

Sustainable growth; elevated margins to continue...

About the stock Nestlé India (NIL) 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, the company has forayed into newer categories and launched more than 90 new products.

- The company has nine manufacturing facilities including a new plant in Sanand, Gujarat that got commissioned during the quarter. Its major brands include Maggi, Nescafe, KitKat, Cerelac among others

Key Highlights of analyst meet: We attended Nestlé's analyst meet on October 29, 2021. The management reiterated its strategies & focal points.

- Continue to focus on volume growth through penetration
- Thrust on innovations & strong pipeline of new products
- Effort to enhance rural reach to 1.2 lakh villages by 2024
- Accelerating footprint in new emerging trade channels

What should investors do? Nestlé India's share price has given return of 185% in the last five years (from ₹ 6654 in November 2016 to ₹ 19002 in October 2021).

- 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 FY24 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 of 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 & vaccination drive, urban demand is likely to pick up. The product portfolio of NIL is urban centric
- Commissioning of Sanand facility would aid revenue growth in core brands given packaged foods saw high demand in the last 18 months

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

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



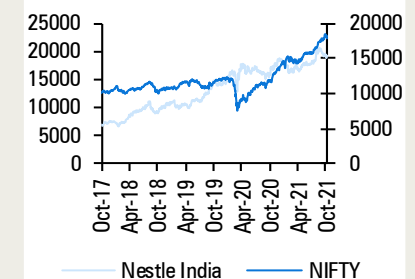
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	183217
Total Debt (CY20)	97.5
Cash & Investments (CY20)	2,880.2
EV	180,434.5
52 week H/L (₹)	20599 / 15900
Equity capital	96.4
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	62.8	62.8	62.8	62.8
FII	12.8	12.3	12.4	12.3
DII	7.7	7.9	7.9	8.0
Others	16.7	17.0	16.9	16.9

Price Chart



Recent event & key risks

- NIL's ninth plant in Sanand was commissioned during the quarter
- Key Risk:** (i) Incessant increase in commodity costs to pressurise margins (ii) Strong growth in core categories to be upside risk

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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	93.0	88.0		76.0	68.0	60.5	
RoNW %	101.9	86.5		87.8	86.3	83.1	
RoCE (%)	56.9	50.9		54.9	56.4	57.5	

Source: Company, ICICI Direct Research

Key takeaways from analyst meet

Analyst meet update: Emphasis on Rurban growth, innovations, capacity enhancement of core categories

- NIL has commissioned its ninth manufacturing facility in Sanand, Gujarat. This is digitally the most advanced factory. The investment in the factory is part of the bigger capacity expansion plan of ₹ 2600 crore over the next three to four years
- The company has seen revenue growth of 11% led by 9.3% volume & mix CAGR over the last four years (CY16-20). Operating profit saw 16.6% CAGR growth with margins expansion by 410 bps in the similar period. Net profit growth has been 29.9%
- In 2021 (YTD Sept), NIL has been sustaining its growth with revenue growth of 10.7%, operating profit growth of 12.6%, margins of 22.6% (40 bps increase) & net profit growth of 9.9%
- Milk product segment (contributes 42.8% to sales) grew a slower 1% in CY21 (YTD September) with pantry loading in base year during lockdown. Prepared dishes (contributes 32.1%) grew 20.9% led by increase in home consumption & lack of mobility. Chocolate portfolio (contributes 4.9%) grew by 22.3% & beverage (contribute 10.2%) grew 15.7%
- Thrust on innovation is greater than ever in last five years. It has launched 90 new products in the period. Further, 10 new products are in the pipeline. The new products contribution to sales has increased from 1.5% in 2016 to 5% in 2021 (YTD September)
- Media spend behind brands has increased 1.35x between 2016 and 2020. NIL is maintaining a healthy mix in investing behind core brands & new products. Further, it is improving efficiencies in buying media, enhancing digital footprint, targeting communication through clusters & investing in brand equity rather than short term promotions
- Within marketing spends, share of consumer promotion has gone down from 43% to 18% while media spends have gone up from 57% to 82%. Further spends on media creation are coming down and media airing is going up. Digital media spends have increased by 2.9x in last four years
- Though 85% of the company's sales comes from tradition channels (GT, CSD), the share of e-commerce sales has increased 8x in last five years. E-commerce contribution to sales was 0.6% in 2016 and was 5.1% in 2021 (YTD September). The current year growth in e-commerce channel sales is 65%
- NIL's distribution reach has increased by 25% to 5 million outlets between 2016 and 2020. However, its direct reach is only grown from 1.3 million to 1.4 million outlets. It is growing its distribution in rural regions through wholesales channel network
- Rurban (rural + smaller towns) sales has grown by 16% in 2021 (YTD September). The company is looking to accelerate growth in Rurban regions through customised portfolio, localised communication, increasing visibility & building consumer connect
- The company is looking to increase its rural footprint from current 1.0 lakh villages to 1.2 lakh villages by 2024 through wholesales hubs & smaller distributors
- Inflation is high in four out of six major commodities for company. Milk prices, SMP & packaging cost is up 20-30% in last five years whereas edible oil prices are up a steep 70% in the last five years. Most of the commodities are at a 10 year high. This inflation is here to stay in the medium term

