



Healthy domestic performance; RM pressures emerging

Nestle India (NEST) Q1CY21 revenue performance stood in line with our estimates while outperforming on EBITDA and PAT levels. Reported Revenue grew 8.9% yoy at Rs 3,600 crores in line with our estimate of Rs 3,678 crores. Domestic sales reported 10% growth (our estimate:10%) driven by 7% volume and 3% mix led growth as per our estimates. Exports which formed ~4% of revenues reported a 13% de-growth yoy due to lower sales to its affiliates. EBITDA of Rs 930 crores (our estimate: Rs 892 crores) was up 16.2% yoy driven by 162bps yoy expansion in EBITDA Margin which stood at 25.8% in the quarter, highest in the last 12 quarters. Expansion in operating margins was aided by GPM expansion of 236bps yoy at 58.5% which was supported by milk-based RM tailwinds. However, the management indicated that RM headwinds are emerging particularly in packaging material (HDPE) and commodities (milk, SMP, palm oil). Although Other Income declined by 30% yoy due to lower yields, recurring PAT grew 14.6% yoy at Rs 602 crores on account of healthy double-digit domestic sales growth. This was despite a high base of 10.7% in the corresponding quarter of the previous year and improved performance across key brands. The company also declared a Rs 25/share Interim Dividend in Q1CY21. As per the management commentary, all its key brands reported healthy double-digit growth led by in-home consumption. With fresh lockdowns being announced, we do believe the in-home consumption trend will continue and thereby augur well for NEST's medium-term growth. **However, in light of emerging RM headwinds (packaging material and commodities like palm oil), we tweak our estimates a shade resulting in a downgrade to HOLD from BUY earlier. However, we maintain a TP of Rs 18,600 as we continue to value the stock at 60x its CY22E EPS.**

Key result takeaways

- **Healthy topline growth:** NEST has continued to deliver a healthy and consistent topline growth of +9% over the last 9 quarters. Domestic sales grew by 10.2% in Q1CY21 which was broad-based and driven by a combination of volume and value (mix/price) despite a high base of 10.7% in Q1CY20. However, exports reported a 13% decline yoy to Rs 158 crores. Even though the demand for out-of-home (OOH) channel improved in Q1CY21, it continues to be impacted by COVID-19 led restrictions.
- **Strong brands deliver:** the management indicated that its key brands – Maggie Noodles, Maggie Sauces (Ready to eat segment), KitKat, Munch (confectionary), and Nescafe Classic and Nescafe Sunrise (beverages) reported a robust performance and grew in double-digit driven by a robust in-home consumption trend. We believe, this trend to continue moving ahead and will be led by fresh lockdowns being announced.
- **Emerging E-commerce channel:** E-commerce channel, which was a critical channel in COVID-19 times, witnessed a sharp rise and grew 66% yoy. In Q1CY21, it contributed 3.8% to total revenues.
- **Capex and growth strategy:** NEST's Capex of Rs 2,600 crores (includes Rs 700 crores for greenfield Sanand plant at Gujarat) is to be invested over the next 3-4 years towards upgradation of its capacities. This will allow it to meet capacity constraints, especially in Maggie. Furthermore, NEST has 40+ new products in the pipeline and is keen on expanding distribution reach by focussing on rural regions. We believe, these will prove to be key long-term earnings growth drivers for NEST.

Our Take

Nestle India reported an overall healthy performance in Q1CY21 with the highest ever operating margins driven by GPMs and better EBITDA performance. While cost savings as a strategy would continue, emerging RM headwinds will pose a near-term risk to the profitability. **We thus marginally tweak our estimates and revise our rating downwards to HOLD from BUY earlier. However, we maintain a TP of Rs 18,600 as we continue to value the stock at 60x P/E its CY22E EPS.**

Key Financials (Standalone)

(Rs crores)	CY19	CY20	CY21E	CY22E
Net Sales	12,295	13,350	14,784	16,771
EBITDA	2,877	3,216	3,827	4,439
Net Profit	1,895	2,083	2,557	2,989
EPS (Rs.)	197	216	265	310
PER (x)	85.3	77.6	63.2	54.1
EV/EBITDA (x)	55.7	49.7	41.6	35.5
P/BV (x)	84.2	80.0	59.1	47.5
ROE (%)	67.8	105.8	107.5	97.4

Source: Company, Axis Research

(CMP as of April 21, 2021)

CMP (Rs)	17,086
Upside /Downside (%)	9%
High/Low (Rs)	18,821/ 15,104
Market cap (Cr)	1,64,738
Avg. daily vol. (6m) Shrs.	67,993
No. of shares (Cr)	9.0

