

Industry
Bloomberg
BSE CODE

Cons. Staples
NEST IN
500790

RATING	HOLD
CMP	17099
Price Target	17236
Potential Upside	1%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	18301/11300
Mkt Capital (Rs Cr)	161534
Free float (%)	37%
Avg. Vol 1M (,000)	6
No. of Shares (Cr)	10
Promoters Pledged %	NA

RESEARCH ANALYST

RAJEEV ANAND

rajeev.anand@narnolia.com
+91-22-62701229

GAZAL NAWAZ

gazal.nawaz@narnolia.com

Strong foods portfolio will continue to drive growth

2QCY20 Result update

- NESTLEIND has reported numbers below expectation with revenue growth of 1.65%YoY to Rs. 3050 cr. (vs. expectation of Rs. 3164 cr.). The Company's sales remained impacted due to lower demand in all out of home consumption channels due to lockdown amidst COVID-19. However, the company's milk based, Nescafe and Maggi portfolio performed well led by increased in-home consumption.
- The Company's exports declined by 9.3% YoY to Rs. 134 cr. while domestic business grew by 2.6% YoY to Rs. 2908 cr.
- The Company's gross margin declined by 193 bps to 56.3% YoY led by cost pressure due to rise in commodity prices while EBITDA margin expanded by 129 bps YoY to 24.9% led by savings in other expenses to the extent of 487 bps YoY while employee expense increased by 163 bps which in turn restricted EBITDA margin expansion.
- Lower provisioning of taxes (24.98% vs 33.1% in 2QCY19) helped the company to report PAT growth of 11% to Rs. 487 cr. (vs. expectation of Rs. 520 cr.).

View and Valuation

NESTLEIND has reported numbers below expectation. Sales remained impacted due to nation-wide lockdown. The Company's milk based portfolio, Maggi and Nescafe portfolio will continue to perform better led by increased in-home consumption amidst Pandemic. We expect the company will continue to perform better in e-commerce as the e-commerce channel grew by 122% and now contributes 3.6% to domestic sales in 2QCY20. On the margin front, we expect margin expansion on the back of lower other expenses on account of savings in some variable costs. In Last few years company has launched lots of new products and worked on its distribution expansion which will yield results as situation normalize Going forward, we remain positive on the stock considering its strong brands and execution capability with pricing power while increasing numbers of COVID-19 cases and vertical lockdowns will remain concerns we maintain our Hold rating NESTLEIND with the previous target price of Rs 17236.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19	CY20E
Net Sales	9141	10010	11292	12369	13002
EBITDA	2030	2221	2732	2889	3206
EBIT	1676	1879	2397	2573	2872
PAT	1001	1225	1607	1970	2179
EPS (Rs)	104	127	167	204	226
EPS growth (%)	78%	22%	31%	23%	11%
ROE (%)	31%	36%	44%	102%	91%
ROCE (%)	51%	54%	65%	130%	118%
BV	340	355	381	200	248
P/B (X)	19	26	28	73	69
P/E (x)	63	72	64	72	76

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2QCY20 Results

Numbers below expectation

Fig in Rs Cr

FINANCIALS	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20	YoY%	QoQ%	CY18	CY19	YoY%
Net Sales	3,001	3,216	3,149	3,325	3,050	1.7%	5.6%	11,292	12,369	9.5%
Other Income	73	56	45	43	38	-47.7%	-4.1%	259	247	-4.7%
COGS	1,252	1,365	1,361	1,453	1,332	6.4%	6.7%	4,590	5,224	13.8%
Gross Margin	58%	58%	57%	56%	56%	-1.9%	-0.5%	59%	58%	-1.6%
Empl. Cost	315	322	323	358	370	17.5%	11.1%	1,124	1,263	12.3%
Other Expen.	718	764	792	703	581	-19.0%	-11.2%	2,818	2,955	4.8%
EBITDA	707	760	673	801	758	7.2%	19.0%	2,732	2,889	5.7%
EBITDA Mar	24%	24%	21%	24%	25%	1.29%	2.7%	24%	23%	-0.8%
Depreciation	81	78	80	91	92	14.4%	14.8%	336	316	-5.8%
EBIT	626	681	593	709	666	6.3%	19.5%	2,397	2,573	7.3%
Interest	30	30	28	41	41	36.4%	44.3%	112	120	7.0%
PBT	669	708	610	711	663	-0.9%	16.6%	2,429	2,675	10%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	221	104	142	178	166	-25.1%	26.0%	822	705	-14%
PAT	438	595	473	525	487	11.1%	11.1%	1,607	1,970	23%
PAT Margin	15%	19%	15%	16%	16%	1.4%	0.8%	14%	16%	1.7%

