KRChoksey INSTITUTIONAL

Nestle India Ltd.

RESULT UPDATE

26th July, 2017

Nestle India Ltd.

Surge in input cost dragged Margins

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 6750	**INR 7247**	**7.4%**	**657237.3**	**ACCUMULATE**	**FMCG**

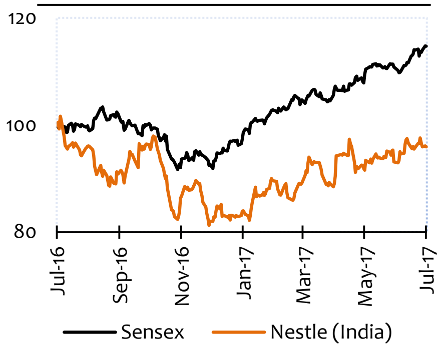
Result highlights

Nestle India Ltd posted its Q2CY17 results which were below our expectation, we expected growth of 12.8% while the reported growth remained around 7.3% yoy, also qoq growth de-grew by 4.1% vis-à-vis our growth expectation of 0.8%. Net revenue for Q2CY17 reported was around INR 24847.3Mn. EBIDTA for Q2CY17 stood at INR 4666.3Mn with margins at 18.8% which was an decrease of 205bps yoy and 148bps qoq. PAT after exceptional item for Q2CY17 stood at INR 2634.3 Mn and PAT margin remained at 10.6% which was an increase of 23bps yoy and decrease of 123bps qoq.

MARKET DATA

Shares outs (Mn)	96
EquityCap (INR Mn)	964
Mkt Cap (INR Mn)	657237.3
52 Wk H/L (INR)	7390/5701
Volume Avg (3m K)	48.1
Face Value (INR)	10
Bloomberg Code	NEST IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	32382
NIFTY	10021

KEY FINANCIALS

Particulars (INR Mn)	CY14	CY15	CY16	CY17E	CY18E
Net Sales	98548.4	81753.1	92238.0	101461.8	113637.2
EBITDA	20387.0	15755.4	19254.9	22237.3	25019.4
PAT	11847.2	10847.2	12027.5	14381.5	16412.0
PAT After Exceptional	11847.2	5632.7	9266.1	13000.8	15491.6
EPS (Rs.)	122.9	112.5	124.8	149.2	170.2
EBITDA Margins (%)	20.7%	19.3%	20.9%	21.9%	22.0%
PAT Margins before exceptional (%)	12.0%	13.3%	13.0%	14.2%	14.4%
PAT Margins after exceptional (%)	12.0%	6.9%	10.0%	12.8%	13.6%

Source: Company, KRChoksey Research

Miss in Revenue: Q2CY17 revenue stood at INR 24847.3 Mn which showed the growth of 7.3% yoy and de-growth by 4.1%. During the quarter, there were many new product launches and also recovery in sales of MAGGI noodles which boosted volume and helped better realization, in return it lead to rise in Domestic sales by 8.8%. On contrary we saw de-growth in exports sales by 12.0% which was due to lower sales to Middle east. Domestic sales contributed around 94.0% of the revenue in Q2CY17, while it was 92.7% in Q2CY16, while exports contributed the remaining 6.0% in Q2CY17 and 7.3% in Q2CY16. For H1CY17, revenue growth was around 8.4% with revenue at INR 50766.7 Mn as against INR 46842.4 Mn in H1CY16.

Margins under pressure: Rise in milk price during the quarter dragged down Nestlé's margins during Q2CY17. Its EBIDTA margins remained at around 18.8% vis-a-vis 20.8% in Q2CY16 decrease of 205bps and 20.3% in Q1CY17 decrease of 148bps. EBIDTA stood at around INR 4666.3Mn which was de-growth of 3.3% yoy and 11.1% qoq. During Q2CY17, excise duty increased by 21.6% from INR 678.8 Mn in Q1CY16 to INR 825.2 in Q2CY17. Beside these we also saw increase in raw material price by 8.4% yoy and purchase increase by 57.5%, Employee cost increase by 11.7% yoy , all these led to decline in margins. PAT before exceptional item during the quarter remained at INR 2912.8 Mn with PAT margin at 11.7%. PAT after exceptional item remained at INR 2634.3 Mn with growth of 9.7% yoy and de-growth by 14.1% qoq. Also PAT margins remained at 10.6% which showed an increase of 23bps yoy and decline of 123bps qoq. For H1CY17, EBIDTA remained at INR 9917.7 Mn with de-growth of 3.8% yoy and EBIDTA margins at 19.5% as against 22.0% in H1CY16. While its PAT stood at INR 5701.9Mn with growth of 8.1% yoy and PAT margins at 11.2% as against 11.3% in H1CY16.

