

August 13, 2019

Analyst Meet Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	CY19E	CY20E	CY19E	CY20E
Rating	HOLD		UNDER REVIEW	
Target Price	10,900		-	
Sales (Rs. m)	126,160	140,610	126,075	140,533
% Chng.	0.1	0.1		
EBITDA (Rs. m)	29,842	33,864	30,678	34,132
% Chng.	(2.7)	(0.8)		
EPS (Rs.)	191.5	214.5	197.0	216.2
% Chng.	(2.8)	(0.8)		

Key Financials - Standalone

Y/e Dec	CY17	CY18	CY19E	CY20E
Sales (Rs. bn)	100	113	126	141
EBITDA (Rs. bn)	22	27	30	34
Margin (%)	22.2	24.2	23.7	24.1
PAT (Rs. bn)	14	17	18	21
EPS (Rs.)	140.0	178.6	191.5	214.5
Gr. (%)	13.2	27.5	7.3	12.0
DPS (Rs.)	86.0	113.0	274.0	177.0
Yield (%)	0.7	0.9	2.3	1.5
RoE (%)	40.3	48.5	63.3	99.9
RoCE (%)	55.5	66.9	89.3	143.8
EV/Sales (x)	11.2	9.9	9.0	8.1
EV/EBITDA (x)	50.6	40.9	37.9	33.4
PE (x)	85.4	66.9	62.4	55.7
P/BV (x)	33.7	31.4	53.4	58.1

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.12,268 / Rs.9,047
Sensex / Nifty	37,582 / 11,110
Market Cap	Rs.1,152bn/ \$ 16,285m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1406.29m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.95
Domestic Institution	7.49
Public & Others	16.80
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.3	6.3	9.8
Relative	5.4	3.4	11.1

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Nishita Doshi

nishitadoshi@plindia.com | 91-22-66322381

Valuations capture the positives

Quick Pointers:

- 70% success rate in new launches, innovation pipeline remains strong
- Maggi reaches all time high volumes, market share at 59.6%, sub 60%
- Kitkat, Munch star performer, Beverges drag despite RTD traction

Nestle's growth story is based on 4 growth pillars of 1) harnessing its cluster based strategy to go deeper and increase sales in interiors 2) increasing innovation and renovation 3) leveraging e-commerce and 4) exploiting the OOH opportunity. Nestle has 70% success rate in new launches in past 3 years (3.7% of sales) and posted double digit volume growth in tough environment, however sustaining the same seems a daunting task as 1) Maggi, although reached all-time high sales, its market share at 59.6% is far lower than 75%+ in pre-crisis level and value added variants have limited success (hot heads withdrawn) 2) margin centric strategy in nutrition portfolio with no LUP's 3) rising competition in instant coffee market in India and lack of scale in Milo and Nescafe RTD 4) peaked out margins at both gross ad EBITDA level. Kitkat and Munch are leading the resurgence in chocolates, Nestle seems unlikely to enter MFD segment with MILO in a major way.

Nestle currently has huge headwinds as the input cost index has increased by 500bps since 2Q18 with prices of milk increasing sharply and wheat as well as sugar being at high levels. Though benign Palm-oil does give little cushion, margins are likely to contract from current high levels.

We estimate 9.6% PAT CAGR over CY19-20 mainly led by 11.6% sales growth and flattish EBITDA margins. We value the stock at 46xCY21 EPS and arrive at target price of Rs10900. We assign Hold rating on stock (Under Review earlier), expect back ended returns post sharp uptick in stock price.

Nestle analyst meet takeaways: 1) Demand momentum has moderated from 15.2% growth in 3QCY18 to 10.5% in 2QCY19 with 1H growth led by volume and premiumisation. CSD channel disruption had a 220bps impact. **2)** Have sustained leadership in 8 out of 9 categories. **3)** Reduced innovations lead time to 6-9 months from 18-24 months resulting in 61 innovations since 2016. New launches have success rate of 70% and contributed 3.7% to 1H19 sales **4)** Nestle shall explore out of home opportunity with next generation in urban and semi-urban as Target audience. **5)** E-commerce grew by 56% contributing 1.5% of sales in 1H (0.6% in 2016). **6)** Cluster-based strategy has enabled New thinking, better execution and higher efficiency **7)** Nestle launched Organic cereals in 1Q under CEREGROW brand **8)** Export declined due to no coffee sales to Turkey as the country entered a trade agreement **9)** Maggi noodles surpasses pre-crisis level in value as well volume terms **10)** New innovations of Nescafe RTD and Nescafe Classic instant powder has done well **11)** Distribution reach has increased to 4.6mn outlets. Nestle targets 5.5-6mn outlets **12)** Nestle shall set-up another plant in Gujarat (growing market with better raw material sourcing and logistics) for Maggi noodles with 2 lines in the initial phase and then add another 2 lines going ahead. Capex would be Rs7bn over 2 years

