

## Rural expansion; capacity addition to drive growth

Nestlé India (NIL) reported a healthy set of numbers with 8.6% revenue growth contributed by 10.2% domestic sales growth. Some brands like Maggi Noodles, KitKat, Nescafe Classic, Milkmaid, Maggi Sauces & Masala-Ae-Magic witnessed strong double digit growth. Post pandemic, e-commerce channel has been growing strongly for the industry and remained prominent growth channel with 66% growth in Q1 for the company. It is contributing 3.8% to sales. Gross margins expanded 223 bps mainly due to lower milk prices. It is important to note that milk procurement prices in base quarter saw exorbitant increase. Employee spend was lower by 58 bps (as percentage to sales) whereas overhead spends were up 131 bps (as percentage to sales). Operating profit increased 17.3% to ₹ 930.6 crore. Operating margins increased 191 bps to 25.8%. PAT increased 14.6% to ₹ 602.2 crore. The company declared an interim dividend of ₹ 25/share.

### Rural distribution expansion important for growth

NIL saw muted 2.6% volume growth in CY20 despite most packaged food categories seeing stronger growth in a pandemic year. We believe it could not fully capture the strong rural growth last year. In the last five years, NIL has expanded its rural distribution to 0.9 lakh villages and is looking to further expand its rural reach to 1.2 lakh villages by 2024. Moreover, it is also looking to expand its product range availability in rural India. The other important aspect for growth remains new product launches. We believe NIL would be able to continue its new product innovation with 40-50 new products in pipeline. We expect 10.2% revenue CAGR in CY20-22E on the back of new product launches, distribution expansion

### Large capex ahead; rising milk prices to pressurise margins

The company aiming to undertake ₹ 2600 crore capex in the next three to four years. The new factory at Sanand would be commissioned by the end of the year. The new capex would be largely for existing categories like noodles, coffee & confectionary. We believe this capacity addition would help the company grow at a faster pace to capture the demand tailwinds of consumption shift towards package foods. In the near term, rising milk prices & crude based packaging material prices could adversely impact gross margins. However, we believe NIL would be able to pass on this increase with calibrated price hikes and rationalisation of other overhead costs. We expect operating margin expansion of 100 bps by CY22E.

### Valuation & Outlook

NIL has been able to grow at a consistent pace in the last four years. However, volume growth has moderated to 2.6% in CY20. We believe certain supply constraints during peak of the pandemic and relatively smaller presence in rural regions impacted growth last year. However, we believe the company is well placed to capture the growth now with increasing rural presence and capacity addition in existing categories. We believe NIL would be able to maintain dividend-payout of ~80%. The stock is trading at premium valuation multiples at 67x CY21E & 60x CY22E. We maintain our **HOLD** recommendation with a revised target price of ₹ 19300/share (earlier TP: ₹ 18000).



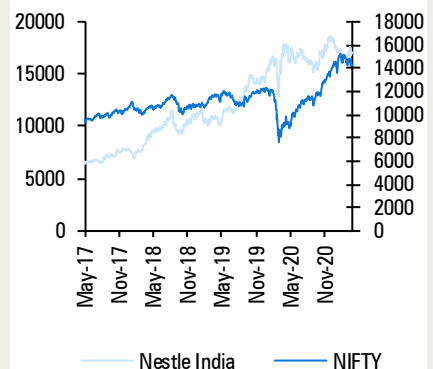
#### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	164840
Total Debt (CY20)	97.5
Cash & Investments (CY20)	2,492.8
EV	162,444.3
52 week H/L (₹)	18821 / 15104
Equity capital	96.4
Face value (₹)	10.0

#### Key Risk

- Incessant commodity price increase can impact margins adversely, going forward
- The stronger at-home consumption in second wave can lead to higher than expected growth in CY22