- The management believes the consumer is willing to pay more for trustworthy, better nutrition brands
- Regarding the disconnect between increasing village network & stagnant direct reach, the management said that in hinterland the incremental cost of distribution is more than incremental return on distribution therefore it is going for auxiliary (wholesales led) distribution model in rural areas
- The company was unable to concentrate on Milo & NesPlus brands given its focus remains in protecting core categories during pandemic. NIL would be looking to unveil distinct growth engines for these brands
- Nestlé’s portfolio is 30% popularly priced products, around 50% is premium offerings and the rest is the mainstream. Hence, its brands not just represent premium products and many of its products can find resonance in smaller market
- Exports contributes 5% to total sales. However, NIL consider exports as a sourcing opportunity in nearby countries. Moreover, exports are largely catering to the Indian diaspora
- The company is looking to enter two to three categories, which can give extra growth (over & above sustainable ~10%) with the expectation of maintaining similar margins. While foraying in a category, the company looks into the longevity of the product & sustainable growth
- The growth in dairy whiteners was impacted adversely during pandemic given distribution in some of geographies like Kerala, North East (fair amount of dairy whiteners are sold in these regions) were disrupted
- Cost rationalisation measure programme ‘Shark’ has helped it save ₹ 200 crore every year from last four years. Under this programme, production loss came down by 42%

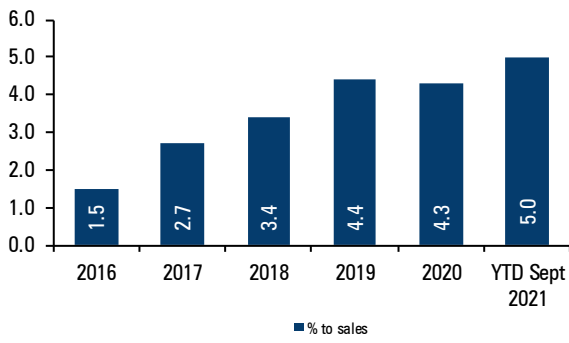
Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Hindustan Unilever (HINLEV)	2393	2750	Hold	582416	12.9	9.1	8.4	25.6	26.2	26.3	63.0	55.9	51.0	19.5	21.5	23.0	25.0	27.6	29.5
Varun Beverage (VARBEV)	849	1020	Buy	36780	31.3	10.4	10.0	19.5	20.26	19.96	52.98	41.78	37.48	17.16	18.89	19.05	19.56	23.44	26.29
Nestle (NESIND)	19002	20450	Hold	183217	11.1	9.4	10.4	24.8	25.1	25.6	76.0	68.0	60.5	87.8	86.3	83.1	54.9	56.4	57.5
Tata Consumer (TATGLO)	810	910	Buy	72703	8.9	8.4	9.7	13.9	14.6	14.9	67.0	56.0	48.6	7.2	8.3	9.2	8.9	9.9	10.8

Source: Company, ICICI Direct Research

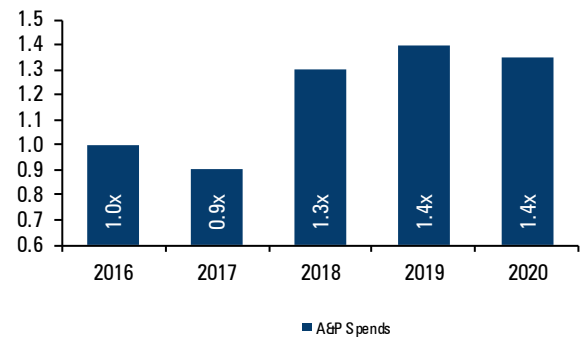
The growth in Nestlé was largely contributed by volumes and change in product mix. The company commissioned its ninth plant in Sanand, Gujarat during the quarter. We believe NIL would be able to resolve capacity challenges in core categories with the commissioning of new facility given noodles, chocolates & beverage categories are witnessing stronger traction. Further, the company is increasing its penetration levels in rural India by increasing its distribution reach in hinterland. The e-commerce channel has also become important channel for packaged foods category for NIL and is growing faster than other channels. Though inflationary pressure related to crude & edible oil remains high, we believe the company would be able to maintain its margins in medium term with cost rationalisation measures & mix changes. We remain positive on Nestlé’s growth prospects, going forward. The present valuation multiples capturing business strength & longer term sustainable growth (10-11%). However, any future upgrade in growth rates (through newer categories, new products & distribution reach enhancement) would warrant the change in stance. We maintain our **HOLD** rating on the stock with a target price of ₹ 20450/share.

