

Retail Equity Research

Nestle India Limited

Food Products

BSE CODE: 500790

NSE CODE: NESTLEIND

Bloomberg CODE: NEST:IN

SENSEX: 50,890

BUY

12M Investment period Rating as per Large Cap
CMP Rs. 16,386 TARGET Rs. 18,490 RETURN 13%
(Closing: 19-02-21) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Decent quarter; Outlook optimistic

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.

- Q4CY20 standalone revenue rose 9.0% QoQ, with volumes growth and improved product mix. Yet, export sales remained subdued with a sharp decline in coffee exports to Turkey (-7.7% in Q4CY20).
- EBITDA margin expanded 60bps YoY to 22.6%, as commodity prices (Wheat, Milk, and Sugar) remained favorable, besides marketing spends spiraling with new launches.
- Moderating in-home consumption should benefit key segments while complete revival of Out-of-home consumption is expected to propel topline further in the near term. Hence, we upgrade our rating on the stock to a BUY with a rolled forward target price of Rs. 18,490 based on 63x CY22E adjusted EPS.

Strong demand boosts topline

Standalone revenue for Q4CY20 rose to Rs. 3,433cr, up 9.0% YoY (-3.1% QoQ), as domestic sales surged 10.1% YoY to Rs. 3,261cr, largely driven by volume and product mix. Export sales saw a significant decline of 7.7% YoY to Rs. 157cr, primarily affected by lower coffee exports. Demand from Out-of-home (OOH) channel improved during the quarter, while COVID-19 continued to impact its operations. E-commerce division outgrew by 111.0% (~3.7% of domestic sales). Almost 2/3rd of Nestlé's key brands like Maggi Noodles, Kitkat and Nescafe Classic clocked double digit growth aided by high in-home consumption (~65% of domestic).

Economical commodities drive margins

Q4CY20 EBITDA rose 12.0% YoY at Rs. Rs.777cr (-12.1% QoQ) with a margin expansion of 60bps YoY to 22.6% (-230bps QoQ), as milk and its derivatives witnessed benign commodity prices for over a year. Increased A&P spends in lieu of aggressive new launches (70+ products in last 5 years) and soaring incentives in interest of COVID-19 compensation pushed other expenses by 9.9% YoY (+5.4% QoQ) and staff costs by 25.2% YoY (+9.1% QoQ) to Rs. 848cr and Rs. 403cr, respectively. Other income dropped 31.5% with dwindling yields. PAT came in at Rs. 483cr (+2.4% YoY, -17.7% QoQ) due to high income tax provisioning.

High capex to pave way for equilibrium

Nestle declared dividend of Rs. 65/share in Q4CY20. Innovation and renovation pipeline continues to be an impetus across categories like Foods, Breakfast Cereals and Nestle Health Sciences. Digitalization enabled in breakthrough innovations including launch of Ask Nestle in Hindi. It also employed a capex of Rs. 2,600cr (for next 3-4 years) to meet any anticipated demand traction through adequate supplies across its portfolio. The company is approaching towards minimalizing greenhouse gas emissions across its value chain aiming to achieve 100% recyclable/reusable packaging by 2025.

Valuation

Given increasing rural penetration, niche play, unique positioning, uninterrupted distribution, increasing utilization levels along with capacity expansion, company's premium segments reflect high growth potential. Additionally, packaged foods segment in India proposes immense growth opportunities with youth population shifting towards health and nutrition segment. With vigorous new launches and revival of OOH segment, we expect upside potential in the stock and upgrade our rating to a BUY with a rolled forward target price of Rs. 18,490 based on 63x CY22E adjusted EPS.

