

Capex on track; rural reach to get enhanced...

About the stock Nestlé is the largest food company in India with over ₹ 13000 crore of sales. It is broadly present in infant & baby food products, noodles, chocolates & beverages categories. In the last five years, it has forayed into newer categories & launched more than 80 new products across categories.

- The company has eight manufacturing facilities. One new plant in Sanand, Gujarat is likely to get commissioned by the end of the year. Its major brands include Maggi, Nescafe, KitKat and Nestle Cerelac among others

Q2CY21 Results: Nestlé India reported Q2CY21 results.

- Sales were up 14% YoY on the back of a low base quarter
- EBITDA was at ₹ 848 crore, up 13.4% YoY, with margins at 24.4%
- Consequent PAT was at ₹ 538.6 crore (up 10.7% YoY)

What should investors do? Nestlé India share price has given returns of 150% in the last five years (from ₹ 7188 in July 2016 to ₹ 18000 in July 2021).

- We roll over CY23 numbers given the company is undertaking ₹ 2600 crore capex in the next three to four years
- We continue to maintain our HOLD rating on the stock

Target Price and Valuation: We value the stock at ₹ 20450, valuing the business at 65x CY23 earnings

Key triggers for future price performance:

- The company is undertaking a capex of ₹ 2600 crore in the next three to four years to expand the capacity for its existing products
- NIL is increasing its rural footprint from 0.9 lakh villages to 1.2 lakh villages in the next four years
- With the reduction in Covid-19 cases and vaccination drive, urban demand is likely to pick-up. The product portfolio of NIL is urban centric
- Innovation & new product development is contributing 4.9% to sales. Focus continues to remain on new products and launches

Alternate Stock Idea: We like Zydus Wellness in our FMCG coverage.

- It is growing at a steady pace in nascent categories with a strong presence in health, nutrition space and margin expansion possibilities
- Trading at a significant discount to FMCG peers. BUY with TP of ₹ 2,800



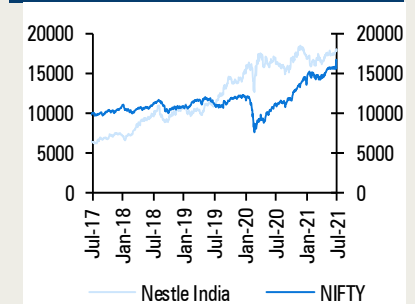
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	173556
Total Debt (CY20)	97.5
Cash & Investments (CY20)	2,880.2
EV	170,773.3
52 week H/L (₹)	18821 / 15104
Equity capital	96.4
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	62.8	62.8	62.8	62.8
FII	11.5	12.8	12.3	12.4
DII	8.9	7.7	7.9	7.9
Others	16.8	16.7	17.0	16.9

Price Chart



Recent event & key risks

- Out of the total capex of ₹ 2.6 bn, it has already invested ₹ 1.0 bn
- Key Risk:** (i) Incessant increase in milk prices to pressurise margins (ii) Any further disruption related to Covid-19

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Key Financial Summary

Key Financials	CY19	CY20	5 Year CAGR (CY15-CY20)	CY21E	CY22E	CY23E	CAGR (CY20-23E)
Net Sales	12295.3	13290.2	10.3	14763.6	16145.7	17822.4	10.3%
EBITDA	2864.3	3201.5	14.4	3656.9	4055.2	4555.1	12.5%
EBITDA Margin %	23.3	24.1		24.8	25.1	25.6	
Net Profit	1969.6	2082.4	29.9	2410.0	2695.4	3029.6	13.3%
EPS (₹)	204.27	215.97	29.9	249.95	279.55	314.21	13.3%
P/E	88.1	83.3		72.0	64.4	57.3	
RoNW %	101.9	86.5		87.8	86.3	83.1	
RoCE (%)	56.9	50.9		54.9	56.4	57.5	