Valuations & Views: Nestle India Ltd with its presence over 100 years in FMCG space has created many of its well-known products in brands like Maggi (Noodles), Ketchup's, Nescafe, milk powder (Brand - Everyday), chocolate (Kit-Kat), etc. Nestle has maintained its leadership position in some of the category like Noodles & Dairy whiteners. We believe that management would remain focus on its core brands and new launches in the segments which would help to expand its product portfolio and be an innovator of products. Also we believe that volume will keep on improving and with GST will benefit bottom line. With optimistic approach towards Nestle we foresee revenue growth of 10-12% in CY17E and CY18E and EBIDTA and PAT margins to be in range of 21-22% and 12.5%-14%, respectively. We recommend a 'ACCUMULATE' rating on the stock with a target price of INR 7247, giving an upside potential of 7.4%.

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	62.77	62.77	62.77
FIIs	12.59	12.52	13.27
DIIs	7.09	7.43	6.65
Others	17.56	17.29	17.32
Total	100	100	100

3.6%
Revenue CAGR between CY14 and CY18E

8.5%
PAT CAGR between CY14 and CY18E

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Nestle India Ltd.

Q2CY17 Result Snapshot

Exhibit 1 Quarterly Income Statement (INR Mn)

Particulars	Q2 CY17	Q1 CY17	Q2 CY16	Q-o-Q change %	Y-o-Y change %
Net Sales & Other Operating Income	**24847.3**	**25919.4**	**23167.1**	-4.1%	7.3%
Total Expenditure	20181.0	20668.0	18340.4	-2.4%	10.0%
Cost of Raw Materials	9876.0	11344.1	9110.3	-12.9%	8.4%
Purchase of Finished Goods	349.2	388.3	221.7	-10.1%	57.5%
(Increase) / Decrease In Stocks	565.4	-793.6	163.4	-171.2%	246.0%
Employee Cost	2531.3	2461.1	2265.3	2.9%	11.7%
Operating & Manufacturing Expenses	6859.1	7268.1	6579.7	-5.6%	4.2%
EBIDTA	**4666.3**	**5251.4**	**4826.7**	-11.1%	-3.3%
EBITDA Margins (%)	*18.8%*	*20.3%*	*20.8%*	*-148bps*	*-205bps*
Depreciation	854.4	866.6	889.4	-1.4%	-3.9%
EBIT	3811.9	4384.8	3937.3	-13.1%	11.4%
Other Income	412.3	415.6	367.5	-0.8%	12.2%
Interest	0.0	0.0	0.0	-	-
PBT	4224.2	4800.4	4304.8	-12.0%	-1.9%
Tax	1311.4	1427.7	1185.9	-8.1%	10.6%
PAT before Exceptional	**2912.8**	**3372.7**	**3118.9**	**-13.6%**	**-6.6%**
PAT Margin (%)	*11.7%*	*13.0%*	*13.5%*	*-129bps*	*-174bps*
Exceptional Items, CSR & EBP	278.5	305.1	716.7	-8.7%	-61.1%
PAT after Exceptional	**2634.3**	**3067.6**	**2402.2**	**-14.1%**	**9.7%**
PAT Margin (%)	*10.6%*	*11.8%*	*10.4%*	*-123bps*	*23bps*
EPS (after exceptional)	27.3	31.8	24.9	-14.2%	9.6%

Source: Company, KRChoksey Research

Exhibit 2 H1CY17 Income Statement (INR Mn)

