

Nestle India Limited

Industry	Cons. Staples
Bloomberg	NEST IN
BSE CODE	500790

Sales driven by better volumes & Product mix in domestic market

RATING	HOLD
CMP	14475
Price Target	15345
Potential Upside	6%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	15150/10028
Mkt Capital (Rs Cr)	139526
Free float (%)	37%
Avg. Vol 1M (,000)	3
No. of Shares (Cr)	10
Promoters Pledged %	NA

Research Analyst

RAJEEV ANAND

rajeev.anand@narnolia.com

+91-22-62701229

3QCY19 Result update

- ❑ NESTLEIND, 3QCY19 numbers remained largely in-line with our expectations; Revenue grew by 9.4% YoY to Rs. 3216 cr. (vs. expect. of Rs. 3162 cr.) led by domestic sales of 10.5% largely driven volumes and better product mix.
- ❑ The Company's export sales stood at Rs. 160 cr. de-grew by 7.1% YoY due to lower coffee exports to Turkey which in turn impacted the overall sales growth.
- ❑ Gross margin declined by 216 bps YoY to 57.6% YoY (vs. expect. of 58% YoY) led by higher commodity prices mainly milk and its derivatives.
- ❑ EBITDA margin remained in-line with our expectation and declined by 163 bps to 23.6% YoY driven by decline in gross margin. However the impact got partially offset to some extent due to reduction in other expenses to the extent of 64 bps while employee expense increased by 13 bps.
- ❑ PAT grew by of 33.5% YoY to Rs. 595 cr. (vs. expect. of Rs. 630 cr) benefitted by change in corporate tax law to the extent of Rs. 72.5 cr. while PAT margin stood at 18.5% in 3QCY19.
- ❑ The Company has introduced world's no. 1 cocoa-malt beverage - MILO to India from its parent portfolio while the existing brands MAGGI, KITKAT, Nestle MUNCH, NESCAFE RTD, NANGROW and CEREGROW continued to deliver strong performance during the quarter.

View and Valuation

NESTLEIND has reported numbers largely in-line with our estimates for 3QCY19, revenue growth was driven by domestic volumes & improved mix while lower tax rate helped in strong PAT growth. Going forward, better traction from newly launched products, deeper penetration led by focused marketing and emphasis on expanding its rural reach (currently contributes ~25% and expects it to reach 30 to 35% of its total sales in next 2-3 years) are expected to drive revenue growth. While change in product mix and judicious pricing will help in reducing margin deterioration. We continue to maintain positive view on NESTLEIND but considering surge in stock prices in last one month, we have changed our rating from ACCUMULATE to HOLD with the target price of Rs15345. We have kept our sales & PAT estimates largely same for CY19e and CY20e.

Key Risks to our rating and target

- ❑ Further increase in key input prices.
- ❑ Higher increase in employee and other expense backed distribution expansion and brand building activities.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19E	CY20E
Net Sales	9141	10010	11292	12552	14188
EBITDA	2030	2221	2732	2994	3400
EBIT	1676	1879	2397	2675	3076
PAT	1001	1225	1607	2034	2402
EPS (Rs)	104	127	167	211	249
EPS growth (%)	78%	22%	31%	27%	18%
ROE (%)	31%	36%	44%	65%	72%
ROCE (%)	51%	54%	65%	85%	91%
BV	340	355	381	323	348
P/B (X)	19	26	28	45	42
P/E (x)	63	72	64	69	58

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

3QCY19 Results

Largely in-line

Financials	3QCY18	4QCY18	1QFY19	2QCY19	3QCY19	YoY %	QoQ%	Fig in Rs Cr		
								CY17	CY18	YoY %
Net Sales	2,939	2,897	3,003	3,001	3,216	9.4%	-0.1%	10,010	11,292	12.8%
Other Income	67	75	73	73	56	-15.9%	-0.8%	177	259	46.3%
COGS	1,184	1,189	1,245	1,252	1,365	15.3%	0.5%	4,327	4,590	6.1%
Gross Margin	60%	59%	59%	58%	58%	-2.2%	-0.3%	57%	59%	2.6%
Empl. Cost	290	280	304	315	322	10.9%	3.6%	1,017	1,124	10.5%
Other Expen.	718	809	693	718	764	6.5%	3.6%	2,417	2,818	16.6%
EBITDA	742	614	749	707	760	2.4%	-5.6%	2,221	2,732	23.0%
EBITDA Mar	25%	21%	25%	24%	24%	-1.6%	-1.4%	22%	24%	2.0%
Depreciation	93	78	78	81	78	-16.1%	3.7%	342	336	-1.9%
EBIT	649	535	672	626	681	5.0%	-6.7%	1,879	2,397	27.5%
Interest	27	25	32	30	30	9.0%	-5.3%	92	112	21.8%
PBT	689	585	713	669	708	2.8%	-6.2%	1,839	2,429	32%
Exceptional	-	-	-	-	-	-	-	-	-	-
Tax	226	180	238	221	104	-53.7%	-7.0%	614	822	34%
PAT	446	342	463	438	595	33.5%	-5.5%	1,225	1,607	31%
PAT Margin	15%	12%	15%	15%	19%	3.3%	-0.8%	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.

