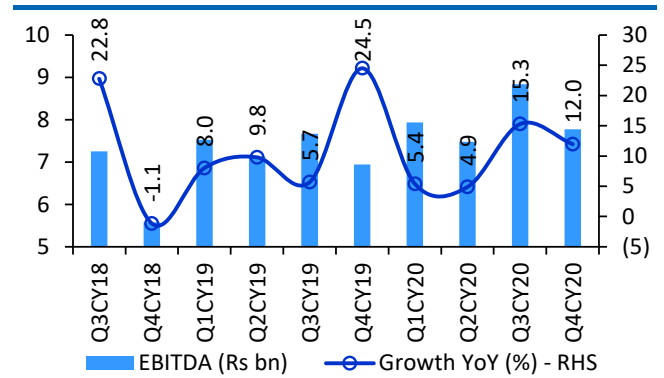
Source: Company, DART

### Exhibit 3: Net Sales and Growth Trend



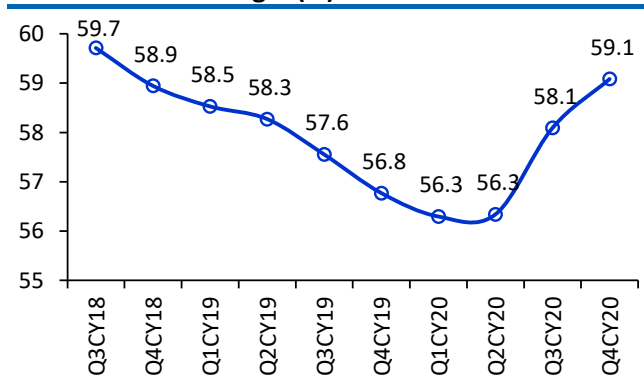
Source: Company, DART

### Exhibit 4: EBITDA and EBITDA Growth Trend



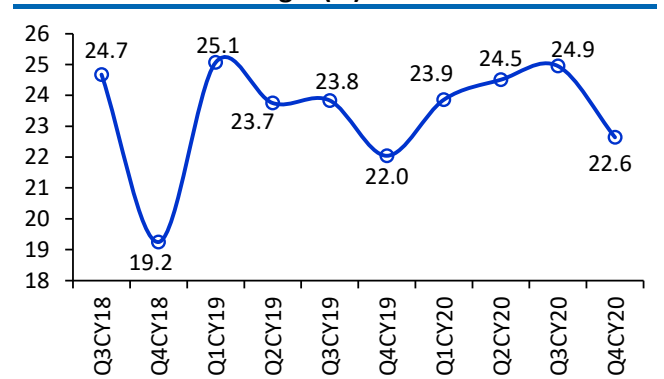
Source: Company, DART

### Exhibit 5: Gross margin (%)



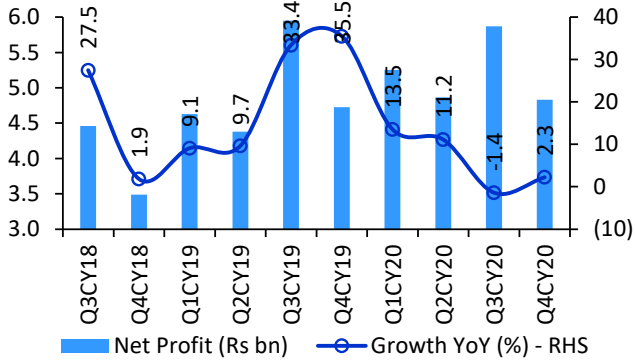
Source: Company, DART

### Exhibit 6: EBITDA margin (%)



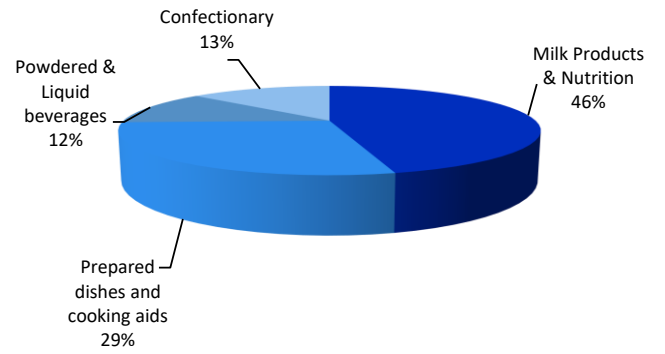
Source: Company, DART

**Exhibit 7: Net Profit and Growth Trend**



Source: Company, DART

**Exhibit 8: Revenue Breakup (CY19)**



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	CY19A	CY20A	CY21E	CY22E
<b>Revenue</b>	<b>123,689</b>	<b>133,500</b>	<b>149,564</b>	<b>164,785</b>
<b>Total Expense</b>	<b>94,430</b>	<b>101,485</b>	<b>112,084</b>	<b>123,340</b>
COGS	52,239	56,739	62,300	68,841
Employees Cost	12,582	15,010	16,811	18,155
Other expenses	29,609	29,737	32,974	36,344
<b>EBIDTA</b>	<b>29,259</b>	<b>32,014</b>	<b>37,480</b>	<b>41,444</b>
Depreciation	3,702	3,704	3,970	4,031
<b>EBIT</b>	<b>25,557</b>	<b>28,311</b>	<b>33,510</b>	<b>37,413</b>
Interest	1,291	1,642	1,806	1,987
Other Income	2,469	1,459	1,677	1,929
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>26,735</b>	<b>28,127</b>	<b>33,381</b>	<b>37,355</b>
Tax	7,050	7,304	8,402	9,402
