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Cons. Staples  
NEST IN  
500790

## Strong show amid the crisis...

RATING	HOLD
CMP	17457
Price Target	17236
Potential Upside	-1%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	18301/10126
Mkt Capital (Rs Cr)	168315
Free float (%)	37%
Avg. Vol 1M (,000)	172
No. of Shares (Cr)	10
Promoters Pledged %	NA

### 1QCY20 Result update

- NESTLEIND has reported sales growth of 11% to Rs 3325 cr( vs our expectation of Rs 3123 cr) on the back of growth led by volume and change in mix. Brands like Maggi, Kitkat and Nestlé Munch has reported strong growth supported by E- commerce.
- Export reported a growth of 12.9% to Rs 182 cr while domestic business grew by 10.7% YoY to Rs 3124 cr.
- The company continue to witness cost pressure due to rise in commodity prices especially milk and its derivatives which led to gross margin deterioration. Gross margin for the quarter declined by 223 bps YoY to 56.3% while EBITDA margin contracted by 138 bps YoY to 24.1%. Saving on the front of other expenses by 150 bps YoY helped in restricting EBITDA margin shrinkage.
- Lower provisioning of taxes (25.1% vs 33.4% in 1QCY19) helped the company to report PAT growth of 14% to Rs 525 cr( vs our expectation of Rs 486 cr).

### View and Valuation

NESTLEIND has posted numbers better than our expectations, sales grew by 11% while PAT witnessed a growth of 14% which is quite encouraging considering recent Covid related crisis. We continue to like NESTLEIND considering its strong brands (like Maggi, Kitkat etc) and execution capability with pricing power. Last few years company has launched lots of new products and worked on its distribution expansion which will yield results as situation normalize. We maintain Hold rating NESTLEIND with the previous target price of Rs 17236. Presently the company is trading at 76 times of CY20e's eps.

### Key Risks to our rating and target

- Further increase in key input prices.
- Persistence of Covid-19 for longer duration than expected.

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19	CY20E
Net Sales	9141	10010	11292	12369	13551
EBITDA	2030	2221	2732	2889	3168
EBIT	1676	1879	2397	2573	2844
PAT	1001	1225	1607	1970	2209
EPS (Rs)	104	127	167	204	229
EPS growth (%)	78%	22%	31%	23%	12%
ROE (%)	31%	36%	44%	102%	92%
ROCE (%)	51%	54%	65%	130%	117%
BV	340	355	381	200	249
P/B (X)	19	26	28	73	70
P/E (x)	63	72	64	72	76

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## 1QCY20 Results

Better than expectation.

Fig in Rs Cr

FINANCIALS	1QFY19	2QCY19	3QCY19	4QCY19	1QCY20	YoY %	QoQ%	CY18	CY19	YoY %
Net Sales	3,003	3,001	3,216	3,149	3,325	10.7%	-2.1%	11,292	12,369	9.5%
Other Income	73	73	56	45	43	-41.5%	-20.7%	259	247	-4.7%
COGS	1,245	1,252	1,365	1,361	1,453	16.7%	-0.3%	4,590	5,224	13.8%
Gross Margin	59%	58%	58%	57%	56%	-2.2%	-0.8%	59%	58%	-1.6%
Empl. Cost	302	315	322	323	358	18.7%	0.2%	1,124	1,263	12.3%
Other Expen.	680	718	764	792	703	3.4%	3.6%	2,818	2,955	4.8%
EBITDA	764	707	760	673	801	4.7%	-11.4%	2,732	2,889	5.7%
EBITDA Mar	25%	24%	24%	21%	24%	-1.38%	-2.2%	24%	23%	-0.8%
Depreciation	91	81	78	80	91	0.0%	2.0%	336	316	-5.8%
EBIT	673	626	681	593	709	5.4%	-12.9%	2,397	2,573	7.3%
Interest	34	30	30	28	41	20.8%	-5.1%	112	120	7.0%
PBT	712	669	708	610	711	-0.2%	-13.9%	2,429	2,675	10%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	238	221	104	142	178	-25.0%	35.5%	822	705	-14%
PAT	463	438	595	473	525	13.5%	-20.6%	1,607	1,970	23%
PAT Margin	15%	15%	19%	15%	16%	0.4%	-3.5%	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
<b>Gro. Sales( in cr)</b>	<b>5222</b>	<b>6377</b>	<b>7674</b>	<b>8582</b>	<b>9380</b>	<b>10130</b>	<b>8430</b>	<b>9410</b>	<b>10135</b>	<b>11216</b>

