

Industry Cons. Staples
Bloomberg NEST IN
BSE CODE 500790

Strong Quarter led by broad based volume growth

RATING	BUY
CMP	9540
Price Target	10586
Potential Upside	11%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	11700/6888
Mkt Capital (Rs Cr)	91985
Free float (%)	37%
Avg. Vol 1M (,000)	76
No. of Shares	10
Promoters Pledged %	NA

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Key Highlights -

- Nestle's result for this quarter remained better than expectations. The company has witnessed an overall revenue growth of 17% YoY to Rs 2939 cr(Vs our expec. Rs 2818 cr) backed by increased volumes while PAT grew by 30% YoY to Rs 446 Cr (Vs expec. Rs 407 cr).
- Gross margin improved by 286 bps to 59.7% YoY mainly led by benign SMP and milk prices while EBITDA margin improved by 144 bps(lower than gross margin) to 24.7% YoY due to higher marketing spends.
- Broad based volume growth helped domestic business to grow 17% in Q3CY18 while exports (~6% of total revenue) grew by 8%.
- The company continues to innovate, introduced Maggi Special Masala Noodles, Maggi Dip and Spread, Kitkat Dessert Delight Brownie Kubes, Nescafee coffee machine and Nesplus Breakfast Cereals.

3Q CY18 Results-

Nestle's revenue grew by 17% YoY to Rs 2939 Cr led by better volume growth from domestic business. The company reported a domestic value growth of 17.5% YoY to Rs 2750 Cr while exports grew by 8% YoY to Rs 172 Cr. Gross margin as expected, improved by 286 bps to 59.7% on account of mainly reduction in SMP and milk prices. Despite improvement in gross margin by 286 bps EBITDA margin improved by 144 bps to 24.7% YoY mainly on account of increased other expense by 150 bps YoY. PAT grew by 30% YoY to Rs 446 Cr.

View and Valuation

Nestle has reported numbers better than our expectations for Q3CY18. Nestle is a strong play in Food and Beverage space with the leadership in ~85% of the product portfolio in which it exists. The company is in the process of metamorphosis. Recently, it has embarked on cluster based strategy to promote better connect with consumer , prompt decision making and customized offerings which in our opinion boost growth going forward. The Company's thrust on launching products and expanding direct reach will act as another growth drivers. Nestle has strong pricing power which in our opinion will help company in maintaining margin considering headwinds on account of rising crude oil and commodity prices. Considering strong Q3 performance we have changed our PAT estimates for CY18e and CY19e by 3% and 2% respectively and tweaked our target price to Rs 10586(55xCY19e's eps)(from Rs 10278). We maintain our BUY rating on it.

Key Risks to our rating and target

- Sharp inflation in SMP and fresh milk prices.

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18E	CY19E	CY20E
Net Sales	9141	10010	11327	12937	14644
EBITDA	1850	2097	2759	2969	3451
EBIT	1496	1754	2431	2644	3127
PAT	1001	1225	1701	1856	2194
EPS (Rs)	104	127	176	192	228
EPS growth (%)	78%	22%	39%	9%	18%
ROE (%)	31%	36%	45%	45%	51%
ROCE (%)	45%	51%	64%	64%	72%
BV	340	355	388	424	447
P/B (X)	19	26	25	22	21
P/E (x)	63	72	54	50	42

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3Q CY 18 Results

Result better than our expectations:

Financials	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	YoY %	QoQ%	CY16	CY17	YoY %
Net Sales	2,514	2,601	2,757	2,698	2,939	16.9%	8.9%	9,141	10,010	9.5%
Other Income	43	51	56	60	67	55.9%	11.3%	151	177	17.2%
COGS	1,085	1,069	1,128	1,089	1,184	9.2%	8.7%	3,883	4,327	11.4%
Gross Margin	57%	59%	59%	60%	60%	2.9%	0.1%	59%	57%	-2.2%
Empl. Cost	263	261	269	285	290	10.6%	1.9%	902	1,017	12.9%
Other Expen.	583	738	664	679	740	26.9%	8.9%	2,507	2,569	2.5%
EBITDA	584	533	697	645	725	24.2%	12.4%	1,850	2,097	13.3%
EBITDA Mar	23%	21%	25%	24%	25%	1.4%	0.8%	20%	21%	0.7%
Depreciation	86	84	83	82	93	7.7%	13.8%	354	342	-3.2%
EBIT	498	450	614	563	632	27.0%	12.2%	1,496	1,754	17.3%
Interest	23	23	31	28	27	20.1%	-2.8%	91	92	1.1%
PBT	518	477	640	595	672	29.7%	12.8%	1,545	1,839	19%
Exceptional										
Tax	175	166	216	200	226	29.2%	12.7%	544	614	13%
PAT	343	312	424	395	446	30.0%	12.9%	1,001	1,225	22%
PAT Margin	14%	12%	15%	15%	15%	1.5%	0.5%	11%	12%	1.3%

