

Industry
Bloomberg
BSE CODE

Cons. Staples
NEST IN
500790

RATING	HOLD
CMP	16351
Price Target	17236
Potential Upside	5%

Rating Change	↔
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	16753/10028
Mkt Capital (Rs Cr)	157647
Free float (%)	37%
Avg. Vol 1M (,000)	73
No. of Shares (Crs)	10
Promoters Pledged %	NA

RESEARCH ANALYST

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Continue to report better sales growth despite challenging demand environment

4QCY19 Result update

- NESTLEIND's sales for the quarter grew by 9% YoY to Rs 3149 cr(vs our expectation of Rs 3133 cr) on the back of better volume growth and mix improvement.
- The company's domestic business grew by 10% to Rs 2961 cr while exports declined by 9.7% to Rs 170 cr led by lower coffee exports to Turkey.
- Gross margin for the quarter declined by 218 bps YoY to 56.8% on account of inflation in milk and its derivative prices while EBITDA margin witnessed an improvement of 19 bps YoY to 21.4% backed by lower other expenses by 275 bps YoY.
- Lower provisioning of taxes by 7.6% to 23.2% and improvement in EBITDA margin helped NESTLEIND in posting strong PAT growth of Rs 473 cr(vs our expectation of Rs 494 cr), up by 38%.
- For the full year CY19, sales, EBITDA and PAT grew by 10%,6% and 23% to Rs 12369 cr,2889 cr and 1970 cr respectively. Gross and EBITDA margin contracted by 156 bps and 84 bps YoY to 57.5% and 23.4%.

View and Valuation

NESTLEIND has posted sales growth of 9% despite challenging general demand scenario is key positive for the quarter. Lower provisioning of taxes and improvement in EBITDA margin helped the company in posting a PAT growth of 38% YoY. Going forward, better traction from newly launched products, deeper penetration led by focused marketing and emphasis on expanding rural reach are expected to drive revenue growth. While change in product mix and judicious pricing will help in negating the impact of input inflation. We continue to maintain positive view on NESTLEIND and value stock at 62x of CY21e's eps with the target price of Rs 17236. We maintain Hold rating on NESTLEIND.

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	CY17	CY18	CY19	CY20E	CY21E
Net Sales	10010	11292	12369	14039	15960
EBITDA	2221	2732	2889	3283	3732
EBIT	1879	2397	2573	2958	3403
PAT	1225	1607	1970	2330	2712
EPS (Rs)	127	167	204	242	281
EPS growth (%)	22%	31%	23%	18%	16%
ROE (%)	36%	44%	102%	96%	87%
ROCE (%)	54%	65%	130%	120%	108%
BV	355	381	200	252	322
P/B (X)	26	28	73	65	51
P/E (x)	72	64	72	68	58

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4QCY19 Results

Posted mixed numbers for the quarter.

Fig in Rs Cr

FINANCIALS	4QCY18	1QFY19	2QCY19	3QCY19	4QCY19	YoY %	QoQ%	CY18	CY19	YoY %
Net Sales	2,897	3,003	3,001	3,216	3,149	8.7%	7.2%	11,292	12,369	9.5%
Other Income	75	73	73	56	45	-40.0%	-23.3%	259	247	-4.7%
COGS	1,189	1,245	1,252	1,365	1,361	14.5%	9.0%	4,590	5,224	13.8%
Gross Margin	59%	59%	58%	58%	57%	-2.2%	-0.7%	59%	58%	-1.6%
Empl. Cost	280	304	315	322	323	15.4%	2.2%	1,124	1,263	12.3%
Other Expen.	809	693	718	764	792	-2.1%	6.4%	2,818	2,955	4.8%
EBITDA	614	749	707	760	673	9.6%	7.5%	2,732	2,889	5.7%
EBITDA Mar	21%	25%	24%	24%	21%	0.19%	0.0%	24%	23%	-0.8%
Depreciation	78	78	81	78	80	2.6%	-3.7%	336	316	-5.8%
EBIT	535	672	626	681	593	10.8%	8.8%	2,397	2,573	7.3%
Interest	25	32	30	30	28	12.0%	0.0%	112	120	7.0%
PBT	585	713	669	708	610	4.3%	5.8%	2,429	2,675	10%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	180	238	221	104	142	-21.1%	-52.9%	822	705	-14%
PAT	342	463	438	595	473	38.3%	35.8%	1,607	1,970	23%
PAT Margin	12%	15%	15%	19%	15%	3.2%	3.9%	14%	16%	1.7%

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.