Exhibit 1: Nestle gains share in Whites & wafers, Maggi Pasta and Lactogen NAN

Category	Brand	Market Share (% Value)				Change BPS	Nestle Position
		YTD (Jan-Jun19)	YTD (Jan-Jun18)	YTD (Jan-Jun17)	YTD (Jan-Jun16)		
Instant Noodles	Maggi	59.2	59.1	59.5	52.0	10	1
Ketchups & Sauces	Maggi	20.5	21.6	24.3	23.8	(110)	2
Instant Pasta	Maggi	73.7	66.7	65.2	56.7	700	1
Instant Formula	Lactogen NAN	66.6	40.6	40.5	42.4	2,600	1
Infant Cereals	Cerelac	96.5	96.1	96.5	96.6	40	1
Tea Creamer	Everyday	44.1	45.2	45.4	45.4	(110)	1
White & Wafers	Kitkat, Munch, Milkybar	63.4	61.1	62.6	63.7	230	1
Instant Coffee	Nescafe	50.5	51.2	47.3	50.4	(70)	1

Source: Company, PL

Exhibit 2: Broad based growth led by Confectionery

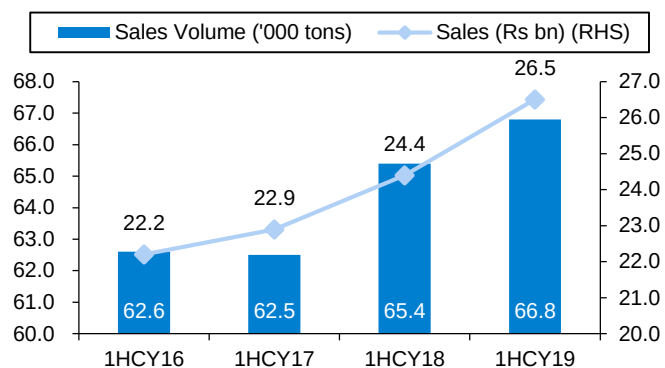
Contribution (%)	Products & Product Groups	H1'19 Growth%
46.8	 Milk Products & Nutrition	8.5
28.9	 Prepared Dishes & Cooking Aids	15.0
13.9	 Confectionery	22.5
10.4	 Powdered & Liquid Beverages	4.2
Domestic Growth		11.6

Domestic Sales: INR 56.6 Billion

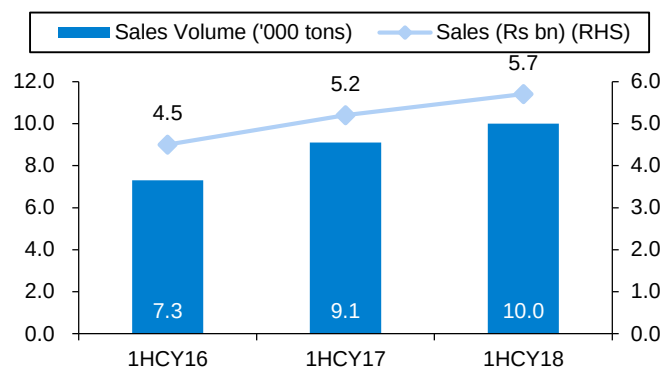
Source: Company, PL

Exhibit 3: New innovations contribute 3.7% of sales in 1H19 (1.5% in CY16) with 61 innovations since CY16

