

Steady performance amid tough environment

Net sales for the quarter increased 11.2% YoY to ₹ 3,000.9 crore led by robust domestic volume growth driven by aggressive new launches last year. The export sales which contributes 7% to the topline which has witnessed de-growth of 13.9% during the quarter mainly due to lower coffee export to Turkey. Operating profit increased 7.4% to ₹ 697.3 crore while margins declined 82 bps to 23.2% on a high base. Net profit increased 10.8% to ₹ 437.8 crore on account of higher other income (₹ 73 crore vs. ₹ 60 crore in the base quarter). Nestlé India (NIL) has announced an interim dividend of ₹ 203/share including special dividend of ₹ 180 per share.

Well-carved out plans to increase distribution network

Out of around 9 million outlets in India, NIL had a distribution network of 5 million outlets three years ago. However, during the Maggi ban crisis, the company's distribution network reduced to around 3.5 million outlets. From there on, it has been a very strong rebound for Maggi noodles. It went on to regain leadership position in the category. Consequently, NIL as on today has access to around 4 million outlets of which the direct reach is around 1.3 million outlets or 33%. NIL has adopted a hyper-local model for marketing and distribution, which will help increase penetration and expand reach, thereby leading to faster growth. Under this, NIL has divided India into 15 different clusters wherein each cluster will be treated differently based on factors like food preference, income level, etc. We believe these distribution initiatives by the company will drive market penetration and improve the efficiency and quality of distribution.

Focus on health & wellness portfolio in near future

NIL has always focused on healthier and nutritious food alternatives for its consumer. Constant R&D and innovation has helped the company win over health conscious consumers. NIL aims to further reduce sugar by 6%, salt by 10% and fat level by 2.5%. In addition to this, the company has targeted the upper end of the pyramid and most of its innovation in the recent past was in premium and mainstream products (particularly consumed by people in the mid-to-high income segment). NIL plans to accelerate innovations centred on superior health, nutrition and wellness at appropriate price points. Higher share of premium and mainstream will improve revenue mix of the company, leading to incremental margins. We expect operating margins to expand 100 bps to 25.4% by CY20E.

Valuation & Outlook

With ~80% of revenue contribution derived from urban India, NIL enjoys a unique premium positioning among its peers. The premium portfolio and their niche food categories provide a strong pricing power, which should enable them to sustain margins and insulate them from any volatility in input costs. We expect earnings growth at 19.7% CAGR in CY18-20E led by strong sales growth CAGR of 12.9% in the same period. The stock has seen a run-up in the last three months. Hence, we change our recommendation from BUY to **HOLD** with a revised target price of ₹ 13000/share.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	112811
Total Debt (CY18)	35.1
Cash & Investments (CY18)	3,535.2
EV	109,311.3
52 week H/L (₹)	12025 / 9081
Equity capital	96.4
Face value (₹)	10.0

Key Highlights

- Domestic sales increased 13.1% driven by volume & price mix and positively influenced by CSD sales
- Export sales declined 13.9% due to lower coffee exports to Turkey
- Gross margins contracted 137 bps due to higher milk prices
- Set-up of new Maggi plant in Gujarat at an investment of ₹ 700 crore
- Change from BUY to HOLD with a revised target price of ₹ 13000/share

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Key Financial Summary

Key Financials	CY16	CY17	CY18	CY19E	CY20E	CAGR (CY18-20E)
Net Sales	9409.6	9952.5	11216.2	12582.2	14303.6	12.9%
EBITDA	2061.5	2248.3	2759.8	3069.0	3659.3	15.1%
EBITDA Margin %	21.9	22.6	24.6	24.4	25.6	
Net Profit	1001.4	1225.2	1606.9	1925.1	2303.4	19.7%
EPS (₹)	103.85	127.07	166.66	199.66	238.90	
P/E	112.7	92.1	70.2	58.6	49.0	
RoNW %	34.0	37.5	45.6	45.9	47.0	
RoCE (%)	33.9	34.9	42.9	44.5	47.6	

Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q2CY19	Q2CY19E	Q2CY18	YoY (%)	Q1CY19	QoQ (%)	Comments
Total Operating Income	3,000.9	2,977.7	2,698.4	11.2	3,003.0	-0.1	Net sales witnessed growth of 11.2% mainly driven by volume & price mix and positively influenced by CSD sales and sale of surplus fat
Operating Income	18.0	20.9	19.8	-9.1	20.6	-12.4	
Raw Material Expenses	1,252.2	1,252.7	1,089.0	15.0	1,245.3	0.5	Gross margins contracted 137 bps due to higher commodity prices, particularly milk and its derivatives
Employee Expenses	314.6	311.4	284.9	10.4	303.8	3.6	
Other operating Expenses	736.8	722.8	675.4	9.1	716.2	2.9	
EBITDA	697.3	690.8	649.2	7.4	737.7	-5.5	
EBITDA Margin (%)	23.2	23.2	24.1	-82 bps	24.6	-133 bps	Operating margins contracted 82 bps due to lower gross margins and due to high base effect
Depreciation	80.8	81.8	81.7	-1.1	78.0	3.7	
Interest	29.9	29.5	28.3	5.9	31.6	-5.3	
Other Income	72.6	72.4	60.2	20.5	73.2	-0.8	Other income increased 20.5% due to higher average liquidities
PBT	659.2	651.9	595.3	10.7	701.3	-6.0	
Exceptional Items	0.0	0.0	4.1	NA	0.0	NA	
Tax Outgo	221.3	230.7	200.3	10.5	238.1	-7.0	
PAT	437.8	421.2	395.0	10.8	463.3	-5.5	Net profit increased 10.8% on account of higher other income
Adj. PAT	437.8	421.2	395.0	10.8	463.3	-5.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY19E			CY20E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	12,582.2	12,582.2	0.0	14,303.6	14,303.6	0.0	No change in estimates
EBITDA	3069.0	3069.0	0.0	3659.3	3659.3	0.0	
EBITDA Margin(%)	24.4	24.4	0 bps	25.6	25.6	0 bps	
PAT	1925.1	1925.1	0.0	2303.4	2303.4	0.0	
EPS (₹)	199.7	199.7	0.0	238.9	238.9	0.0	

Source: Company, ICICI Direct Research

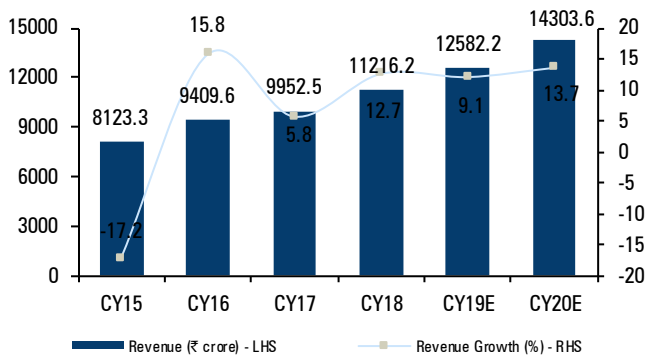
Exhibit 3: Assumptions

	Current				Earlier			Comments
	CY16	CY17	CY18	CY19E	CY20E	CY19E	CY20E	
Gross Sales (₹ crore)								
Milk Product and Nutrition	4,635.0	4,819.6	5,187.6	5,718.8	6,365.1	5,718.8	6,365.1	No change in estimates
Beverages	1,286.1	1,387.0	1,522.6	1,662.7	1,815.7	1,662.7	1,815.7	
Prepared dishes	2,317.6	2,707.1	3,105.3	3,642.5	4,389.5	3,642.5	4,389.5	
Chocolate & confectionery	1,170.9	1,221.4	1,400.7	1,558.2	1,733.3	1,558.2	1,733.3	
Volume Growth (%)								
Overall Volume Growth	25.0	10.9	11.1	11.0	12.3	11.0	12.3	
Milk Product and Nutrition	-2.4	1.6	4.8	6.0	6.0	6.0	6.0	
Beverages	-0.2	10.6	10.6	5.0	5.0	5.0	5.0	
Prepared dishes	71.5	19.0	14.5	15.0	17.0	15.0	17.0	
Chocolate & confectionery	6.7	4.3	14.7	8.0	8.0	8.0	8.0	

