

Retail Equity Research

Nestle India Limited

Food Products

BSE CODE: 500790

NSE CODE: NESTLEIND

Bloomberg CODE: NEST:IN

SENSEX: 40,470

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 14,107 TARGET Rs. 15,170 RETURN 8% ↑
(Closing: 19-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Better volume and mix lead to higher growth

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.

- Standalone revenue grew 9.4% YoY at Rs. 3,216cr in Q3CY19. Growth was led by domestic sales (+10.5% YoY) on better volumes and mix.
- EBITDA margin declined 130bps YoY to 23.5% impacted by higher cost of sales with rising commodity prices.
- PAT rose 33.5% YoY helped by lower D&A (-16.1%) and tax (-53.7%).
- New product introductions and distribution enhancement to boost volume growth; Milo (Cocoa-malt beverage) relaunched in India.
- We maintain a Hold rating on the stock with a revised target price of Rs. 15,170 based on 63x CY20E EPS.

Domestic sales keep the growth momentum going

Q3CY19 standalone revenue increased by 9.4% YoY to Rs. 3,216cr, primarily led by domestic sales (+10.5% YoY to Rs. 3,039cr) driven by better volumes and mix. This is partially offset by weaker export sales (-7.1% YoY to Rs. 160cr) owing to lower coffee exports to Turkey. EBITDA grew 3.6% YoY to Rs. 756cr, despite contraction in EBITDA margin (-130bps YoY to 23.5%) due to higher raw material prices, particularly milk and its derivatives. PAT rose 33.5% YoY to Rs. 595cr, helped by lower depreciation (-16.1% YoY to Rs. 78cr) and taxes (-53.7% to Rs. 104cr) under the new tax regime.

Reintroduction of Milo helps regain a slice of MFD segment pie

The company recently relaunched Milo, a popular cocoa-malt beverage, in India aimed at regaining its market share in the intensely competitive MFD (Milk Food Drinks) category. Market is dominated by a series of competitors' products such as Horlicks and Boost. Based on its high success rate of its new produce launches and an equally strong distribution network, we are hopeful Nestle will be able to make the most of this opportunity. Separately, the company reported a strong performance in Maggi, Kitkat, Munch, Nescafe RTD, Nangrow and Ceregrow line of products during the quarter.

Planned capacity expansion on track

Nestle currently has eight production facilities in the country. The company had, in the prior quarter, announced commencement of construction for its ninth factory in Sanand, Gujarat at a cost of Rs. 700cr over the next two years. The project is progressing on track.

Newer tax regime supports bottom-line

The company made a shift to the newer tax regime from this quarter onwards. This will help lower the tax liability considerably (our CY19 tax rate estimated at 27.9% falling from 33.8% level in CY18) and should thus boost its bottom-line further.

Valuation

Having an established market position in a large variety of categories within the FMCG space and a diversified revenue profile, we expect company's earnings to grow at healthy 20.2% CAGR over CY18-20E. However, the stock is susceptible to ongoing volatility in commodity prices in the near-term and could therefore witness pressure on margins. Additionally, the exports have been weak over the last few quarters and the trend is expected to continue for the rest of the year. Hence, we remain cautious on the stock and maintain our HOLD rating with a revised target price of Rs. 15,170 based on 63x CY20E P/E.

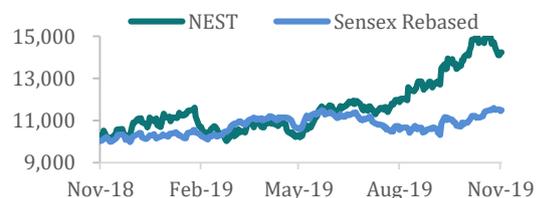
Company Data

Market Cap (cr)	Rs. 1,37,291
Enterprise Value (cr)	Rs. 1,36,201
Outstanding Shares (cr)	9.6
Free Float	37.0%
Dividend Yield	0.8%
52 week high	Rs. 15,150
52 week low	Rs. 10,028
6m average volume ('000)	0.4
Beta	0.6
Face value	Rs. 10