Nestle's segmental sales

SEGMENT	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Milk pro & nutr.	2776	3351	3859	4071	4575	4669	4635	4820	5188	5652
Beverages	899	1068	1123	1324	1340	1336	1286	1387	1523	1502
Pre. dishes & co.	1725	2155	2430	2698	2961	1314	2318	2707	3105	3498
Chocolate & conf.	976	1100	1170	1286	1253	1111	1171	1221	1401	1643
Gro. Sales(in cr)	6377	7674	8582	9380	10130	8430	9410	10135	11216	12295

Nestle's segmental volume growth

SEGMENT	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Milk pro & nutr.	8%	2%	-5%	-1%	-2%	-3%	-2%	2%	5%	9%
Beverages	13%	1%	-5%	9%	-11%	-10%	0%	11%	11%	-1%
Pre. dishes & co.	24%	13%	8%	4%	4%	-59%	71%	19%	14%	13%
Chocolate & conf.	21%	-2%	-9%	-2%	-12%	-19%	7%	4%	15%	17%

Nestle's segmental realization improvement trends

SEGMENT	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Milk pro & nutr.	12%	18%	21%	7%	15%	5%	2%	2%	3%	7%
Beverages	-1%	18%	11%	8%	14%	11%	-4%	-2%	-1%	1%
Pre. dishes & co.	4%	10%	4%	7%	6%	10%	3%	-2%	0%	3%
Chocolate & conf.	4%	14%	17%	12%	11%	10%	-1%	0%	0%	1%

Exhibit: Sales and Sales growth

Sales growth remained lower impacted on account of lockdown amidst pandemic.

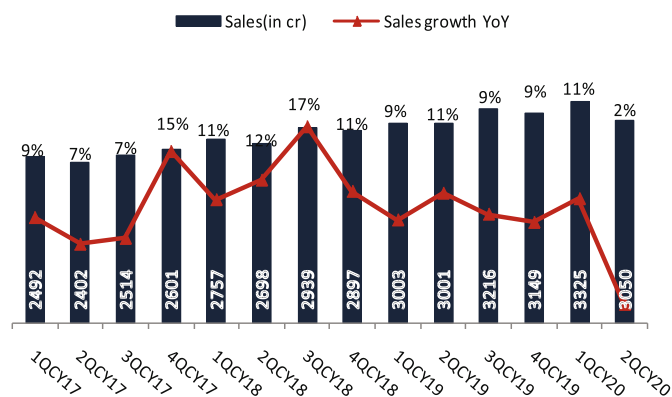


Exhibit: Gross margin and EBITDA margin

Gross margin deterioration on account of input inflation.

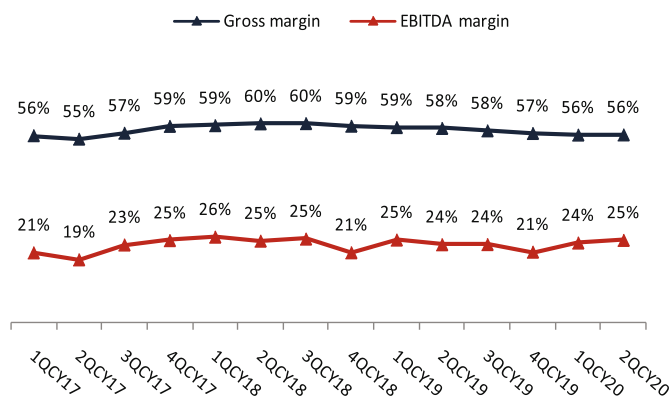


Exhibit: COGS

Inflation in milk and its derivative prices impacted the COGS in 2QCY20.