Source: Company, ICICI Direct Research

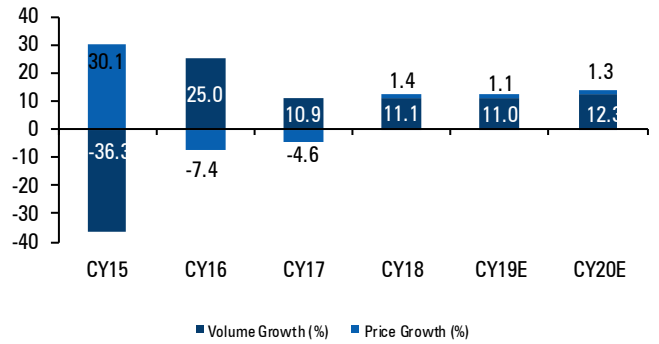
Key Metrics

Exhibit 4: Revenue growth trend



Source: Company, ICICI Direct Research

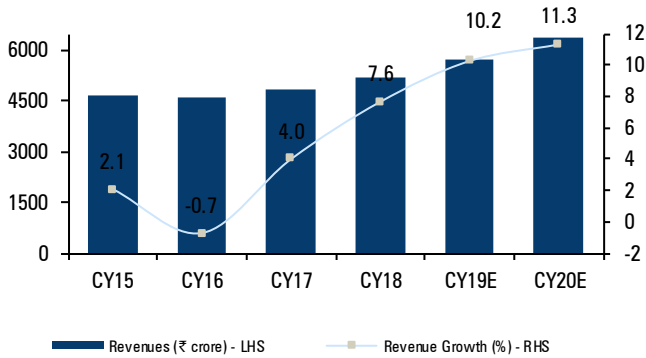
Exhibit 5: Volume growth to drive revenue



Source: Company, ICICI Direct Research

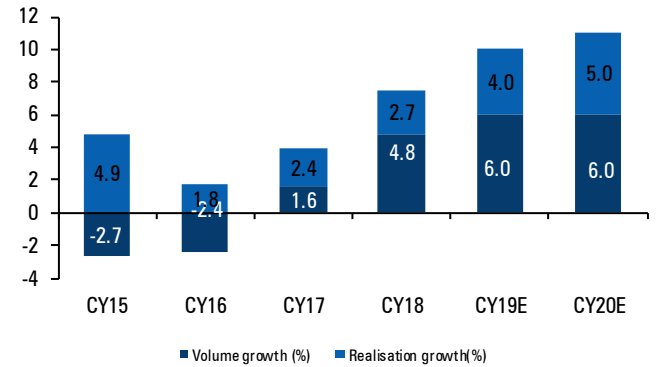
Milk products & nutrition – Focus on value addition

Exhibit 6: Revenue to grow at 10.8% CAGR over CY18-20E



Source: Company, ICICI Direct Research

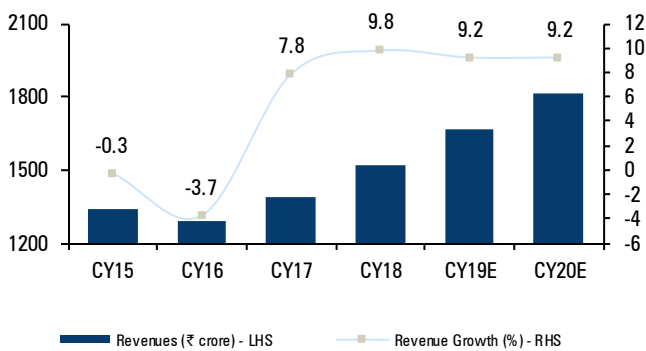
Exhibit 7: Revenue growth to be mix of volume & price growth