#### Price Performance



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#### Key Financial Summary

Key Financials	CY18	CY19	CY20	CY21E	CY22E	CAGR (CY20-22E)
Net Sales	11216.2	12295.3	13290.2	14763.6	16145.7	10.2%
EBITDA	2759.8	2864.3	3201.5	3656.9	4055.2	12.5%
EBITDA Margin %	24.6	23.3	24.1	24.8	25.1	
Net Profit	1606.9	1969.6	2082.4	2456.6	2736.8	14.6%
EPS (₹)	166.66	204.27	215.97	254.78	283.84	
P/E	102.6	83.7	79.2	67.1	60.2	
RoNW %	45.6	101.9	103.1	124.2	142.1	
RoCE (%)	42.9	56.9	54.6	62.7	69.1	

**Exhibit 1: Variance Analysis**

Particulars (₹ crore)	Q1CY21	Q1CY21E	Q1CY20	YoY (%)	Q4CY20	QoQ (%)	Comments
Total Operating Income	3,610.8	3,683.3	3,325.3	8.6	3,432.6	5.2	Revenues grew 8.6% led by 10.2% growth in the domestic business. However, exports declined 12.9%
Operating Income	10.6	16.5	19.5	-45.5	15.1	-29.5	
Raw Material Expenses	1,497.6	1,591.4	1,453.3	3.1	1,404.5	6.6	Gross margins expanded 223 bps given milk prices have been lower compared to elevated prices in the base quarter
Employee Expenses	368.1	403.4	358.4	2.7	403.3	-8.7	Employee spend was down 58 bps
Other operating Expenses	814.6	814.0	720.3	13.1	847.8	-3.9	Overhead spends were up 131 bps
EBITDA	930.6	874.5	793.3	17.3	777.0	19.8	Operating profit witnessed growth of 17.3% during the quarter
EBITDA Margin (%)	25.8	23.7	23.9	191 bps	22.6	313 bps	
Depreciation	94.3	93.5	91.4	3.2	95.5	-1.2	
Interest	54.0	39.8	41.0	31.9	42.0	28.8	
Other Income	29.7	44.2	42.9	-30.8	30.6	-3.1	
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
PBT	811.9	785.3	703.9	15.3	670.2	21.1	
Tax Outgo	209.6	197.9	178.4	17.5	186.9	12.2	
PAT	602.2	587.4	525.4	14.6	483.3	24.6	Net profit witnessed growth of 14.6%
Adjusted PAT	602.2	587.4	525.4	14.6	483.3	24.6	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	CY21E			CY22E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	14,667.3	14,763.6	0.7	16,109.7	16,145.7	0.2	No major change in our estimates
EBITDA	3633.6	3656.9	0.6	4036.8	4055.2	0.5	
EBITDA Margin(%)	24.8	24.8	0 bps	25.1	25.1	6 bps	
PAT	2451.1	2456.6	0.2	2736.8	2736.8	0.0	
EPS (₹)	254.2	254.8	0.2	283.8	283.8	0.0	

