

# Nestle India Limited

Industry	Cons. Staples
Bloomberg	NEST IN
BSE CODE	500790

## Reported mixed set of numbers, margin impacted by higher other expenses.

RATING	ACCUMULATE
CMP	10582
Price Target	11987
Potential Upside	13%

Rating Change	
Estimate Change	
Target Change	

### Stock Info

52wk Range H/L	11777/7430
Mkt Capital (Rs Cr)	102028
Free float (%)	37%
Avg. Vol 1M (,000)	80
No. of Shares (Crs)	10
Promoters Pledged %	NA

### Research Analyst

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### 4QCY18 Result update

- ❑ NEST has posted a revenue growth of 11% YoY to Rs 2897 Cr (vs. expect. of Rs 2942 Cr) led by 12% YoY growth in domestic business due to broad based recovery in volumes .
- ❑ The company's export sales remained flat( Rs 188 cr) on account of lower exports to Bangladesh & United Arab Emirates.
- ❑ Gross margin (GM) improved by 5 bps to 58.95% YoY (vs. expectat. of 59% YoY) while EBITDA margin declined by 361 bps YoY to 21.2% YoY due to higher other expenses. The company continue to invest behind its products and new launches.
- ❑ The Company's other expenses increased by 418 bps to 27.91% YoY on account of higher marketing spends on demand generating activities for the existing as well as the new products portfolio.
- ❑ PAT grew by 9.60% YoY to Rs 342 Cr (vs. expectation of Rs 424 Cr).

### CY18 Result Brief-

NEST's revenue for CY18 stood at Rs 11292 Cr, posting a growth of 12.8%. Domestic sales grew by 11% backed by broad based volumes growth. International business(IB) grew by 7% to Rs 709 cr. Gross margin expanded by 255 bps to 59.1% led by lower input prices while EBITDA margin improved by 200 bps to 24.2%.PAT stood at Rs 1607 Cr posting a growth of 31%.

### View and Valuation

NEST's numbers for Q4CY18 remained mixed, sales grew by 11% YoY to Rs 2897 cr( expect. Rs 2942 cr) while PAT grew by 10%to Rs 342 cr( Expect. Rs 424 cr).Gross margin improved by 5 bps YoY to 59% similar to our expectation but EBITDA margin declined by 361 bps YoY(vs expect.of improvement of 319 bps) on the back of higher investment in demand generating activities including on new products. Other expenses as percentage of sales witnessed a sharp jump of 4.18% (up by 31% YoY to Rs 809 cr). Going forward, we expect new launches to continue not only from NEST India's innovation platform but also from its parent's product portfolio which will drive the company's volume growth. Historically, the company has strong pricing power which can be used for maintaining margins in the wake of rising input inflation. But considering higher spending on launches & re launches and cost related to distribution expansion, we have reduced our PAT estimates for CY19e and CY20e by 4% each and reduced our target price from Rs 12465 to Rs 11987(55x FY20e's eps) with Accumulate rating on it.

### Key Risks to our rating and target

- ❑ Sharp inflation in SMP and fresh milk prices.
- ❑ Higher Ad expenses for supporting new launches.

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19E	CY20E
Net Sales	9141	10010	11292	12833	14591
EBITDA	2030	2221	2732	2949	3434
EBIT	1676	1879	2397	2648	3131
PAT	1001	1225	1607	1770	2095
EPS (Rs)	104	127	167	184	217
EPS growth (%)	78%	22%	31%	10%	18%
ROE (%)	31%	36%	44%	44%	50%
ROCE (%)	51%	54%	65%	66%	74%
BV	340	355	381	415	437
P/B (X)	19	26	28	26	24
P/E (x)	63	72	64	58	49

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## 4QCY18 Results Mixed Performance

Financials	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	YoY %	QoQ%	CY17	CY18	YoY %
Net Sales	2,601	2,757	2,698	2,939	2,897	11.4%	8.9%	10,010	11,292	12.8%
Other Income	51	56	60	67	75	47.2%	11.3%	177	259	46.3%
COGS	1,069	1,128	1,089	1,184	1,189	11.2%	8.7%	4,327	4,590	6.1%
Gross Margin	59%	59%	60%	60%	59%	0.0%	0.1%	57%	59%	2.6%
Empl. Cost	261	269	285	290	280	7.3%	1.9%	1,017	1,124	10.5%
Other Expen.	618	641	651	718	809	31.0%	10.2%	2,417	2,818	16.6%
EBITDA	645	712	665	742	614	-4.8%	11.6%	2,221	2,732	23.0%
EBITDA Mar	25%	26%	25%	25%	21%	-3.6%	0.6%	22%	24%	2.0%
Depreciation	84	83	82	93	78	-6.4%	13.8%	342	336	-1.9%
EBIT	561	629	583	649	535	-4.6%	11.3%	1,879	2,397	27.5%
Interest	23	31	28	27	25	7.6%	-2.8%	92	112	21.8%
PBT	589	655	615	689	585	-0.6%	12.0%	1,839	2,429	32%
Non recur. ex.	111	15	20	17	63	-43.3%	-14.7%	125	115	-8%
Tax	166	216	200	226	180	9.0%	12.7%	614	822	34%
PAT	312	424	395	446	342	9.6%	12.9%	1,225	1,607	31%
PAT Margin	12%	15%	15%	15%	12%	-0.2%	0.5%	12%	14%	2.0%

