

August 24, 2018

Analyst Meet Update

☑ Change in Estimates | ■ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	CY19E	CY20E	CY19E	CY20E
Rating	HOLD		UNDER REVIEW	
Target Price	10,996		-	
Sales (Rs. m)	1,25,707	1,40,428	1,25,707	1,40,428
% Chng.				
EBITDA (Rs. m)	31,567	35,360	30,839	34,555
% Chng.			2.4%	2.3%
EPS (Rs.)	209.2	239.0	204.1	233.4
% Chng.			2.5%	2.4%

Key Financials

	CY17	CY18E	CY19E	CY20E
Sales (Rs. bn)	100	112	126	140
EBITDA (Rs. bn)	22	28	32	35
Margin (%)	22.2	25.2	25.1	25.2
PAT (Rs. bn)	14	18	20	23
EPS (Rs.)	140.0	182.3	209.2	239.0
Gr. (%)	13.2	30.2	14.7	14.3
DPS (Rs.)	86.0	103.0	95.0	130.0
Yield (%)	0.8	0.9	0.8	1.1
RoE (%)	40.3	48.7	48.4	47.8
RoCE (%)	55.5	68.1	66.3	64.7
EV/Sales (x)	10.7	9.4	8.3	7.3
EV/EBITDA (x)	48.1	37.2	33.1	29.2
PE (x)	81.2	62.3	54.3	47.5
P/BV (x)	32.0	28.8	24.2	21.4

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.11,590 / Rs.6,585
Sensex / Nifty	38,252 / 11,557
Market Cap	Rs.1,096bn / \$ 15,661m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1177.87m

Shareholding Pattern (%)

Promoter's	62.85
Foreign	12.20
Domestic Institution	8.03
Public & Others	16.92
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.4	49.8	72.1
Relative	6.3	33.7	42.2

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Valuations capture the positives

Key Points

- Entry into breakfast cereals, plans of taking Maggi to other snacks positive
- Cluster strategy for improved sales push positive
- Gains from input cost tailwinds to come down

NEST's proactive strategy started post Maggi fiasco has paid off well with higher growth and 3% sales from new launches (25 successes) in past 2 years. Nestle is taking initiatives to accelerate growth which include 1) Cluster based strategy to go deeper and increase sales in interiors 2) 39 New launches in past 2 years 3) entry into breakfast cereals with Nesplus 4) Re-launch of Resource high protein supplements 5) Plan to recalibrate chocolates business and 6) extending Maggi to new snacking products. However, we did not get enough confidence on Nestle sustaining double digit volume growth in Maggi (post rebuilt) and double digit sales growth in Nutrition portfolio (~73% of sales). We are concerned that Maggi now has 10-12% lower share than it had prior to fiasco and that Nestle has lost share in most product categories (except Coffee) in 1H18 on YoY basis.

NEST had huge tailwind from benign input costs as the index was down 290bps and 580bps in the past 2 quarters. We note that input costs have started rising led by Sugar, Wheat, Coffee and Palmoil, which leaves little scope for margin expansion in the near term. We estimate 30% PAT growth in CY18 and 14.6% PAT CAGR over CY18-20 mainly led by double digit sales growth and flattish margins. We value the stock at 46xCY20 EPS and arrive at target price of Rs10996. We assign Hold rating on stock (Under Review earlier), expect back ended returns post sharp uptick in stock price recently.

Nestle analyst meet takeaways: 1) Leads market share in 85% of portfolio, regained leader ship in coffee 2) Innovations contribute 3% of sales versus 1.5% 2 years back. 11 of them have flopped while rest are doing well including Ceregrow, Munch nuts, milky bar etc. 3) Nestle has launched breakfast cereals under Nesplus brand, differentiated product priced at Rs 170/250 gm 4) Health science products under resource, Peptamen and Peptamen junior have been relaunched in new packing, sees good long term value, small part of sales as of now 5) Tonnage growth has been 11.5% in 2Q and 6.9% in 1Q. Milk products, prepared dishes, beverages and chocolates have grown volumes by 4.6pc, 12.8pc, 9.2pc and 6.1pc 6) Input cost tailwind has given 320 bps gains in 1H, however gains will be lower going forward as commodity prices are moving up 7) Nestle is creating clusters to increase penetration and cater to tier 2 tier 3 cities. This is to increase sales and capture growth in white spaces 8) Maggi noodles will reach pre disruption level of sales this year. Maggi might be extended to other snack categories to drive growth 9) Nestle will recalibrate chocolate business to expand product baskets, likely under existing brands

Exhibit 1: YTD Market share has declined in most categories; Nescafe regains leadership in coffee

