

Retail Equity Research

Nestle India Limited

Food Products

BSE CODE: 500790

NSE CODE: NESTLEIND

Bloomberg CODE: NEST:IN

SENSEX: 52,951

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 17,709 TARGET Rs. 19,720 RETURN 11% ↑
(Closing: 02-08-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Key brands deliver growth; Outlook positive

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.

- In Q2CY21, Nestle India's standalone revenue grew 14.0% YoY to Rs. 3,477cr driven by volume and product mix. Key products posted double-digit growth on the back of improved in-house consumption.
- EBITDA rose 13.4% YoY to Rs. 848cr despite margin dropping 10bps YoY to 24.4% primarily due to increase in fuel prices. PAT improved 10.7% YoY, partly impacted by higher interest and taxes.
- Company's strong portfolio of brands and well-spread distribution network should improve product penetration and continue to support performance. Hence, we reiterate our BUY rating on the stock with a revised TP of Rs. 19,720 based on 67x CY22E adj. EPS.

Topline growth momentum continues

Nestle India's Q2CY21 standalone revenue increased by 14.0% YoY to Rs. 3,477cr mainly due to continued momentum in domestic sales and also due to weaker base in Q2CY20. Export sales grew 17.7% YoY (remained flat QoQ) to Rs. 157cr. Strong revenue growth was delivered on the back of improved volume and product mix. As the in-home consumption behavior trending upwards, key products such as Maggi, Kitkat, Munch etc. delivered double-digit growth aiding overall performance. E-commerce division contributed 6.4% of total sales, improving by 105% YoY in Q2CY21.

Low employee expenses safeguard margins

In Q2CY21, company's gross profit stood at Rs. 1,982cr (vs. Rs. 1,719cr in Q2CY20), with margin expanding by 70bps to 57.0% (against 56.3% in Q2CY20) despite commodity price inflation affecting raw material prices. EBITDA improved by 13.4% YoY to Rs. 848cr although margin remains largely stable (declined 10bps) at 24.4% (vs. 24.5% in Q2CY20). Increase in fuel expenses, CSR investments and other expenses as a % of revenue expanded by 201bps impacting overall margins, partly offset by 123bps decline in Employee expenses. Reported PAT rose to Rs. 539cr (improving 10.7% YoY from Rs. 487cr in Q2CY20) while PAT margin came out at 15.5% (vs. 16.0% in Q2CY20).

Key concall highlights

- Reiterating their commitment to India's business, management informed that Rs. 1,000cr of their Rs. 2,600cr Capex investment plan was already invested from last year.
- Improving company's focus on Last-mile delivery, Hyperlocal (quick commerce) channels grew at 147% in 1HCY21.

Valuation

Nestle's brand presence and expanding distribution network coupled with its strong packaged food portfolio could continue to drive momentum in its topline. While raw material price volatility and related uncertainty could impact margins, we expect the company's cost control strategies could play offsetting role to some extent. As in-home consumption increases, we expect Nestle is well-placed to capture the opportunity and could do well over medium-to-long term. Hence, we reiterate our BUY rating on the stock with a revised TP of Rs. 19,720 based on 67x CY22E adj. EPS.

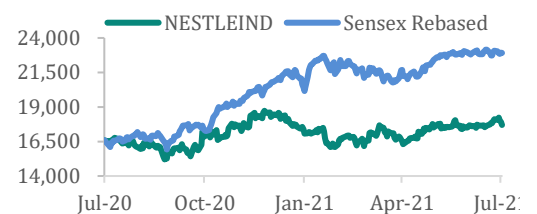
Company Data

Market Cap (cr)	Rs. 170,683
Enterprise Value (cr)	Rs. 169,416
Outstanding Shares (cr)	9.6
Free Float	37.0%
Dividend Yield	1.1%
52 week high	Rs. 18,821
52 week low	Rs. 15,104
6m average volume	4,746
Beta	0.6
Face value	Rs. 10

Shareholding %	Q4CY20	Q1CY21	Q2CY21
Promoters	62.8	62.8	62.8
FII's	12.8	12.3	12.4
MFs/Insti	7.8	8.0	7.9
Public	13.3	13.4	13.4
Others	3.4	3.6	3.5
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	8.5%	3.7%	7.1%
Absolute Sensex	7.8%	13.6%	39.4%
Relative Return*	0.7%	-9.9%	-32.3%