## Nestle's segmental volume growth

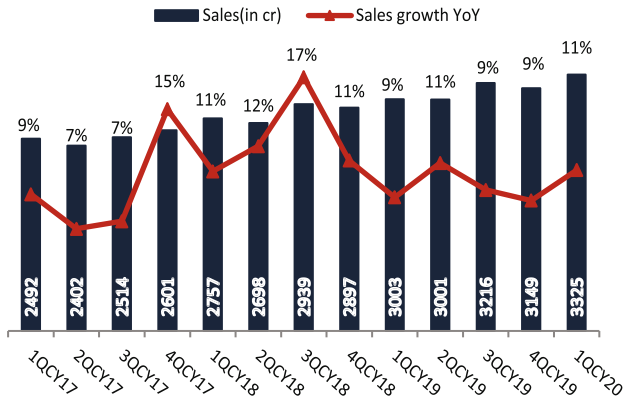
SEGMENT	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Milk pro & nutr.	13%	8%	2%	-5%	-1%	-2%	-3%	-2%	2%	5%
Beverages	-3%	13%	1%	-5%	9%	-11%	-10%	0%	11%	11%
Pre. dishes & co.	22%	24%	13%	8%	4%	4%	-59%	71%	19%	14%
Chocolate & conf.	10%	21%	-2%	-9%	-2%	-12%	-19%	7%	4%	15%

## 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%

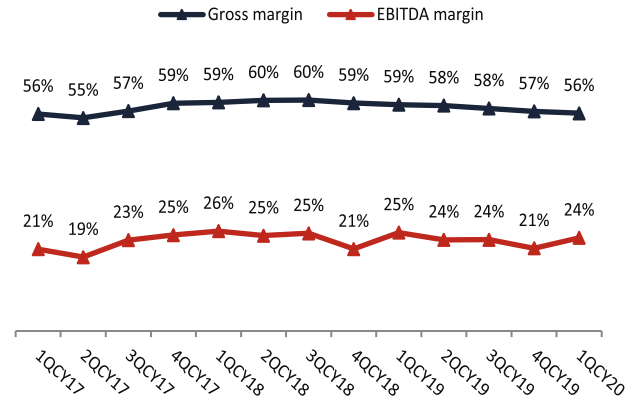
## Exhibit: Sales and Sales growth

Sales growth on the back of growth in volume and change in mix.



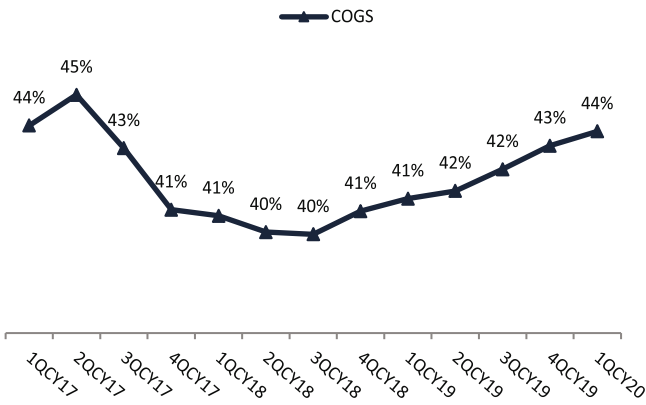
## Exhibit: Gross margin and EBITDA margin

Gross margin impacted by inflation in milk and its derivatives prices.