Category	Brand	Market Share % (Value)			Change	Nestle Position
		YTD (Jan-Jun18)	YTD (Jan-Jun17)	YTD (Jan-Jun16)		
Instant Noodles	Maggi	59.1	59.5	52.0	-40	1
Ketchups & Sauces	Maggi	21.6	24.3	23.8	-270	2
Instant Pasta	Maggi	66.7	65.2	56.7	150	1
Instant Formula	Lactogen NAN	40.6	40.5	42.4	10	2
Infant Cereals	Cerelac	96.1	96.5	96.6	-40	1
Tea Creamer	Everyday	45.2	45.4	45.4	-20	1
Chocolates	Nestle	14.4	14.6	15.5	-20	2
White & Wafers	Kitkat, Munch, Milkybar	61.1	62.6	63.7	-150	1
Instant Coffee	Nescafe	51.2	47.3	50.4	390	1

Source: Company, PL

Exhibit 2: Broad based growth led by Beverages

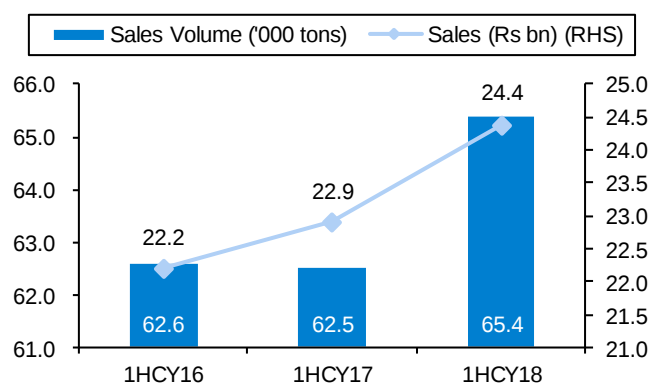
Product Groups	Products	Contribution (%)	H1'18 Growth%	
			Reported	Comparable
Milk Products & Nutrition		48.1	6.3	10.8
Prepared Dishes & Cooking Aids		28.0	8.9	15.0
Confectionery		12.7	4.6	15.3
Powdered & Liquid Beverages		11.2	9.2	23.6
Domestic Growth			7.1	13.8