Shareholding %	Q1CY19	Q2CY19	Q3CY19
Promoters	62.8	62.8	62.8
FII's	12.6	13.0	12.6
MFs/Insti	7.8	7.6	8.6
Public	13.1	13.0	12.9
Others	3.8	3.6	3.1
Total	100.0	100.0	100.0
Shares Pledged (%)	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	18.3%	39.7%	38.1%
Absolute Sensex	8.0%	8.0%	14.6%
Relative Return*	10.4%	31.7%	23.5%

*over or under performance to benchmark index



Standalone (Rs. cr)	CY18A	CY19E	CY20E
Sales	11,292	12,613	14,202
Growth (%)	10.8	11.7	12.6
EBITDA	2,687	2,889	3,397
EBITDA Margin (%)	23.8	22.9	23.9
Adj. PAT	1,607	1,963	2,321
Growth (%)	31.2	22.1	18.3
Adj. EPS	166.7	203.6	240.7
Growth (%)	31.2	22.1	18.3
P/E	66.5	69.9	59.1
P/B	29.1	43.1	34.4
EV/EBITDA	39.2	47.1	39.9
ROE (%)	43.7	61.7	58.1
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q3CY19	Q3CY18	YoY Growth %	Q2CY19	QoQ Growth %	9MCY19	9MCY18	YoY Growth %
Revenue	3,216	2,939	9.4	3,001	7.2	9,220	8,395	9.8
EBITDA	756	730	3.6	706	7.1	2,211	2,089	5.9
EBITDA margins	23.5	24.8	(130bps)	23.5	0bps	24.0	24.9	(90bps)
Depreciation	78	93	(16.1)	81	(3.5)	237	257	(8.0)
EBIT	678	637	6.4	625	8.5	1,974	1,832	7.8
Interest	30	27	9.0	30	-	91	87	5.4
Other Income	51	62	(16.8)	64	(19.3)	177	162	9.6
Exceptional Items	-	-	-	-	-	-	-	-
PBT	700	672	4.2	659	6.2	2,060	1,907	8.1
Tax	104	226	(53.7)	221	(52.8)	564	642	(12.1)
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	595	446	33.5	438	36.0	1,497	1,265	18.3
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	595	446	33.5	438	36.0	1,497	1,265	18.3
No. of shares	9.6	9.6	-	9.6	-	9.6	9.6	-
EPS (Rs.)	61.8	46.3	33.5	45.4	36.0	155.2	131.2	18.3

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	CY19E	CY20E	CY19E	CY20E	CY19E	CY20E
Revenue	12,640	13,737	12,613	14,202	(0.2)	3.4
EBITDA	2,996	3,332	2,889	3,397	(3.6)	1.9
Margins (%)	23.7	24.3	22.9	23.9	(79bps)	(34bps)
Adj. PAT	1,896	2,136	1,963	2,321	3.5	8.7
EPS (Rs.)	196.0	228.0	203.6	240.7	3.9	5.6



PROFIT & LOSS

Y.E December (Rs. cr)	CY16A	CY17A	CY18A	CY19E	CY20E
Revenue	9,224	10,192	11,292	12,613	14,202
% change	12.8	10.5	10.8	11.7	12.6
EBITDA	1,925	2,123	2,687	2,889	3,397
% change	13.2	10.3	26.5	7.6	17.6
Depreciation	354	342	336	308	292
EBIT	1,572	1,781	2,351	2,581	3,105
Interest	4	92	112	79	53
Other Income	(127)	150	190	217	50
PBT	1,442	1,839	2,429	2,720	3,102
% change	77.2	27.6	32.1	12.0	14.0
Tax	515	614	822	758	781
Tax Rate (%)	35.7	33.4	33.8	27.9	25.2
Reported PAT	927	1,225	1,607	1,963	2,321
Adj*	31	-	-	-	-
Adj PAT	957	1,225	1,607	1,963	2,321
% change	(10.0)	28.0	31.2	22.1	18.3
No. of shares (cr)	9.6	9.6	9.6	9.6	9.6
Adj EPS (Rs.)	99.3	127.1	166.7	203.6	240.7
% change	(10.0)	28.0	31.2	22.1	18.3
DPS (Rs.)	63.0	86.0	115.0	254.5	156.5
CEPS (Rs.)	136.0	162.6	201.5	235.5	271.1