Source: Company, ICICI Direct Research

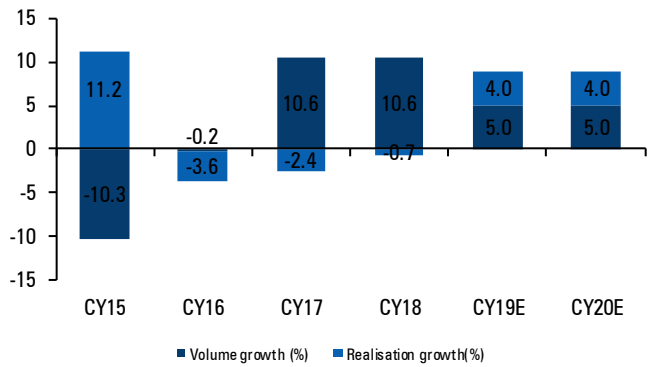
Beverages – Focus on differentiated products

Exhibit 8: Beverages revenue growth expected at 9.2% CAGR



Source: Company, ICICI Direct Research

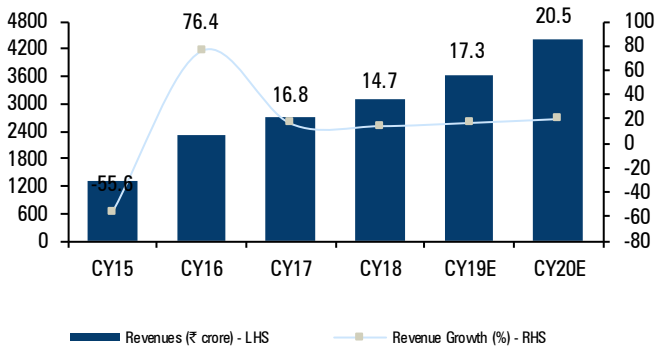
Exhibit 9: Volume growth expected to be in focus in near term



Source: Company, ICICI Direct Research

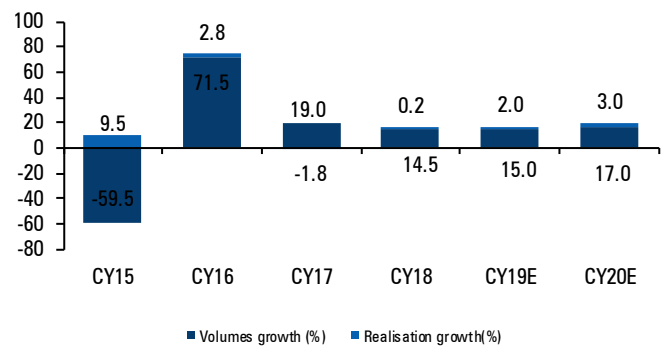
Prepared dishes – Rebuilding, reinvigorating portfolio

Exhibit 10: Maggi sales to reach pre ban level



Source: Company, ICICI Direct Research

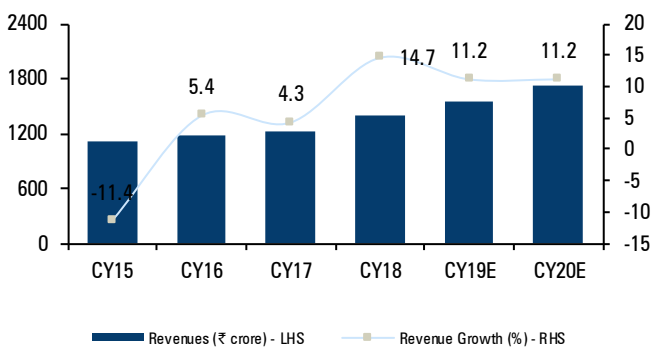
Exhibit 11: Innovation to generate healthy volume growth