### 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:

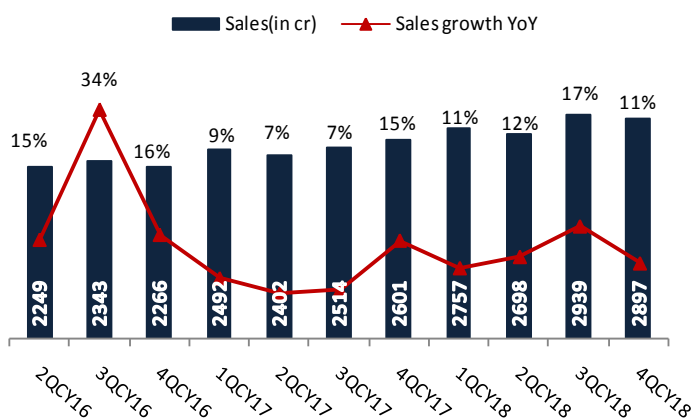
Segment	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Milk pro & nutr.	10%	13%	8%	2%	-5%	-1%	-2%	-3%	-2%	2%
Beverages	0%	-3%	13%	1%	-5%	9%	-11%	-10%	0%	11%
Pre. dishes & co.	30%	22%	24%	13%	8%	4%	4%	-59%	71%	19%
Chocolate & conf	12%	10%	21%	-2%	-9%	-2%	-12%	-19%	7%	4%

### 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%

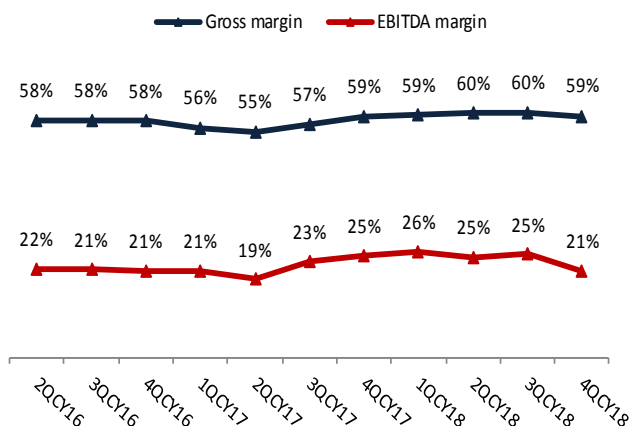
## Exhibit: Sales and Sales growth

Sales grew by 11% YoY backed by broad based recovery in volumes in domestic business.



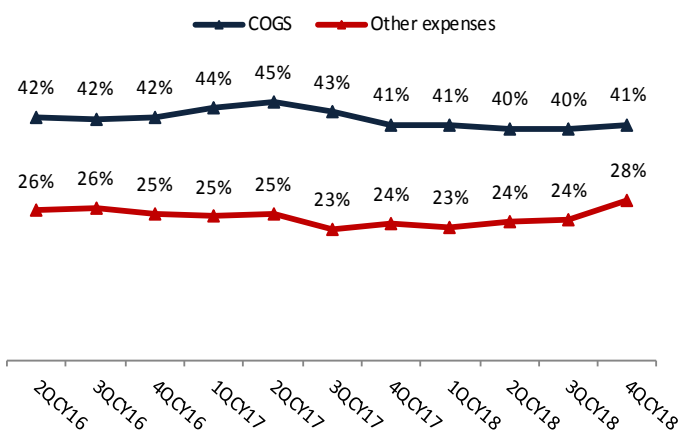
## Exhibit: Gross margin and EBITDA margin

EBITDA margin declined by 361 bps YoY to 21.2% YoY due to higher other expenses.