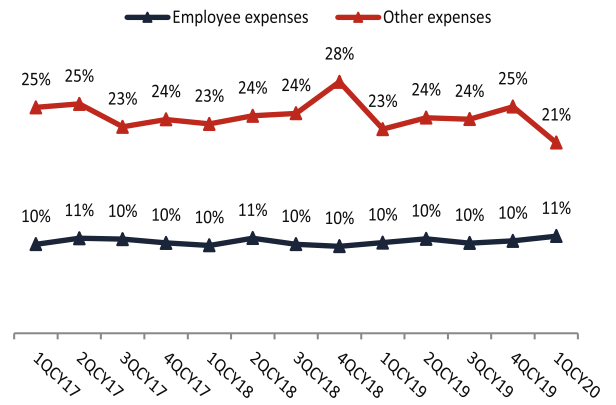
## Exhibit: COGS

Inflation in milk and its derivative prices impacted the COGS in 1QCY20.



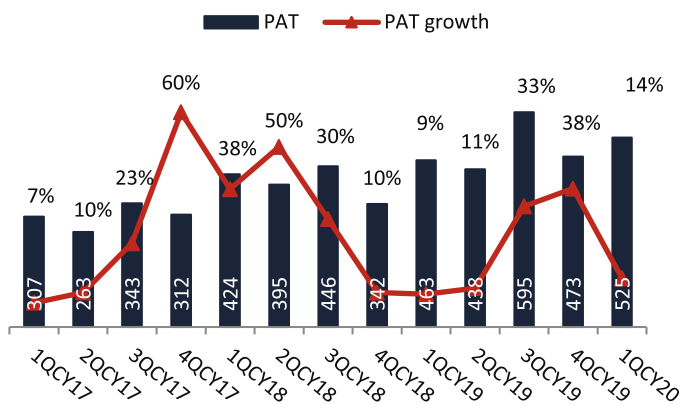
## Exhibit: Employee and other expenses

Saving on the front of other expenses by 150 bps YoY helped in restricting EBITDA margin shrinkage.



## Exhibit: PAT and PAT Growth

Lower provisioning of taxes (25.1% vs 33.4% in 1QCY19) helped the company to report PAT growth of 14%YoY.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
Share Capital	96	96	96	96	96	96	96	96
Reserves	2,272	2,741	2,721	3,186	3,324	3,577	1,836	2,303
<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>1,932</b>	<b>2,400</b>
Debt	1,189	20	18	33	35	35	53	35
Other Non Current Liab	-	-	-	-	-	-	-	-
Total Capital Employed	3,558	2,857	2,836	3,315	3,456	3,709	1,985	2,435
Net Fixed Assets (incl CWIP)	3,664	3,421	3,129	2,918	2,710	2,506	2,370	2,470
Non Current Investments	224	304	342	474	585	733	744	894
Other Non Current Assets	124	130	130	71	83	72	80	80
<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>3,241</b>	<b>3,491</b>
Inventory	736	844	821	940	902	966	1,283	1,406
Debtors	84	99	78	98	89	125	124	136
Cash & Bank	749	446	500	869	1,448	1,599	1,293	1,783
Other Current Assets	4	15	15	31	17	22	26	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>3,817</b>	<b>4,429</b>
Creditors	633	729	744	799	985	1,240	1,495	1,638
Provisions	214	213	265	54	87	157	85	94
Other Current Liabilities	500	410	466	202	107	141	134	147
<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>2,148</b>	<b>2,309</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>1,670</b>	<b>2,119</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>7,058</b>	<b>7,920</b>