Source: Company, ICICI Direct Research

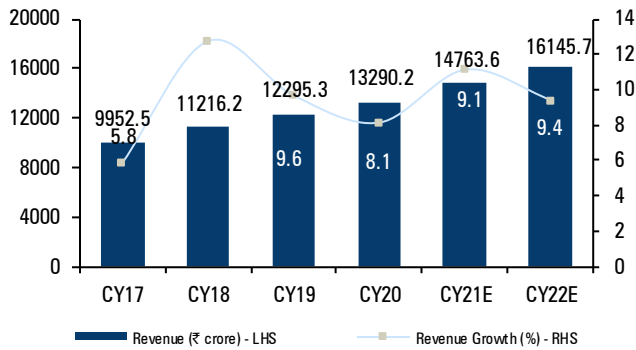
**Exhibit 3: Assumptions**

	Current						Earlier		Comments	
	CY16	CY17	CY18	CY19E	CY20E	CY21E	CY22E	CY21E		CY22E
<b>Gross Sales (₹ crore)</b>										
Milk Product and Nutrition	4,635.0	4,819.6	5,187.6	5,651.8	6,148.8	6,779.0	7,331.5	6,736.5	7,354.9	No major change in our estimates
Beverages	1,286.1	1,387.0	1,522.6	1,501.8	1,476.3	1,626.2	1,741.0	1,672.8	1,790.9	
Prepared dishes	2,317.6	2,707.1	3,105.3	3,498.2	3,910.8	4,387.9	4,963.6	4,356.7	4,928.3	
Chocolate & confectionery	1,170.9	1,221.4	1,400.7	1,643.5	1,754.3	1,970.4	2,109.6	1,901.3	2,035.6	
<b>Volume Growth (%)</b>										
Overall Volume Growth	25.0	10.9	11.1	7.0	2.6	8.3	9.2	8.2	9.4	
Milk Product and Nutrition	-2.4	1.6	4.8	1.4	-0.4	5.0	5.0	5.0	6.0	
Beverages	-0.2	10.6	10.6	-2.3	-21.3	8.0	6.0	6.0	6.0	
Prepared dishes	71.5	19.0	14.5	9.6	6.6	10.0	12.0	10.0	12.0	
Chocolate & confectionery	6.7	4.3	14.7	16.2	2.7	8.0	6.0	8.0	6.0	

Source: Company, ICICI Direct Research

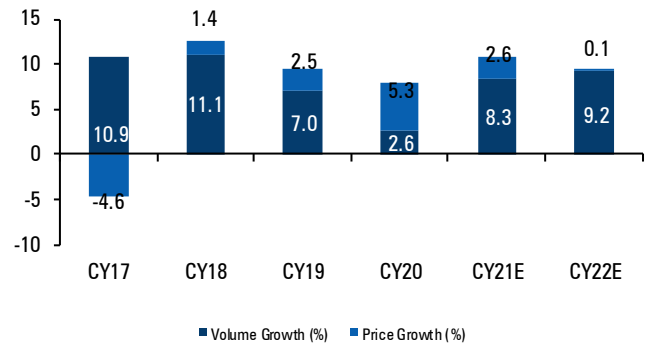
## Key Metrics

Exhibit 4: Revenue growth trend



Source: Company, ICICI Direct Research

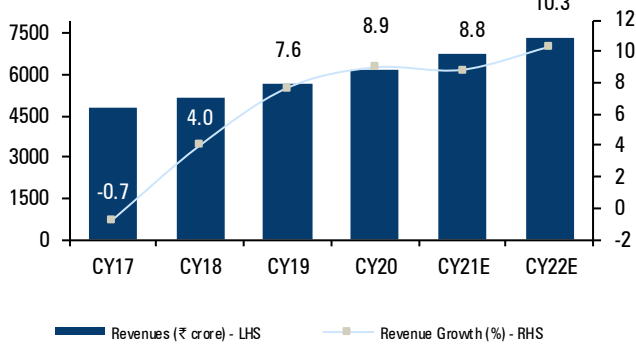
Exhibit 5: Volume growth to drive revenue