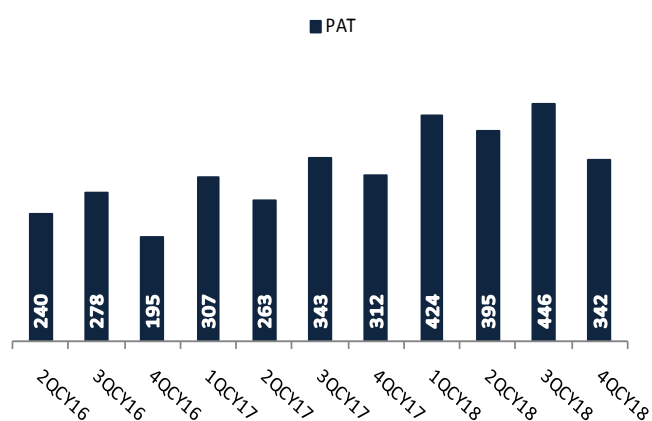
## Exhibit: COGS and Other Expenses

Investment towards strengthening brands led to increase in other expenses by 418 bps YoY.



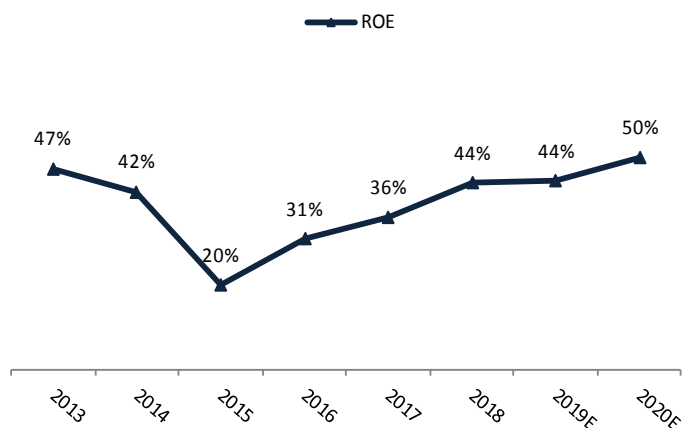
## Exhibit: PAT

PAT grew by 9.6 % YoY to Rs 342 Cr while PAT margin declined by 19 bps to 11.8%.



## Exhibit: Return on Equity

We expect company's ROE to improve by 49 and 551 bps in CY19e and CY20e respectively.



## Financial Details

### Balance Sheet

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
Share Capital	96	96	96	96	96	96	96	96
Reserves	2,272	2,741	2,721	3,186	3,324	3,577	3,906	4,115
<b>Networth</b>	<b>2,369</b>	<b>2,837</b>	<b>2,818</b>	<b>3,282</b>	<b>3,421</b>	<b>3,674</b>	<b>4,002</b>	<b>4,211</b>
Debt	1,189	20	18	33	35	35	35	35
Other Non Current Liab	-	-	-	-	-	-	-	-
<b>Total Capital Employed</b>	<b>3,558</b>	<b>2,857</b>	<b>2,836</b>	<b>3,315</b>	<b>3,456</b>	<b>3,709</b>	<b>4,037</b>	<b>4,246</b>
Net Fixed Assets (incl CWIP)	3,664	3,421	3,129	2,918	2,710	2,506	2,410	2,418
Non Current Investments	224	304	342	474	585	733	883	1,033
Other Non Current Assets	124	130	130	71	83	72	72	72
<b>Non Current Assets</b>	<b>4,013</b>	<b>3,856</b>	<b>3,601</b>	<b>3,528</b>	<b>3,425</b>	<b>3,351</b>	<b>3,405</b>	<b>3,563</b>
Inventory	736	844	821	940	902	966	1,097	1,248
Debtors	84	99	78	98	89	125	142	161
Cash & Bank	749	446	500	869	1,448	1,599	1,892	2,285
Other Current Assets	4	15	15	31	17	22	25	29
<b>Current Assets</b>	<b>2,302</b>	<b>1,964</b>	<b>2,480</b>	<b>3,283</b>	<b>3,937</b>	<b>4,737</b>	<b>5,471</b>	<b>6,012</b>
Creditors	633	729	744	799	985	1,240	1,410	1,603
Provisions	214	213	265	54	87	157	179	203
Other Current Liabilities	500	410	466	202	107	141	160	182
<b>Curr Liabilities</b>	<b>1,347</b>	<b>1,355</b>	<b>1,476</b>	<b>1,367</b>	<b>1,493</b>	<b>1,855</b>	<b>2,065</b>	<b>2,304</b>
<b>Net Current Assets</b>	<b>955</b>	<b>608</b>	<b>1,004</b>	<b>1,916</b>	<b>2,445</b>	<b>2,882</b>	<b>3,406</b>	<b>3,708</b>
<b>Total Assets</b>	<b>6,314</b>	<b>5,820</b>	<b>6,080</b>	<b>6,810</b>	<b>7,363</b>	<b>8,088</b>	<b>8,876</b>	<b>9,575</b>