Source: Company, ICICI Direct Research

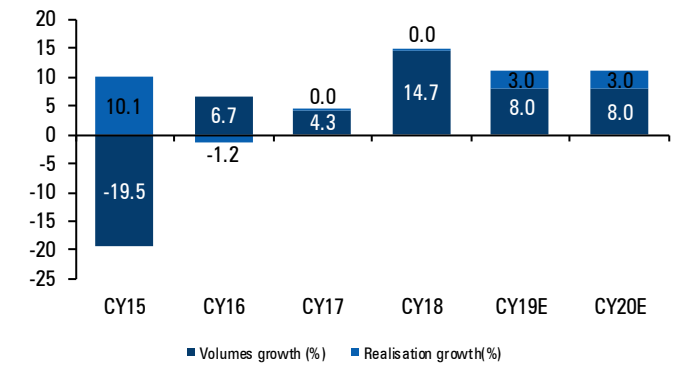
Chocolate & confectionery – Focus on premiumisation

Exhibit 12: Sales to gain traction, going forward



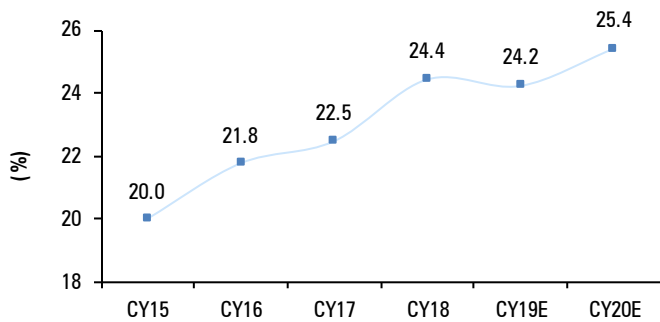
Source: Company, ICICI Direct Research

Exhibit 13: Volume growth to support higher growth



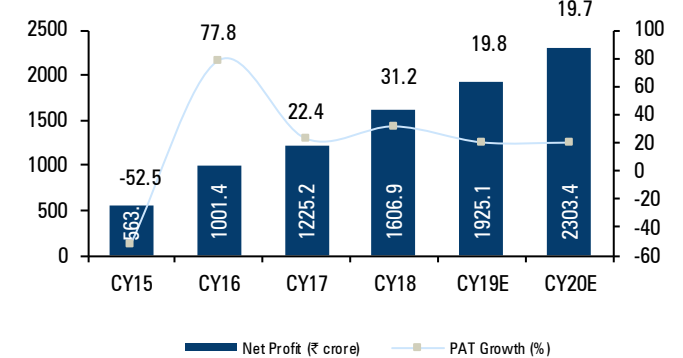
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA margin to remain at elevated levels