Nestle's segmental sales:

Segment	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Milk pro & nutr.	1939	2311	2776	3351	3859	4071	4575	4669	4635	4820
Beverages	801	804	899	1068	1123	1324	1340	1336	1286	1387
Pre. dishes & co.	1052	1335	1725	2155	2430	2698	2961	1314	2318	2707
Chocolate & conf	679	772	976	1100	1170	1286	1253	1111	1171	1221
Gro. Sales(in cr)	4471	5222	6377	7674	8582	9380	10130	8430	9410	10135

Nestle's segmental volume growth:

Segment	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Milk pro & nutr.	10%	13%	8%	2%	-5%	-1%	-2%	-3%	-2%	2%
Beverages	0%	-3%	13%	1%	-5%	9%	-11%	-10%	0%	11%
Pre. dishes & co.	30%	22%	24%	13%	8%	4%	4%	-59%	71%	19%
Chocolate & conf	12%	10%	21%	-2%	-9%	-2%	-12%	-19%	7%	4%

Nestle's segmental realization improvement trends:

Segment	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Milk pro & nutr.	12%	5%	12%	18%	21%	7%	15%	5%	2%	2%
Beverages	11%	4%	-1%	18%	11%	8%	14%	11%	-4%	-2%
Pre. dishes & co.	4%	4%	4%	10%	4%	7%	6%	10%	3%	-2%
Chocolate & conf	6%	4%	4%	14%	17%	12%	11%	10%	-1%	0%

Exhibit: Sales and Sales growth

Sales grew by 17% backed by strong volume growth in the domestic business.

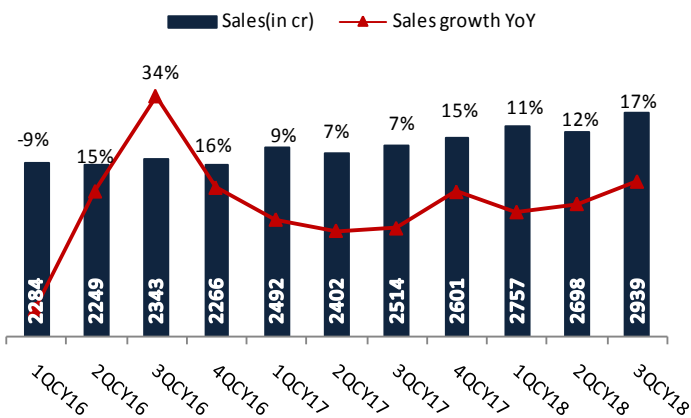


Exhibit: Gross margin and EBITDA margin

Benign input prices led to expansion in gross margin by 286 bps YoY.

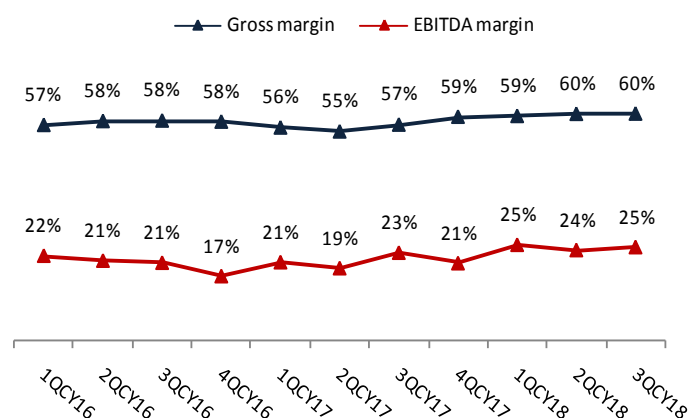


Exhibit: COGS and Other Expenses

Investment towards strengthening brands led to increase in other expenses by 150 bps YoY.