Exhibit 2: New product contribution to sales



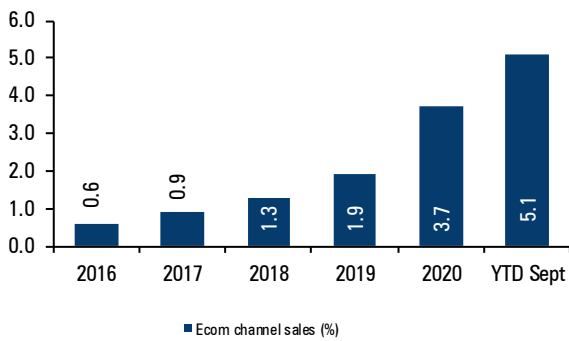
Source: ICICI Direct Research, Company

Exhibit 3: Consistent media support to brand



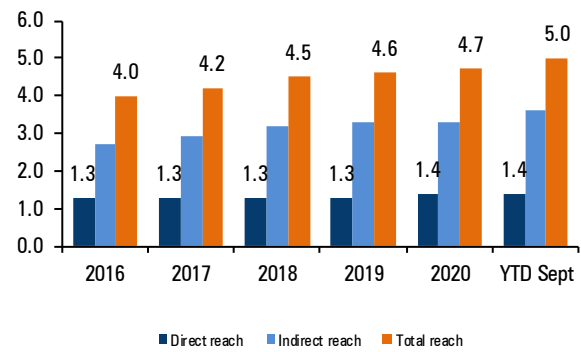
Source: ICICI Direct Research, Company

Exhibit 4: Ecommerce channel sales up 8x in five years



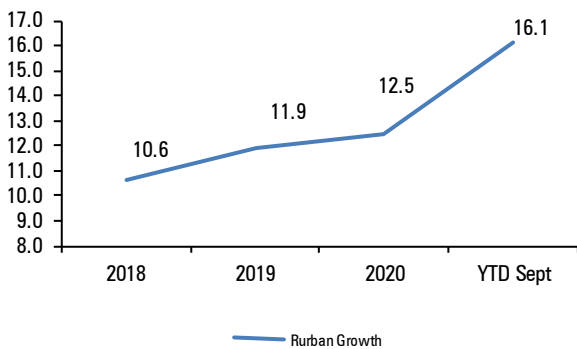
Source: ICICI Direct Research, Company

Exhibit 5: Direct, Indirect & total distribution reach



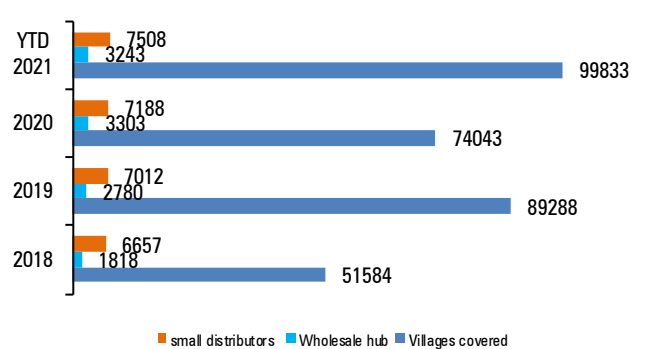
Source: ICICI Direct Research, Company

Exhibit 6: Rurban growth in last five years



Source: ICICI Direct Research, Company

Exhibit 7: Rural distribution network



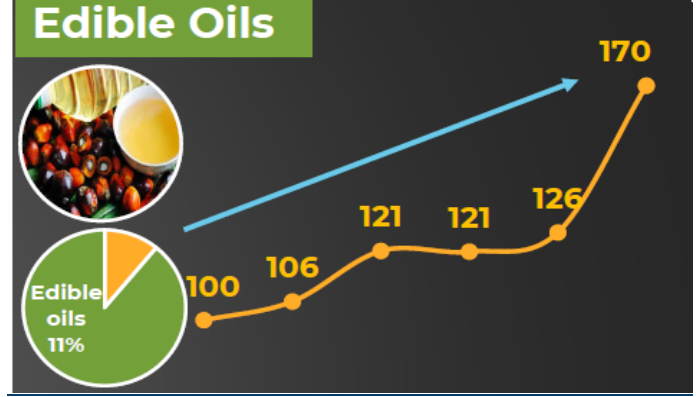
