

Nestle India

ADD

CMP Rs17,096

Target Rs18,000

Upside 5.3%

Show of resilience continues with another quarter of double digit domestic growth

Result Highlights

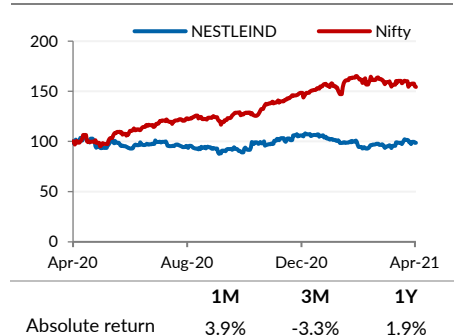
- ✓ **Results marginally ahead of expectations** - Nestle numbers were marginally ahead of expectations with sales/EBITDA/PAT growth of 8.6%/17.2%/14.6% vs our expectation of 9.8%/14.6%/14.2% respectively with a much better than expected margin performance offsetting soft export revenues.
- ✓ **Management commentary** - Sales growth was broad-based driven by combination of volume and mix with higher in home consumption driving double-digit growth, E-commerce channel grew by 66% and contributed 3.8% to domestic sales, the company alluded to recent sharp inflationary trends in commodity and packaging materials as a key risk, growth led by Maggi, Kitkat, Nescafe, Milkmaid and Masala-ae-Magic.
- ✓ **Topline** - Revenue came in at Rs 36.1bn, up 8.6% with broad-based 10.2% increase in domestic sales (on a base of 10.7% growth) partially offset by a 12.9% decline in coffee exports. Demand for out of home channel improved but still remains impacted by COVID.
- ✓ **Margins** - Gross margins improved sharply by 220bps to 58.5% led by lower milk and derivative prices and a superior mix. EBITDA margins improved by 190bps to 25.8% (our expectation of 24.9%) despite a significant step up in marketing spends given controlled employee costs.
- ✓ **Earnings** - PAT growth of 14.6% was impacted by higher interest costs and lower other income (fall in yields).
- ✓ **Dividends** - The company maintained its generous dividend payouts with an interim dividend of Rs 25, which would keep up the return ratios.

Valuation and view - With another resilient performance from Nestle despite a strong base, our conviction on Nestle India as one of our top picks in the staples space increases further. Our key investment thesis of sustained double-digit domestic growth and premiumization potential of its categories, opportunities for further deepening distribution especially in rural markets and aggression on new launches and marketing spends remains intact. The stock is currently trading at 57x CY22E earnings and we reiterate our ADD rating with a PT of Rs 18,000 based on 60x CY22E earnings, implying an upside of 5.3%.

Stock data (as on Apr 20, 2021)

Nifty	14,296
52 Week h/l (Rs)	18,844 / 15,100
Market cap (Rs/USD mn)	1,648,289 / 22,010
Outstanding Shares	96
6m Avg t/o (Rs mn)	2,437
Div yield (%)	1.3
Bloomberg code:	NEST IN
NSE code:	NESTLEIND

Stock performance



Shareholding pattern (As of Dec'20 end)

Promoter	62.8%
FII+DII	20.2%
Others	17.0%

Financial Summary

	CY20E	CY21E	CY22E
Revenues	133,500	150,696	170,359
Yoy growth (%)	7.9	12.9	13.0
OPM (%)	24.0	24.4	24.9
EPS (Rs)	216.0	255.8	300.0
EPS growth	5.8	18.4	17.3
P/E (x)	79.1	66.8	57.0
Price/Book (x)	81.6	65.7	52.5
EV/EBITDA (x)	50.9	44.2	38.2
Debt/Equity (x)	-0.9	-0.8	-0.9
RoE (%)	105.8	108.9	102.5
RoCE (%)	147.9	151.4	142.4