Domestic Sales: INR 50.7 Billion

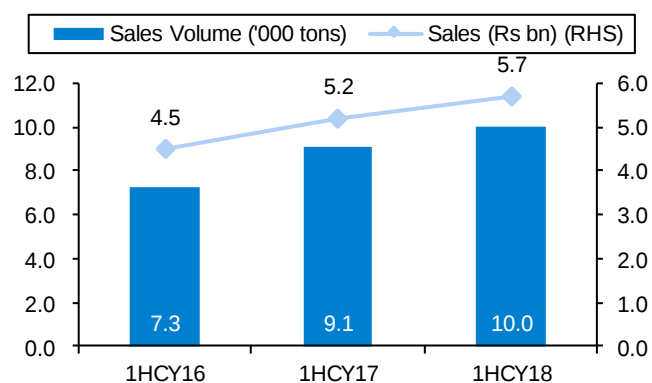
Source: Company, PL

Exhibit 3: New innovations now account for 3% of sales

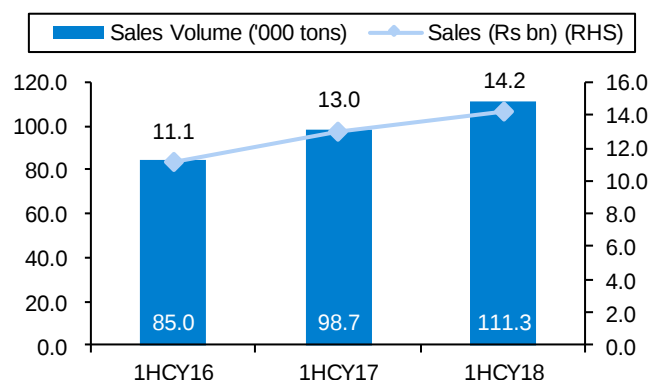

Source: Company, PL

Exhibit 4: Milk Prod; Volumes up 4.6%, Adj Sales up 10.8%


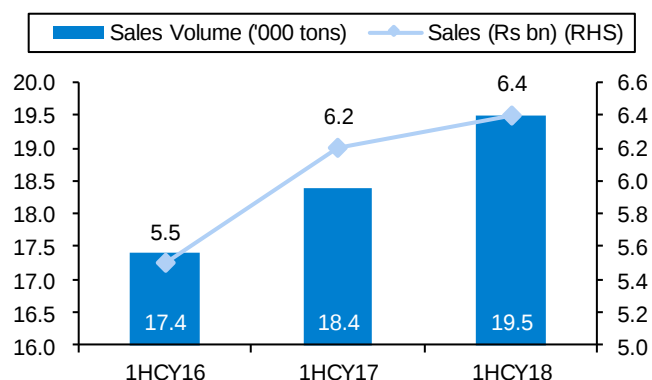
Source: Company, PL

Exhibit 5: Beverages: Volumes up 9.2%, Adj Sales up 23.6%


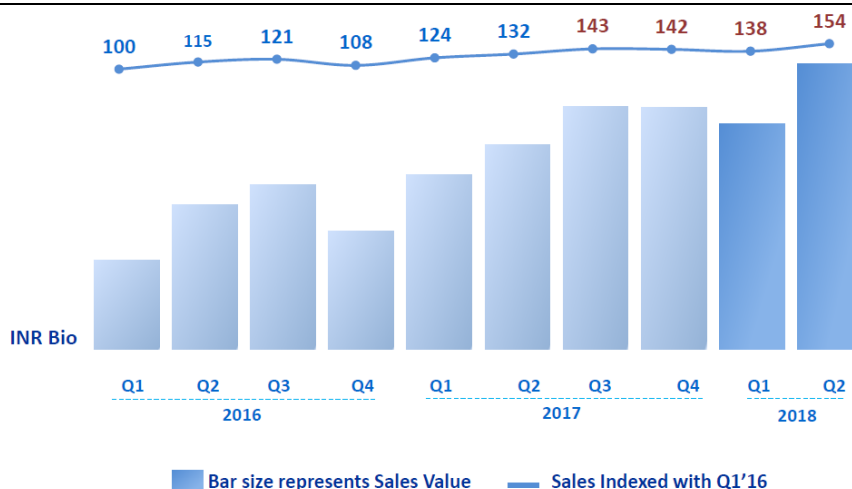
Source: Company, PL

Exhibit 6: Prepared Dish: Volume up 12.8%, Adj Sales 15%


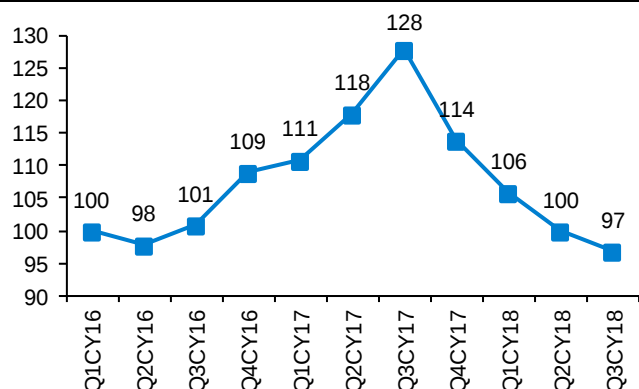
Source: Company, PL

Exhibit 7: Chocolates: Volumes up 6.1%, Value 15.3%


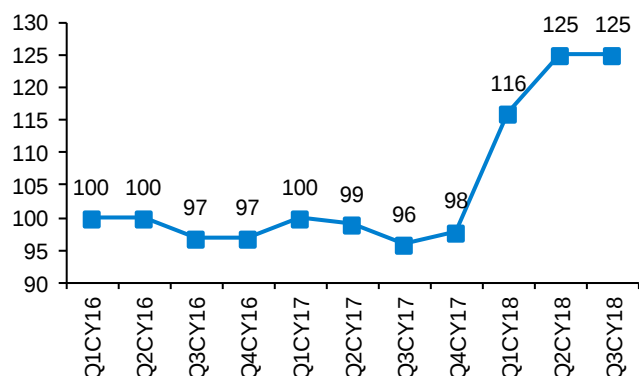