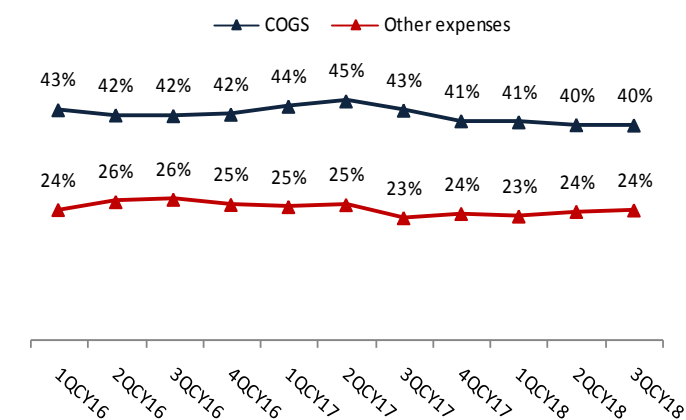


Exhibit: PAT and PAT Growth

PAT grew by 30% YoY while PAT margin improved by 153 bps.

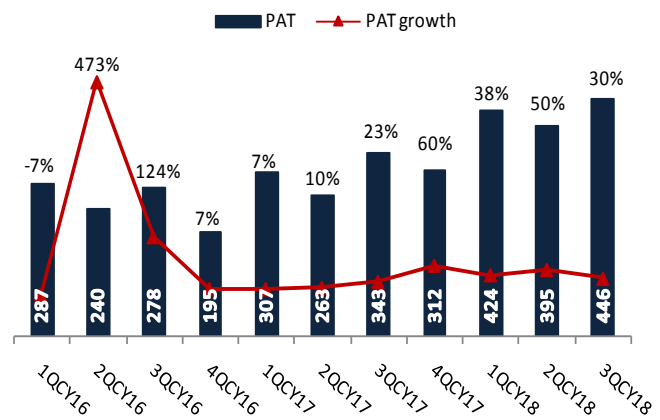
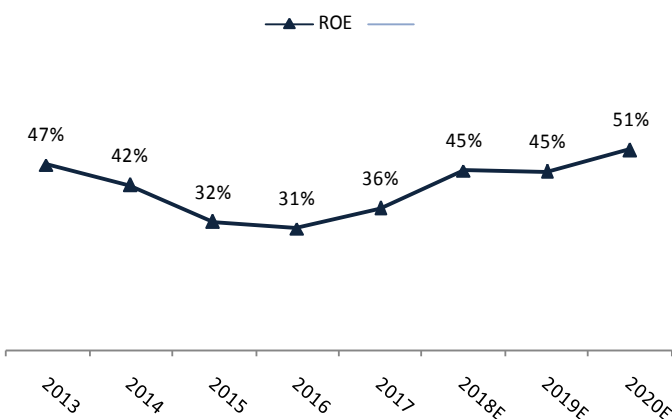


Exhibit: Return on Equity

Return on Equity for CY18e is expected to be at 45%, an improvement of 965 bps.



Financial Details

Balance Sheet

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18E	CY19E	CY20E
Share Capital	96	96	96	96	96	96	96	96
Reserves	2,272	2,741	2,721	3,186	3,324	3,644	3,992	4,212
Networth	2,369	2,837	2,818	3,282	3,421	3,740	4,089	4,308
Debt	1,189	20	18	33	35	35	35	35
Other Non Current Liab	-	-	-	-	-	-	-	-
Total Capital Employed	3,558	2,857	2,836	3,315	3,456	3,775	4,124	4,343
Net Fixed Assets (incl CWIP)	3,664	3,421	3,129	2,918	2,710	2,598	2,582	2,568
Non Current Investments	224	304	342	474	585	735	885	1,035
Other Non Current Assets	124	130	130	71	83	83	83	83
Non Current Assets	4,013	3,856	3,601	3,528	3,425	3,463	3,597	3,733
Inventory	736	844	821	940	902	1,021	1,166	1,320
Debtors	84	99	78	98	89	101	115	130
Cash & Bank	749	446	500	869	1,448	1,711	1,903	2,059
Other Current Assets	4	15	15	31	17	19	22	25
Current Assets	2,302	1,964	2,480	3,283	3,937	4,624	5,278	5,812
Creditors	633	729	744	799	985	1,114	1,273	1,440
Provisions	214	213	265	54	87	99	113	128
Other Current Liabilities	500	410	466	202	107	121	138	156
Curr Liabilities	1,347	1,355	1,476	1,367	1,493	1,648	1,837	2,038
Net Current Assets	955	608	1,004	1,916	2,445	2,976	3,441	3,774
Total Assets	6,314	5,820	6,080	6,810	7,363	8,087	8,875	9,546