CASH FLOW

Y.E December (Rs. cr)	CY16A	CY17A	CY18A	CY19E	CY20E
Net inc. + Depn.	1,280	1,567	1,943	2,271	2,613
Non-cash adj.	272	19	(48)	12	(19)
Changes in W.C	(86)	231	158	90	20
C.F. Operation	1,466	1,818	2,052	2,373	2,614
Capital exp.	(113)	(196)	(163)	(185)	(209)
Change in inv.	(153)	(112)	(160)	(168)	(177)
Other invest.CF	139	177	271	0	-
C.F - Investment	(127)	(131)	(52)	(354)	(386)
Issue of equity	-	-	-	-	-
Issue/repay debt	(1)	-	-	1	1
Dividends paid	(564)	(829)	(1,090)	(2,453)	(1,509)
Other finance.CF	(102)	(167)	(228)	(79)	(53)
C.F - Finance	(667)	(997)	(1,317)	(2,531)	(1,561)
Chg. in cash	672	691	683	(512)	668
Closing cash	880	1,457	1,610	1,098	1,766

BALANCE SHEET

Y.E December (Rs. cr)	CY16A	CY17A	CY18A	CY19E	CY20E
Cash	880	1,457	1,610	1,098	1,766
Accounts Receivable	98	89	125	126	128
Inventories	943	902	966	1,074	1,209
Other Cur. Assets	1,358	1,489	2,037	2,137	2,243
Investments	474	585	733	902	1,079
Gross Fixed Assets	5,201	3,358	3,485	3,670	3,879
Net Fixed Assets	2,541	2,522	2,295	2,170	2,084
CWIP	188	94	105	108	111
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	323	224	217	224	231
Total Assets	6,806	7,363	8,088	7,839	8,851
Current Liabilities	1,633	1,493	1,855	2,068	2,239
Provisions	1,972	2,292	2,465	2,490	2,514
Debt Funds	33	35	35	36	37
Other Liabilities	154	123	59	62	65
Equity Capital	96	96	96	96	96
Reserves & Surplus	2,917	3,324	3,577	3,086	3,899
Shareholder's Fund	3,014	3,421	3,674	3,183	3,995
Minority Interest	-	-	-	-	-
Total Liabilities	6,806	7,363	8,088	7,839	8,851
BVPS (Rs.)	313	355	381	330	414

RATIOS

Y.E December	CY16A	CY17A	CY18A	CY19E	CY20E
Profitab. & Return					
EBITDA margin (%)	20.9	20.8	23.8	22.9	23.9
EBIT margin (%)	17.0	17.5	20.8	20.5	21.9
Net profit mgn. (%)	10.0	12.0	14.2	15.6	16.3
ROE (%)	30.7	35.8	43.7	61.7	58.1
ROCE (%)	51.6	51.5	63.4	80.2	77.0
W.C & Liquidity					
Receivables (days)	3.9	3.2	4.0	3.7	3.3
Inventory (days)	88.7	73.0	76.8	74.8	76.7
Payables (days)	75.2	79.7	98.6	100.4	101.3
Current ratio (x)	2.0	2.6	2.6	2.1	2.4
Quick ratio (x)	1.4	2.0	2.0	1.6	1.8
Turnover & Leverage					
Gross asset T.O (x)	1.8	2.4	3.3	3.5	3.8
Total asset T.O (x)	1.4	1.4	1.5	1.6	1.7
Int. covge. ratio (x)	447.8	19.4	21.0	32.8	58.5
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	6.2	7.3	9.3	10.8	9.5
EV/EBITDA (x)	29.7	35.1	39.2	47.1	39.9
P/E (x)	60.7	61.9	66.5	69.9	59.1
P/BV (x)	19.3	22.2	29.1	43.1	34.4

Recommendation Summary



Source: Bloomberg, Geojit Research

Dates	Rating	Target
15-Jun-15	HOLD	6,450
30-Jul-15	HOLD	6,000
18-Feb-16	HOLD	5,450
11-Jan-17	HOLD	6,520
13-Jun-17	HOLD	6,900
13-Nov-17	HOLD	8,096
23-Feb-18	HOLD	8,008
21-May-18	HOLD	9,843
29-Aug-18	HOLD	11,800
26-Feb-19	HOLD	11,700
27-May-19	HOLD	11,400
15-Nov-2019	HOLD	15,170

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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