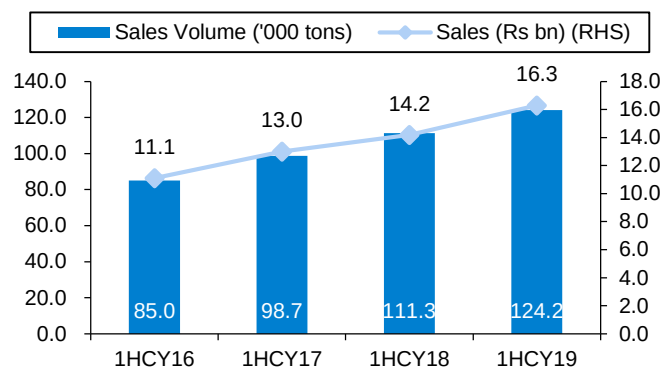

Source: Company, PL

Exhibit 4: Milk Prod; Volumes up 8.1%, Adj. Sales up 8.5%


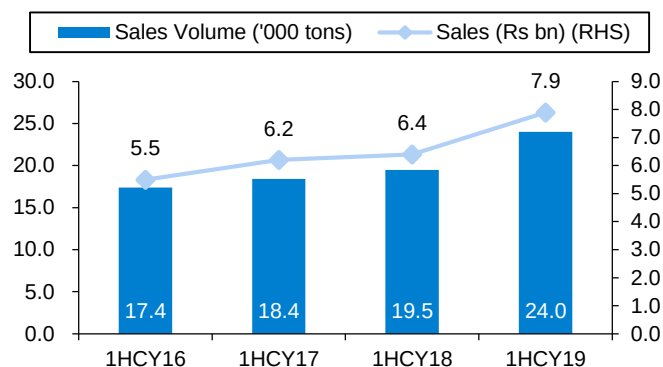
Source: Company, PL

Exhibit 5: Beverages: Volumes up 3.4%, Sales up 4.2%


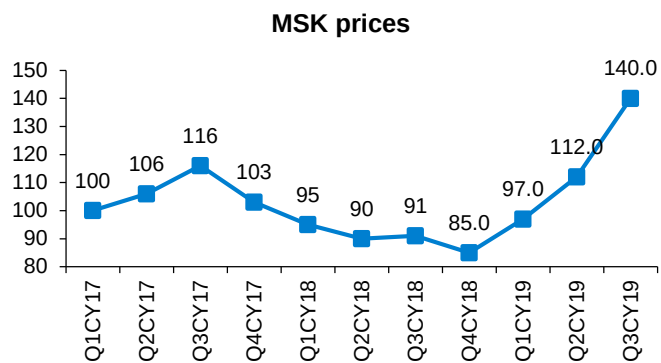
Source: Company, PL

Exhibit 6: Prepared Dish: Volume up 12.9%, Adj Sales 15%


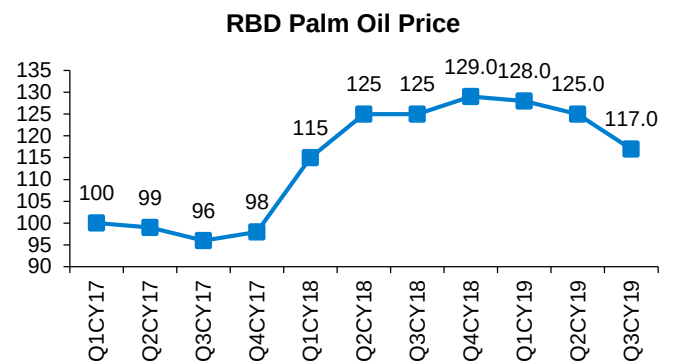
Source: Company, PL

Exhibit 7: Chocolates: Volumes up 22.8%, Value 22.5%


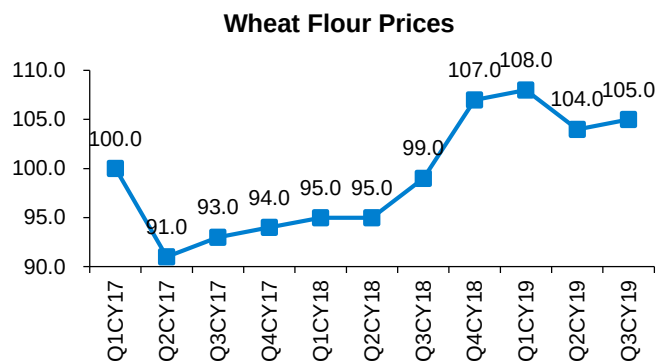
Source: Company, PL

Exhibit 8: SMP prices have shot up 64.7% in past 1-year


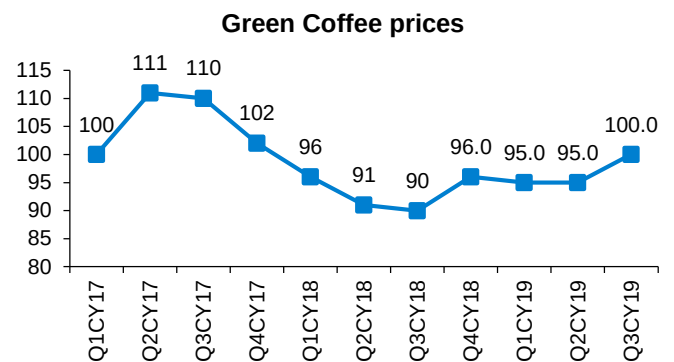
Source: Company, PL

Exhibit 9: Declining Palm oil Prices provide some cushion


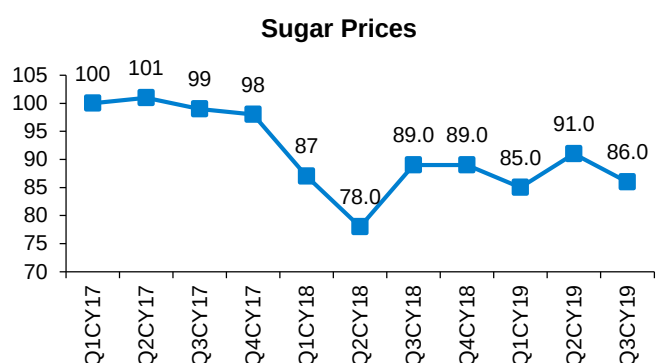
Source: Company, PL

Exhibit 10: Wheat prices are inching upwards post harvest