Source: Company, ICICI Direct Research

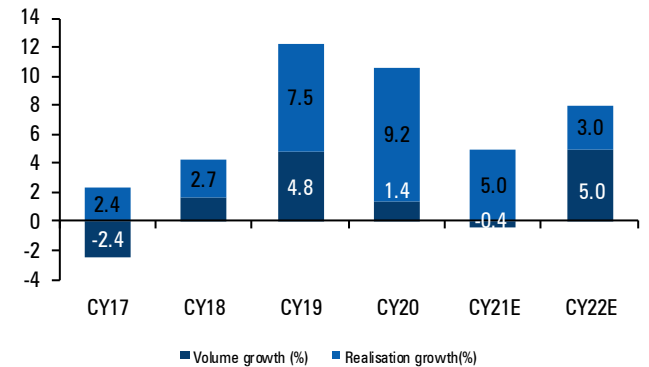
## Milk products & nutrition

Exhibit 6: Revenue to grow at 9.2% CAGR over CY20-22E



Source: Company, ICICI Direct Research

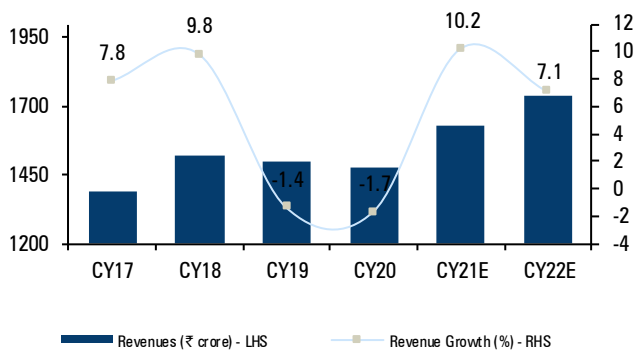
Exhibit 7: Revenue growth to be mix of volume, price growth



Source: Company, ICICI Direct Research

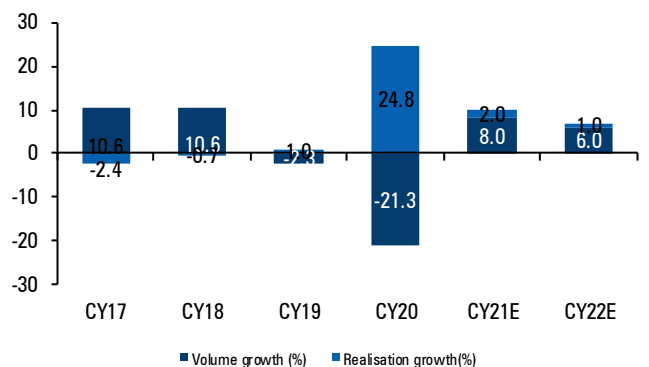
## Beverages

Exhibit 8: Beverages revenue growth expected at 8.6% CAGR during CY20-22E



Source: Company, ICICI Direct Research

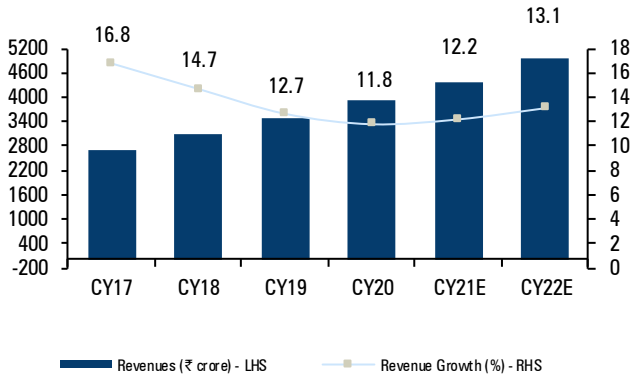
Exhibit 9: Volume growth not significantly impacted by lockdown



Source: Company, ICICI Direct Research

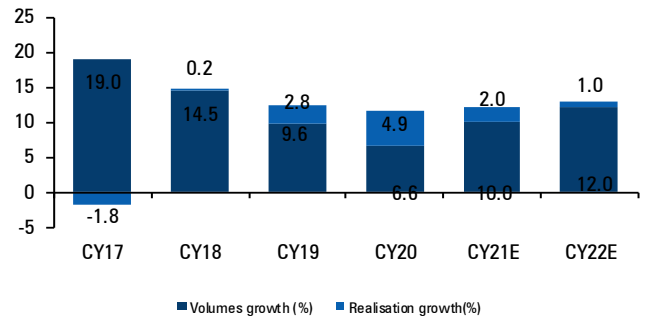
Prepared dishes

Exhibit 10: Volumes to grow with high in-home consumption



Source: Company, ICICI Direct Research

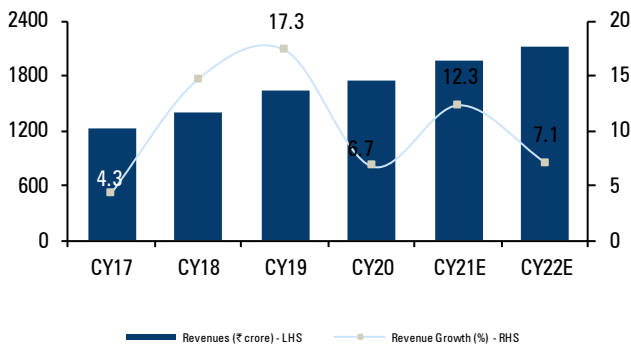
Exhibit 11: Growth aided by strong demand for convenient food