Source: Company, PL

Exhibit 8: Maggi rebuilt to get over in FY19, expect growth to taper off


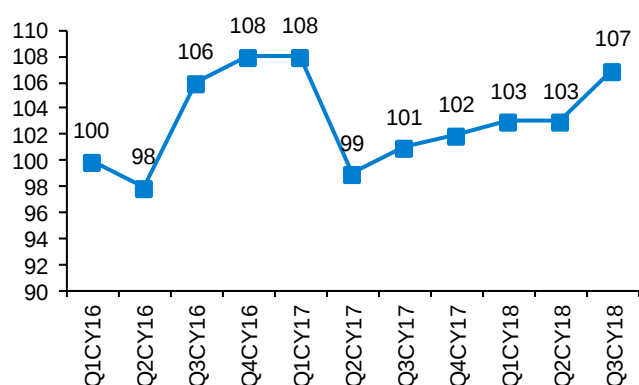
Source: Company, PL

Exhibit 9: SMP prices to remain benign


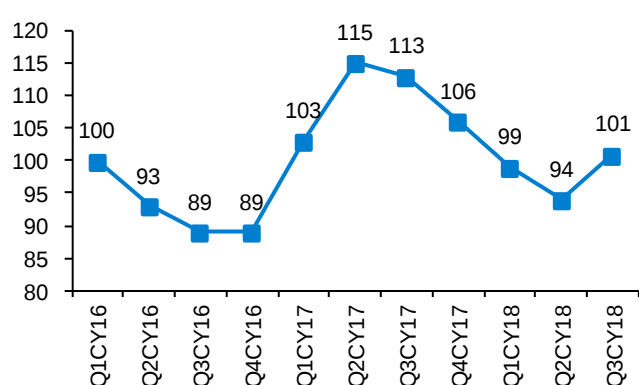
Source: Company, PL

Exhibit 10: Palmoil Price increase led by higher duties


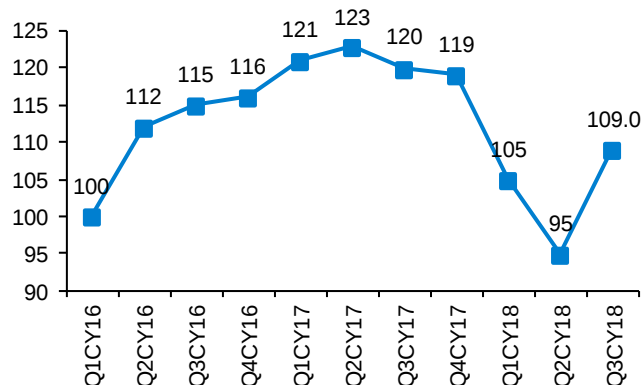
Source: Company, PL

Exhibit 11: Wheat flour prices likely to inch up


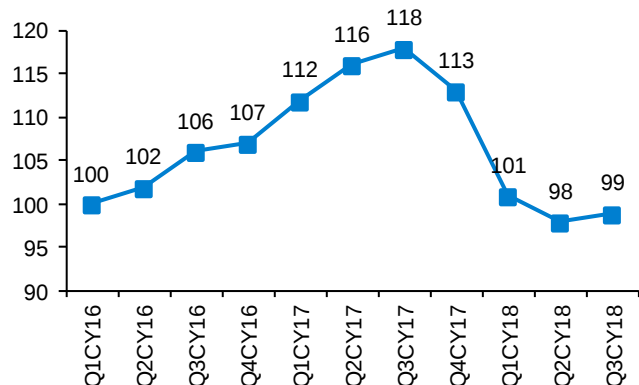
Source: Company, PL

Exhibit 12: Sharp rebound from lows


Source: Company, PL

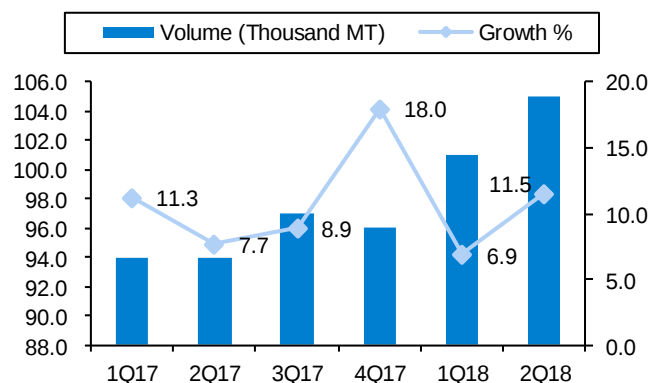
Exhibit 13: Sugar Prices have started hardening