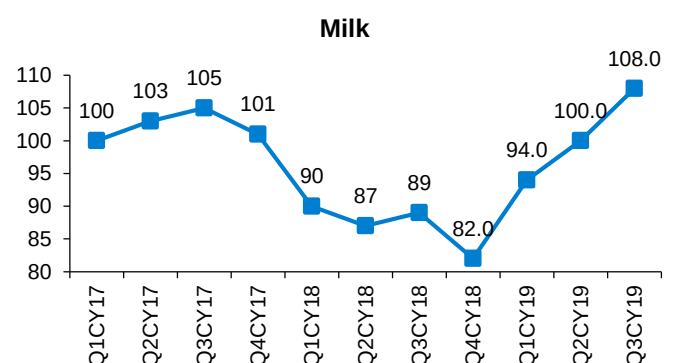
Source: Company, PL

Exhibit 11: Green Coffee remain range-bound


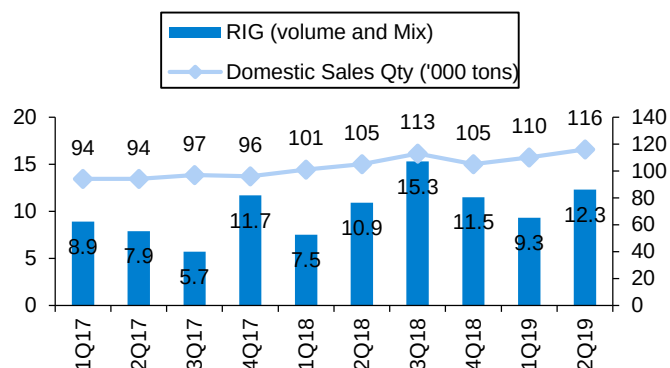
Source: Company, PL

Exhibit 12: Sugar Prices remain benign


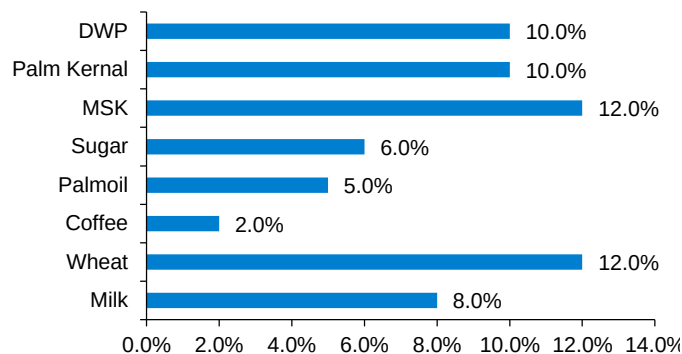
Source: Company, PL

Exhibit 13: Milk Prices up sharply by 32% since FY19


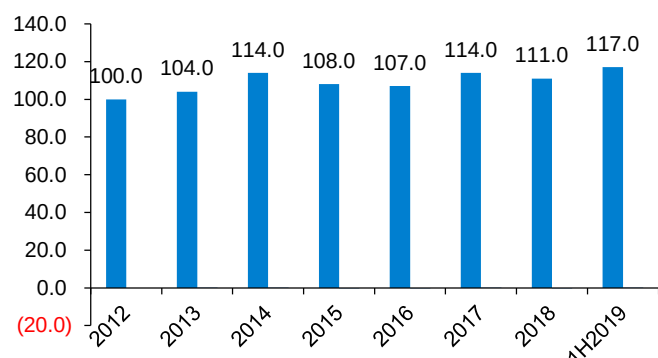
Source: Company, PL

Exhibit 14: 2Q19 volumes up 12.3%


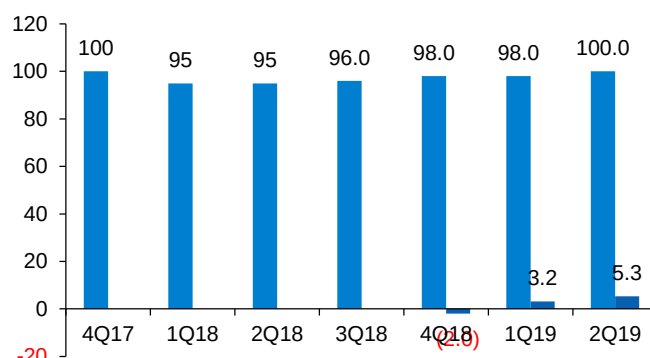
Source: Company, PL

Exhibit 15: Input costs headwinds in all key commodities


Source: Company, PL

Exhibit 16: Nestle Commodity Basket has 5.4% inflation


Source: Company, PL

Exhibit 17: Commodity prices have picked up since CY19


Source: Company, PL

Exhibit 18: Nestle has launched Organic Cereals under Ceregrow brand as a part of building future ready brands