Key takeaways of recent quarter

Q2CY21 Results: Margins sustained despite high commodity prices

- Revenue witnessed growth of 14% to ₹ 3476.7 on the back of low base quarter (1.7% growth) impacted by manufacturing & supply side disruptions due to national lockdown in March-May 2020. Domestic sales growth of 13.7% was led by volumes & mix while export sales growth of 17.7% was led by higher export to affiliates
- Core products Maggi noodles, KitKat, Nestlé MUNCH, Maggi Sauces, Maggi Masala-AE-Magic posted strong double-digit growth. E-commerce channel sales grew 105% and is now contributing 6.4% to domestic sales
- Though milk & other commodity (edible oil, crude based packaging cost) prices have increased sharply in last four months, the company was able to improve gross margins by 67 bps mainly on account of favourable product mix & higher realisation. Overhead spends increased sharply by 265 bps mainly on account of increasing fuel prices. Moreover, in the base quarter, the company was able to cut overhead spends due to lockdown. Employee spends were down 123 bps mainly due to high base quarter as additional incentives were linked to higher production
- Operating profit increased 13.4% to ₹ 848 crore while the company was able to safeguard its margins with small decline of 12 bps to 24.4%. Net profit grew 10.7% to ₹ 538.6 crore led by higher EBITDA. Other income was down 22.3% with lower cash balance given the company has increased dividend payout in the last two years
- NIL has launched more than 80 new products in the last five years and forayed into the breakfast cereal and Indian breakfast categories
- It has launched 'Maggi Atta Spinach noodles', Maggi Upma, Maggi Poha, Maggi fried rice with two flavour choices in the ready to eat segment. The company has also expanded Maggi Masala Portfolio with the launch of Maggi Shahi Paneer & Kadhai paneer mix. In the breakfast segment, the company renovated Nesplus with new packaging and launched Koko Krunch, a global cereal brand. The new product introduction is the process of leveraging its existing brands to grow the market for newer products
- The company forayed into the nutrition category with the launch of 'Resource high protein' & 'Resource diabetic' in 2018. It has introduced smaller SKU of 200 grams in select channels

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindustan Unilever (HINLEV)	2352	2750	Buy	558687	18.4	16.0	7.8	25.0	25.6	26.2	70.2	58.7	52.8	17.1	20.0	21.6	18.9	25.6	27.7
ITC Limited (ITC)	208	240	Hold	261086	3.7	9.1	9.0	32.2	36.6	37.6	19.8	17.7	15.8	22.1	24.2	25.9	25.6	30.8	33.9
Nestle (NESIND)	18000	20450	Hold	173556	7.9	11.1	9.4	24.1	24.8	25.1	83.3	72.0	64.4	86.5	87.8	86.3	50.9	54.9	56.4
Tata Consumer (TATGLO)	756	725	Buy	60728	20.4	13.3	8.6	13.3	13.7	14.2	65.3	53.1	45.5	6.4	7.6	8.5	8.0	9.1	10.0

Source: Company, ICICI Direct Research

Nestlé has strong brands across segments and is best placed to cater to the huge opportunity in packaged foods in India. We believe branded/packaged foods category growth has accelerated in the post-Covid period. The company is aggressively increasing its capacities in existing as well as newer categories with a capex of ₹ 2600 crore in the next three to four years. NIL has focused on new product innovation in last five years with the launch of more than ~80 new products. In H1CY21, innovations are contributing 4.9% to domestic sales. The company is also enhancing its rural distribution network to increase the penetration of its existing brands, which are largely considered urban centric. All these factors are expected to lead to sustainable growth over a longer period of time. We maintain our HOLD rating on the stock with a target price of ₹ 20450/share.

