

Nestle India Limited

Industry Cons. Staples
Bloomberg NEST IN
BSE CODE 500790

Higher input cost impacted the gross margin.

RATING	BUY
CMP	11428
Price Target	13472
Potential Upside	18%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	12026/9080
Mkt Capital (Rs Cr)	110182
Free float (%)	37%
Avg. Vol 1M (,000)	50
No. of Shares (Cr)	10
Promoters Pledged %	NA

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2QCY19 Result update

- ❑ NESTLEIND's 2QCY19 numbers remained better than expectations; revenue grew by 11% YoY to Rs. 3001 cr. (vs. expect. of Rs. 2968 cr.) led by increase in domestic sales to the extent of 13.1% largely driven volumes, better product mix and higher CSD sales.
- ❑ The Company's export sales dropped by 13.9% YoY to Rs. 147 cr. due to lower coffee exports to Turkey which in turn impacted the overall sales growth.
- ❑ Gross margin declined by 137 bps YoY to 58.3% (vs. expect. of 57.9% YoY) led by higher commodity prices mainly milk and its derivatives.
- ❑ EBITDA margin declined by 107 bps to 23.6% YoY (vs. expect. of 21.6% YoY) led by decline in gross margin, However the impact got partially offset to some extent due to reduction in other expense and employee expense to the extent of 20 bps and 8 bps.
- ❑ PAT grew by of 10.8% YoY to Rs. 438 cr. (vs. expect. of Rs. 399 cr) with PAT margin of 14.6%.
- ❑ The Company will invest Rs. 700 cr. initially over the next two years to set up a new plant for Maggi noodles. The construction of the plant will commence soon in Gujarat; This will be Nestle's 9th factory in India.

View and Valuation

NESTLEIND has reported numbers better than our expectation for Q2CY19, sales were up by 11% to Rs 3001 cr (vs expect. Rs 2968 cr) while PAT increased by 11% YoY to Rs 438 cr(vs expect. Rs 399 cr). The company has strong product portfolio with strong pricing power although presently management in concentrating more on driving volume with deeper penetration with distribution expansion. Current sales numbers where domestic business grew by 13% signifies the same considering weaker demand scenario. Going forward, the company's continued focus on innovating and renovating its brands, new launches in nutrition segment, emphasis on expanding penetration in categories where penetration is relatively low is expected to drive revenue growth. While change in product mix and judicious pricing to cushion declining margin in the wake of higher input prices. We continue to maintain positive view on NESTLEIND and recommend BUY with the previous target price of Rs 13472. We have kept our sales & PAT estimates largely same for CY19e and CY20e.

Key Risks to our rating and target

- ❑ Sharp inflation in key input prices.
- ❑ Higher other expenses due to new launches.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19E	CY20E
Net Sales	9141	10010	11292	12501	14201
EBITDA	2030	2221	2732	2977	3395
EBIT	1676	1879	2397	2658	3070
PAT	1001	1225	1607	1807	2080
EPS (Rs)	104	127	167	187	216
EPS growth (%)	78%	22%	31%	12%	15%
ROE (%)	31%	36%	44%	57%	62%
ROCE (%)	51%	54%	65%	83%	90%
BV	340	355	381	329	351
P/B (X)	19	26	28	35	33
P/E (x)	63	72	64	61	53

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2QCY19 Results Better than our expectation

Financials	2QCY18	3QCY18	4QCY18	1QFY19	2QCY19	YoY %	QoQ%	Fig in Rs Cr		
								CY17	CY18	YoY %
Net Sales	2,698	2,939	2,897	3,003	3,001	11.2%	3.6%	10,010	11,292	12.8%
Other Income	60	67	75	73	73	20.5%	-2.7%	177	259	46.3%
COGS	1,089	1,184	1,189	1,245	1,252	15.0%	4.7%	4,327	4,590	6.1%
Gross Margin	60%	60%	59%	59%	58%	-1.4%	-0.4%	57%	59%	2.6%
Empl. Cost	285	290	280	304	315	10.4%	8.5%	1,017	1,124	10.5%
Other Expen.	651	718	809	693	718	10.3%	-14.3%	2,417	2,818	16.6%
EBITDA	665	742	614	749	707	6.4%	22.1%	2,221	2,732	23.0%
EBITDA Mar	25%	25%	21%	25%	24%	-1.1%	3.8%	22%	24%	2.0%
Depreciation	82	93	78	78	81	-1.1%	-0.6%	342	336	-1.9%
EBIT	583	649	535	672	626	7.4%	25.4%	1,879	2,397	27.5%
Interest	28	27	25	32	30	5.9%	25.6%	92	112	21.8%
PBT	615	689	585	713	669	8.8%	21.8%	1,839	2,429	32%
Exceptional	-	-	-	-	-	-	-	-	-	-
Tax	200	226	180	238	221	10.5%	31.9%	614	822	34%
PAT	395	446	342	463	438	10.8%	35.6%	1,225	1,607	31%
PAT Margin	15%	15%	12%	15%	15%	0.0%	3.6%	12%	14%	2.0%