And Build New Capabilities

Develop a new sourcing mindset

Organic grains from Rajasthan, Andhra Pradesh and Karnataka

Natural, real and toxin-free organic fruits

Milk from Rajasthan from Cows fed with 100% organic and farm grown fodder

20 member supplier development team – farm to factory

India Organic, Jaivik Bharat and SGS certified products

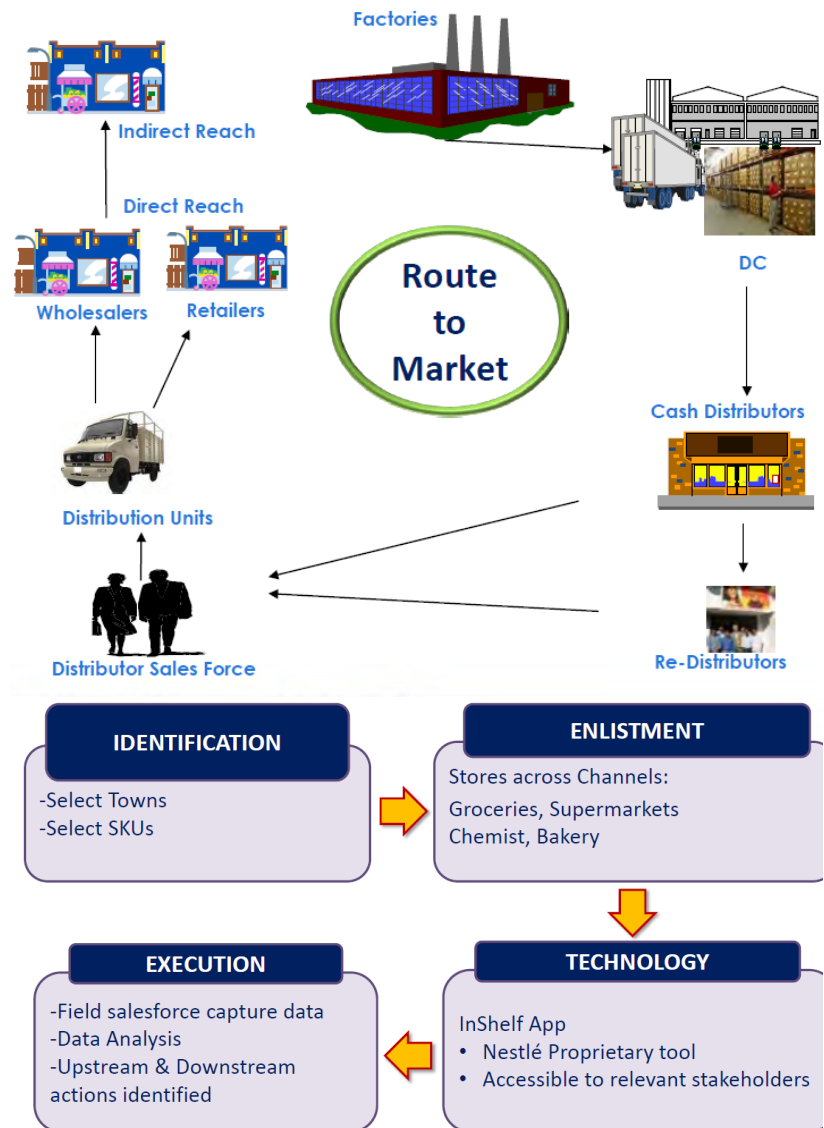
Source: Company, PL

Exhibit 19: 8 core theme based approach for innovation in categories; enhanced focus on Out of home opportunities