Exhibit 2: Variance Analysis

Particulars (₹ crore)	Q2CY21	Q2CY21E	Q2CY20	YoY (%)	Q1CY21	QoQ (%)	Comments
Total Operating Income	3,476.7	3,707.4	3,050.5	14.0	3,610.8	-3.7	Revenue grew 14% on the back of low base quarter. Export sales were up 17.7% led by sales to affiliates
Operating Income	14.4	16.5	9.0	58.9	10.6	35.1	
Raw Material Expenses	1,494.8	1,624.4	1,331.9	12.2	1,497.6	-0.2	With a better product mix, the company was able to improve gross margins by 67 bps despite increase in key raw material prices
Employee Expenses	378.3	398.6	369.6	2.4	368.1	2.8	
Other operating Expenses	755.6	800.9	601.4	25.6	814.6	-7.2	High fuel cost & marketing spends resulted in a sharp increase in overhead spend
EBITDA	848.0	883.5	747.6	13.4	930.6	-8.9	
EBITDA Margin (%)	24.4	23.8	24.5	-12 bps	25.8	-138 bps	The company maintained its operating margins at 24.4%
Depreciation	95.3	93.5	92.4	3.1	94.3	1.0	
Interest	51.7	40.1	40.8	26.7	54.0	-4.3	
Other Income	29.5	40.4	37.9	-22.3	29.7	-0.6	Other income declined 22% on account of low liquidity. The company has paid a special dividend in the past
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
PBT	730.5	790.3	652.3	12.0	811.9	-10.0	
Tax Outgo	191.9	206.9	165.7	15.8	209.6	-8.4	
PAT	538.6	583.4	486.6	10.7	602.2	-10.6	Net profit grew by 10.7%
Adjusted PAT	538.6	583.4	486.6	10.7	602.2	-10.6	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	CY21E			CY22E			CY23E		Comments
	Old	New	% Change	Old	New	% Change	New		
Net Sales	14,763.6	14,763.6	0.0	16,145.7	16,145.7	0.0	17,822.4	We introduce CY13 numbers	
EBITDA	3656.9	3656.9	0.0	4055.2	4055.2	0.0	4555.1		
EBITDA Margin(%)	24.8	24.8	0 bps	25.1	25.1	0 bps	25.6		
PAT	2456.6	2410.0	-1.9	2736.8	2695.4	-1.5	3029.6	We change our estimates for financial changes according to the reported numbers in H1	
EPS (₹)	254.8	249.9	-1.9	283.8	279.6	-1.5	314.2		

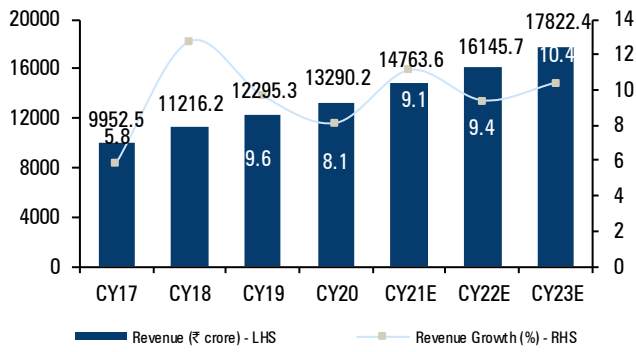
Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current						Earlier		Comments
	CY18	CY19	CY20	CY21E	CY22E	CY23E	CY21E	CY22E	
Gross Sales (₹ crore)									
Milk Product and Nutrition	5,187.6	5,651.8	6,148.8	6,779.0	7,331.5	7,926.8	6,779.0	7,331.5	No change in estimates
Beverages	1,522.6	1,501.8	1,476.3	1,626.2	1,741.0	1,900.2	1,626.2	1,741.0	
Prepared dishes	3,105.3	3,498.2	3,910.8	4,387.9	4,963.6	5,670.4	4,387.9	4,963.6	
Chocolate & confectionery	1,400.7	1,643.5	1,754.3	1,970.4	2,109.6	2,324.9	1,970.4	2,109.6	
Volume Growth (%)									
Overall Volume Growth	11.1	7.0	2.6	8.3	9.2	9.7	8.3	9.2	
Milk Product and Nutrition	4.8	1.4	-0.4	5.0	5.0	6.0	5.0	5.0	
Beverages	10.6	-2.3	-21.3	8.0	6.0	7.0	8.0	6.0	
Prepared dishes	14.5	9.6	6.6	10.0	12.0	12.0	10.0	12.0	
Chocolate & confectionery	14.7	16.2	2.7	8.0	6.0	7.0	8.0	6.0	