*over or under performance to benchmark index



Standalone (cr)	CY20A	CY21E	CY22E
Sales	13,350	14,907	16,720
Growth (%)	7.9	11.7	12.2
EBITDA	3,202	3,641	4,131
EBITDA Margin (%)	24.0	24.4	24.7
Adj. PAT	2,082	2,456	2,837
Growth (%)	5.8	18.0	15.5
Adj. EPS	216.0	254.8	294.3
Growth (%)	5.8	18.0	15.5
P/E	85.2	69.5	60.2
P/B	87.8	77.6	71.0
EV/EBITDA	54.8	46.5	41.0
ROE (%)	103.1	111.6	118.0
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2CY21	Q2CY20	YoY Growth %	Q1CY21	QoQ Growth %	H1CY21	H1CY20	YoY Growth %
Revenue	3,477	3,050	14.0	3,611	(3.7)	7,088	6,376	11.2
EBITDA	848	748	13.4	931	(8.9)	1,779	1,541	15.4
EBITDA margins	24.4	24.5	(10bps)	25.8	(140bps)	25.1	24.2	90bps
Depreciation	95	92	3.1	94	1.8	189	184	2.8
EBIT	753	655	14.9	837	(10.1)	1,590	1,357	17.1
Interest	52	41	26.7	54	(4.3)	106	82	29.3
Other Income	29	38	(22.3)	29	1.8	58	81	(27.7)
Exceptional Items	-	-	-	1	n.m.	1	-	n.m.
PBT	730	652	12.0	812	(10.0)	1,542	1,356	13.7
Tax	192	166	15.8	210	(8.4)	402	344	16.7
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	539	487	10.7	602	(10.6)	1,141	1,012	12.7
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	539	487	10.7	602	(10.6)	1,141	1,012	12.7
No. of shares	9.6	9.6	0.0	9.6	(0.0)	9.6	9.6	0.0
Adj. EPS (Rs.)	55.9	50.5	10.7	62.5	(10.6)	118.3	105.0	12.7

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Revenue	14,885	16,670	14,907	16,720	0.1	0.3
EBITDA	3,644	4,135	3,641	4,131	(0.1)	(0.1)
Margins (%)	24.5	24.8	24.4	24.7	(10bps)	(10bps)
Adj. PAT	2,489	2,830	2,456	2,837	(1.3)	0.3
Adj. EPS	258.1	293.5	254.8	294.3	(1.3)	0.3

PROFIT & LOSS

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Revenue	11,292	12,369	13,350	14,907	16,720
% change	10.8	9.5	7.9	11.7	12.2
EBITDA	2,687	2,926	3,202	3,641	4,131
% change	26.5	8.9	9.4	13.7	13.5
Depreciation	336	370	370	327	380
EBIT	2,351	2,556	2,831	3,314	3,750
Interest	112	129	164	147	108
Other Income	190	247	146	168	188
PBT	2,429	2,673	2,813	3,334	3,830
% change	32.1	10.1	5.2	18.5	14.9
Tax	822	705	730	878	993
Tax Rate (%)	33.8	26.4	26.0	26.3	25.9
Reported PAT	1,607	1,968	2,082	2,456	2,837
Adj*	-	-	-	-	-
Adj PAT	1,607	1,968	2,082	2,456	2,837
% change	31.2	22.5	5.8	18.0	15.5
No. of shares (cr)	9.6	9.6	9.6	9.6	9.6
Adj EPS (Rs.)	166.7	204.2	216.0	254.8	294.3
% change	31.2	22.5	5.8	18.0	15.5
DPS (Rs.)	115.0	342.0	200.0	236.0	273.0
CEPS (Rs.)	201.5	242.6	254.4	288.7	333.7