Income Statement

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18E	CY19E	CY20E
Revenue from Operation	9,101	9,855	8,175	9,141	10,010	11,327	12,937	14,644
Change (%)	9%	8%	-17%	12%	9%	13%	14%	13%
EBITDA	1,968	2,057	1,555	1,850	2,097	2,759	2,969	3,451
Change (%)	8%	4%	-24%	19%	13%	32%	8%	16%
Margin (%)	22%	21%	19%	20%	21%	24%	23%	24%
Depr & Amor.	330	338	347	354	342	328	326	324
EBIT	1,638	1,719	1,208	1,496	1,754	2,431	2,644	3,127
Int. & other fin. Cost	37	14	3	91	92	105	100	100
Other Income	83	87	110	151	177	232	268	296
EBT	1,678	1,774	814	1,545	1,839	2,558	2,812	3,323
Exp Item	14	7	(501)	(11)	-	-	-	-
Tax	561	590	250	544	614	857	956	1,130
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1,117	1,185	563	1,001	1,225	1,701	1,856	2,194
Adjusted PAT	1,108	1,180	910	1,008	1,225	1,701	1,856	2,194
Change (%)	5%	6%	-52%	78%	22%	39%	9%	18%
Margin(%)	12%	12%	11%	11%	12%	15%	14%	15%

Financial Details

Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18E	CY19E	CY20E
ROE	47%	42%	32%	31%	36%	45%	45%	51%
ROCE	46%	60%	43%	45%	51%	64%	64%	72%
Asset Turnover	1.4	1.7	1.3	1.3	1.4	1.4	1.5	1.5
Debtor Days	3	4	4	4	3	3	3	3
Inv Days	30	31	37	38	33	33	33	33
Payable Days	25	27	33	32	36	36	36	36
Int Coverage	44.9	120.8	367.1	16.5	19.1	23.2	26.4	31.3
P/E	46	41	99	63	72	54	50	42
Price / Book Value	22	17	20	19	26	25	22	21
EV/EBITDA	26	23	36	34	42	33	30	26
FCF per Share	151	151	98	131	168	227	233	268
Div Yield	0	0	1%	0.9%	0.9%	1.3%	1.4%	1.8%

Cash Flow Statement

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18E	CY19E	CY20E
PBT	1,678	1,774	814	1,442	1,839	2,558	2,812	3,323
(inc)/Dec in Working Capital	355	153	332	285	375	272	277	279
Non Cash Op Exp	324	350	402	368	384	327	326	324
Int Paid (+)	37	14	3	4	-	105	100	100
Tax Paid	(486)	(589)	(342)	(503)	(604)	(857)	(956)	(1,130)
others	(112)	(58)	(110)	(129)	(177)	-	-	-
CF from Op. Activities	1,796	1,644	1,098	1,466	1,817	2,406	2,559	2,896
(inc)/Dec in FA & CWIP	(345)	(189)	(151)	(207)	(199)	(216)	(310)	(310)
Free Cashflow	1,452	1,455	947	1,259	1,619	2,190	2,249	2,586
(Pur)/Sale of Inv	(224)	(109)	(37)	(153)	(112)	(450)	(450)	(356)
others	128	(162)	118	232	180	-	-	-
CF from Inv. Activities	(441)	(461)	(70)	(127)	(131)	(666)	(760)	(666)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(0)	(920)	(3)	(1)	-	(0)	-	-
Int. Paid	(36)	(15)	(3)	(4)	-	(105)	(100)	(100)
Div Paid (inc tax)	(546)	(713)	(493)	(679)	(998)	(1,381)	(1,507)	(1,974)
others	3	13	1	17	2	-	-	-
CF from Fin. Activities	(580)	(1,635)	(498)	(667)	(996)	(1,486)	(1,607)	(2,074)
Inc(Dec) in Cash	775	(423)	529	672	691	254	192	156
Add: Opening Balance	591	1,366	943	1,472	2,151	1,457	1,711	1,903
Closing Balance	1,366	446	1,472	2,144	2,841	1,711	1,903	2,059

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