RPAT	19,684	20,824	24,979	27,953
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>19,684</b>	<b>20,824</b>	<b>24,979</b>	<b>27,953</b>

**Balance Sheet**

(Rs Mn)	CY19A	CY20A	CY21E	CY22E
<b>Sources of Funds</b>				
Equity Capital	964	964	964	964
Minority Interest	0	0	0	0
Reserves & Surplus	18,358	19,229	24,928	33,601
<b>Net Worth</b>	<b>19,323</b>	<b>20,193</b>	<b>25,892</b>	<b>34,565</b>
Total Debt	531	348	348	348
Net Deferred Tax Liability	180	199	199	199
<b>Total Capital Employed</b>	<b>20,034</b>	<b>20,740</b>	<b>26,439</b>	<b>35,112</b>

**Applications of Funds**

Net Block	<b>22,267</b>	<b>23,264</b>	<b>21,294</b>	<b>21,263</b>
CWIP	1,433	1,685	4,685	7,685
Investments	7,436	7,408	7,408	7,408
<b>Current Assets, Loans &amp; Advances</b>	<b>38,641</b>	<b>42,313</b>	<b>47,848</b>	<b>58,618</b>
Inventories	12,831	14,164	15,502	17,080
Receivables	1,243	1,649	1,632	1,798
Cash and Bank Balances	13,081	17,699	21,912	30,938
Loans and Advances	594	597	597	597
Other Current Assets	818	975	975	975
<b>Less: Current Liabilities &amp; Provisions</b>	<b>49,744</b>	<b>53,930</b>	<b>54,795</b>	<b>59,861</b>
Payables	14,947	15,165	14,279	15,732
Other Current Liabilities	34,797	38,765	40,517	44,129
	<i>sub total</i>			
Net Current Assets	(11,103)	(11,617)	(6,948)	(1,243)
<b>Total Assets</b>	<b>20,034</b>	<b>20,740</b>	<b>26,439</b>	<b>35,112</b>