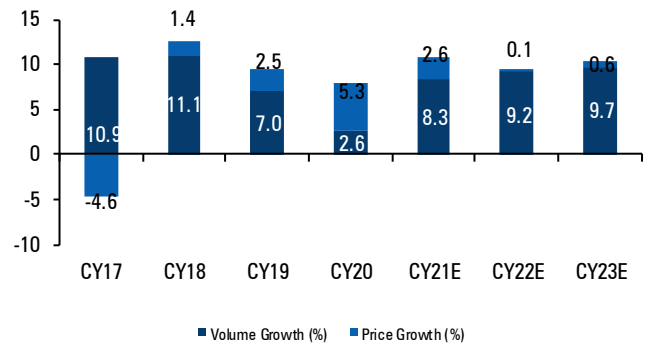
Source: ICICI Direct Research

Exhibit 5: Revenue growth trend



Source: ICICI Direct Research, Company

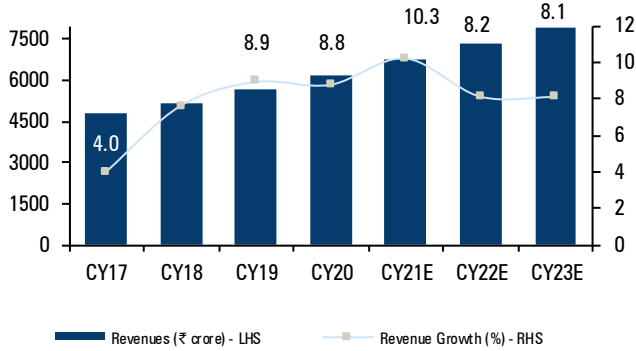
Exhibit 6: Volume growth to drive revenue



Source: ICICI Direct Research, Company

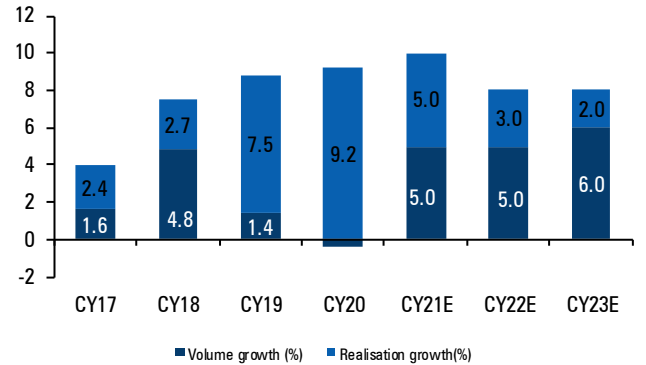
Milk products & nutrition

Exhibit 7: Improved product mix to aid EBITDA margins



Source: ICICI Direct Research, Company

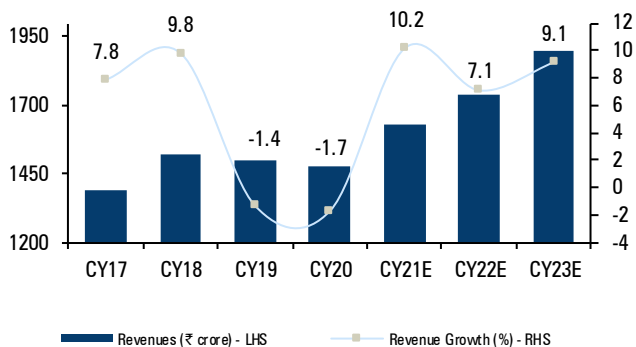
Exhibit 8: Revenue growth to be mix of volume & price growth



Source: ICICI Direct Research, Company

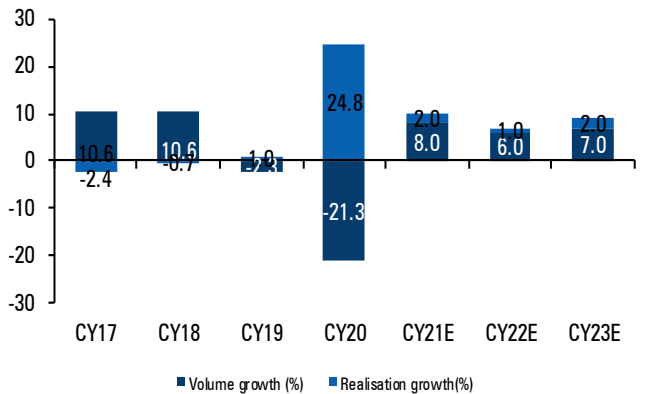
Beverages

Exhibit 9: Beverages revenue growth expected at 8.8% CAGR during CY20-23E



Source: ICICI Direct Research, Company

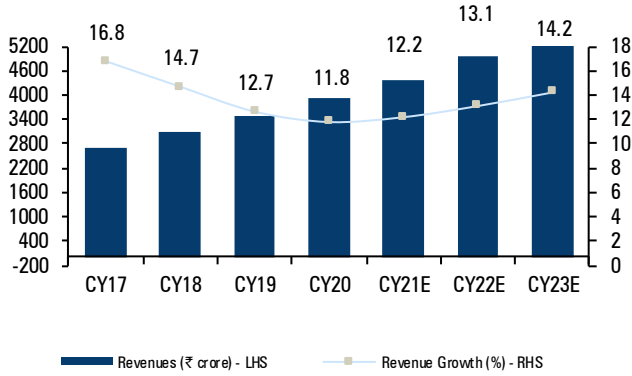
Exhibit 10: Attractive return ratios (%)