Source: Company, ICICI Direct Research

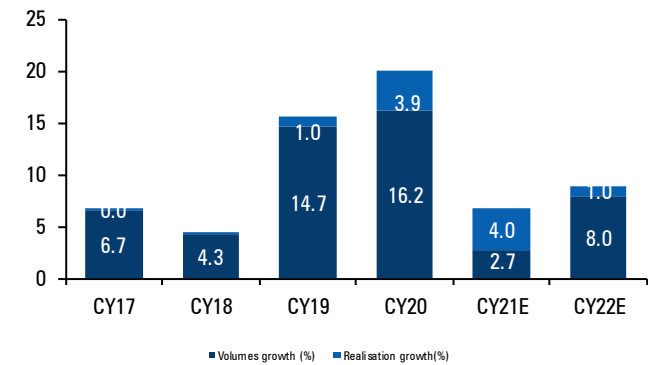
Chocolate & confectionery

Exhibit 12: Sales to gain traction, going forward



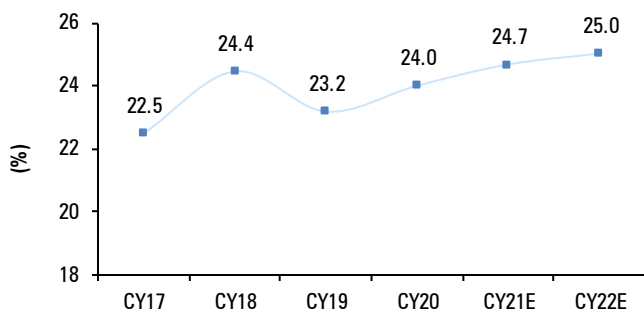
Source: Company, ICICI Direct Research

Exhibit 13: Volume growth to return in CY21E



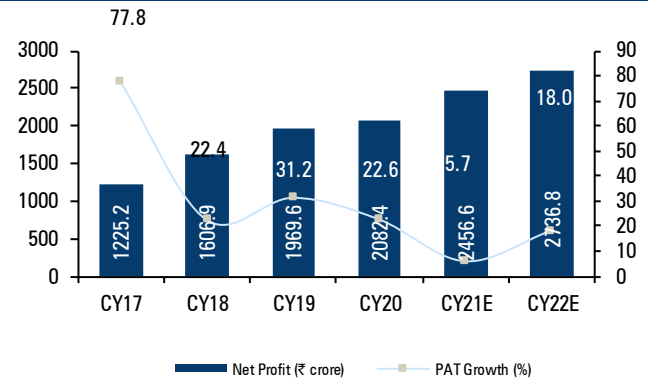
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA margin to remain at elevated levels



Source: Company, ICICI Direct Research

Exhibit 15: PAT to grow at 11.6% CAGR over CY19-22E



Source: Company, ICICI Direct Research

Exhibit 16: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY19	12295.3	9.6	204.3	22.6	83.7	57.1	101.9	56.9
CY20	13290.2	8.1	216.0	5.7	79.2	51.0	103.1	54.6
CY21E	14763.6	11.1	254.8	18.0	67.1	44.9	124.2	62.7
CY22E	16145.7	9.4	283.8	11.4	60.2	40.6	142.1	69.1