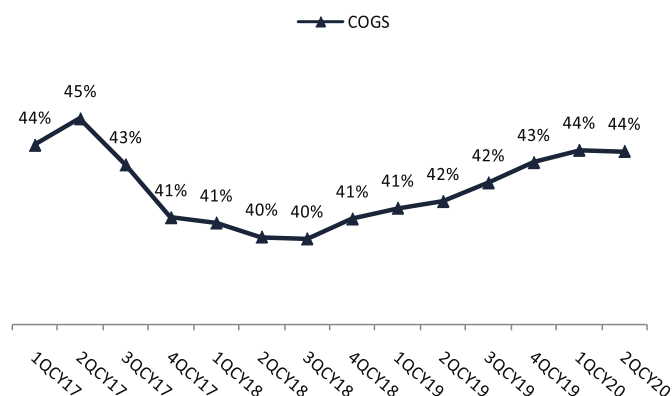


Exhibit: Employee and other expenses

Saving on the front of other expenses by 487 bps YoY helped in EBITDA margin expansion.

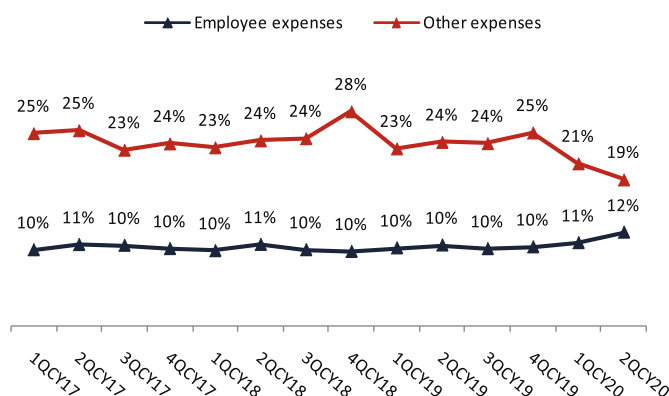
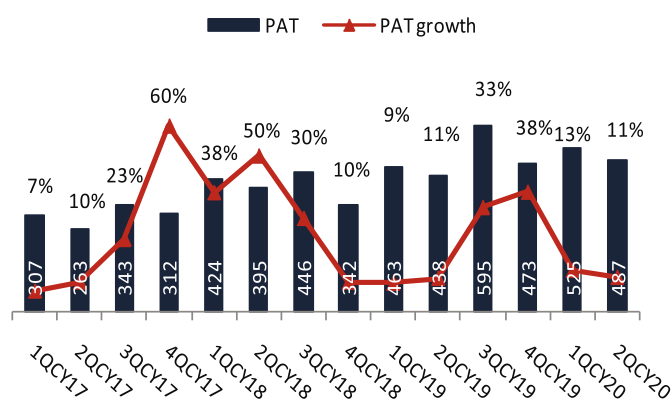


Exhibit: PAT and PAT Growth

Lower provisioning of taxes (24.98% vs 33.1% in 2QCY19) helped the company to report PAT growth of 11%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	2,297
Networth	2,369	2,837	2,818	3,282	3,421	3,674	1,932	2,394
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	2,429
Net Fixed Assets (incl CWIP)	3,664	3,421	3,129	2,918	2,710	2,506	2,370	2,223
Non Current Investments	224	304	342	474	585	733	744	894
Other Non Current Assets	124	130	130	71	83	72	80	80
Non Current Assets	4,013	3,856	3,601	3,528	3,425	3,351	3,241	3,387
Inventory	736	844	821	940	902	966	1,283	1,349
Debtors	84	99	78	98	89	125	124	131
Cash & Bank	749	446	500	869	1,448	1,599	1,293	1,871
Other Current Assets	4	15	15	31	17	22	26	27
Current Assets	2,302	1,964	2,480	3,283	3,937	4,737	3,817	4,454
Creditors	633	729	744	799	985	1,240	1,495	1,571
Provisions	214	213	265	54	87	157	85	90
Other Current Liabilities	500	410	466	202	107	141	134	141
Curr Liabilities	1,347	1,355	1,476	1,367	1,493	1,855	2,148	2,235
Net Current Assets	955	608	1,004	1,916	2,445	2,882	1,670	2,218
Total Assets	6,314	5,820	6,080	6,810	7,363	8,088	7,058	7,841