Source: Company, ICICI Direct Research

Exhibit 15: PAT to grow at CAGR of 19.7% over CY18-20E



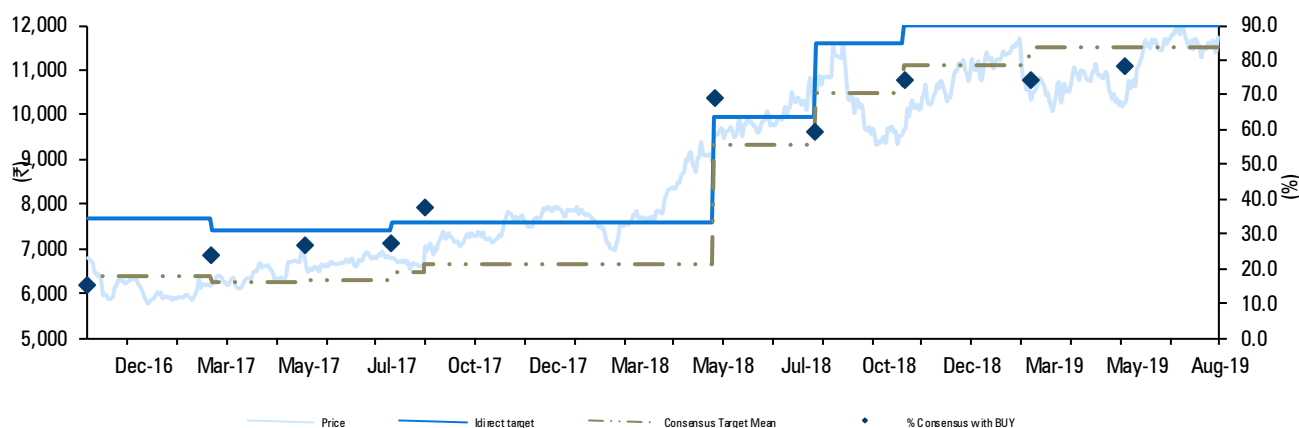
Source: Company, ICICI Direct Research

Exhibit 16: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY17	9952.5	0.0	127.1	0.0	92.1	49.5	37.5	34.9
CY18	11216.2	12.7	166.7	31.2	70.2	40.3	45.6	42.9
CY19E	12582.2	12.2	199.7	19.8	58.6	36.1	45.9	44.5
CY20E	14303.6	13.7	238.9	19.7	49.0	30.2	47.0	47.6

Source: Company, ICICI Direct Research

Exhibit 17: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 18: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Nestle SA	30-Jun-19	34.28	33.05m	0.00m
2	Maggi Enterprises, Ltd.	30-Jun-19	28.48	27.46m	0.00m
3	Life Insurance Corporation of India	30-Jun-19	2.89	2.78m	0.00m
4	ARISAIG Partners (Asia) Pte. Ltd.	30-Jun-19	1.03	0.99m	-0.26m
5	SBI Funds Management Pvt. Ltd.	30-Jun-19	0.88	0.85m	0.00m
6	The Vanguard Group, Inc.	30-Jun-19	0.86	0.83m	0.00m
7	Axis Asset Management Company Limited	30-Jun-19	0.77	0.74m	0.05m
8	BlackRock Institutional Trust Company, N.A.	30-Jun-19	0.74	0.71m	0.00m
9	Aberdeen Standard Investments (Asia) Limited	30-Jun-19	0.74	0.71m	0.00m
10	IDFC Asset Management Company Private Limi	30-Jun-19	0.29	0.28m	0.00m

Source: Reuters, ICICI Direct Research

Exhibit 19: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Caisse de Depot et Placement du Quebec	16.63m	0.10m	ARISAIG Partners (Asia) Pte. Ltd.	-44.51m	-0.26m
Goldman Sachs Asset Management International	11.00m	0.07m	ICICI Prudential Asset Management Co. Ltd.	-13.59m	-0.08m
Franklin Advisers, Inc.	10.96m	0.06m	Colonial First State Global Asset Management	-6.48m	-0.04m
APG Asset Management N.V.	8.71m	0.05m	First State Investments (HK) Ltd.	-6.72m	-0.04m
Axis Asset Management Company Limited	7.85m	0.05m	DSP Investment Managers Pvt. Ltd.	-3.61m	-0.02m

Source: Reuters, ICICI Direct Research

Exhibit 20: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	62.8	62.8	62.8	62.8	62.8
FII	12.2	12.1	12.4	12.6	13.0
DII	8.0	8.0	7.5	7.7	7.5
Others	17.0	17.1	17.4	17.0	16.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 21: Profit and loss statement				
	₹ crore			
(Year-end December)	CY17	CY18	CY19E	CY20E
Total operating income	10,009.6	11,292.3	12,665.8	14,395.6
Growth (%)		12.8	12.2	13.7
Raw Material Expenses	3,617.4	3,823.2	5,149.0	5,730.1
Employee Expenses	1,017.5	1,124.2	1,245.6	1,401.8
Marketing Expenses	1,010.7	1,285.2	0.0	0.0
Administrative Expenses	1,024.7	1,086.0	94.4	100.1
Other expenses	1,091.0	1,214.0	3,107.8	3,504.4
Total Operating Expenditure	7,761.3	8,532.5	9,596.8	10,736.3
EBITDA	2,248.3	2,759.8	3,069.0	3,659.3
Growth (%)		22.8	11.2	19.2
Depreciation	379.4	346.8	327.2	358.7
Interest	91.9	112.0	117.8	133.3
Other Income	176.9	258.9	289.6	313.5
PBT	1,927.0	2,532.6	2,886.2	3,453.4
Others	87.7	103.7	0.0	0.0
Total Tax	614.1	822.0	961.1	1,150.0
PAT	1,225.2	1,606.9	1,925.1	2,303.4
Growth (%)		31.2	19.8	19.7
EPS (₹)	127.1	166.7	199.7	238.9