### Income Statement

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
Revenue from Operation	9,101	9,855	8,175	9,141	10,010	11,292	12,833	14,591
Change (%)	9%	8%	-17%	12%	9%	13%	14%	14%
<b>EBITDA</b>	<b>2,020</b>	<b>2,101</b>	<b>1,647</b>	<b>2,030</b>	<b>2,221</b>	<b>2,732</b>	<b>2,949</b>	<b>3,434</b>
Change (%)	9%	4%	-22%	23%	9%	23%	8%	16%
Margin (%)	22%	21%	20%	22%	22%	24%	23%	24%
Depr & Amor.	330	338	347	354	342	336	301	302
<b>EBIT</b>	<b>1,690</b>	<b>1,764</b>	<b>1,299</b>	<b>1,676</b>	<b>1,879</b>	<b>2,397</b>	<b>2,648</b>	<b>3,131</b>
Int. & other fin. Cost	37	14	3	91	92	112	100	100
Other Income	83	87	110	151	177	259	279	308
<b>EBT</b>	<b>1,678</b>	<b>1,774</b>	<b>814</b>	<b>1,545</b>	<b>1,839</b>	<b>2,429</b>	<b>2,731</b>	<b>3,230</b>
Exp Item	(58)	(62)	(593)	(191)	(125)	(115)	(96)	(109)
Tax	561	590	250	544	614	822	961	1,135
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1,117	1,185	563	1,001	1,225	1,607	1,770	2,095
<b>Adjusted PAT</b>	<b>1,156</b>	<b>1,226</b>	<b>973</b>	<b>1,125</b>	<b>1,308</b>	<b>1,683</b>	<b>1,832</b>	<b>2,166</b>
Change (%)	5%	6%	-52%	78%	22%	31%	10%	18%
Margin(%)	13%	12%	12%	12%	13%	15%	14%	15%

## Financial Details

### Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
ROE	47%	42%	20%	31%	36%	44%	44%	50%
ROCE	47%	62%	46%	51%	54%	65%	66%	74%
Asset Turnover	1.4	1.7	1.3	1.3	1.4	1.4	1.4	1.5
Debtor Days	3	4	4	4	3	4	4	4
Inv Days	30	31	37	38	33	31	31	31
Payable Days	25	27	33	32	36	40	40	40
Int Coverage	46.3	123.9	394.9	18.4	20.4	21.4	26.5	31.3
P/E	46	41	99	63	72	64	58	49
Price / Book Value	22	17	20	19	26	28	26	24
EV/EBITDA	26	23	34	31	39	37	34	29
FCF per Share	151	151	98	131	168	234	236	260
Div Yield	0.9%	1.3%	1%	0.9%	0.9%	1.1%	1.2%	1.5%

### Cash Flow Statement

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
PBT	1,678	1,774	814	1,442	1,839	2,429	2,731	3,230
(inc)/Dec in Working Capital	355	153	332	285	375	375	308	316
Non Cash Op Exp	324	350	402	368	384	290	301	302
Int Paid (+)	37	14	3	4	-	112	100	100
Tax Paid	(486)	(589)	(342)	(503)	(604)	(822)	(961)	(1,135)
others	(112)	(58)	(110)	(129)	(177)	-	-	-
<b>CF from Op. Activities</b>	<b>1,796</b>	<b>1,644</b>	<b>1,098</b>	<b>1,466</b>	<b>1,817</b>	<b>2,384</b>	<b>2,479</b>	<b>2,813</b>
(inc)/Dec in FA & CWIP	(345)	(189)	(151)	(207)	(199)	(131)	(205)	(310)
Free Cashflow	1,452	1,455	947	1,259	1,619	2,253	2,274	2,503
(Pur)/Sale of Inv	(224)	(109)	(37)	(153)	(112)	(680)	(450)	(125)
others	128	(162)	118	232	180	-	-	-
<b>CF from Inv. Activities</b>	<b>(441)</b>	<b>(461)</b>	<b>(70)</b>	<b>(127)</b>	<b>(131)</b>	<b>(811)</b>	<b>(655)</b>	<b>(435)</b>
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(0)	(920)	(3)	(1)	-	-	(0)	-
Int. Paid	(36)	(15)	(3)	(4)	-	(112)	(100)	(100)
Div Paid (inc tax)	(546)	(713)	(493)	(679)	(998)	(1,309)	(1,442)	(1,885)
others	3	13	1	17	2	-	-	-
<b>CF from Fin. Activities</b>	<b>(580)</b>	<b>(1,635)</b>	<b>(498)</b>	<b>(667)</b>	<b>(996)</b>	<b>(1,421)</b>	<b>(1,542)</b>	<b>(1,985)</b>
Inc(Dec) in Cash	775	(423)	529	672	691	153	282	393
<b>Add: Opening Balance</b>	<b>591</b>	<b>1,366</b>	<b>943</b>	<b>1,472</b>	<b>2,151</b>	<b>1,457</b>	<b>1,610</b>	<b>1,892</b>
Closing Balance	1,366	943	1,472	2,144	2,841	1,610	1,892	2,285

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