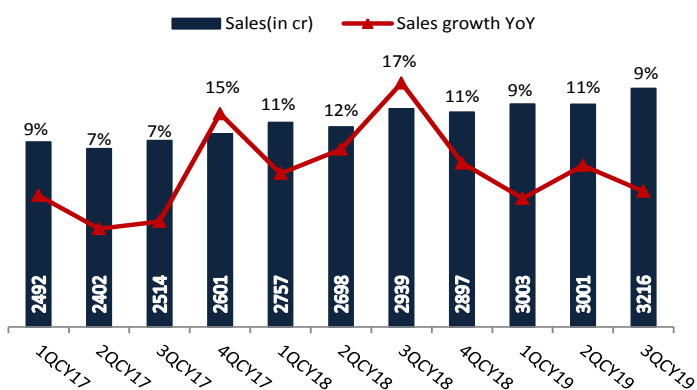


Exhibit: Gross margin and EBITDA margin

Gross margin declined by 216 bps on account of higher input prices prevailing in 3QCY19.

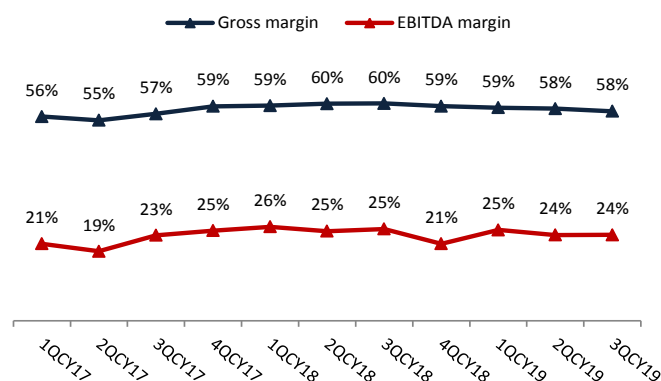


Exhibit: COGS and Other Expenses

COGS increased led by inflation in major input prices while other expense declined by 64 bps.

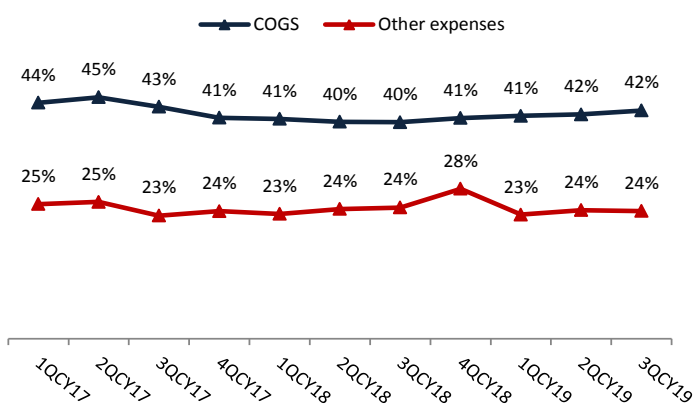


Exhibit: PAT and PAT Growth

PAT grew by 33 % YoY to Rs. 595 cr. while PAT margin stood at 18.5% in 3QCY19.