Source: ICICI Direct Research, Company

Exhibit 8: Milk price index in last five years for NIL



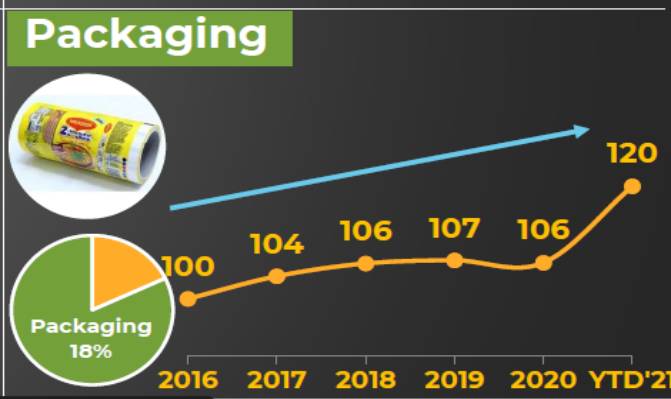
Source: ICICI Direct Research, Company

Exhibit 9: Edible oil inflation for NIL



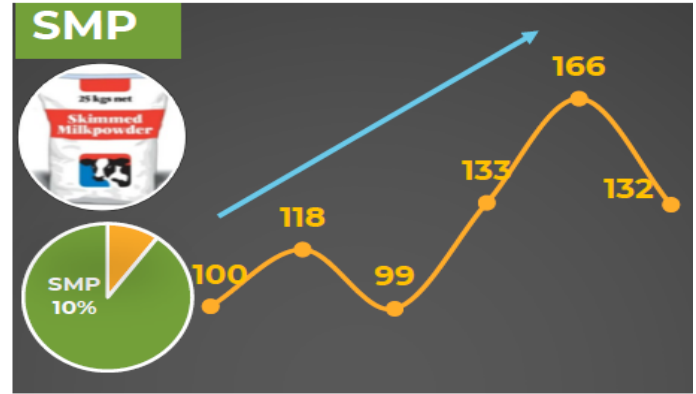
Source: ICICI Direct Research, Company

Exhibit 10: Packaging cost inflation for NIL



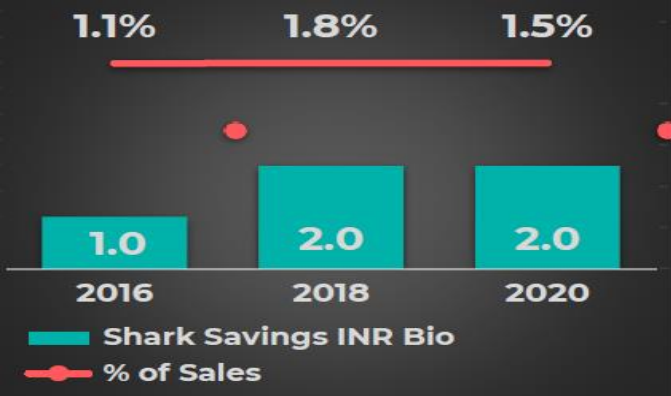
Source: ICICI Direct Research, Company

Exhibit 11: SMP Inflation for NIL



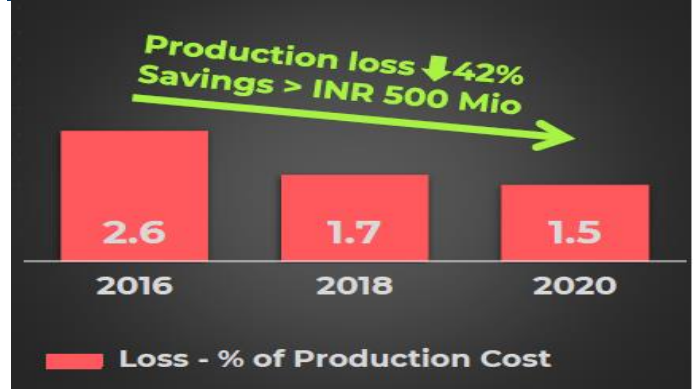
Source: ICICI Direct Research, Company

Exhibit 12: Cost savings through project shark



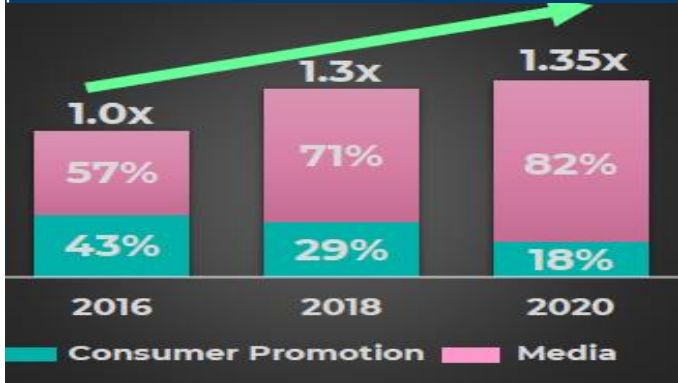
Source: ICICI Direct Research, Company

Exhibit 13: Production loss reduces by 42%