Nestle's segmental sales:

Segment	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Milk pro & nutr.	2311	2776	3351	3859	4071	4575	4669	4635	4820	5188
Beverages	804	899	1068	1123	1324	1340	1336	1286	1387	1523
Pre. dishes & co.	1335	1725	2155	2430	2698	2961	1314	2318	2707	3105
Chocolate & conf	772	976	1100	1170	1286	1253	1111	1171	1221	1401
Gro. Sales(in cr)	5222	6377	7674	8582	9380	10130	8430	9410	10135	11216

Nestle's segmental volume growth:

Segment	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Milk pro & nutr.	13%	8%	2%	-5%	-1%	-2%	-3%	-2%	2%	5%
Beverages	-3%	13%	1%	-5%	9%	-11%	-10%	0%	11%	11%
Pre. dishes & co.	22%	24%	13%	8%	4%	4%	-59%	71%	19%	14%
Chocolate & conf	10%	21%	-2%	-9%	-2%	-12%	-19%	7%	4%	15%

Nestle's segmental realization improvement trends:

Segment	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Milk pro & nutr.	5%	12%	18%	21%	7%	15%	5%	2%	2%	3%
Beverages	4%	-1%	18%	11%	8%	14%	11%	-4%	-2%	-1%
Pre. dishes & co.	4%	4%	10%	4%	7%	6%	10%	3%	-2%	0%
Chocolate & conf	4%	4%	14%	17%	12%	11%	10%	-1%	0%	0%

Exhibit: Sales and Sales growth

Sales gr.driven by domestic vol. and product mix while export remained subdued due to lower export of coffee to Turkey.

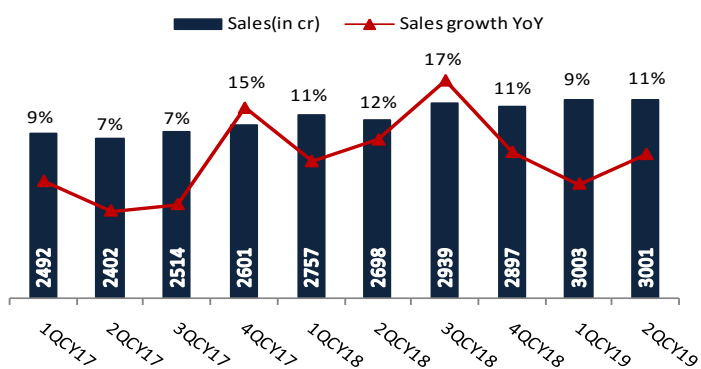


Exhibit: Gross margin and EBITDA margin

Gross margin declined by 137 bps on account of higher input prices prevailing in 2QCY19.

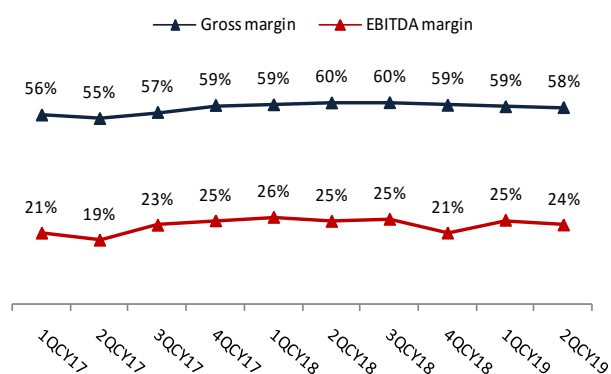


Exhibit: COGS and Other Expenses

COGS increased led by inflation in major input prices while other expense declined by 20 bps.