Particulars	H1FY17	H1FY16	Y-o-Y change %
Total Revenue from Operations	**50,766.7**	**46,842.4**	**8.4%**
Cost of Materials Consumed	21,220.1	18,764.5	13.1%
Purchase of Stock-in-Trade	737.5	510.9	44.4%
Changes in Inventory	-228.2	91.9	-
Cost of Goods Sold	21,729.4	19,367.3	12.2%
Excise Duty	1,825.8	1,516.9	20.4%
Employee Benefits Expense	4,992.4	4,390.9	13.7%
Other Expenses	12,233.8	11,031.0	10.9%
Provision for Contigencies	67.6	231.5	-70.8%
Total Expenses	40,849.0	36,537.6	11.8%
EBITDA	**9,917.7**	**10,304.8**	**-3.8%**
EBITDA Margin	19.5%	22.0%	-246.3
Other Income	827.9	720.7	14.9%
Depreciation and Amortization Exps	1,721.0	1,780.7	-3.4%
EBIT	**9,024.6**	**9,244.8**	**-2.4%**
EBIT Margin	17.8%	19.7%	-195.9
Finance Costs	456.5	479.1	-4.7%
Net Provision for Contingencies	0.0	456.4	-
CSR Expenses	127.1	71.8	-
EBT before exceptional items	**8,441.0**	**8,237.5**	**2.5%**
Exceptional Items	0.0	118.2	-
EBT after exceptional items	**8,441.0**	**8,119.3**	**4.0%**
Total Tax Expenses	2,739.1	2,843.9	-3.7%
PAT for the year	**5,701.9**	**5,275.4**	**8.1%**
PAT Margin	**11.2%**	**11.3%**	**-3.0**
Basic EPS	**59.1**	**54.7**	**8.1%**

Source: Company, KRChoksey Research

Nestle India Ltd.

Exhibit 3: Income Statement (INR Mn)

INR Mn	CY14	cY15	CY16	FY17E	FY18E
Net Sales	**98548.4**	**81753.1**	**92238.0**	**101461.8**	**113637.2**
EXPENDITURE :					
(Increase) / Decrease In Stocks	-674.3	119.7	-107.8	-118.6	-132.8
Purchase of Finished Goods	1088.5	980.7	1153.8	1116.1	1250.0
Raw Materials Consumed	44825.4	33588.7	37750.9	41599.3	46477.6
Other Expenses	24013.4	21264.3	23790.3	25872.8	28977.5
Employee Cost	8197.4	9127.5	9859.6	10146.2	11363.7
Impairment loss on fixed assets	81.1	282.2	118.3	101.5	113.6
Net provisions for contingencies	629.9	634.6	418.0	507.3	568.2
Total Expenditure	**78161.4**	**65997.7**	**72983.1**	**79224.5**	**88617.9**
EBITDA	**20387.0**	**15755.4**	**19254.9**	**22237.3**	**25019.4**
EBITDA Margin	**20.7%**	**19.3%**	**20.9%**	**21.9%**	**22.0%**
Other Income	873.2	1100.9	1493.9	1014.6	1136.4
Operating Profit	21260.2	16856.3	20748.8	23251.9	26155.7
Interest	142.0	32.9	35.1	101.5	113.6
PBDT	21118.2	16823.4	20713.7	23150.4	26042.1
Depreciation	3375.0	3472.6	3536.2	3449.7	3863.7
Profit Before Tax	17743.2	13350.8	17177.5	19700.7	22178.4
Provision for Tax	5896.0	2503.6	5150.0	5319.2	5766.4
Profit After Tax	**11847.2**	**10847.2**	**12027.5**	**14381.5**	**16412.0**
PAT Margin	**12.0%**	**13.3%**	**13.0%**	**14.2%**	**14.4%**
Exceptional Item	0.0	5214.5	2761.4	1380.7	920.5
Profit After Tax & Exceptional Item	**11847.2**	**5632.7**	**9266.1**	**13000.8**	**15491.6**
PAT Margin after Exceptional Item	**12.0%**	**6.9%**	**10.0%**	**13.1%**	**13.8%**

Source: Company, KRChoksey Research

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Nestle India Ltd.

Exhibit 4: Balance Sheet (INR Mn)