Source: Company, PL

Exhibit 14: Milk Prices Benign, trend to continue


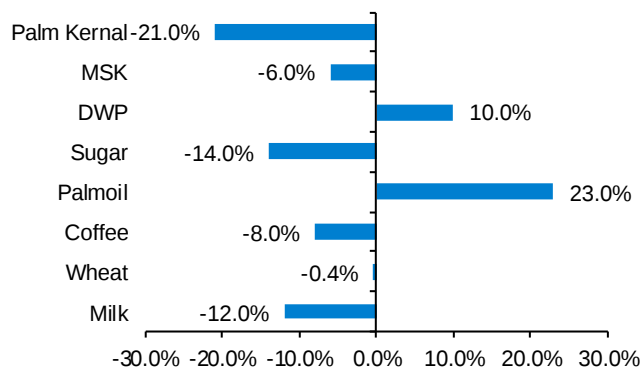
Source: Company, PL

Exhibit 15: 2Q volumes up 11.5%



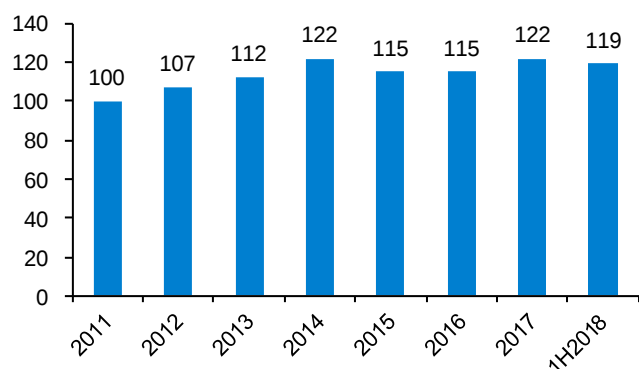
Source: Company, PL

Exhibit 16: Input costs benign except Palmoil, Whey



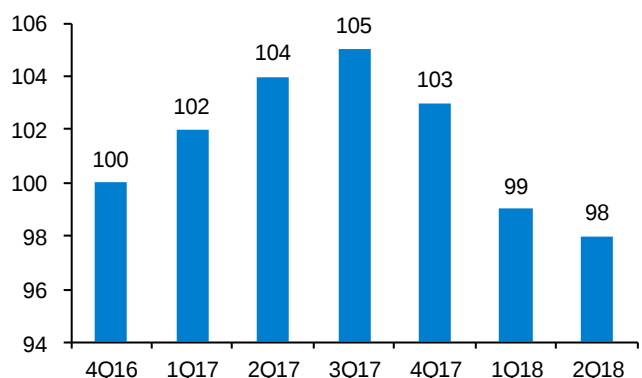
Source: Company, PL

Exhibit 17: Nestle Commodity Basket has low inflation



Source: Company, PL

Exhibit 18: Commodity prices cooled off since 3Q17



Source: Company, PL

Exhibit 19: Nestle has launched Nesplus, making foray into Rs17bn category



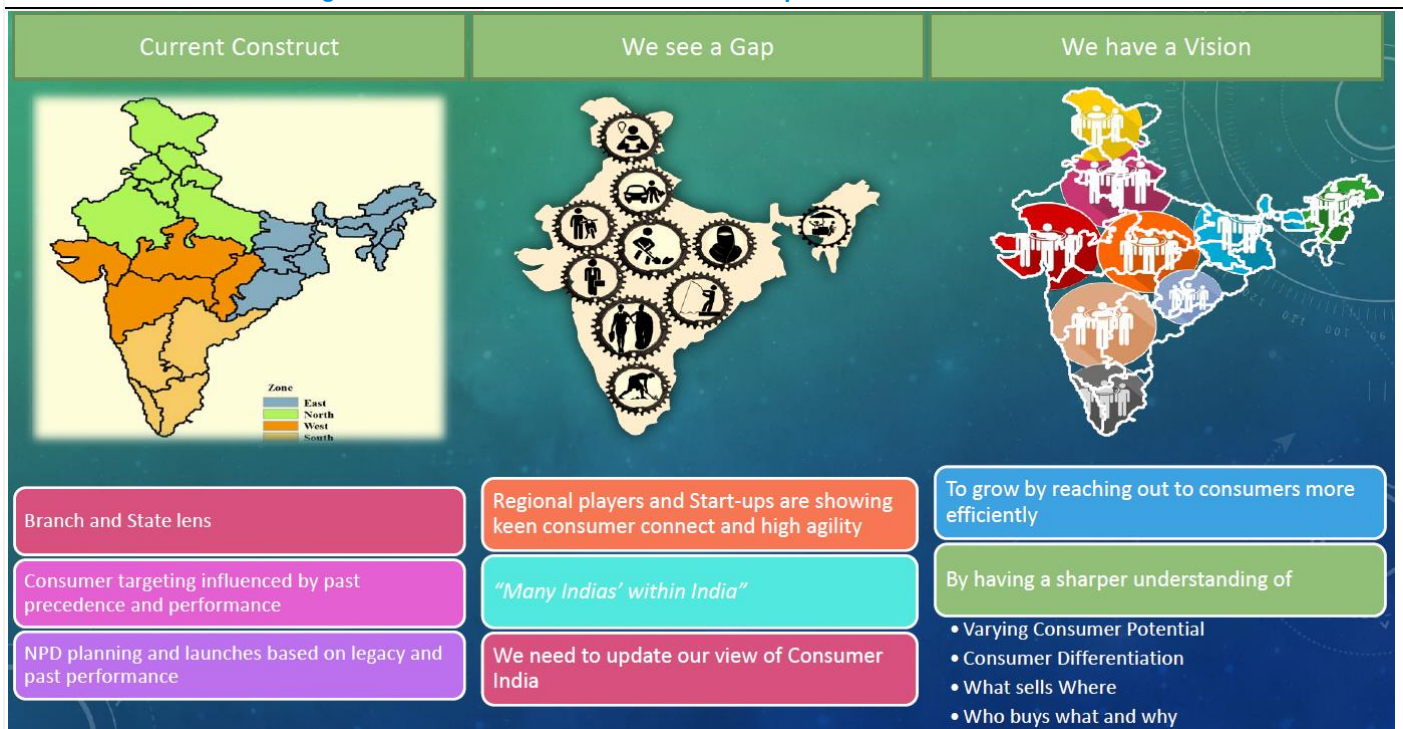