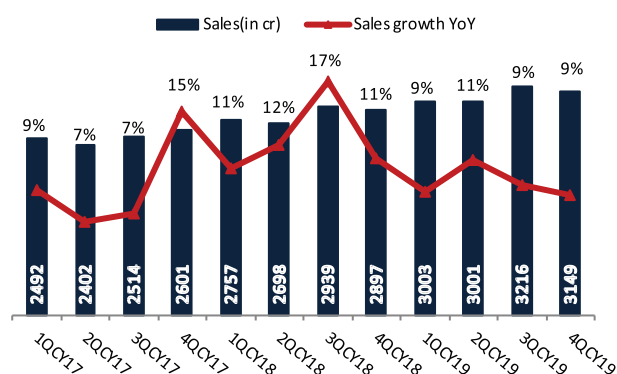


Exhibit: Gross margin and EBITDA margin

Gross margin for the quarter declined by 218 bps YoY to 56.8% led by inflation in milk and its derivative prices.

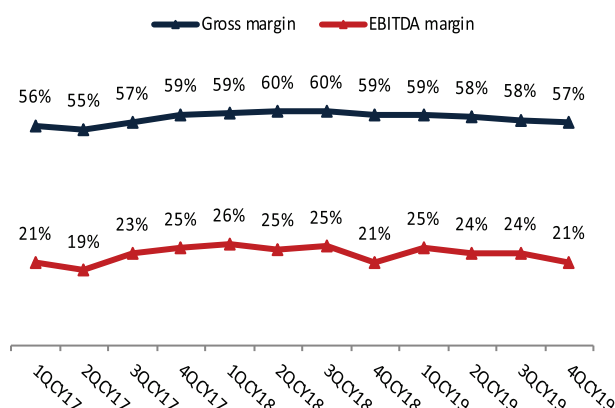


Exhibit: COGS

Inflation in milk and its derivative price impacted COGS in 4QCY19.

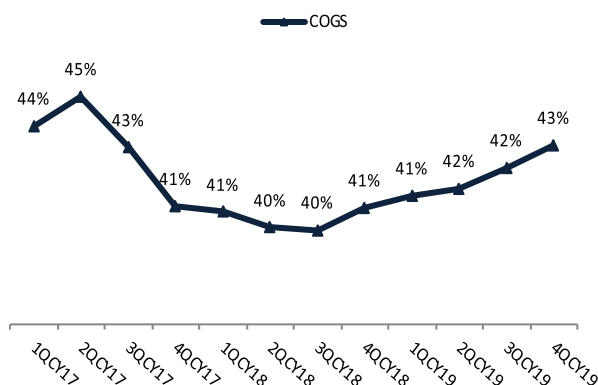


Exhibit: Employee and other expenses

Other expenses declined by 275 bps YoY while employee expenses was up by 59 bps YoY.

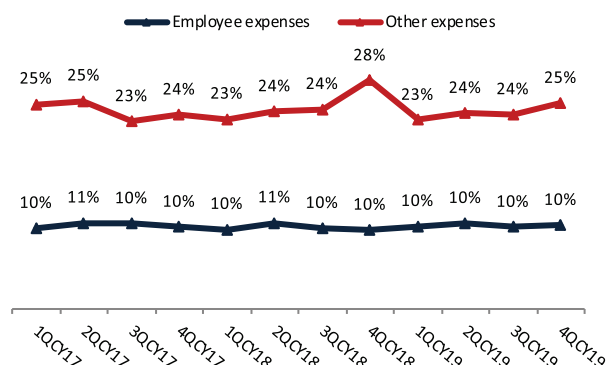
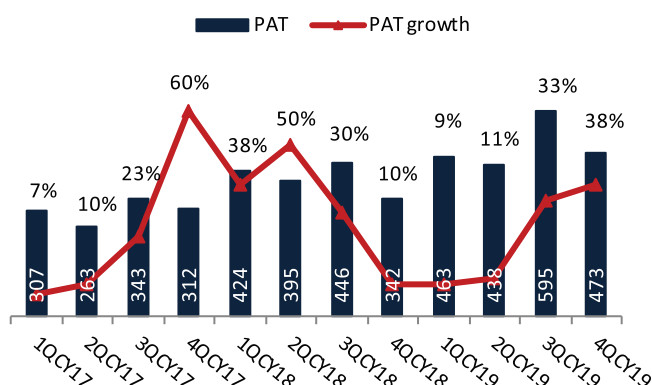