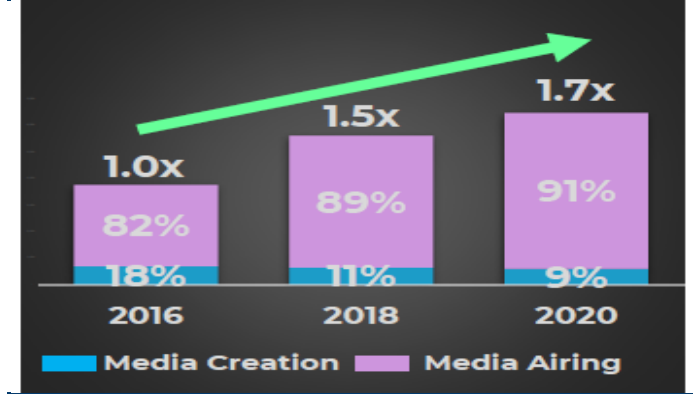
Source: ICICI Direct Research, Company

Exhibit 14: Spending on brand equity rather than short term promotion



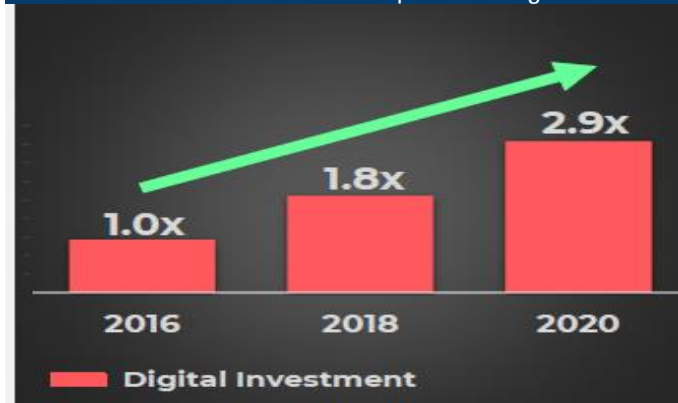
Source: ICICI Direct Research, Company

Exhibit 15: Efficient utilisation of creative assets



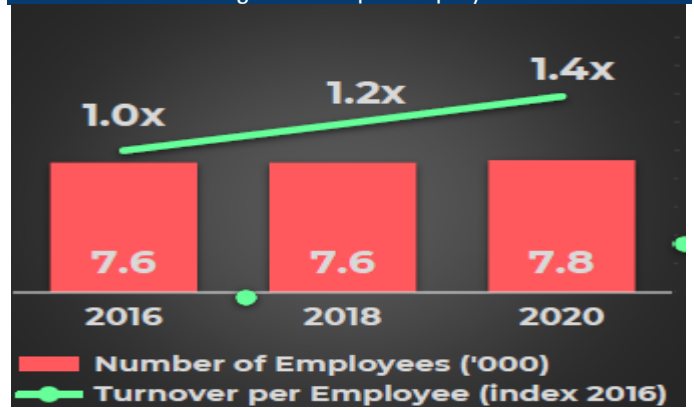
Source: ICICI Direct Research, Company

Exhibit 16: Substantial increase in spends on digital media



Source: ICICI Direct Research, Company

Exhibit 17: Increasing turnover per employee



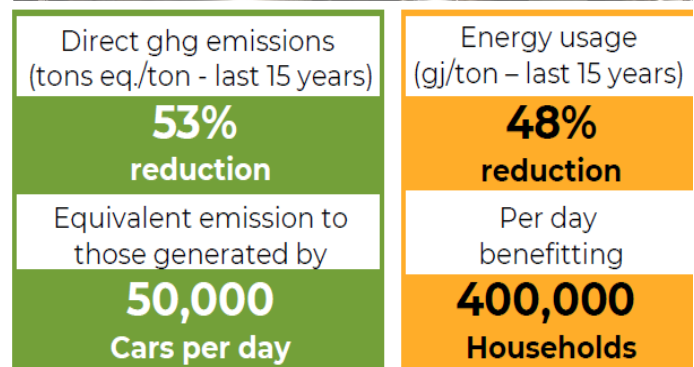
Source: ICICI Direct Research, Company

Exhibit 18: NIL reaches plastic neutrality across brand
Plastic Neutrality Across Brands!