Source: ICICI Direct Research, Company

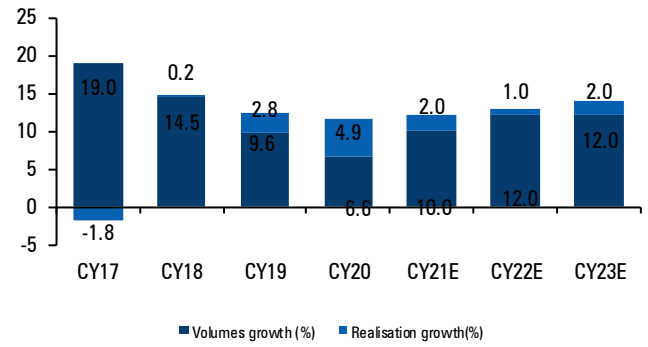
Prepared dishes

Exhibit 11: Maggi noodles continue to grow at a faster pace



Source: ICICI Direct Research, Company

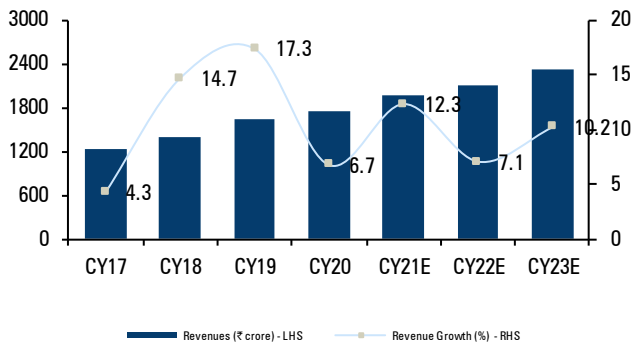
Exhibit 12: Strong volume growth trend



Source: ICICI Direct Research, Company

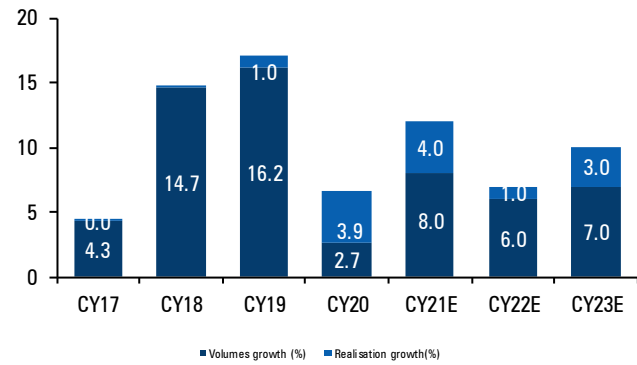
Chocolate & confectionery

Exhibit 13: Sales to gain traction, going forward



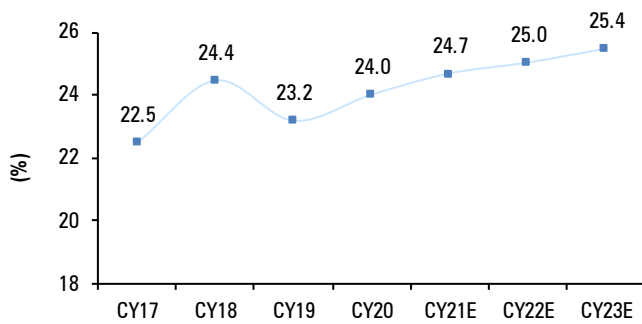
Source: ICICI Direct Research, Company

Exhibit 14: Volumes to recover in CY21E



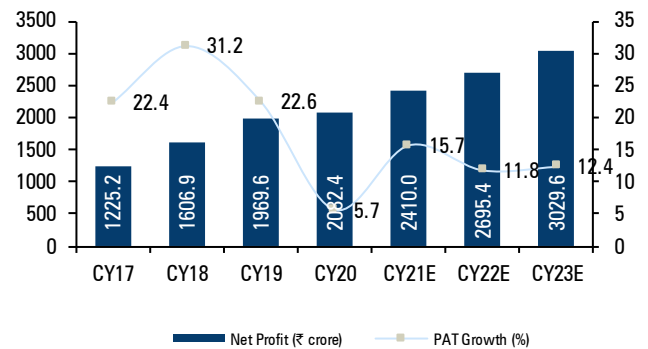
Source: ICICI Direct Research, Company

Exhibit 15: EBITDA margin to remain at elevated levels



Source: ICICI Direct Research, Company

Exhibit 16: PAT to grow at 13.8% CAGR over CY20-23E



Source: ICICI Direct Research, Company

Exhibit 17: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY20	13290.2	8.1	216.0	5.7	83.3	53.6	86.5	50.9
CY21E	14763.6	11.1	249.9	15.7	72.0	47.2	87.8	54.9
CY22E	16145.7	9.4	279.6	11.8	64.4	42.6	86.3	56.4
CY23E	17822.4	10.4	314.2	12.4	57.3	37.9	83.1	57.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Total operating income	13,350.0	14,829.5	16,218.2	17,902.1
Growth (%)	7.9	11.1	9.4	10.4
Raw Material Expenses	5,673.9	6,374.4	6,947.9	7,590.4
Employee Expenses	1,501.0	1,594.5	1,663.0	1,835.7
Marketing Expenses	1,371.1	0.0	0.0	0.0
Administrative Expenses	60.4	88.6	96.9	106.9
Other expenses	1,542.2	3,115.1	3,455.2	3,814.0
Total Operating Expenditure	10,148.5	11,172.5	12,162.9	13,347.0
EBITDA	3,201.5	3,656.9	4,055.2	4,555.1
Growth (%)	11.8	14.2	10.9	12.3
Depreciation	370.4	382.9	429.4	498.2
Interest	164.2	213.9	200.3	184.6
Other Income	145.9	161.8	178.0	178.0
PBT	2,812.8	3,221.9	3,603.5	4,050.3
Others	0.0	0.0	0.0	0.0
Total Tax	730.4	811.9	908.1	1,020.7
PAT	2,082.4	2,410.0	2,695.4	3,029.6
Growth (%)	5.7	15.7	11.8	12.4
EPS (₹)	216.0	249.9	279.6	314.2

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Profit after Tax	2,082.4	2,410.0	2,695.4	3,029.6
Add: Depreciation	370.4	382.9	429.4	498.2