Source: Company, ICICI Direct Research

Exhibit 22: Cash flow statement				
	₹ crore			
(Year-end December)	CY17	CY18	CY19E	CY20E
Profit after Tax	1,225.2	1,606.9	1,925.1	2,303.4
Add: Depreciation	379.4	346.8	327.2	358.7
(Inc)/dec in Current Assets	-77.2	-646.9	58.9	-576.5
Inc/(dec) in CL	126.0	362.2	-269.3	216.9
CF from operating activities	1,653.4	1,669.0	2,041.9	2,302.6
(Inc)/dec in LT loans & adv	18.0	6.2	40.1	0.0
(Inc)/dec in other investments	-111.0	-148.1	0.0	-100.0
(Inc)/dec in Fixed Assets	-171.5	-142.2	-400.0	-500.0
Others	285.9	110.1	59.5	60.0
CF from investing activities	8.95	-162.6	-228.6	-540.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	2.0	0.0	0.0	0.0
Dividend paid & dividend tax	-998.0	-1,313.4	-1,438.1	-1,588.5
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-89.0	-40.4	30.2	0.0
CF from financing activities	-1,085.0	-1,353.7	-1,407.9	-1,588.5
Net Cash flow	577.4	152.7	405.4	174.0
Opening Cash	880.0	1,457.4	1,610.1	2,015.5
Closing Cash	1,457.4	1,610.1	2,015.5	2,189.5

Source: Company, ICICI Direct Research

Exhibit 23: Balance sheet				
	₹ crore			
(Year-end December)	CY17	CY18	CY19E	CY20E
Liabilities				
Equity Capital	96.4	96.4	96.4	96.4
Reserve and Surplus	3,324.2	3,577.3	4,094.5	4,809.4
Total Shareholders funds	3,420.6	3,673.8	4,190.9	4,905.8
Total Debt	35.1	35.1	35.1	35.1
Deferred Tax Liability	122.0	58.8	18.8	-21.2
Long Term Provisions	2,291.6	2,464.9	2,564.9	2,664.9
Total Liabilities	5,869.9	6,233.1	6,809.8	7,584.7
Assets				
Gross Block	3,358.4	3,485.4	3,785.4	4,185.4
Less: Acc Depreciation	742.3	1,084.8	1,412.0	1,770.7
Net Block	2,616.2	2,400.6	2,373.4	2,414.7
Capital WIP	94.2	105.2	205.2	305.2
Total Fixed Assets	2,710.3	2,505.8	2,578.6	2,719.9
LT Loans & Advances	46.4	40.1	0.0	0.0
Inventory	902.5	965.6	1,344.4	1,606.7
Debtors	89.0	124.6	172.4	274.3
Loans and Advances	28.8	17.9	155.1	176.3
Current Investments	1,459.7	2,018.9	1,396.1	1,587.1
Cash	1,457.4	1,610.1	2,015.5	2,189.5
Total Current Assets	3,937.4	4,737.0	5,083.5	5,834.0
Creditors	984.6	1,240.4	861.8	979.7
Provisions	87.5	157.3	241.3	274.3
Other Current Liabilities	420.6	457.3	482.6	548.6
Total Current Liabilities	1,492.7	1,855.0	1,585.7	1,802.6
Net Current Assets	2,444.7	2,882.0	3,497.8	4,031.4
Application of Funds	5,869.9	6,233.1	6,809.8	7,584.7