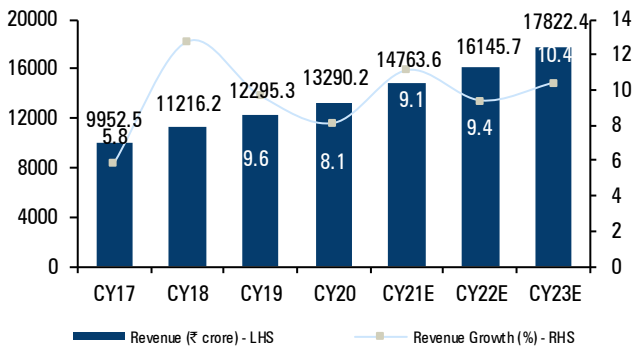
Source: ICICI Direct Research, Company

Exhibit 19: Aims to reach 100% renewable energy by 2025



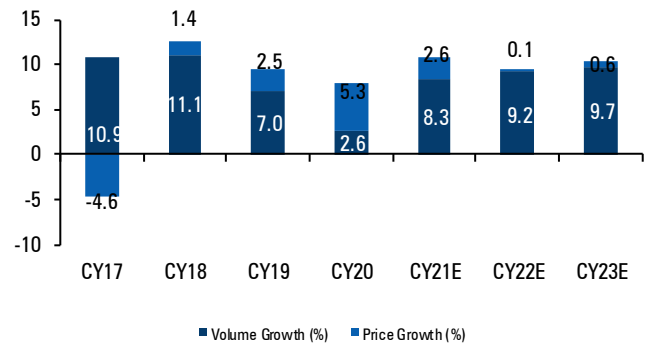
Source: ICICI Direct Research, Company

Exhibit 20: Revenue growth trend



Source: ICICI Direct Research, Company

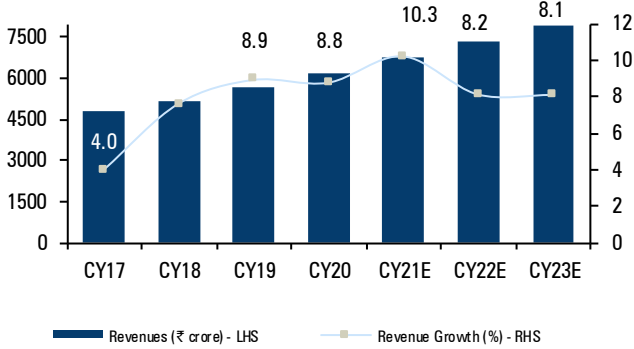
Exhibit 21: Volume growth to drive revenue



Source: ICICI Direct Research, Company

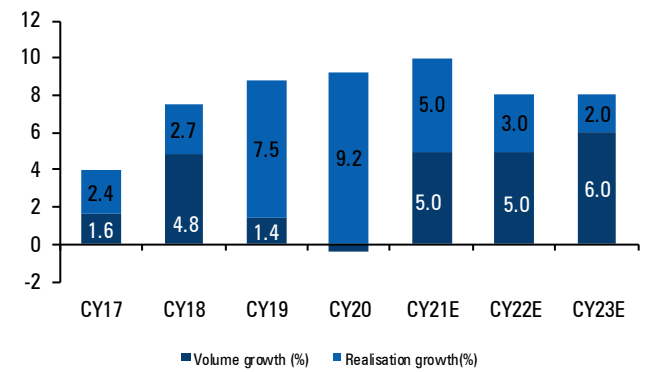
Milk products & nutrition

Exhibit 22: Improved product mix to aid EBITDA margins



Source: ICICI Direct Research, Company

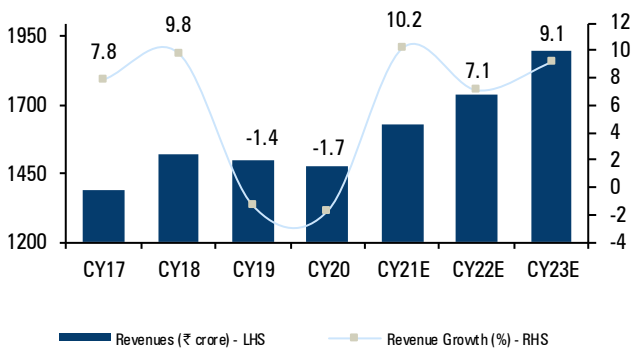
Exhibit 23: Revenue growth to be mix of volume & price growth