Income Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
Revenue from Operation	9,101	9,855	8,175	9,141	10,010	11,292	12,369	13,002
Change (%)	9%	8%	-17%	12%	9%	13%	10%	5%
EBITDA	2,020	2,101	1,647	2,030	2,221	2,732	2,889	3,206
Change (%)	9%	4%	-22%	23%	9%	23%	6%	11%
Margin (%)	22%	21%	20%	22%	22%	24%	23%	25%
Depr & Amor.	330	338	347	354	342	336	316	334
EBIT	1,690	1,764	1,299	1,676	1,879	2,397	2,573	2,872
Int. & other fin. Cost	37	14	3	91	92	112	120	163
Other Income	83	87	110	151	177	259	247	238
EBT	1,678	1,774	814	1,545	1,839	2,429	2,675	2,916
Exp Item	(58)	(62)	(593)	(191)	(125)	(115)	(25)	(30)
Tax	561	590	250	544	614	822	705	737
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1,117	1,185	563	1,001	1,225	1,607	1,970	2,179
Adjusted PAT	1,156	1,226	973	1,125	1,308	1,683	1,988	2,202
Change (%)	5%	6%	-52%	78%	22%	31%	23%	11%
Margin(%)	13%	12%	12%	12%	13%	15%	16%	17%

Financial Details

Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
ROE	47%	42%	20%	31%	36%	44%	102%	91%
ROCE	47%	62%	46%	51%	54%	65%	130%	118%
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	18
P/E	46	41	99	63	72	64	72	76
Price / Book Value	22	17	20	19	26	28	73	69
EV/EBITDA	26	23	34	31	39	37	49	51
FCF per Share	150	150	95	129	164	196	216	271
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	2,916
(inc)/Dec in Working Capital	355	153	332	285	375	413	163	264
Non Cash Op Exp	314	342	374	356	347	347	312	334
Int Paid (+)	37	14	3	4	-	-	-	163
Tax Paid	(486)	(589)	(342)	(503)	(604)	(881)	(673)	(737)
others	(112)	(58)	(110)	(129)	(177)	(255)	(245)	-
CF from Op. Activities	1,786	1,636	1,070	1,454	1,780	2,052	2,234	2,940
(inc)/Dec in FA & CWIP	(345)	(189)	(151)	(207)	(199)	(166)	(155)	(330)
Free Cashflow	1,442	1,446	919	1,247	1,581	1,886	2,079	2,610
(Pur)/Sale of Inv	(224)	(109)	(37)	(153)	(112)	(160)	(16)	(150)
others	128	(162)	118	232	180	274	253	-
CF from Inv. Activities	(441)	986	849	(127)	(131)	(52)	83	(480)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(0)	(920)	(3)	(1)	-	-	-	(18)
Int. Paid	(36)	(15)	(3)	(4)	-	-	-	(163)
Div Paid (inc tax)	(546)	(713)	(493)	(679)	(998)	(1,313)	(3,556)	(1,718)
others	3	13	1	17	2	-	18	-
CF from Fin. Activities	(580)	(1,635)	(498)	(667)	(996)	(1,317)	(3,540)	(1,899)
Inc(Dec) in Cash	775	1,015	1,420	660	653	683	(1,223)	561
Add: Opening Balance	591	1,366	943	1,472	2,151	2,841	3,524	1,308
Closing Balance	1,366	2,381	2,363	2,133	2,804	3,524	2,301	1,869

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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, AJC 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.

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