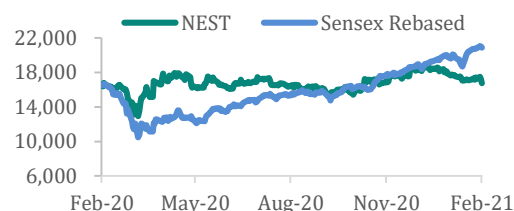
Company Data

Market Cap (cr)	Rs. 157,876
Enterprise Value (cr)	Rs. 155,566
Outstanding Shares (cr)	9.6
Free Float	37.0%
Dividend Yield	1.2%
52 week high	Rs. 18,821
52 week low	Rs. 12,589
6m average volume	5,291
Beta	0.6
Face value	Rs. 10

Shareholding %	Q2CY20	Q3CY20	Q4CY20
Promoters	62.8	62.8	62.8
FII's	12.1	11.5	12.8
MFs/Insti	8.8	8.9	7.8
Public	13.1	13.5	13.3
Others	3.3	3.3	3.4
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	-2.9%	-1.1%	-0.2%
Absolute Sensex	16.2%	33.2%	25.5%
Relative Return*	-19.1%	-34.3%	-25.7%

*over or under performance to benchmark index



Standalone (cr)	CY20A	CY21E	CY22E
Sales	13,350	14,885	16,670
Growth (%)	7.9	11.5	12.0
EBITDA	3,202	3,644	4,135
EBITDA Margin (%)	24.0	24.5	24.8
Adj. PAT	2,082	2,489	2,830
Growth (%)	5.8	19.5	13.7
Adj. EPS	216.0	258.1	293.5
Growth (%)	5.8	19.5	13.7
P/E	85.2	63.4	55.8
P/B	87.8	71.6	65.5
EV/EBITDA	54.8	42.7	37.4
ROE (%)	103.1	112.9	117.4
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q4CY20	Q4CY19	YoY Growth %	Q3CY20	QoQ Growth %	CY20	CY19	YoY Growth %
Revenue	3,433	3,149	9.0	3,542	(3.1)	13,350	12,369	7.9
EBITDA	777	694	12.0	884	(12.1)	3,202	2,926	9.4
EBITDA margins	22.6	22.0	60bps	24.9	(230bps)	24.0	23.7	32.6
Depreciation	96	94	2.1	91	4.8	370	370	0.1
EBIT	682	601	13.5	792	(14.0)	2,831	2,556	10.8
Interest	42	31	34.9	40	3.8	164	129	27.2
Other Income	31	45	(31.5)	34	(11.2)	146	247	(40.9)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	670	614	9.1	786	(14.8)	2,813	2,673	5.2
Tax	187	141	32.3	199	(6.3)	730	705	3.6
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	483	472	2.4	587	(17.7)	2,082	1,968	5.8
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	483	472	2.4	587	(17.7)	2,082	1,968	5.8
No. of shares	9.6	9.6	-	9.6	-	9.6	9.6	-
Adj. EPS (Rs.)	50.1	49.0	2.4	60.9	(17.7)	216.0	204.2	5.8

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Revenue	15,165	-	14,885	16,670	(1.8)	-
EBITDA	3,730	-	3,644	4,135	(2.3)	-
Margins (%)	24.6	-	24.5	24.8	(10bps)	-
Adj. PAT	2,616	-	2,489	2,830	(4.9)	-
Adj. EPS	271.3	-	258.1	293.5	(4.9)	-

PROFIT & LOSS

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Revenue	11,292	12,369	13,350	14,885	16,670
% change	10.8	9.5	7.9	11.5	12.0
EBITDA	2,687	2,926	3,202	3,644	4,135
% change	26.5	8.9	9.4	13.8	13.5
Depreciation	336	370	370	327	336
EBIT	2,351	2,556	2,831	3,317	3,799
Interest	112	129	164	130	173
Other Income	190	247	146	175	196
PBT	2,429	2,673	2,813	3,362	3,822
% change	32.1	10.1	5.2	19.5	13.7
Tax	822	705	730	873	992
Tax Rate (%)	33.8	26.4	26.0	26.0	26.0
Reported PAT	1,607	1,968	2,082	2,489	2,830
Adj*	-	-	-	-	-
Adj PAT	1,607	1,968	2,082	2,489	2,830
% change	31.2	22.5	5.8	19.5	13.7
No. of shares (cr)	9.6	9.6	9.6	9.6	9.6
Adj EPS (Rs.)	166.7	204.2	216.0	258.1	293.5
% change	31.2	22.5	5.8	19.5	13.7
DPS (Rs.)	115.0	342.0	200.0	239.0	272.0
CEPS (Rs.)	201.5	242.6	254.4	292.1	328.3