Source: Company, ICICI Direct Research

Exhibit 24: Key ratios				
	₹ crore			
(Year-end December)	CY17	CY18	CY19E	CY20E
Per share data (₹)				
EPS	127.1	166.7	199.7	238.9
Cash EPS	166.4	202.6	233.6	276.1
BV	354.8	381.0	434.7	508.8
DPS	86.0	113.0	124.3	136.7
Cash Per Share	77.0	112.5	146.4	183.6
Operating Ratios (%)				
EBITDA Margin	22.5	24.4	24.2	25.4
PBT / Net Sales	18.5	21.7	22.9	24.1
PAT Margin	12.3	14.3	15.3	16.1
Inventory days	33.1	31.4	39.0	41.0
Debtor days	3.3	4.1	5.0	7.0
Creditor days	36.1	40.4	25.0	25.0
Return Ratios (%)				
RoE	37.5	45.6	45.9	47.0
RoCE	34.9	42.9	44.5	47.6
RoIC	43.3	53.4	59.7	64.8
Valuation Ratios (x)				
P/E	92.1	70.2	58.6	49.0
EV / EBITDA	49.5	40.3	36.1	30.2
EV / Net Sales	11.2	9.9	8.8	7.7
Market Cap / Sales	11.3	10.1	9.0	7.9
Price to Book Value	33.0	30.7	26.9	23.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.7	1.9	2.0
Quick Ratio	1.1	1.2	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 25: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	FY19E	FY20E	FY21E	Y19E	FY20E	Y21E	Y19E	FY20E	FY21E	Y19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,180	1,250	Hold	32,502	28.5	30.9	33.8	41.4	38.2	34.9	7.3	6.7	6.2	70.7	71.6	71.0	52.2	50.7	50.1
Dabur India (DABIND)	425	500	Buy	74,651	8.2	9.0	9.9	51.9	47.4	42.8	8.7	7.9	7.1	29.6	27.6	28.1	25.7	23.6	24.0
GSK CH (GLACON)	7,450	8,340	Buy	30,028	166.5	233.7	244.1	44.8	31.9	30.5	6.9	6.3	5.8	29.8	36.1	33.4	20.1	24.0	22.8
Hindustan Unilever (HINLEV)	1,740	1,900	Hold	378,000	28.5	32.9	37.9	61.0	53.0	45.9	9.9	8.7	7.6	100.8	123.7	162.3	87.2	106.9	141.3
ITC Limited (ITC)	260	315	Buy	315,832	10.3	11.3	12.6	25.3	23.1	20.6	7.1	6.4	5.9	30.8	32.7	33.3	21.5	22.2	22.6
Jyothy Lab (JYOLAB)	155	180	Hold	5,817	5.3	5.9	6.4	29.2	26.4	24.1	3.3	3.1	2.8	28.6	29.3	30.7	22.6	22.3	23.3
Marico (MARLIM)	370	425	Buy	47,479	8.8	8.8	9.9	42.1	42.0	37.3	6.5	5.8	5.2	38.0	42.4	44.6	31.6	35.0	36.7
Nestle (NESIND)	11,700	13,000	Hold	112,811	166.7	199.7	238.9	70.2	58.6	49.0	10.1	9.0	7.9	42.9	44.5	47.6	45.6	45.9	47.0
Tata Global Bev (TATGLO)	260	300	Buy	16,409	7.2	7.9	8.7	35.9	32.9	29.8	2.3	2.1	2.0	8.4	9.1	9.5	6.5	7.2	7.6
VST Industries (VSTIND)	3,325	4,200	Buy	5,250	146.9	174.9	190.2	22.6	19.0	17.5	4.8	4.2	3.9	51.4	53.2	52.5	34.2	35.8	35.4
Varun Beverage (VARBEV)	600	693	Hold	17,691	11.7	16.4	15.0	51.2	36.5	39.9	4.4	3.5	2.4	12.7	14.2	14.6	12.1	15.0	12.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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