CASH FLOW

Y.E Dec (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Net inc. + Depn.	1,943	2,339	2,453	2,783	3,218
Non-cash adj.	(48)	21	154	301	258
Changes in W.C	158	(64)	(152)	(444)	(174)
C.F. Operation	2,052	2,295	2,454	2,641	3,302
Capital exp.	(163)	(152)	(474)	(683)	(418)
Change in inv.	(160)	(16)	-	-	-
Other invest.CF	271	251	153	-	-
C.F - Investment	(52)	83	(321)	(683)	(418)
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(1,090)	(2,950)	(1,890)	(2,275)	(2,632)
Other finance.CF	(228)	(651)	(66)	(147)	(108)
C.F - Finance	(1,317)	(3,602)	(1,956)	(2,423)	(2,740)
Chg. in cash	683	(1,223)	177	(465)	144
Closing cash	1,610	1,308	1,770	1,305	1,449

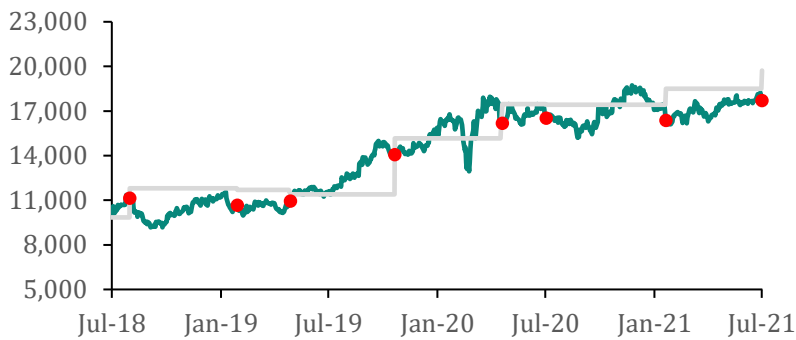
BALANCE SHEET

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Cash	1,610	1,308	1,770	1,305	1,449
Accounts Receivable	125	124	165	194	209
Inventories	966	1,283	1,416	1,761	1,960
Other Cur. Assets	2,037	1,102	834	989	1,177
Investments	733	744	741	741	741
Gross Fixed Assets	3,485	3,637	4,111	4,795	5,213
Net Fixed Assets	2,295	2,198	1,541	1,833	1,801
CWIP	105	143	639	702	773
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	217	271	794	867	946
Total Assets	8,088	7,173	7,900	8,392	9,056
Current Liabilities	1,855	2,191	2,489	2,539	2,715
Provisions	2,465	2,907	3,268	3,530	3,812
Debt Funds	35	53	35	35	35
Other Liabilities	59	103	88	88	88
Equity Capital	96	96	96	96	96
Reserves & Surplus	3,577	1,822	1,923	2,104	2,309
Shareholder's Fund	3,674	1,919	2,019	2,200	2,406
Minority Interest	-	-	-	-	-
Total Liabilities	8,088	7,173	7,900	8,392	9,056
BVPS (Rs.)	381	199	209	228	249

RATIOS

Y.E December	CY18A	CY19A	CY20A	CY21E	CY22E
Profitab. & Return					
EBITDA margin (%)	23.8	23.7	24.0	24.4	24.7
EBIT margin (%)	20.8	20.7	21.2	22.2	22.4
Net profit mgn.(%)	14.2	15.9	15.6	16.5	17.0
ROE (%)	43.7	102.6	103.1	111.6	118.0
ROCE (%)	63.4	129.6	137.8	148.3	153.7
W.C & Liquidity					
Receivables (days)	4.0	3.7	4.5	4.7	4.6
Inventory (days)	76.8	89.6	91.1	102.2	105.9
Payables (days)	98.6	104.2	97.6	84.0	80.3
Current ratio (x)	2.6	1.7	1.7	1.7	1.8
Quick ratio (x)	2.0	1.1	1.1	0.9	1.0
Turnover & Leverage					
Gross asset T.O (x)	3.3	3.5	3.4	3.3	3.3
Total asset T.O (x)	1.5	1.6	1.8	1.8	1.9
Int. coverage ratio (x)	21.0	19.8	17.2	22.5	34.7
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	9.3	11.4	13.2	11.4	10.1
EV/EBITDA (x)	39.2	48.3	54.8	46.5	41.0
P/E (x)	66.5	72.4	85.2	69.5	60.2
P/BV (x)	29.1	74.3	87.8	77.6	71.0

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
29-Aug-18	HOLD	11,800
26-Feb-19	HOLD	11,700
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	19,720

Source: Bloomberg, Geojit research

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			

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: 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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