E – Estimates

**Important Ratios**

Particulars	CY19A	CY20A	CY21E	CY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	57.8	57.5	58.3	58.2
EBIDTA Margin	23.7	24.0	25.1	25.2
EBIT Margin	20.7	21.2	22.4	22.7
Tax rate	26.4	26.0	25.2	25.2
Net Profit Margin	15.9	15.6	16.7	17.0
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	42.2	42.5	41.7	41.8
Employee	10.2	11.2	11.2	11.0
Other	23.9	22.3	22.0	22.1
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	19.8	17.2	18.6	18.8
Inventory days	38	39	38	38
Debtors days	4	5	4	4
Average Cost of Debt	292.5	373.4	519.0	570.9
Payable days	44	41	35	35
Working Capital days	(33)	(32)	(17)	(3)
FA T/O	5.6	5.7	7.0	7.7
<b>(D) Measures of Investment</b>				
AEPS (Rs)	204.2	216.0	259.1	289.9
CEPS (Rs)	242.5	254.4	300.2	331.7
DPS (Rs)	368.8	196.0	200.0	200.0
Dividend Payout (%)	180.7	90.7	77.2	69.0
BVPS (Rs)	200.4	209.4	268.5	358.5
RoANW (%)	70.2	105.4	108.4	92.5
RoACE (%)	72.7	110.2	113.5	97.3
RoAIC (%)	179.2	566.5	885.5	859.9
<b>(E) Valuation Ratios</b>				
CMP (Rs)	17217	17217	17217	17217
P/E	84.3	79.7	66.5	59.4
Mcap (Rs Mn)	1,660,092	1,660,092	1,660,092	1,660,092
MCap/ Sales	13.4	12.4	11.1	10.1
EV	1,637,468	1,635,512	1,631,298	1,622,273
EV/Sales	13.2	12.3	10.9	9.8
EV/EBITDA	56.0	51.1	43.5	39.1
P/BV	85.9	82.2	64.1	48.0
Dividend Yield (%)	2.1	1.1	1.2	1.2
<b>(F) Growth Rate (%)</b>				
Revenue	9.5	7.9	12.0	10.2
EBITDA	11.3	9.4	17.1	10.6
EBIT	12.0	10.8	18.4	11.6
PBT	10.1	5.2	18.7	11.9
APAT	22.5	5.8	20.0	11.9
EPS	22.5	5.8	20.0	11.9

**Cash Flow**

(Rs Mn)	CY19A	CY20A	CY21E	CY22E
CFO	27,168	26,834	28,493	35,306
CFI	6,731	(2,080)	(5,000)	(7,000)
CFE	(35,417)	(19,214)	(19,280)	(19,280)
FCFF	24,825	21,882	23,493	28,306
Opening Cash	16,101	13,081	17,699	21,912
Closing Cash	13,081	17,699	21,912	30,938

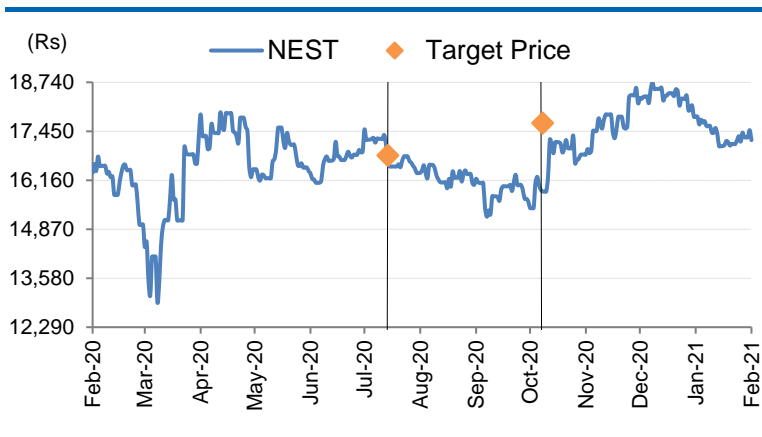
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-20	Reduce	16,813	16,598
Oct-20	Accumulate	17,667	15,865

\*Price as on recommendation date

### DART Team

<b>Purvag Shah</b>	<b>Managing Director</b>	<b>purvag@dolatcapital.com</b>	<b>+9122 4096 9747</b>
--------------------	--------------------------	--------------------------------	------------------------

<b>Amit Khurana, CFA</b>	<b>Head of Equities</b>	<b>amit@dolatcapital.com</b>	<b>+9122 4096 9745</b>
--------------------------	-------------------------	------------------------------	------------------------

#### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat Capital Market Private Limited.**

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

---

**Analyst(s) Certification**

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

---

**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)****II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

**For U.S. Entity/ persons only:** This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd StoneX Financial Inc. ("StoneX"). Transactions in securities discussed in this research report should be effected through StoneX Financial Inc. ("StoneX") or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.



---

**Dolat Capital Market Private Limited.**

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)

---