HIMANSHU NAYYAR

Lead Analyst

himanshu.nayyar@ysil.in

+91 9920915754



ANKIT MAHAJAN, Associate

ankit.mahajan@ysil.in

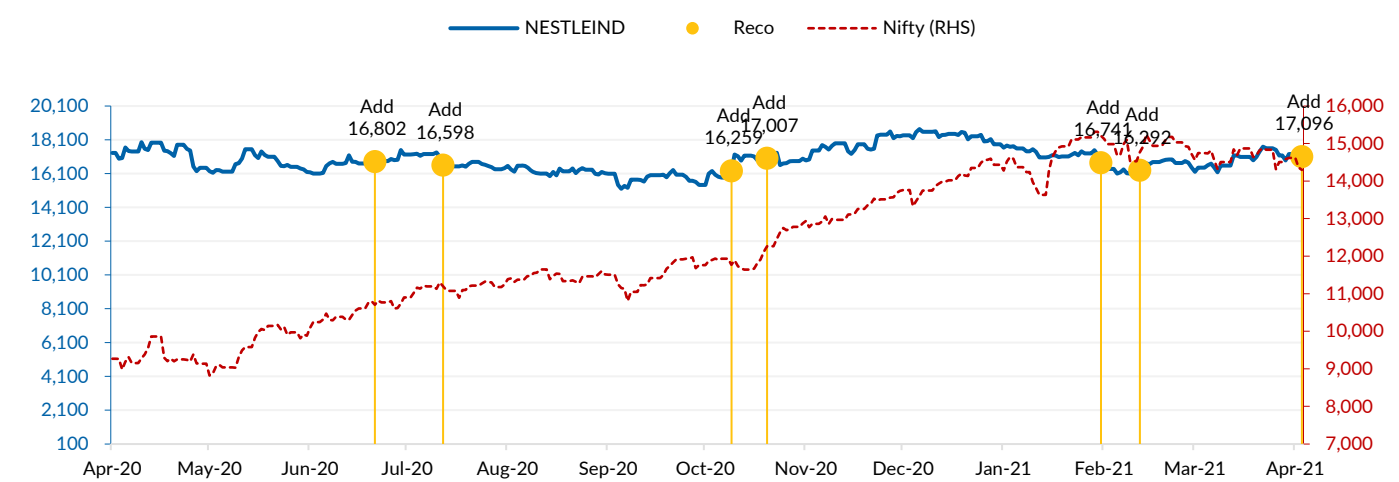
AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

Exhibit 1: Result table

YE March (Rs mn)	1QCY21	1QCY20	4QCY20	YoY (%)	QoQ (%)
Net Revenues	36,108	33,253	34,326	8.6	5.2
Raw material cost	14,976	14,533	14,045	3.1	6.6
(% of sales)	41.5	43.7	40.9		
Gross profit	21,132	18,720	20,281	12.9	4.2
(% of sales)	58.5	56.3	59.1		
Employee cost	3,681	3,584	4,033	2.7	(8.7)
(% of sales)	10.2	10.8	11.7		
Others	8,153	7,203	8,478	13.2	(3.8)
(% of sales)	22.6	21.7	24.7		
EBITDA	9,299	7,933	7,770	17.2	19.7
EBITDA margin (%)	25.8	23.9	22.6		
Other income	297	429	306	(30.8)	(3.1)
PBIDT	9,595	8,362	8,076	14.8	18.8
Depreciation	936	914	955	2.5	(2.0)
Interest	540	410	420	31.9	28.8
PBT	8,119	7,039	6,702	15.3	21.1
Tax	2,096	1,784	1,869	17.5	12.2
ETR (%)	25.8	25.3	27.9		
Adjusted PAT	6,023	5,254	4,833	14.6	24.6
PATAMI margin	16.7	15.8	14.1		
Extraordinary income/ (exp.)	0	0	0		
Reported PAT	6,023	5,254	4,833	14.6	24.6
Adj EPS (Rs)	62.5	54.5	50.1		

Recommendation Tracker



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YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India.

Email: research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

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