Exhibit: PAT and PAT Growth

Lower provis. of taxes & improvement in EBITDA margin helped the company in posting a PAT growth of 38% YoY.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Share Capital	96	96	96	96	96	96	96	96
Reserves	2,741	2,721	3,186	3,324	3,577	1,836	2,329	3,007
Networth	2,837	2,818	3,282	3,421	3,674	1,932	2,425	3,103
Debt	20	18	33	35	35	53	35	35
Other Non Current Liab	-	-	-	-	-	-	-	-
Total Capital Employed	2,857	2,836	3,315	3,456	3,709	1,985	2,460	3,138
Net Fixed Assets (incl CWIP)	3,421	3,129	2,918	2,710	2,506	2,370	2,470	2,498
Non Current Investments	304	342	474	585	733	744	894	1,044
Other Non Current Assets	130	130	71	83	72	80	80	80
Non Current Assets	3,856	3,601	3,528	3,425	3,351	3,241	3,491	3,669
Inventory	844	821	940	902	966	1,283	1,456	1,656
Debtors	99	78	98	89	125	124	141	160
Cash & Bank	446	500	869	1,448	1,599	1,293	1,819	2,613
Other Current Assets	15	15	31	17	22	26	30	34
Current Assets	1,964	2,480	3,283	3,937	4,737	3,817	4,522	5,538
Creditors	729	744	799	985	1,240	1,495	1,697	1,929
Provisions	213	265	54	87	157	85	97	110
Other Current Liabilities	410	466	202	107	141	134	152	173
Curr Liabilities	1,355	1,476	1,367	1,493	1,855	2,148	2,377	2,643
Net Current Assets	608	1,004	1,916	2,445	2,882	1,670	2,145	2,895
Total Assets	5,820	6,080	6,810	7,363	8,088	7,058	8,013	9,207

Income Statement

Fig in Rs Cr

Y/E March	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Revenue from Operation	9,855	8,175	9,141	10,010	11,292	12,369	14,039	15,960
Change (%)	8%	-17%	12%	9%	13%	10%	14%	14%
EBITDA	2,101	1,647	2,030	2,221	2,732	2,889	3,283	3,732
Change (%)	4%	-22%	23%	9%	23%	6%	14%	14%
Margin (%)	21%	20%	22%	22%	24%	23%	23%	23%
Depr & Amor.	338	347	354	342	336	316	324	328
EBIT	1,764	1,299	1,676	1,879	2,397	2,573	2,958	3,403
Int. & other fin. Cost	14	3	91	92	112	120	120	120
Other Income	87	110	151	177	259	247	242	303
EBT	1,774	814	1,545	1,839	2,429	2,675	3,102	3,611
Exp Item	(62)	(593)	(191)	(125)	(115)	(25)	22	25
Tax	590	250	544	614	822	705	773	899
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1,185	563	1,001	1,225	1,607	1,970	2,330	2,712
Adjusted PAT	1,226	973	1,125	1,308	1,683	1,988	2,313	2,693
Change (%)	6%	-52%	78%	22%	31%	23%	18%	16%
Margin(%)	12%	12%	12%	13%	15%	16%	16%	17%

Financial Details

Key Ratios

Y/E March	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
ROE	42%	20%	31%	36%	44%	102%	96%	87%
ROCE	62%	46%	51%	54%	65%	130%	120%	108%
Asset Turnover	1.7	1.3	1.3	1.4	1.4	1.8	1.8	1.7
Debtor Days	4	4	4	3	4	4	4	4
Inv Days	31	37	38	33	31	38	38	38
Payable Days	27	33	32	36	40	44	44	44
Int Coverage	124	395	18	20	21	21	25	28
P/E	41	99	63	72	64	72	68	58
Price / Book Value	17	20	19	26	28	73	65	51
EV/EBITDA	23	34	31	39	37	49	47	42
FCF per Share	150	95	129	164	196	216	273	321
Div Yield	1%	1%	0.9%	0.9%	1.1%	2.1%	1.1%	1.3%

Cash Flow Statement

Fig in Rs Cr

Y/E March	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
PBT	1,774	814	1,442	1,839	2,429	2,675	3,102	3,611
(inc)/Dec in Working Capital	153	332	285	375	413	163	288	294
Non Cash Op Exp	342	374	356	347	347	312	324	328
Int Paid (+)	14	3	4	-	-	-	120	120
Tax Paid	(589)	(342)	(503)	(604)	(881)	(673)	(773)	(899)
others	(58)	(110)	(129)	(177)	(255)	(245)	(2)	-
CF from Op. Activities	1,636	1,070	1,454	1,780	2,052	2,234	3,060	3,454
(inc)/Dec in FA & CWIP	(189)	(151)	(207)	(199)	(166)	(155)	(424)	(356)
Free Cashflow	1,446	919	1,247	1,581	1,886	2,079	2,635	3,098
(Pur)/Sale of Inv	(109)	(37)	(153)	(112)	(160)	(16)	(150)	(150)
others	(162)	118	232	180	274	253	-	-
CF from Inv. Activities	(461)	(70)	(127)	(131)	(52)	83	(574)	(506)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(920)	(3)	(1)	-	-	-	(18)	-
Int. Paid	(15)	(3)	(4)	-	-	-	(120)	(120)
Div Paid (inc tax)	(713)	(493)	(679)	(998)	(1,313)	(3,556)	(1,836)	(2,034)
others	13	1	17	2	-	18	-	-
CF from Fin. Activities	(1,635)	(498)	(667)	(996)	(1,317)	(3,540)	(1,974)	(2,154)
Inc(Dec) in Cash	(431)	501	660	653	683	(1,223)	511	794
Add: Opening Balance	1,366	943	1,472	2,151	1,599	3,524	1,308	1,819
Closing Balance	935	1,444	2,133	2,804	2,281	2,301	1,819	2,613

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