

Result Update – Q1CY21

- NESTLE India Limited reported a healthy set of number with 8.6% year over year (y/y) increase in revenues to ₹36,108 million in Q1CY21 driven by volume and mix. Domestic sales increased by 10.2% while export Sales were lower by 12.9% due to lower exports to affiliates.
- Key brands like MAGGI NOODLES, KITKAT, NESCAFÉ CLASSIC, MAGGI SAUCES, MILKMAID, MAGGI MASALA-AE-MAGIC posted double digit growth, boosted by increased in home consumption. Demand in Out of Home channels has improved sequentially in 1QCY21, but continues to be impacted by COVID-19.
- E-commerce channel has been growing strongly for the industry and remained prominent growth channel with 66% growth in Q1 for the company. It is contributing 3.8% to sales. Recently, the company witnessed headwinds in commodity and packaging materials costs. The management achieved plastic neutrality across all brands in CY20.
- Operating profit witnessed growth of 17.3% during the quarter and PAT grew by 14.6% to ₹6,023. Operating margin expansion to 25.8% in 1QCY21. Higher other expenses were mainly due to higher advertising and sales promotion spends. Profit before tax grew 15.3% y/y to ₹8,119 million. Profit after tax witnessed growth of 14.6% y/y to ₹6,023 million owing to lower tax in previous year quarter.
- In line with its growth strategy, the company plans to invest ₹26 billion over the next three to four years to enhance existing manufacturing capacities as well as towards the new under construction factory in Sanand, Gujarat would be commissioned by the end of the year. This planned investment is focused on categories across culinary, chocolates, coffee, milk and nutrition. We believe this capacity addition would help the company grow at a faster pace to capture the demand tailwinds of consumption shift towards package foods.
- The Board of Directors have declared an interim dividend for 2021 of ₹25 per equity share (Face value ₹ 10 per equity share) amounting to ₹2,410.4 million, which shall be paid on and from 19th May 2021 along with the Final Dividend for the year 2020, as approved by the shareholders at the 62nd Annual General Meeting.
- Amid the current scenario, NESTLE India is recalibrating and innovating products with focus on nutrition, immunity, value addition and affordability. Also, the company remains focused on expediting penetration in small towns, tier-2, and tier-3 cities while further expanding presence in rural markets. Notably, the company's rural distribution now covers nearly 90,000 villages and rural India contributes about 20-25% to the company's sales and is looking to further expand its rural reach to 1.2 lakh villages by 2024. Moreover, it is also looking to expand its product range availability in rural India. The company has 40+ new products in the pipeline and is keen on expanding distribution reach by focussing on rural regions.

- ❑ NESTLE India, enjoying strong market position with leadership in about 85% of its product portfolio, remains well positioned for sustainable growth given its diverse product mix. Overall we remain positive on the back of resilient business with favourable industry outlook, strong brand presence with diversified product mix and high ROE. Besides, the company is well positioned to capitalize on the change in consumer behaviour with increase in at-home consumption with more of in-house cooking. In the long-run, the company is likely to benefit from the planned capex of ₹26 billion in the greenfield facility building. We expect the top line to grow at a CAGR of 11% between CY20 to CY22. Currently, the stock is trading at a P/E multiple (on TTM basis) of ~75x which is an expensive valuation and indicates premium valuation in FMCG basket. We continue to apply a forward P/E multiple of 67x on CY22E EPS of ₹ 290 to arrive at a target price of ₹ **19,455 per share**; an upside potential of 16%. and we maintain our **BUY** rating on the shares of Nestle India.

Financials:

(In ₹ mn)	Q1-CY21	Q1-CY20	Chg
Net Sales	36,108	33,253	8.6%
Operating Expense	26,810	25,320	5.9%
EBITDA	9,299	7,933	17.2%
Other Income	297	429	-30.8%
Depreciation	936	914	2.5%
EBIT	8,659	7,448	16.3%
Interest	540	410	31.9%
PBT	8,119	7,038	15.3%
Tax	2,096	1,784	
Exceptional Items			
PAT	6,023	5,254	14.6%
Minority /Other Adj.	-	-	
Consolidated PAT	6,023	5,254	14.6%
Margins	Q1-CY21	Q1-CY20	Chg BPS
Operating Margin %	25.8%	23.9%	190
Net Margin %	16.7%	15.8%	88

Consolidated Financials:

(In ₹ mn)	CY-19	CY-20	CY-21E	CY-22E
Net Sales	123,689	133,500	150,288	168,659
Operating Expense	94,430	101,443	113,206	125,779
EBITDA	29,259	32,507	37,382	42,880
Other Income	2,484	1,508	2,409	2,699
Depreciation	3,702	3,704	4,108	4,601
EBIT	28,042	29,861	35,683	40,97
Interest	1,291	1,642	3,515	3,515
Misc. items	-	-	-	-
PBT	26,751	28,219	32,168	37,462
Tax	7,051	7,304	8,097	9,429
Minority Interest	-	-	-	-
PAT	19,700	20,915	24,071	28,033
Margins	CY-19	CY-20	CY-21E	CY-22E
Sales Growth %	9.5%	7.9%	12.8%	12.0%
Operating Margin %	23.7%	24.0%	24.8%	25.4%
Net Margin %	15.9%	15.7%	16.0%	16.6%

(In ₹ mn)	CY-19	CY-20	CY-21E	CY-22E
Liabilities				
Equity Share Capital	964	964	964	964
Reserves & Surplus	18,225	19,229	24,403	33,538
Total Shareholder's Funds	19,189	20,193	25,367	34,502
Minority Interest	-	-	-	-
Long-Term Liabilities	531	317	317	317
Other Long-term Liabilities	29,073	33,561	33,651	33,651
Deferred Tax Liability	180	-199	-199	199
Short-term Liabilities	21,906	24,926	26,998	30,238
Total	71,729	78,798	86,045	98,420
Assets				
Net Fixed Assets	24,848	28,180	28,439	29,159
Long-Term L&A	1,274	1,359	1,631	1,631
Non Current Investments	7,436	7,408	8,890	8,890
Other Non-Current Assets	-	-	-	-
Current Asset	38,172	41,851	47,085	58,739
Total	71,729	78,798	86,045	98,420
(In ₹ mn)	CY-19	CY-20	CY-21E	CY-22E
EPS (₹)	204.3	216.0	249.7	290.7
P/E (x)	82.2	77.7	67.3	57.8
P/B (x)	84.8	80.2	63.8	46.9
ROE	102.6%	103.1%	94.9%	81.2%

Source: Company, Anand Rathi Research

Key Risks:

- ❑ Volatility in raw material prices may put pressure on profitability.
- ❑ Intense competition.
- ❑ Slowdown in consumption.



Rating and Target Price history:

NEST IN rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 28 April 2021 close.

NEST IN rating details

Date	Rating	Target Price (₹)	Share Price (₹)
6-Apr-2020	BUY	17,902	15,105
22-Jun-2020	BUY	18,710	16,141
31-Aug-2020	BUY	18,710	15,957
25-Nov-2020	BUY	19,445	17,520
28-Apr-2021	BUY	19,445	16,634

Source: Bloomberg, Anand Rathi Research

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