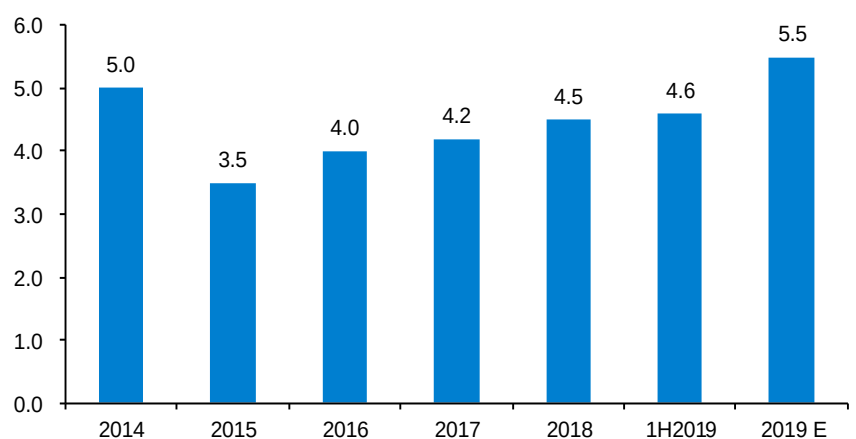
Source: Company, PL

Exhibit 20: Reducing route to market time to increase the shelf life of the products



Source: Company, PL

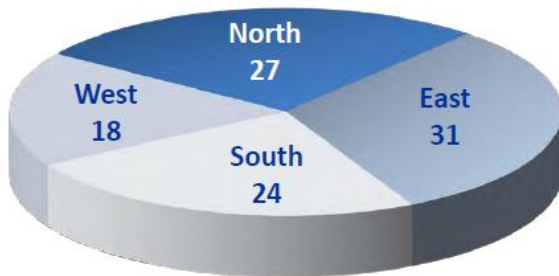
Exhibit 21: Nestle aims of increasing direct reach to 5.5-6mn outlets by CY2019



Source: Company, PL

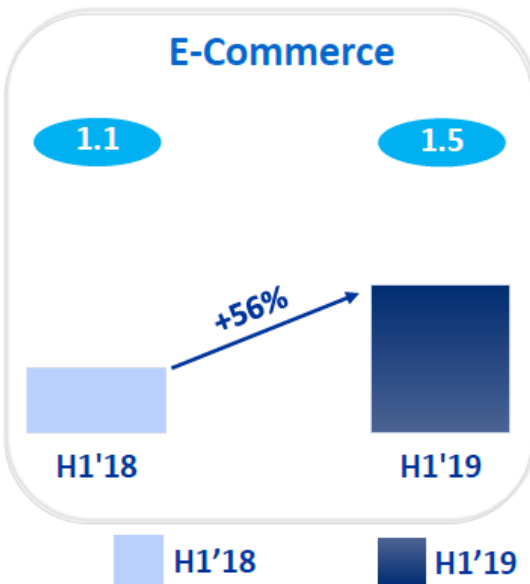
Exhibit 22: South continues to lag; E-Com sales catching up fast

% Contribution to Domestic Sales



	Growth%	
	H1'18	H1'19
North	7.9 / 14.6	12.2
East	9.4 / 16.2	11.3
South	3.9 / 10.4	11.4
West	6.9 / 13.6	11.8
Total	7.1 / 13.8	11.6