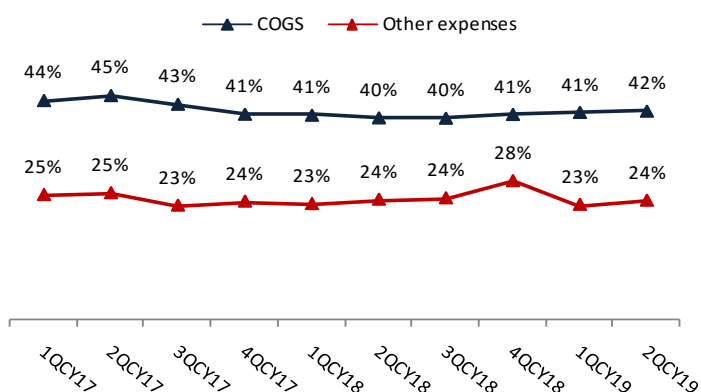


Exhibit: PAT and PAT Growth

PAT grew by 10.8 % YoY to Rs. 438 cr while PAT margin declined by 5 bps to 14.6%.

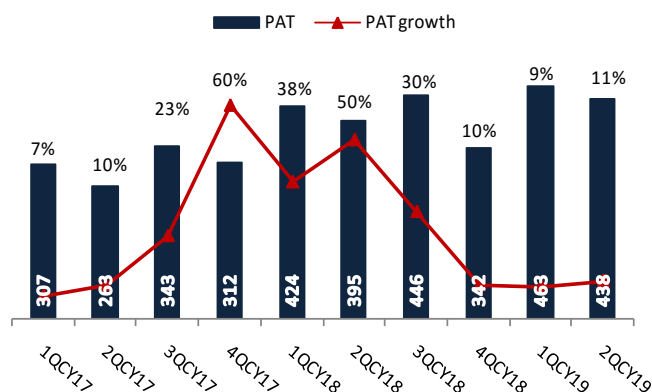
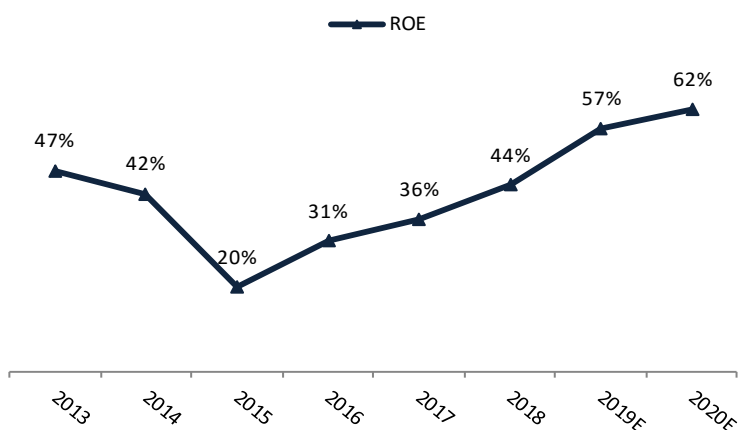


Exhibit: Return on Equity

Higher dividend payout is expected to further improve ROE to 57% (earlier estimate was 45%) in CY19e.



Financial Details

Balance Sheet

Fig in Rs Cr

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	3,078	3,286
Networth	2,369	2,837	2,818	3,282	3,421	3,674	3,174	3,382
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	3,709	3,209	3,417
Net Fixed Assets (incl CWIP)	3,664	3,421	3,129	2,918	2,710	2,506	2,438	2,470
Non Current Investments	224	304	342	474	585	733	883	1,033
Other Non Current Assets	124	130	130	71	83	72	72	72
Non Current Assets	4,013	3,856	3,601	3,528	3,425	3,351	3,433	3,615
Inventory	736	844	821	940	902	966	1,069	1,214
Debtors	84	99	78	98	89	125	138	157
Cash & Bank	749	446	500	869	1,448	1,599	1,024	1,389
Other Current Assets	4	15	15	31	17	22	25	28
Current Assets	2,302	1,964	2,480	3,283	3,937	4,737	4,570	5,077
Creditors	633	729	744	799	985	1,240	1,373	1,560
Provisions	214	213	265	54	87	157	174	198
Other Current Liabilities	500	410	466	202	107	141	156	177
Curr Liabilities	1,347	1,355	1,476	1,367	1,493	1,855	2,020	2,251
Net Current Assets	955	608	1,004	1,916	2,445	2,882	2,550	2,826
Total Assets	6,314	5,820	6,080	6,810	7,363	8,088	8,003	8,693