Source: Company, PL

Exhibit 20: Re-launch of Resource to cater to highly underpenetrated segment



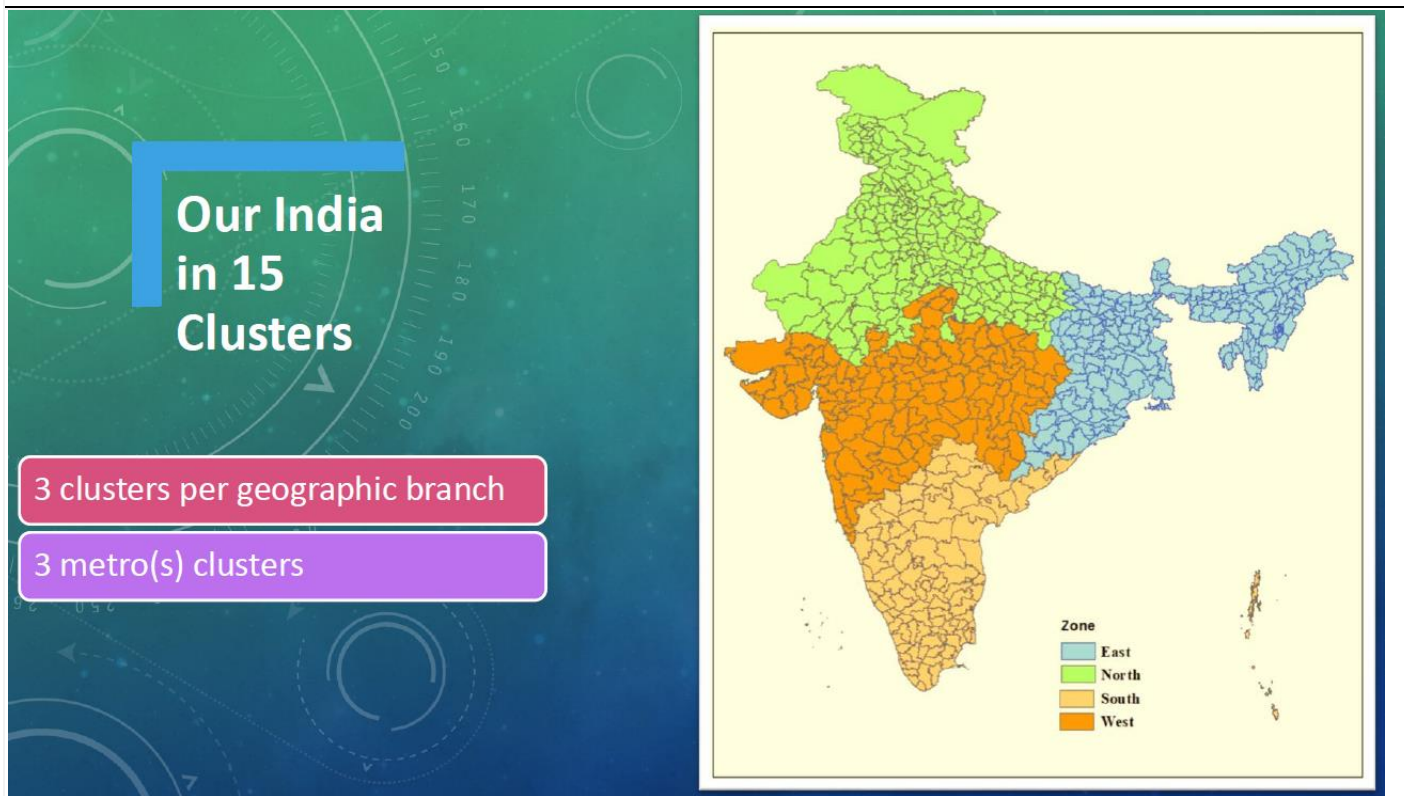
Source: Company, PL

Exhibit 21: Nestle is creating distribution clusters to cater to white spaces



Source: Company, PL

Exhibit 22: Distribution divided into 15 clusters



Source: Company, PL

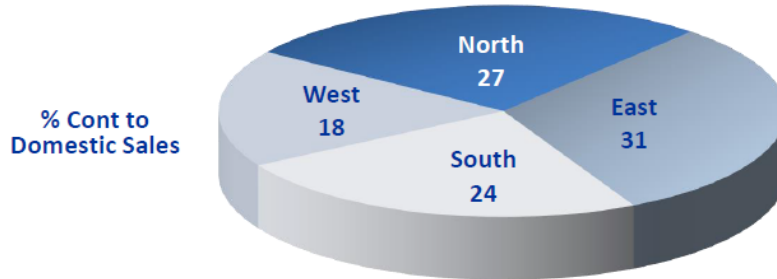
Exhibit 23: Clusters will enable local and regional involvement to foster growth



Source: Company, PL

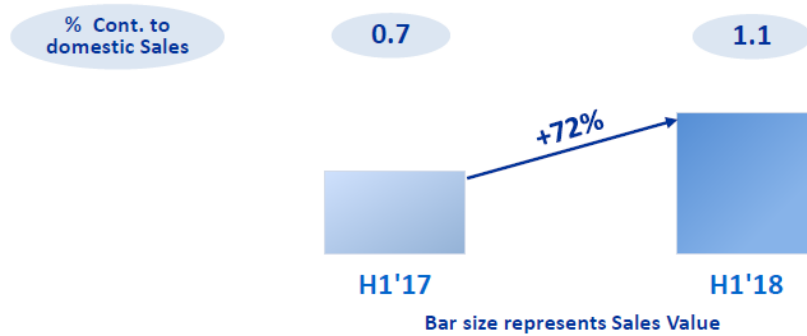
Exhibit 24: South remains slow, E-Com sales catching up fast