(Inc)/dec in Current Assets	93.9	-1,168.5	-335.5	-407.0
Inc/(dec) in CL	345.0	186.6	246.1	298.6
CF from operating activities	2,891.8	1,811.0	3,035.5	3,419.4
(Inc)/dec in LT loans & adv	0.4	46.6	0.0	0.0
(Inc)/dec in other investments	2.8	-20.0	-20.0	-20.0
(Inc)/dec in Fixed Assets	-818.4	-920.0	-920.0	-820.0
Others	365.1	77.9	100.0	100.0
CF from investing activities	-478.9	-706.3	-840.0	-740.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	44.3	0.0	0.0	0.0
Dividend paid & dividend tax	-1,889.8	-2,073.0	-2,314.1	-2,506.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	281.9	0.0	0.0	0.0
CF from financing activities	-1,563.6	-2,073.0	-2,314.1	-2,506.9
Net Cash flow	849.2	-968.3	-118.6	172.5
Opening Cash	1,308.1	2,157.3	1,189.0	1,070.4
Closing Cash	2,157.3	1,189.0	1,070.4	1,242.8

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Liabilities				
Equity Capital	96.4	96.4	96.4	96.4
Reserve and Surplus	2,310.3	2,647.3	3,028.7	3,551.3
Total Shareholders funds	2,406.8	2,743.7	3,125.1	3,647.8
Total Debt	97.5	97.5	97.5	97.5
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long Term Provisions	3,268.3	3,368.3	3,468.3	3,568.3
Total Liabilities	5,794.6	6,209.5	6,690.8	7,313.5
Assets				
Gross Block	3,951.0	4,851.0	5,751.0	6,551.0
Less: Acc Depreciation	1,771.5	2,154.4	2,583.8	3,082.0
Net Block	2,179.4	2,696.5	3,167.2	3,468.9
Capital WIP	638.6	658.6	678.6	698.6
Total Fixed Assets	2,818.0	3,355.1	3,845.7	4,167.5
LT Loans & Advances	46.6	0.0	0.0	0.0
Inventory	1,416.5	1,617.9	1,769.4	1,953.1
Debtors	164.9	161.8	176.9	195.3
Loans and Advances	13.2	161.8	176.9	195.3
Current Investments	820.6	1,642.2	1,795.9	1,982.4
Cash	2,157.3	1,189.0	1,070.4	1,242.8
Total Current Assets	4,572.5	4,772.7	4,989.6	5,569.0
Creditors	1,516.6	1,779.7	1,946.3	2,148.5
Provisions	106.0	242.7	265.4	293.0
Other Current Liabilities	870.0	656.7	713.5	782.4
Total Current Liabilities	2,492.6	2,679.1	2,925.3	3,223.9
Net Current Assets	2,079.9	2,093.5	2,064.3	2,345.2
Application of Funds	5,794.6	6,209.5	6,690.8	7,313.5