CASH FLOW

Y.E Dec. (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Net inc. + Depn.	1,943	2,339	2,453	2,816	3,165
Non-cash adj.	(48)	21	154	697	932
Changes in W.C	158	(64)	(152)	(119)	(148)
C.F. Operation	2,052	2,295	2,454	3,394	3,949
Capital exp.	(163)	(152)	(474)	(385)	(431)
Change in inv.	(160)	(16)	-	-	-
Other invest.CF	271	251	153	-	-
C.F - Investment	(52)	83	(321)	(385)	(431)
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(1,090)	(2,950)	(1,890)	(2,304)	(2,623)
Other finance.CF	(228)	(651)	(66)	(130)	(173)
C.F - Finance	(1,317)	(3,602)	(1,956)	(2,435)	(2,796)
Chg. in cash	683	(1,223)	177	575	723
Closing cash	1,610	1,308	1,770	2,345	3,067

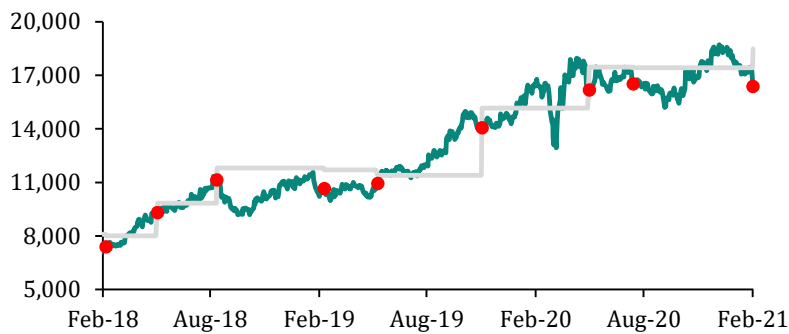
BALANCE SHEET

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Cash	1,610	1,308	1,770	2,345	3,067
Accounts Receivable	125	124	165	169	181
Inventories	966	1,283	1,416	1,631	1,817
Other Cur. Assets	2,037	1,102	834	997	1,199
Investments	733	744	741	741	741
Gross Fixed Assets	3,485	3,637	4,111	4,496	4,926
Net Fixed Assets	2,295	2,198	1,541	1,566	1,628
CWIP	105	143	639	671	704
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	217	271	794	865	951
Total Assets	8,088	7,173	7,900	8,985	10,288
Current Liabilities	1,855	2,191	2,489	2,984	3,623
Provisions	2,465	2,907	3,268	3,675	4,131
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	2,108	2,315
Shareholder's Fund	3,674	1,919	2,019	2,204	2,411
Minority Interest	-	-	-	-	-
Total Liabilities	8,088	7,173	7,900	8,985	10,288
BVPS (Rs.)	381	199	209	229	250

RATIOS

Y.E December	CY18A	CY19A	CY20A	CY21E	CY22E
Profitab. & Return					
EBITDA margin (%)	23.8	23.7	24.0	24.5	24.8
EBIT margin (%)	20.8	20.7	21.2	22.3	22.8
Net profit mgn.(%)	14.2	15.9	15.6	16.7	17.0
ROE (%)	43.7	102.6	103.1	112.9	117.4
ROCE (%)	63.4	129.6	137.8	148.2	155.3
W.C & Liquidity					
Receivables (days)	4.0	3.7	4.5	4.1	4.0
Inventory (days)	76.8	89.6	91.1	94.8	98.4
Payables (days)	98.6	104.2	97.6	93.9	90.3
Current ratio (x)	2.6	1.7	1.7	1.7	1.7
Quick ratio (x)	2.0	1.1	1.1	1.1	1.2
Turnover & Leverage					
Gross asset T.O (x)	3.3	3.5	3.4	3.5	3.5
Total asset T.O (x)	1.5	1.6	1.8	1.8	1.7
Int. coverage ratio (x)	21.0	19.8	17.2	25.5	21.9
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	9.3	11.4	13.2	10.5	9.3
EV/EBITDA (x)	39.2	48.3	54.8	42.7	37.4
P/E (x)	66.5	72.4	85.2	63.4	55.8
P/BV (x)	29.1	74.3	87.8	71.6	65.5

Recommendation Summary



Dates	Rating	Target
21-May-18	HOLD	9,843
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

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. The stock may still be a quality stock.

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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