Income Statement

Fig in Rs Cr

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	12,501	14,201
Change (%)	9%	8%	-17%	12%	9%	13%	11%	14%
EBITDA	2,020	2,101	1,647	2,030	2,221	2,732	2,977	3,395
Change (%)	9%	4%	-22%	23%	9%	23%	9%	14%
Margin (%)	22%	21%	20%	22%	22%	24%	24%	24%
Depr & Amor.	330	338	347	354	342	336	319	324
EBIT	1,690	1,764	1,299	1,676	1,879	2,397	2,658	3,070
Int. & other fin. Cost	37	14	3	91	92	112	120	120
Other Income	83	87	110	151	177	259	244	273
EBT	1,678	1,774	814	1,545	1,839	2,429	2,739	3,176
Exp Item	(58)	(62)	(593)	(191)	(125)	(115)	(43)	(47)
Tax	561	590	250	544	614	822	932	1,096
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1,117	1,185	563	1,001	1,225	1,607	1,807	2,080
Adjusted PAT	1,156	1,226	973	1,125	1,308	1,683	1,835	2,111
Change (%)	5%	6%	-52%	78%	22%	31%	12%	15%
Margin(%)	13%	12%	12%	12%	13%	15%	15%	15%

Financial Details

Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
ROE	47%	42%	20%	31%	36%	44%	57%	62%
ROCE	47%	62%	46%	51%	54%	65%	83%	90%
Asset Turnover	1.4	1.7	1.3	1.3	1.4	1.4	1.6	1.6
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	124	395	18	20	21	22	26
P/E	46	41	99	63	72	64	61	53
Price / Book Value	22	17	20	19	26	28	35	33
EV/EBITDA	26	23	34	31	39	37	37	32
FCF per Share	150	150	95	129	164	196	238	257
Div Yield	1%	1%	1%	0.9%	0.9%	1.1%	1.7%	1.4%

Cash Flow Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
PBT	1,678	1,774	814	1,442	1,839	2,429	2,739	3,176
(inc)/Dec in Working Capital	355	153	332	285	375	413	296	314
Non Cash Op Exp	314	342	374	356	347	347	319	324
Int Paid (+)	37	14	3	4	-	-	120	120
Tax Paid	(486)	(589)	(342)	(503)	(604)	(881)	(932)	(1,096)
others	(112)	(58)	(110)	(129)	(177)	(255)	-	-
CF from Op. Activities	1,786	1,636	1,070	1,454	1,780	2,052	2,542	2,838
(inc)/Dec in FA & CWIP	(345)	(189)	(151)	(207)	(199)	(166)	(251)	(356)
Free Cashflow	1,442	1,446	919	1,247	1,581	1,886	2,291	2,482
(Pur)/Sale of Inv	(224)	(109)	(37)	(153)	(112)	(160)	(450)	(125)
others	128	(162)	118	232	180	274	-	-
CF from Inv. Activities	(441)	(461)	(70)	(127)	(131)	(52)	(701)	(481)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(0)	(920)	(3)	(1)	-	-	-	-
Int. Paid	(36)	(15)	(3)	(4)	-	-	(120)	(120)
Div Paid (inc tax)	(546)	(713)	(493)	(679)	(998)	(1,313)	(2,307)	(1,872)
others	3	13	1	17	2	-	-	-
CF from Fin. Activities	(580)	(1,635)	(498)	(667)	(996)	(1,317)	(2,427)	(1,992)
Inc(Dec) in Cash	775	(431)	501	660	653	683	(586)	365
Add: Opening Balance	591	1,366	943	1,472	2,151	1,599	1,610	1,024
Closing Balance	1,366	935	1,444	2,133	2,804	2,281	1,024	1,389

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