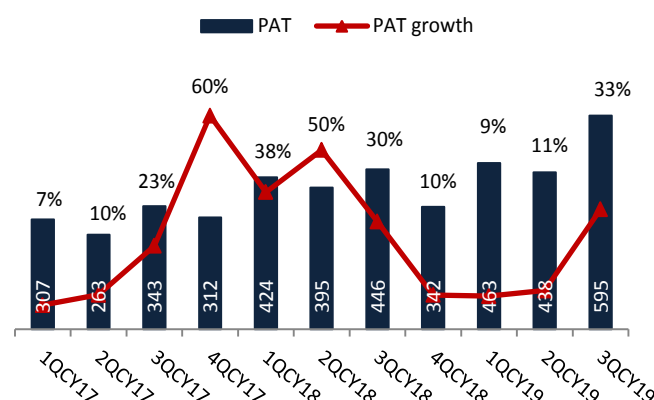
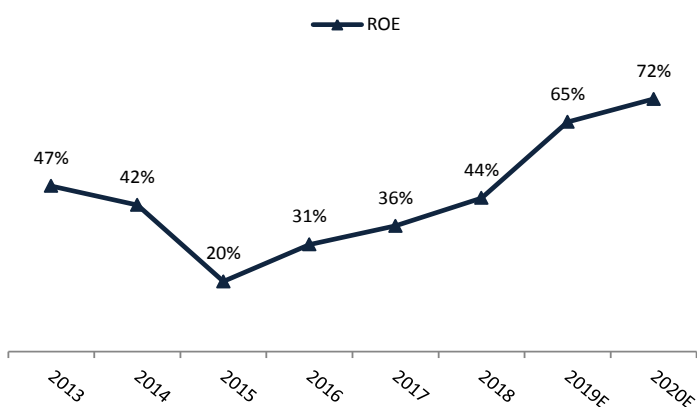


Exhibit: Return on Equity

Higher dividend payout is expected to further improve ROE to 65% 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	3,015	3,255
Networth	2,369	2,837	2,818	3,282	3,421	3,674	3,111	3,351
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	3,146	3,387
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	1,073	1,213
Debtors	84	99	78	98	89	125	138	157
Cash & Bank	749	446	500	869	1,448	1,599	963	1,358
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	4,514	5,045
Creditors	633	729	744	799	985	1,240	1,379	1,558
Provisions	214	213	265	54	87	157	175	198
Other Current Liabilities	500	410	466	202	107	141	157	177
Curr Liabilities	1,347	1,355	1,476	1,367	1,493	1,855	2,027	2,250
Net Current Assets	955	608	1,004	1,916	2,445	2,882	2,487	2,796
Total Assets	6,314	5,820	6,080	6,810	7,363	8,088	7,947	8,660

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	12,552	14,188
Change (%)	9%	8%	-17%	12%	9%	13%	11%	13%
EBITDA	2,020	2,101	1,647	2,030	2,221	2,732	2,994	3,400
Change (%)	9%	4%	-22%	23%	9%	23%	10%	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	2,675	3,076
Int. & other fin. Cost	37	14	3	91	92	112	120	120
Other Income	83	87	110	151	177	259	265	298
EBT	1,678	1,774	814	1,545	1,839	2,429	2,781	3,219
Exp Item	(58)	(62)	(593)	(191)	(125)	(115)	(38)	(36)
Tax	561	590	250	544	614	822	747	816
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1,117	1,185	563	1,001	1,225	1,607	2,034	2,402
Adjusted PAT	1,156	1,226	973	1,125	1,308	1,683	2,062	2,429
Change (%)	5%	6%	-52%	78%	22%	31%	27%	18%
Margin(%)	13%	12%	12%	12%	13%	15%	16%	17%

Financial Details

Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
ROE	47%	42%	20%	31%	36%	44%	65%	72%
ROCE	47%	62%	46%	51%	54%	65%	85%	91%
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	69	58
Price / Book Value	22	17	20	19	26	28	45	42
EV/EBITDA	26	23	34	31	39	37	46	41
FCF per Share	150	150	95	129	164	196	261	291
Div Yield	1%	1%	1%	0.9%	0.9%	1.1%	1.6%	1.3%

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	2,781	3,219
(inc)/Dec in Working Capital	355	153	332	285	375	413	298	312
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)	(747)	(816)
others	(112)	(58)	(110)	(129)	(177)	(255)	-	-
CF from Op. Activities	1,786	1,636	1,070	1,454	1,780	2,052	2,771	3,158
(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	2,520	2,802
(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)	(2,597)	(2,162)
others	3	13	1	17	2	-	-	-
CF from Fin. Activities	(580)	(1,635)	(498)	(667)	(996)	(1,317)	(2,717)	(2,282)
Inc(Dec) in Cash	775	(431)	501	660	653	683	(647)	395
Add: Opening Balance	591	1,366	943	1,472	2,151	1,599	1,610	963
Closing Balance	1,366	935	1,444	2,133	2,804	2,281	963	1,358

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.