Source: ICICI Direct Research, Company

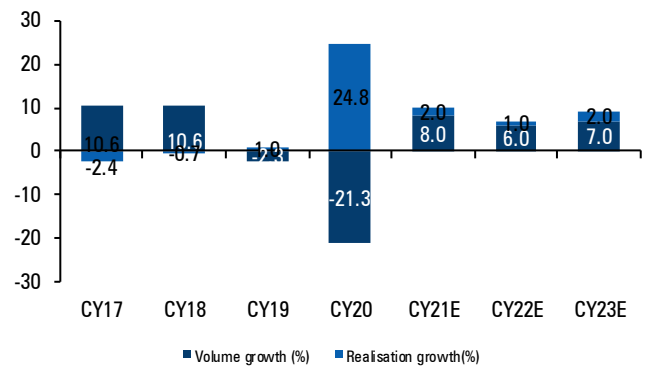
Beverages

Exhibit 24: Beverages revenue growth expected at 8.8% CAGR during CY20-23E



Source: ICICI Direct Research, Company

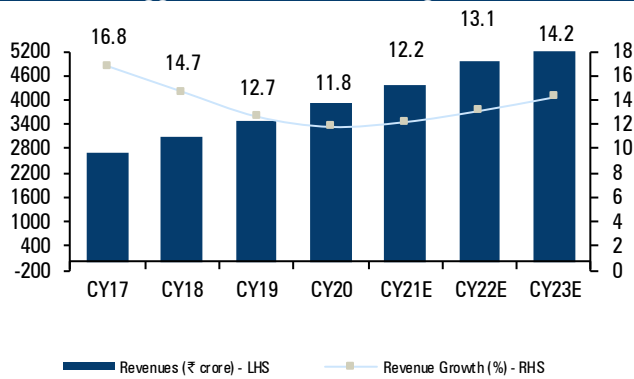
Exhibit 25: Beverage segment volume & value growth %