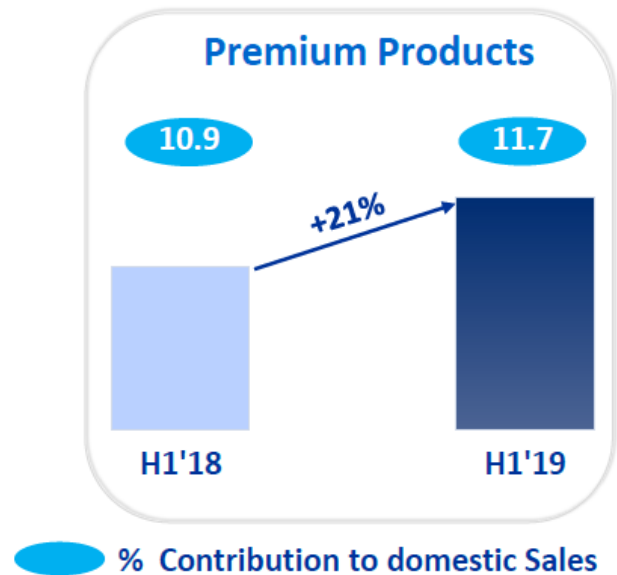
E-Commerce



Bar size represents Sales Value

Strong growth in E-Commerce channel

Premium Products



Premium products grew ~2x faster

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
Net Revenues	100,096	112,923	126,160	140,610
YoY gr. (%)	9.5	12.8	11.7	11.5
Cost of Goods Sold	43,269	45,902	53,541	59,375
Gross Profit	56,827	67,020	72,619	81,235
Margin (%)	56.8	59.4	57.6	57.8
Employee Cost	10,175	11,242	12,656	14,107
Other Expenses	11,993	14,841	14,829	16,487
EBITDA	22,214	27,324	29,842	33,864
YoY gr. (%)	9.4	23.0	9.2	13.5
Margin (%)	22.2	24.2	23.7	24.1
Depreciation and Amortization	3,423	3,357	3,475	3,593
EBIT	18,791	23,967	26,368	30,271
Margin (%)	18.8	21.2	20.9	21.5
Net Interest	919	1,120	1,287	1,462
Other Income	1,769	2,589	2,400	1,971
Profit Before Tax	19,641	25,437	27,482	30,780
Margin (%)	19.6	22.5	21.8	21.9
Total Tax	6,141	8,220	9,014	10,096
Effective tax rate (%)	31.3	32.3	32.8	32.8
Profit after tax	13,500	17,217	18,468	20,684
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,500	17,217	18,468	20,684
YoY gr. (%)	13.2	27.5	7.3	12.0
Margin (%)	13.5	15.2	14.6	14.7
Extra Ord. Income / (Exp)	(1,248)	(1,148)	(1,262)	(1,389)
Reported PAT	12,252	16,069	17,205	19,296
YoY gr. (%)	22.4	31.2	7.1	12.1
Margin (%)	12.2	14.2	13.6	13.7
Other Comprehensive Income	(890)	(404)	(500)	(500)
Total Comprehensive Income	11,362	15,665	16,705	18,796
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	140.0	178.6	191.5	214.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
Non-Current Assets				
Gross Block	55,779	57,049	58,890	60,901
Tangibles	55,779	57,049	58,890	60,901
Intangibles	-	-	-	-
Acc: Dep / Amortization	29,618	33,043	36,640	40,367
Tangibles	29,618	33,043	36,640	40,367
Intangibles	-	-	-	-
Net fixed assets	26,162	24,006	22,251	20,534
Tangibles	26,162	24,006	22,251	20,534
Intangibles	-	-	-	-
Capital Work In Progress	942	1,052	2,500	7,500
Goodwill	-	-	-	-
Non-Current Investments	6,316	7,735	7,835	7,962
Net Deferred tax assets	(1,220)	(588)	(1,039)	(1,544)
Other Non-Current Assets	896	907	1,085	1,276
Current Assets				
Investments	28,276	34,943	22,045	19,592
Inventories	9,025	9,656	11,367	12,590
Trade receivables	890	1,246	1,339	1,473
Cash & Bank Balance	234	409	475	511
Other Current Assets	170	224	246	271
Total Assets	73,626	80,881	69,945	72,623
Equity				
Equity Share Capital	964	964	964	964
Other Equity	33,241	35,773	20,630	18,853
Total Network	34,206	36,737	21,595	19,817
Non-Current Liabilities				
Long Term borrowings	351	351	351	351
Provisions	22,916	24,649	26,979	29,848
Other non current liabilities	6	5	5	5
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	9,846	12,404	13,935	14,640
Other current liabilities	5,081	6,146	6,164	6,661
Total Equity & Liabilities	73,626	80,881	70,068	72,866

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
PBT	19,641	25,437	27,482	30,780
Add. Depreciation	3,423	3,357	3,475	3,593
Add. Interest	919	1,120	1,287	1,462
Less Financial Other Income	1,769	2,589	2,400	1,971
Add. Other	(1,011)	(2,760)	(1,641)	(783)
Op. profit before WC changes	22,972	27,153	30,601	35,052
Net Changes-WC	(5,387)	(4,198)	12,503	2,141
Direct tax	(6,141)	(8,220)	(9,014)	(10,096)
Net cash from Op. activities	11,444	14,735	34,090	27,097
Capital expenditures	(1,343)	(1,312)	(3,167)	(6,877)
Interest / Dividend Income	1,769	2,589	2,400	1,971
Others	(1,110)	(1,481)	-	-
Net Cash from Invst. activities	(683)	(203)	(767)	(4,906)
Issue of share cap. / premium	17	(102)	-	-
Debt changes	20	-	-	-
Dividend paid	(9,980)	(13,134)	(31,848)	(20,573)
Interest paid	(919)	(1,120)	(1,287)	(1,462)
Others	-	-	-	-
Net cash from Fin. activities	(10,862)	(14,356)	(33,135)	(22,035)
Net change in cash	(101)	176	189	156
Free Cash Flow	10,101	13,423	30,923	20,221

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY17	CY18	CY19E	CY20E
Per Share(Rs)				
EPS	140.0	178.6	191.5	214.5
CEPS	175.5	213.4	227.6	251.8
BVPS	354.8	381.0	224.0	205.5
FCF	104.8	139.2	320.7	209.7
DPS	86.0	113.0	274.0	177.0
Return Ratio(%)				
RoCE	55.5	66.9	89.3	143.8
ROIC	41.7	52.6	55.6	57.6
RoE	40.3	48.5	63.3	99.9
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(1.0)	(1.0)	(1.0)
Net Working Capital (Days)	0	(5)	(4)	(1)
Valuation(x)				
PER	85.4	66.9	62.4	55.7
P/B	33.7	31.4	53.4	58.1
P/CEPS	175.5	213.4	227.6	251.8
EV/EBITDA	50.6	40.9	37.9	33.4
EV/Sales	11.2	9.9	9.0	8.1
Dividend Yield (%)	0.7	0.9	2.3	1.5