INR Mn	CY14	cY15	CY16	FY17E	FY18E
EQUITY AND LIABILITIES					
Share Capital	964.2	964.2	964.2	964.2	964.2
Total Reserves	27407.9	27214.0	29172.8	36183.6	44835.2
Shareholder's Funds	**28372.1**	**28178.2**	**30137.0**	**37147.8**	**45799.4**
Long-Term Borrowings	155.0	167.9	331.5	200.0	200.0
Deferred Tax Assets / Liabilities	2227.2	1729.3	1542.0	1542.0	1542.0
Long Term Provisions	13886.6	15971.7	19722.1	19822.1	17045.6
Total Non-Current Liabilities	**16268.8**	**17868.9**	**21595.6**	**21564.1**	**18787.6**
Current Liabilities					
Trade Payables	7287.3	7435.4	7991.6	6945.7	7769.2
Other Current Liabilities	4095.7	4659.3	5128.0	5350.0	5831.5
Short Term Borrowings	41.0	9.4	0.0	20.0	20.0
Short Term Provisions	2130.6	2653.2	3207.0	3292.8	3688.0
Total Current Liabilities	**13554.6**	**14757.3**	**16326.6**	**15608.5**	**17308.7**
Total Liabilities	**58195.5**	**60804.4**	**68059.2**	**74320.4**	**81895.7**
ASSETS					
Non-Current Assets					
Net Block	**34214.2**	**31286.4**	**29176.3**	**33552.7**	**38585.7**
Long Term Loans & Advances	1299.5	1304.3	1350.4	1350.0	1350.0
Non-Current Investments	3044.6	3417.8	4743.0	4150.0	4150.0
Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0
Total Non-Current Assets	**38558.3**	**36008.5**	**35269.7**	**39052.7**	**44085.7**
Current Assets					
Currents Investments	5073.6	9831.7	12750.4	15749.7	18899.6
Inventories	8441.0	8208.1	9431.8	9767.4	10925.5
Sundry Debtors	991.0	784.2	979.3	1389.9	1556.7
Cash and Bank	4458.2	4995.5	8799.6	7248.3	5213.3
Other Current Assets	520.7	146.7	258.2	258.2	258.2
Short Term Loans and Advances	152.7	829.7	570.2	854.2	956.7
Total Current Assets	**19637.2**	**24795.9**	**32789.5**	**35267.7**	**37810.0**
Total Assets	**58195.5**	**60804.4**	**68059.2**	**74320.5**	**81895.7**

Source: Company, KRChoksey Research

Nestle India Ltd.

Exhibit 5: Cash flow statement (INR Mn)

INR Mn	CY14	CY15	CY16E	FY17E	FY18E
PBT	17743.2	8136.3	14416.1	18320.0	21258.0
Depreciation and Amortization	3375.0	3672.8	3536.2	3449.7	3863.7
Interest Expense	142.0	32.9	35.1	101.5	113.6
Cash Flow From Operating Activities	16428.5	10981.8	19687.6	23579.1	25733.9
Cash Flow From Investing Activities	-4317.0	-704.8	-1274.1	-4199.3	-4649.9
Cash Flow From Financing Activities	-16340.5	-4983.2	-6665.5	-7292.2	-8319.7
Increase/Decrease in Cash	-4229.0	5293.8	6719.0	6768.4	6997.9

Source: Company, KRChoksey Research

Exhibit 6: Ratio Analysis

INR	CY14	cY15	CY16	FY17E	FY18E
EPS (Rs.)	122.9	112.5	124.8	149.2	170.2
EBITDA Margins (%)	20.7%	19.3%	20.9%	21.9%	22.0%
PAT Margins (%)	12.0%	13.3%	13.0%	14.2%	14.4%
ROE (%)	41.8%	38.5%	39.9%	38.7%	35.8%
ROCE (%)	38.1%	26.7%	30.4%	32.0%	32.8%
Net Sales Growth (%)	8.3%	-17.0%	12.8%	10.0%	12.0%
EBITDA Growth (%)	4.0%	-22.7%	22.2%	15.5%	12.5%
PAT Growth (%)	6.0%	-8.4%	10.9%	19.6%	14.1%
PE (x)	54.9	60.0	54.1	45.2	39.6
Price / Book Value(x)	22.9	23.1	21.6	17.5	14.2
EV/EBITDA(x)	31.5	40.4	32.7	28.2	25.1

Source: Company, KRChoksey Research

Nestle India Ltd.

Nestle India Ltd.				Rating Legend	
Date	**CMP (INR)**	**TP (INR)**	**Recommendation**	**Our Rating**	**Upside**
26-Jul-17	6750	7247	ACCUMULATE	**Buy**	More than 15%
15-May-17	6819	7075	HOLD		
16-Feb-17	6174	6668	ACCUMULATE	**Accumulate**	5% – 15%
10-Jan-17	5888	6668	ACCUMULATE		
01-Nov-16	6943	8001	BUY	**Hold**	0 – 5%
29-Aug-16	7166	7421	HOLD		
14-Jul-16	6551	7083	ACCUMULATE	**Reduce**	-5% – 0
13-May-16	5710	6240	ACCUMULATE		
15-Feb-16	5057	6240	BUY	**Sell**	Less than – 5%
12-Jan-16	5515	6240	ACCUMULATE		

ANALYST CERTIFICATION:

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