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end December)	CY20	CY21E	CY22E	CY23E
Per share data (₹)				
EPS	216.0	249.9	279.6	314.2
Cash EPS	254.4	289.7	324.1	365.9
BV	249.6	284.6	324.1	378.3
DPS	196.0	215.0	240.0	260.0
Cash Per Share	183.7	223.4	268.0	319.6
Operating Ratios (%)				
EBITDA Margin	24.0	24.7	25.0	25.4
PBT / Net Sales	21.2	21.8	22.3	22.7
PAT Margin	15.7	16.3	16.7	17.0
Inventory days	38.9	40.0	40.0	40.0
Debtor days	4.5	4.0	4.0	4.0
Creditor days	41.7	44.0	44.0	44.0
Return Ratios (%)				
RoE	86.5	87.8	86.3	83.1
RoCE	50.9	54.9	56.4	57.5
RoIC	93.5	74.2	72.6	74.8
Valuation Ratios (x)				
P/E	83.3	72.0	64.4	57.3
EV / EBITDA	53.6	47.2	42.6	37.9
EV / Net Sales	12.9	11.7	10.7	9.7
Market Cap / Sales	13.1	11.8	10.7	9.7
Price to Book Value	72.1	63.3	55.5	47.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.0	1.4	1.4	1.4
Quick Ratio	0.4	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Colgate (COLPAL)	1,773	1,900	Buy	42,892	38.1	39.1	42.7	46.6	45.4	41.5	8.9	8.3	7.7	106.4	110.4	111.7	88.8	85.1	86.1
Dabur India (DABIND)	591	620	Buy	94,540	9.6	10.9	12.2	61.6	54.0	48.4	9.9	8.7	7.9	24.5	26.5	27.1	22.1	22.9	23.2
Hindustan Unilever (HINLEV)	2,352	2,750	Buy	558,687	33.9	40.5	45.0	69.5	58.1	52.2	12.3	10.6	9.9	18.9	25.6	27.7	17.1	20.0	21.6
ITC Limited (ITC)	208	240	Hold	261,086	10.7	12.0	13.5	19.4	17.4	15.5	5.4	5.0	4.6	28.2	31.3	33.6	22.1	24.2	25.9
Jyothy Lab (JYOLAB)	175	160	Hold	5,324	5.2	6.3	7.1	33.8	27.8	24.7	2.8	2.6	2.4	26.0	27.2	28.5	20.4	22.7	23.7
Marico (MARLIM)	532	490	Buy	53,027	9.3	9.6	10.7	57.2	55.3	49.7	6.6	5.9	5.3	40.3	42.5	45.5	37.0	37.4	39.7
Nestle (NESIND)	18,000	20,450	Hold	173,556	216.0	249.9	279.6	83.3	72.0	64.4	13.1	11.8	10.7	50.9	54.9	56.4	86.5	87.8	86.3
Tata Consumer Products (TAT)	756	725	Buy	60,728	10.1	12.4	14.5	74.9	60.9	52.1	5.2	4.6	4.3	8.0	9.1	10.0	6.4	7.6	8.5
VST Industries (VSTIND)	3,500	3,850	Hold	5,384	201.3	214.6	231.1	17.4	16.3	15.1	4.9	4.4	4.1	43.4	45.0	48.2	33.0	33.4	36.0
Varun Beverage (VARBEV)	752	800	Buy	33,343	8.4	14.1	20.7	89.9	53.2	36.3	5.2	4.2	3.6	10.9	17.4	23.4	10.3	15.4	19.1
Zydus Wellness (ZYDWEL)	2,173	2,800	Buy	13,502	18.7	60.8	72.0	116.5	35.7	30.2	7.2	6.4	5.8	6.2	7.8	9.1	5.5	8.1	9.4

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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