Source: Company Data, PL Research

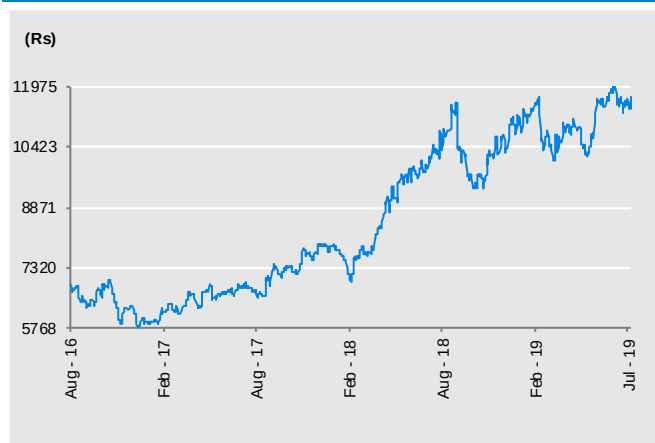
Quarterly Financials (Rs m)

Y/e Dec	Q3CY18	Q4CY18	Q1CY19	Q2CY19
Net Revenue	29,394	28,973	30,030	30,009
YoY gr. (%)	16.9	11.4	8.9	11.2
Raw Material Expenses	11,841	11,894	12,453	12,522
Gross Profit	17,552	17,078	17,576	17,487
Margin (%)	59.7	58.9	58.5	58.3
EBITDA	7,420	6,137	7,495	7,073
YoY gr. (%)	30.7	(4.8)	5.3	6.4
Margin (%)	25.2	21.2	25.0	23.6
Depreciation / Depletion	930	784	780	808
EBIT	6,490	5,353	6,715	6,264
Margin (%)	22.1	18.5	22.4	20.9
Net Interest	275	252	316	299
Other Income	670	752	732	726
Profit before Tax	6,886	5,854	7,131	6,691
Margin (%)	23.4	20.2	23.7	22.3
Total Tax	2,257	1,804	2,381	2,213
Effective tax rate (%)	32.8	30.8	33.4	33.1
Profit after Tax	4,629	4,049	4,750	4,478
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,629	4,049	4,750	4,478
YoY gr. (%)	32.3	(4.3)	8.2	8.0
Margin (%)	15.7	14.0	15.8	14.9
Extra Ord. Income / (Exp)	(168)	(632)	(118)	(100)
Reported PAT	4,461	3,418	4,633	4,378
YoY gr. (%)	30.0	9.6	9.3	10.8
Margin (%)	15.2	11.8	15.4	14.6
Other Comprehensive Income	(61)	(95)	(99)	(123)
Total Comprehensive Income	4,400	3,323	4,534	4,256
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	48.0	42.0	49.3	46.4

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	2-Aug-19	UR	-	11,412
2	4-Jul-19	Accumulate	10,656	11,884
3	14-May-19	Accumulate	10,742	10,300
4	5-Apr-19	Accumulate	10,828	10,981
5	14-Feb-19	Accumulate	11,059	10,629
6	7-Jan-19	Accumulate	11,129	10,786
7	26-Oct-18	Accumulate	11,129	9,569
8	19-Oct-18	Accumulate	10,996	9,609
9	5-Oct-18	Hold	10,996	9,348
10	24-Aug-18	Hold	10,996	11,363

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,522	1,479
2	Avenue Supermarts	Hold	1,338	1,359
3	Britannia Industries	Accumulate	3,145	2,841
4	Colgate Palmolive	Hold	1,208	1,204
5	Crompton Greaves Consumer Electricals	BUY	297	225
6	Dabur India	Hold	437	420
7	Emami	Accumulate	386	310
8	Future Retail	BUY	512	412
9	GlaxoSmithKline Consumer Healthcare	Hold	7,972	7,473
10	Hindustan Unilever	Accumulate	1,816	1,690
11	ITC	BUY	367	265
12	Jubilant FoodWorks	BUY	1,459	1,153
13	Kansai Nerolac Paints	Accumulate	479	434
14	Marico	Hold	357	363
15	Nestle India	UR	-	11,412
16	Pidilite Industries	Accumulate	1,301	1,290
17	Titan Company	BUY	1,173	1,047
18	Voltas	Hold	609	601

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
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