Shareholding (%)

	Sep-20	Dec-20	Mar-21
Promoter	62.8	62.8	62.8
FIIs	11.5	12.8	12.3
MFs / UTI	4.8	3.8	3.8
Banks / FIIs	0.1	0.0	0.0
Others	20.9	20.6	21.1

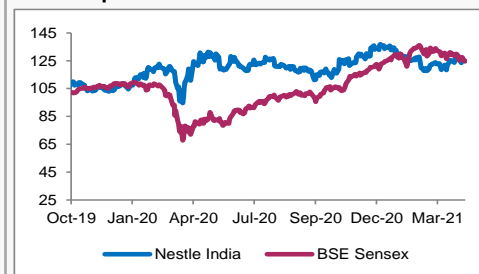
Financial & Valuations

Y/E Mar (Rs. bn)	2020	2021E	2022E
Net Sales	133.5	147.8	167.7
EBITDA	32.2	38.3	44.4
Net Profit	20.8	25.6	29.9
EPS (Rs.)	216.0	265.2	310.0
PER (x)	77.6	63.2	54.1
EV/EBITDA (x)	49.7	41.6	35.5
P/BV (x)	80.0	59.1	47.5
ROE (%)	105.8	107.5	97.4

Change in Estimates (%)

Y/E Mar	2021E	2022E	2023E
Sales	-	-	-
EBITDA	-	-	-
PAT	-	-	-

Relative performance



Source: Capitaline, Axis Securities

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Q4CY20 Financial Highlights (Standalone)

(Rs crores)	Q1CY21	Axis Sec Estm	Axis Sec (Var)	Q4CY20	QoQ growth (%)	Q1CY20	YoY growth (%)
Volume growth (% yoy)	7	7	0 bps	7	0 bps	8	-100 bps
Net Sales	3,600	3,678	(2.1)	3,418	5.3	3,306	8.9
Gross Profits	2,103	2,232	(5.8)	2,013	4.4	1,852	13.5
Gross Margin (%)	58.4	60.7	-228 bps	58.9	-51 bps	56.0	236 bps
Staff costs	368	423	(13.0)	403	(8.7)	358	2.7
Other operating expenses	811	922	(12.0)	849	(4.4)	703	15.3
EBITDA	930	892	4.3	758	22.8	801	16.2
EBITDA margin (%)	25.8	24.3	158 bps	22.2	367 bps	24.2	162 bps
Depreciation	94	93	0.7	96	(2.0)	91	2.5
Interest Cost	54	43	27.2	42	28.8	41	31.9
Other Income	30	34	(12.8)	31	(3.1)	43	(30.8)
PBT	812	772	5.2	670	21.1	704	15.3
Tax	210	196	7.2	187	12.2	178	17.5
<i>Tax rate (%)</i>	25.8	25.4	47 bps	27.9	-206 bps	25.3	47 bps
PAT	602	576	4.6	483	24.6	525	14.6
EPS (Rs.)	62	60	4.6	50	24.6	54	14.6

	Q1CY21	Axis Sec Estm	Axis Sec (Var)	Q4CY20	QoQ growth (%)	Q1CY20	YoY growth (%)
Profitability Analysis (%)							
<i>Gross Margin</i>	58.4	60.7	-228 bps	58.9	-51 bps	56.0	236 bps
<i>EBITDA Margin</i>	25.8	24.3	158 bps	22.2	367 bps	24.2	162 bps
<i>PAT Margin</i>	16.7	15.7	107 bps	14.1	258 bps	15.9	83 bps
Cost Analysis (%)							
<i>COGS</i>	41.6	39.3	228 bps	41.1	51 bps	44.0	-236 bps
<i>Staff Costs</i>	10.2	11.5	-128 bps	11.8	-158 bps	10.8	-62 bps
<i>Other Expenses</i>	22.5	25.1	-254 bps	24.8	-231 bps	21.3	126 bps
<i>Effective Tax Rate (% of PBT)</i>	25.8	25.4	47 bps	27.9	-206 bps	25.3	47 bps

Source: Company; Axis Securities

Financials (consolidated)
Profit & Loss

(Rs Cr)