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end December)	CY19	CY20	CY21E	CY22E
<b>Total operating Income</b>	<b>12,368.9</b>	<b>13,350.0</b>	<b>14,829.5</b>	<b>16,218.2</b>
Growth (%)	9.5	7.9	11.1	9.4
Raw Material Expenses	5,223.9	5,673.9	6,374.4	6,947.9
Employee Expenses	1,263.0	1,501.0	1,594.5	1,663.0
Marketing Expenses	1,363.6	1,371.1	0.0	0.0
Administrative Expenses	63.2	60.4	88.6	96.9
Other expenses	1,591.0	1,542.2	3,115.1	3,455.2
Total Operating Expenditure	9,504.6	10,148.5	11,172.5	12,162.9
<b>EBITDA</b>	<b>2,864.3</b>	<b>3,201.5</b>	<b>3,656.9</b>	<b>4,055.2</b>
Growth (%)	3.8	11.8	14.2	10.9
Depreciation	316.4	370.4	374.2	405.1
Interest	119.8	164.2	160.3	169.3
Other Income	246.9	145.9	161.8	178.0
PBT	2,675.0	2,812.8	3,284.2	3,658.9
Others	0.0	0.0	0.0	0.0
Total Tax	705.4	730.4	827.6	922.0
<b>PAT</b>	<b>1,969.6</b>	<b>2,082.4</b>	<b>2,456.6</b>	<b>2,736.8</b>
Growth (%)	22.6	5.7	18.0	11.4
EPS (₹)	204.3	216.0	254.8	283.8

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end December)	CY19	CY20	CY21E	CY22E
Profit after Tax	1,969.6	2,082.4	2,456.6	2,736.8
Add: Depreciation	316.4	370.4	374.2	405.1
(Inc)/dec in Current Assets	617.8	93.9	-1,168.5	-335.5
Inc/(dec) in CL	292.6	345.0	186.6	246.1
<b>CF from operating activities</b>	<b>3,196.2</b>	<b>2,891.8</b>	<b>1,848.9</b>	<b>3,052.5</b>
(Inc)/dec in LT loans & adv	-6.8	0.4	46.6	0.0
(Inc)/dec in other investments	-10.2	2.8	-20.0	-20.0
(Inc)/dec in Fixed Assets	-180.6	-818.4	-720.0	-720.0
Others	401.0	365.1	77.9	100.0
<b>CF from investing activities</b>	<b>194.8</b>	<b>-478.9</b>	<b>-506.3</b>	<b>-640.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	18.0	44.3	0.0	0.0
Dividend paid & dividend tax	-3,957.1	-2,277.2	-2,498.0	-2,788.5
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	246.0	281.9	0.0	0.0
<b>CF from financing activities</b>	<b>-3,693.0</b>	<b>-1,951.0</b>	<b>-2,498.0</b>	<b>-2,788.5</b>
Net Cash flow	-302.0	461.8	-1155.4	-375.9
Opening Cash	1,610.1	1,308.1	1,769.9	614.5
<b>Closing Cash</b>	<b>1,308.1</b>	<b>1,769.9</b>	<b>614.5</b>	<b>238.6</b>

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end December)	CY19	CY20	CY21E	CY22E
<b>Liabilities</b>				
Equity Capital	96.4	96.4	96.4	96.4
Reserve and Surplus	1,835.8	1,922.9	1,881.5	1,829.9
Total Shareholders funds	1,932.3	2,019.3	1,978.0	1,926.3
Total Debt	53.1	97.5	97.5	97.5
Deferred Tax Liability	18.0	0.0	0.0	0.0
Long Term Provisions	2,906.9	3,268.3	3,368.3	3,468.3
<b>Total Liabilities</b>	<b>4,910.7</b>	<b>5,407.2</b>	<b>5,443.7</b>	<b>5,492.1</b>
<b>Assets</b>				
Gross Block	3,785.4	3,951.0	4,651.0	5,351.0
Less: Acc Depreciation	1,401.2	1,771.5	2,145.7	2,550.8
Net Block	2,226.7	2,179.4	2,505.2	2,800.2
Capital WIP	143.3	638.6	658.6	678.6
Total Fixed Assets	2,370.0	2,818.0	3,163.8	3,478.7
LT Loans & Advances	47.0	46.6	0.0	0.0
Inventory	1,283.1	1,416.5	1,617.9	1,769.4
Debtors	124.3	164.9	161.8	176.9
Loans and Advances	12.5	13.2	161.8	176.9
Current Investments	1,089.3	820.6	1,642.2	1,795.9
Cash	1,308.1	1,769.9	614.5	238.6
Total Current Assets	3,817.2	4,185.1	4,198.2	4,157.8
Creditors	1,494.7	1,516.6	1,779.7	1,946.3
Provisions	85.5	106.0	242.7	265.4
Other Current Liabilities	567.4	870.0	656.7	713.5
Total Current Liabilities	2,147.5	2,492.6	2,679.1	2,925.3
Net Current Assets	1,669.7	1,692.5	1,519.1	1,232.5
<b>Application of Funds</b>	<b>4,910.7</b>	<b>5,407.2</b>	<b>5,443.7</b>	<b>5,492.1</b>