Region-wise Sales



	H1'18 Growth%	
	Reported	Comparable
North	7.9	14.6
East	9.4	16.2
South	3.9	10.4
West	6.9	13.6
Total	7.1	13.8

E-Commerce



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY17	CY18E	CY19E	CY20E
Net Revenues	1,00,096	1,12,481	1,25,707	1,40,428
YoY gr. (%)	9.5	12.4	11.8	11.7
Cost of Goods Sold	43,269	45,957	51,502	57,599
Gross Profit	56,827	66,524	74,204	82,829
Margin (%)	56.8	59.1	59.0	59.0
Employee Cost	10,175	11,189	12,508	13,975
Other Expenses	11,993	13,594	15,158	16,965
EBITDA	22,214	28,390	31,567	35,360
YoY gr. (%)	9.4	27.8	11.2	12.0
Margin (%)	22.2	25.2	25.1	25.2
Depreciation and Amortization	3,423	3,564	3,727	3,918
EBIT	18,791	24,825	27,839	31,442
Margin (%)	18.8	22.1	22.1	22.4
Net Interest	919	1,011	1,130	1,263
Other Income	1,769	2,426	3,391	4,220
Profit Before Tax	19,641	26,240	30,100	34,399
Margin (%)	19.6	23.3	23.9	24.5
Total Tax	6,141	8,659	9,933	11,352
Effective tax rate (%)	31.3	33.0	33.0	33.0
Profit after tax	13,500	17,581	20,167	23,047
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,500	17,581	20,167	23,047
YoY gr. (%)	13.2	30.2	14.7	14.3
Margin (%)	13.5	15.6	16.0	16.4
Extra Ord. Income / (Exp)	(1,248)	(1,285)	(1,414)	(1,555)
Reported PAT	12,252	16,295	18,753	21,492
YoY gr. (%)	22.4	33.0	15.1	14.6
Margin (%)	12.2	14.5	14.9	15.3
Other Comprehensive Income	(890)	(500)	(500)	(500)
Total Comprehensive Income	11,362	15,795	18,253	20,992
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	140.0	182.3	209.2	239.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY17	CY18E	CY19E	CY20E
Non-Current Assets				
Gross Block	55,779	57,677	60,314	63,396
Tangibles	55,779	57,677	60,314	63,396
Intangibles	-	-	-	-
Acc: Dep / Amortization	29,618	33,591	37,768	42,181
Tangibles	29,618	33,591	37,768	42,181
Intangibles	-	-	-	-
Net fixed assets	26,162	24,086	22,545	21,215
Tangibles	26,162	24,086	22,545	21,215
Intangibles	-	-	-	-
Capital Work In Progress	942	989	1,038	1,090
Goodwill	-	-	-	-
Non-Current Investments	6,316	6,356	6,384	6,433
Net Deferred tax assets	(1,220)	(1,739)	(2,236)	(2,803)
Other Non-Current Assets	896	959	1,039	1,112
Current Assets				
Investments	28,276	37,963	50,809	62,512
Inventories	9,025	9,942	11,062	12,351
Trade receivables	890	1,073	1,199	1,340
Cash & Bank Balance	234	685	1,209	1,772
Other Current Assets	170	187	205	226
Total Assets	73,626	82,946	96,170	1,08,730
Equity				
Equity Share Capital	964	964	964	964
Other Equity	33,241	37,084	44,313	50,219
Total Network	34,206	38,048	45,277	51,183
Non-Current Liabilities				
Long Term borrowings	351	351	351	351
Provisions	22,916	26,239	29,944	34,075
Other non current liabilities	6	6	6	6
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	9,846	10,073	11,288	12,624
Other current liabilities	5,081	6,490	7,067	7,686
Total Equity & Liabilities	73,626	82,946	96,170	1,08,729

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Dec	CY17	CY18E	CY19E	CY20E
PBT	19,641	26,240	30,100	34,399
Add. Depreciation	3,423	3,564	3,727	3,918
Add. Interest	919	1,011	1,130	1,263
Less Financial Other Income	1,769	2,426	3,391	4,220
Add. Other	758	1,954	2,179	2,521
Op. profit before WC changes	24,741	32,770	37,137	42,101
Net Changes-WC	(5,387)	(9,161)	(12,289)	(11,199)
Direct tax	(6,141)	(8,659)	(9,933)	(11,352)
Net cash from Op. activities	13,213	14,950	14,915	19,551
Capital expenditures	(1,343)	(1,536)	(2,236)	(2,639)
Interest / Dividend Income	-	-	-	-
Others	(1,110)	-	-	-
Net Cash from Invt. activities	(2,453)	(1,536)	(2,236)	(2,639)
Issue of share cap. / premium	17	-	-	-
Debt changes	20	-	-	-
Dividend paid	(9,980)	(11,952)	(11,024)	(15,086)
Interest paid	(919)	(1,011)	(1,130)	(1,263)
Others	-	-	-	-
Net cash from Fin. activities	(10,861)	(12,964)	(12,154)	(16,348)
Net change in cash	(101)	451	525	563
Free Cash Flow	11,870	13,415	12,679	16,911