Y/E Dec, Rs. Crore	CY19	CY20	CY21E	CY22E
Net sales	12,295	13,350	14,784	16,771
Growth, %	9.6	8.6	10.7	13.4
Total income	12,295	13,350	14,784	16,771
Raw material expenses	-5,224	-5,674	-6,151	-6,919
Employee expenses	-1,258	-1,501	-1,574	-1,774
Other Operating expenses	-2,936	-2,960	-3,232	-3,639
EBITDA (Core)	2,877	3,216	3,827	4,439
Growth, %	8.3	11.8	19.0	16.0
Margin, %	23.4	24.1	25.9	26.5
Depreciation	-370	-370	-377	-400
EBIT	2,507	2,845	3,450	4,039
Growth, %	8.5	13.5	21.3	17.1
Margin, %	20.4	21.3	23.3	24.1
Interest paid	-129	-164	-174	-191
Other Non-Operating Income	247	146	152	159
Pre-tax profit	2,600	2,813	3,427	4,007
Tax provided	-705	-730	-871	-1,018
Profit after tax	1,895	2,082	2,557	2,989
Net Profit	1,895	2,082	2,557	2,989
Growth, %	17.9	9.9	22.8	16.9
Unadj. shares (cr)	9.6	9.6	9.6	9.6

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As at 31st Dec	CY19	CY20	CY21E	CY22E
Cash & bank	1,308	1,770	2,710	4,186
Debtors	124	165	122	138
Inventory	1,283	1,416	1,539	1,608
Total current assets	2,810	3,491	5,156	6,717
Investments	1,751	1,464	1,464	1,464
Gross fixed assets	3,486	3,645	3,895	4,095
Less: Depreciation	-1,377	-1,677	-2,054	-2,454
Add: Capital WIP	143	639	639	639
Net fixed assets	2,252	2,607	2,480	2,280
Total assets	6,940	7,717	9,255	10,617
Current liabilities	2,105	2,387	2,652	2,892
Total current liabilities	5,097	5,761	6,159	6,855
Non-current liabilities	157	120	120	120
Total liabilities	5,254	5,880	6,278	6,974
Paid-up capital	96	96	96	96
Reserves & surplus	1,590	1,740	2,881	3,546
Shareholders' equity	1,686	1,836	2,977	3,642
Total equity & liabilities	6,940	7,717	9,255	10,617

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Dec, Rs. Crore	CY19	CY20	CY21E	CY22E
Pre-tax profit	2,600	2,813	3,427	4,007
Depreciation	370	370	377	400
Chg in working capital	541	413	-327	611
Total tax paid	-750	-744	-871	-1,018
Cash flow from operating activities	2,760	2,853	2,607	4,000
Capital expenditure	-116	-725	-250	-200
Chg in investments	907	287	0	0
Cash flow from investing activities	802	-437	-250	-200
Free cash flow	3,562	2,415	2,357	3,800
Debt raised/(repaid)	18	-21	0	0
Dividend (incl. tax)	-3,556	-1,890	-2,092	-2,324
Cash flow from financing activities	-4,347	-2,163	-1,840	-2,324
Net chg in cash	-785	252	517	1,476
Opening cash balance	1,610	1,308	1,770	2,710
Closing cash balance	1,308	1,770	2,710	4,186

Source: Company, Axis Securities

Ratio Analysis

(%)

	CY19	CY20E	CY21E	CY22E
Per Share data				
EPS (INR)	196.5	216	265.2	310
Growth, %	17.9	9.9	22.8	16.9
Book NAV/share (INR)	174.9	190.5	308.8	377.7
FDEPS (INR)	196.5	216	265.2	310
CEPS (INR)	234.9	254.4	304.3	351.5
DPS (INR)	306	196	180	200
Return ratios				
Return on assets (%)	26.3	29.8	31.3	31.2
Return on equity (%)	70.7	118.2	106.2	90.3
Return on capital employed (%)	35.2	42.9	44.6	43.3
Turnover ratios				
Asset turnover (x)	6.9	7.8	7.3	8.4
Sales/Total assets (x)	1.6	1.8	1.7	1.7
Sales/Net FA (x)	5.2	5.5	5.8	7
Liquidity ratios				
Current ratio (x)	1.3	1.5	1.9	2.3
Quick ratio (x)	0.7	0.9	1.4	1.8
Interest cover (x)	19.4	17.3	19.8	21.1
Dividend cover (x)	0.6	1.1	1.5	1.6
Total debt/Equity (%)	3.2	1.7	1.1	0.9
Valuation				
PER (x)	85.3	77.6	63.2	54.1
Price/Book (x)	95.8	88	54.3	44.4
Yield (%)	1.8	1.2	1.1	1.2
EV/Net sales (x)	13	12	10.7	9.4
EV/EBITDA (x)	55.7	49.7	41.5	35.5
EV/EBIT (x)	64	56.2	46.1	39

Source: Company, Axis Securities

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