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
	₹ crore			
(Year-end December)	CY19	CY20	CY21E	CY22E
<b>Per share data (₹)</b>				
EPS	204.3	216.0	254.8	283.8
Cash EPS	237.1	254.4	293.6	325.9
BV	200.4	209.4	205.1	199.8
DPS	342.0	196.0	215.0	240.0
Cash Per Share	145.3	183.7	222.5	264.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	23.2	24.0	24.7	25.0
PBT / Net Sales	21.8	21.2	22.2	22.7
PAT Margin	16.0	15.7	16.6	17.0
Inventory days	38.1	38.9	40.0	40.0
Debtor days	3.7	4.5	4.0	4.0
Creditor days	44.4	41.7	44.0	44.0
<b>Return Ratios (%)</b>				
RoE	101.9	103.1	124.2	142.1
RoCE	56.9	54.6	62.7	69.1
RoIC	70.4	93.5	77.8	78.9
<b>Valuation Ratios (x)</b>				
P/E	83.7	79.2	67.1	60.2
EV / EBITDA	57.1	51.0	44.9	40.6
EV / Net Sales	13.3	12.3	11.1	10.2
Market Cap / Sales	13.4	12.4	11.2	10.2
Price to Book Value	85.3	81.6	83.3	85.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.1	0.1	0.1
Current Ratio	1.2	1.0	1.4	1.4
Quick Ratio	0.6	0.4	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,522	1,860	Buy	43,654	35.0	37.8	40.5	43.4	40.2	37.6	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	569	620	Buy	91,067	9.9	11.0	12.3	57.4	51.7	46.4	9.4	8.5	7.7	26.5	27.0	27.4	22.9	23.0	23.3
Hindustan Unilever (HINLEV)	2,397	2,600	Hold	561,507	33.6	40.5	45.0	71.3	59.2	53.3	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	204	245	Hold	267,970	10.7	12.8	14.1	19.0	16.0	14.4	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	142	175	Hold	5,728	5.9	6.4	7.1	24.3	22.2	20.0	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	410	490	Buy	53,285	9.1	9.8	10.9	45.1	42.0	37.5	6.8	6.2	5.5	42.9	45.4	48.2	37.1	38.6	40.9
Nestle (NESIND)	17,096	19,300	Hold	164,840	216.0	254.8	283.8	79.2	67.1	60.2	12.4	11.2	10.2	54.6	62.7	69.1	103.1	124.2	142.1
Tata Consumer Products (TAT)	680	700	Buy	53,448	11.0	12.5	14.1	61.7	54.5	48.1	4.6	4.3	4.0	8.9	9.8	10.5	7.2	8.1	8.8
VST Industries (VSTIND)	3,266	4,200	Hold	5,809	202.4	218.7	235.2	16.1	14.9	13.9	5.1	4.7	4.3	44.7	47.4	52.8	33.2	35.2	39.0
Varun Beverage (VARBEV)	926	965	Hold	26,011	12.5	21.0	26.5	73.9	44.2	35.0	4.0	3.4	3.1	10.9	17.2	20.1	10.3	15.1	16.5
Zydus Wellness (ZYDWEL)	2,077	2,500	Buy	12,343	19.0	60.3	71.3	109.4	34.4	29.1	6.6	5.8	5.3	6.2	7.8	9.0	5.5	8.0	9.3

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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