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY17	CY18E	CY19E	CY20E
Per Share(Rs)				
EPS	140.0	182.3	209.2	239.0
CEPS	175.5	219.3	247.8	279.7
BVPS	354.8	394.6	469.6	530.9
FCF	123.1	139.1	131.5	175.4
DPS	86.0	103.0	95.0	130.0
Return Ratio(%)				
RoCE	55.5	68.1	66.3	64.7
ROIC	41.7	56.0	63.1	70.7
RoE	40.3	48.7	48.4	47.8
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(1.0)	(1.1)	(1.2)
Net Working Capital (Days)	0	3	3	3
Valuation(x)				
PER	81.2	62.3	54.3	47.5
P/B	32.0	28.8	24.2	21.4
P/CEPS	175.5	219.3	247.8	279.7
EV/EBITDA	48.1	37.2	33.1	29.2
EV/Sales	10.7	9.4	8.3	7.3
Dividend Yield (%)	0.8	0.9	0.8	1.1

Source: Company Data, PL Research

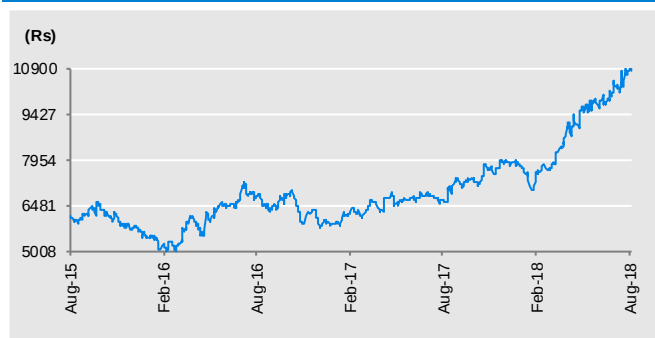
Quarterly Financials (Rs m)

Y/e Dec	Q3CY17	Q4CY17	Q1CY18	Q2CY18
Net Revenue	25,141	26,015	27,572	26,984
YoY gr. (%)	6.4	14.8	10.6	12.3
Raw Material Expenses	10,847	10,693	11,277	10,890
Gross Profit	14,294	15,322	16,296	16,094
Margin (%)	56.9	58.9	59.1	59.6
EBITDA	5,678	6,449	7,119	6,648
YoY gr. (%)	23.8	13.6	10.4	(6.6)
Margin (%)	22.6	24.8	25.8	24.6
Depreciation / Depletion	864	838	825	817
EBIT	4,814	5,612	6,294	5,830
Margin (%)	19.1	21.6	22.8	21.6
Net Interest	-	234	311	283
Other Income	430	511	564	602
Profit before Tax	5,244	5,889	6,547	6,150
Margin (%)	20.9	22.6	23.7	22.8
Total Tax	1,746	1,656	2,157	2,003
Effective tax rate (%)	33.3	28.1	32.9	32.6
Profit after Tax	3,498	4,233	4,391	4,147
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,498	4,233	4,391	4,147
YoY gr. (%)	21.5	47.2	38.7	59.3
Margin (%)	13.9	16.3	15.9	15.4
Extra Ord. Income / (Exp)	(66)	(1,114)	(151)	(197)
Reported PAT	3,432	3,118	4,240	3,950
YoY gr. (%)	27.4	59.6	38.2	50.0
Margin (%)	13.7	12.0	15.4	14.6
Other Comprehensive Income	(288)	(436)	(182)	(67)
Total Comprehensive Income	3,144	2,683	4,059	3,884
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	36.3	43.9	45.5	43.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	28-Aug-17	Reduce	6,013	6,595
2	09-Oct-17	Reduce	6,013	7,342
3	10-Nov-17	Reduce	6,250	7,770
4	10-Jan-18	Reduce	6,250	7,796
5	14-Feb-18	UR	-	7,260
6	13-Apr-18	UR	-	8,692
7	10-Jul-18	UR	-	9,785

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	1,431	1,468
2	Avenue Supermarts	Reduce	1,285	1,595
3	Britannia Industries	Accumulate	6,568	6,301
4	Colgate Palmolive	Reduce	1,084	1,085
5	Dabur India	Hold	440	432
6	Emami	Accumulate	603	568
7	Future Retail	BUY	613	518
8	GlaxoSmithKline Consumer Healthcare	Hold	7,382	6,662
9	Hindustan Unilever	Hold	1,703	1,751
10	ITC	BUY	346	287
11	Jubilant FoodWorks	Accumulate	1,570	1,400
12	Kansai Nerolac Paints	Accumulate	549	479
13	Marico	Hold	313	341
14	Nestle India	UR	8,893	9,785
15	Pidilite Industries	Accumulate	1,175	1,101
16	Titan Company	BUY	1,114	919
17	Tribhovandas Bhimji Zaveri	Accumulate	78	71

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Amnish Aggarwal- MBA, CFA, Ms. Nishita Doshi- CA, B.Com Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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