Source: ICICI Direct Research, Company

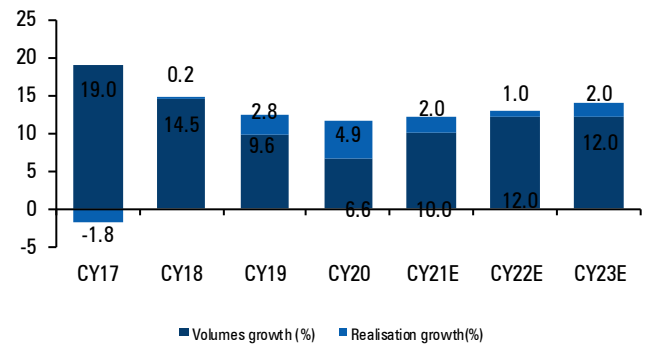
Prepared dishes

Exhibit 26: Maggi noodles continues to grow at faster



Source: ICICI Direct Research, Company

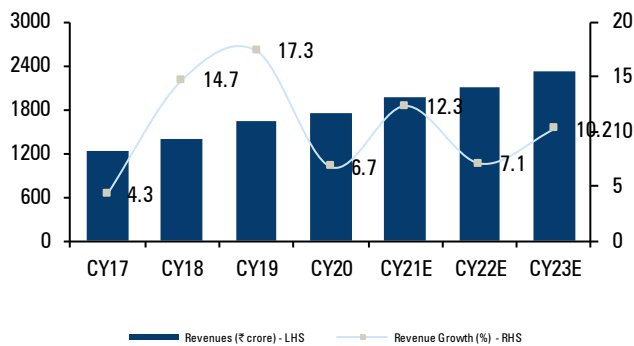
Exhibit 27: Strong volume growth trend



Source: ICICI Direct Research, Company

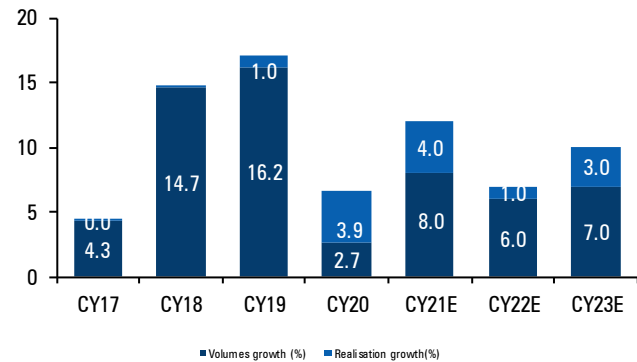
Chocolate & confectionery

Exhibit 28: Sales to gain traction, going forward



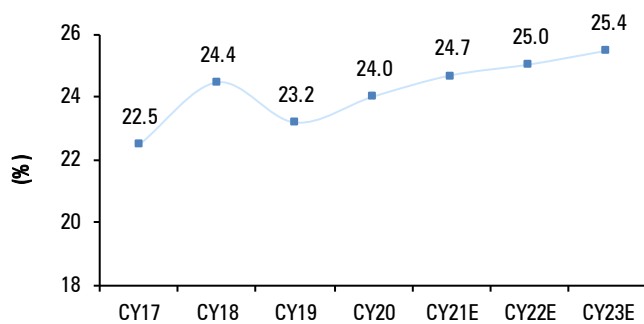
Source: ICICI Direct Research, Company

Exhibit 29: Volumes to recover in CY21E



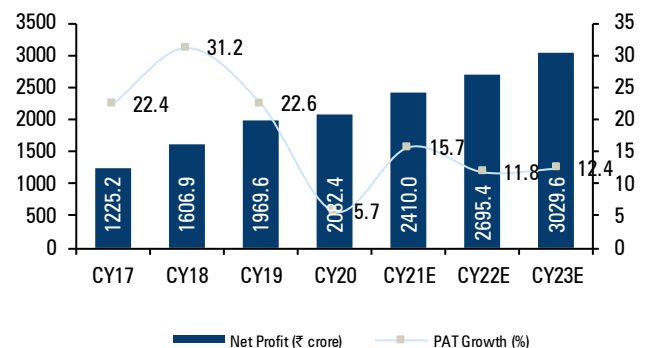
Source: ICICI Direct Research, Company

Exhibit 30: EBITDA margin to remain at elevated levels



Source: ICICI Direct Research, Company

Exhibit 31: PAT to grow at 13.3% CAGR over CY20-23E



Source: ICICI Direct Research, Company

Exhibit 32: 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 33: 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 34: 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 35: 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 36: 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	88.0	76.0	68.0	60.5
EV / EBITDA	56.6	49.8	45.0	40.0
EV / Net Sales	13.6	12.3	11.3	10.2
Market Cap / Sales	13.8	12.4	11.3	10.3
Price to Book Value	76.1	66.8	58.6	50.2
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 37: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
Colgate (COLPAL)	1,543	1,800	Buy	42,088	38.3	41.1	45.3	40.3	37.5	34.1	8.1	7.5	6.8	110.5	113.2	116.5	84.8	87.0	89.5
Dabur India (DABIND)	586	740	Buy	104,789	10.6	12.0	13.4	55.4	48.9	43.8	9.7	8.8	7.9	25.8	27.1	27.7	22.3	23.1	23.1
Hindustan Unilever (HINLEV)	2,393	2,750	Hold	582,416	39.3	44.3	48.6	60.8	54.0	49.3	11.4	10.5	9.6	25.0	27.6	29.5	19.5	21.5	23.0
ITC Limited (ITC)	223	260	Hold	293,108	12.0	13.7	15.3	18.5	16.3	14.6	5.5	5.0	4.5	31.4	34.1	36.0	24.2	26.2	27.6
Jyothy Lab (JYOLAB)	157	180	Hold	6,248	5.7	6.5	7.1	27.4	24.2	22.0	3.0	2.8	2.6	25.2	27.0	28.5	21.0	22.6	23.9
Marico (MARLIM)	570	685	Buy	73,541	10.2	11.4	12.5	56.0	49.9	45.7	7.6	7.3	6.8	43.0	47.3	49.2	38.7	41.2	42.7
Nestle (NESIND)	19,002	20,450	Hold	183,217	249.9	279.6	314.2	76.0	68.0	60.5	12.4	11.3	10.3	54.9	56.4	57.5	87.8	86.3	83.1
Tata Consumer Products (TAT)	810	910	Buy	72,703	11.8	14.1	16.2	68.8	57.5	49.9	5.8	5.3	4.8	8.9	9.9	10.8	7.2	8.3	9.2
VST Industries (VSTIND)	3,298	3,700	Hold	5,334	223.1	245.8	277.0	14.8	13.4	11.9	4.6	4.2	3.9	44.2	47.7	55.1	32.8	35.7	41.2
Varun Beverage (VARBEV)	849	1,020	Buy	36,780	16.0	20.3	22.7	53.0	41.8	37.5	4.3	3.9	3.6	19.6	23.4	26.3	17.2	18.9	19.0
Zydus Wellness (ZYDWEL)	2,055	2,800	Buy	13,449	56.2	67.8	77.6	36.6	30.3	26.5	6.4	5.8	5.3	7.3	8.6	9.7	7.5	9.0	10.0

Source: Bloomberg, ICICI Direct Research

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