### Income Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
<b>Revenue from Operation</b>	<b>9,101</b>	<b>9,855</b>	<b>8,175</b>	<b>9,141</b>	<b>10,010</b>	<b>11,292</b>	<b>12,369</b>	<b>13,551</b>
Change (%)	9%	8%	-17%	12%	9%	13%	10%	10%
<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>2,889</b>	<b>3,168</b>
Change (%)	9%	4%	-22%	23%	9%	23%	6%	10%
Margin (%)	22%	21%	20%	22%	22%	24%	23%	23%
Depr & Amor.	330	338	347	354	342	336	316	324
<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>2,573</b>	<b>2,844</b>
Int. & other fin. Cost	37	14	3	91	92	112	120	120
Other Income	83	87	110	151	177	259	247	239
<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>2,675</b>	<b>2,951</b>
Exp Item	(58)	(62)	(593)	(191)	(125)	(115)	(25)	(12)
Tax	561	590	250	544	614	822	705	743
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1,117	1,185	563	1,001	1,225	1,607	1,970	2,209
<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>1,988</b>	<b>2,218</b>
Change (%)	5%	6%	-52%	78%	22%	31%	23%	12%
Margin(%)	13%	12%	12%	12%	13%	15%	16%	16%

## Financial Details

### Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
ROE	47%	42%	20%	31%	36%	44%	102%	92%
ROCE	47%	62%	46%	51%	54%	65%	130%	117%
Asset Turnover	1.4	1.7	1.3	1.3	1.4	1.4	1.8	1.7
Debtor Days	3	4	4	4	3	4	4	4
Inv Days	30	31	37	38	33	31	38	38
Payable Days	25	27	33	32	36	40	44	44
Int Coverage	46	124	395	18	20	21	21	24
P/E	46	41	99	63	72	64	72	76
Price / Book Value	22	17	20	19	26	28	73	70
EV/EBITDA	26	23	34	31	39	37	49	53
FCF per Share	150	150	95	129	164	196	216	260
Div Yield	1%	1%	1%	0.9%	0.9%	1.1%	2.1%	1.0%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
PBT	1,678	1,774	814	1,442	1,839	2,429	2,675	2,951
(inc)/Dec in Working Capital	355	153	332	285	375	413	163	277
Non Cash Op Exp	314	342	374	356	347	347	312	324
Int Paid (+)	37	14	3	4	-	-	-	120
Tax Paid	(486)	(589)	(342)	(503)	(604)	(881)	(673)	(743)
others	(112)	(58)	(110)	(129)	(177)	(255)	(245)	(2)
<b>CF from Op. Activities</b>	<b>1,786</b>	<b>1,636</b>	<b>1,070</b>	<b>1,454</b>	<b>1,780</b>	<b>2,052</b>	<b>2,234</b>	<b>2,928</b>
(inc)/Dec in FA & CWIP	(345)	(189)	(151)	(207)	(199)	(166)	(155)	(424)
Free Cashflow	1,442	1,446	919	1,247	1,581	1,886	2,079	2,503
(Pur)/Sale of Inv	(224)	(109)	(37)	(153)	(112)	(160)	(16)	(150)
others	128	(162)	118	232	180	274	253	-
<b>CF from Inv. Activities</b>	<b>(441)</b>	<b>(461)</b>	<b>(70)</b>	<b>(127)</b>	<b>(131)</b>	<b>(52)</b>	<b>83</b>	<b>(574)</b>
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(0)	(920)	(3)	(1)	-	-	-	(18)
Int. Paid	(36)	(15)	(3)	(4)	-	-	-	(120)
Div Paid (inc tax)	(546)	(713)	(493)	(679)	(998)	(1,313)	(3,556)	(1,741)
others	3	13	1	17	2	-	18	-
<b>CF from Fin. Activities</b>	<b>(580)</b>	<b>(1,635)</b>	<b>(498)</b>	<b>(667)</b>	<b>(996)</b>	<b>(1,317)</b>	<b>(3,540)</b>	<b>(1,879)</b>
Inc(Dec) in Cash	775	(431)	501	660	653	683	(1,223)	474
Add: Opening Balance	591	1,366	943	1,472	2,151	2,841	3,524	1,308
<b>Closing Balance</b>	<b>1,366</b>	<b>935</b>	<b>1,444</b>	<b>2,133</b>	<b>2,804</b>	<b>3,524</b>	<b>2,301</b>	<b>1,782</b>

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