

Lockdown hampered Out of Home categories

- Revenue and EBITDA came broadly in line with estimates, while APAT was a miss.
- Though the company suffered due to supply disruption in early part of the quarter, volume growth recovered in June, was encouraging.
- Out of Home categories suffered the most due to pandemic fears. We believe that these categories would take slightly longer to normalize.
- E-com business (3.6% contribution) witnessed strong acceleration with 122% growth.
- We are introducing CY20E, CY21E and CY22E EPS at Rs 213, Rs 253 and Rs 280 respectively. Considering niche play and unique positioning in multiple categories, we believe that the stock would continue to command higher premium compared to peers. Consequently, we have arrived at TP of Rs 16,813 (60x CY22E). However, considering rich valuations, we initiate the stock with Reduce rating. Buy on dips.

Revenue and EBITDA in line, PAT missed estimates

Net Sales stood at Rs 30.5bn, up 1.7% YoY in Q2CY20. Domestic business reported 2.6% growth while exports fell by 9.3%. EBITDA increased by 4.9% YoY to Rs 7.5bn. EBITDA margin expanded by 80bps to 24.5%. A 190bps/170bps increase in RM/employee costs was mitigated by 440bps decline in other expenses. PAT jumped 11.2% YoY to Rs 4.9bn-lower than estimates, supported by lower tax rate.

With stringent cost saving measures and improved product mix, we expect margins to sustain 22%+ going ahead.

Supply chain disruption hampered sales

During Q2CY20, domestic business posted mere 2.6% increase with ~1.5% volume and mix growth. Covid-19 led disruption hampered sales in the early part of the quarter. Factories operated at ~ 75% of capacity during Q2. Out of Home categories witnessed a significant hit, however, higher sales of Everyday dairy whitener, Nescafe Classic, Nescafe Sunrise Nestlé a+ Milk, and other milk-based products boost overall sales. Maggi recovered by the end of the quarter after initial hiccups.

Q2CY20 Result (Rs Mn)

Particulars	Q2CY20	Q2CY19	YoY (%)	Q1CY20	QoQ (%)
Revenue	30,505	30,009	1.7	33,253	(8.3)
Total Expense	23,029	22,882	0.6	25,320	(9.0)
EBITDA	7,476	7,127	4.9	7,933	(5.8)
Depreciation	924	941	(1.8)	914	1.2
EBIT	6,551	6,185	5.9	7,020	(6.7)
Other Income	379	726	(47.7)	429	(11.5)
Interest	408	320	27.3	410	(0.4)
EBT	6,523	6,591	(1.0)	7,038	(7.3)
Tax	1,657	2,213	(25.1)	1,784	(7.1)
RPAT	4,866	4,378	11.2	5,254	(7.4)
APAT	4,866	4,378	11.2	5,254	(7.4)
			(bps)		(bps)
Gross Margin (%)	56.3	58.3	(193)	56.3	4
EBITDA Margin (%)	24.5	23.7	76	23.9	65
NPM (%)	16.0	14.6	136	15.8	15
Tax Rate (%)	25.4	33.6	(818)	25.3	5
EBIT Margin (%)	21.5	20.6	86	21.1	37

CMP	Rs 16,598
Target / Upside	Rs 16,813 / 1%
BSE Sensex	38,030
NSE Nifty	11,203

Scrip Details

Equity / FV	Rs 964mn / Rs 10
Market Cap	Rs 1,600bn
	US\$ 21bn
52-week High/Low	Rs 17,475/Rs 16,511
Avg. Volume (no)	237,772
NSE Symbol	NESTLEIND
Bloomberg Code	NEST IN

Shareholding Pattern Jun'20(%)

Promoters	62.8
MF/Banks/FIs	8.7
FIs	12.1
Public / Others	16.4

Valuation (x)

	CY20E	CY21E	CY22E
P/E	77.9	65.6	59.2
EV/EBITDA	53.6	45.7	40.9
ROE (%)	91.9	83.6	73.4
RoACE (%)	94.8	86.0	75.5

Estimates (Rs mn)

	CY20E	CY21E	CY22E
Revenue	132,748	148,726	163,867
EBITDA	29,350	34,239	37,858
PAT	20,556	24,405	27,013
EPS (Rs.)	213.2	253.1	280.2

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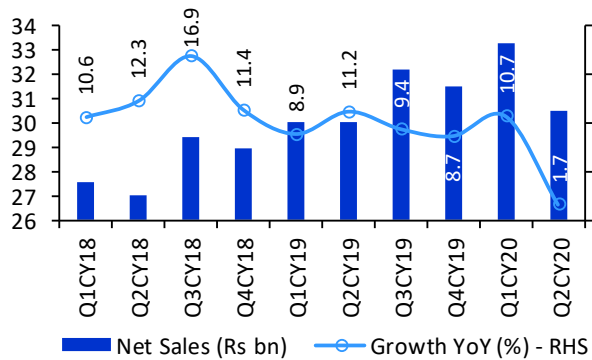
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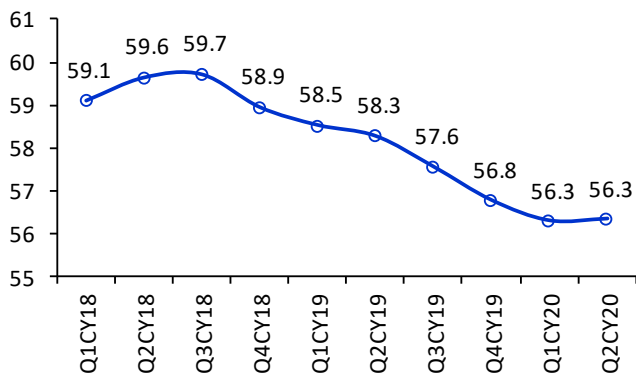
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Exhibit 1: Net Sales and Growth Trend


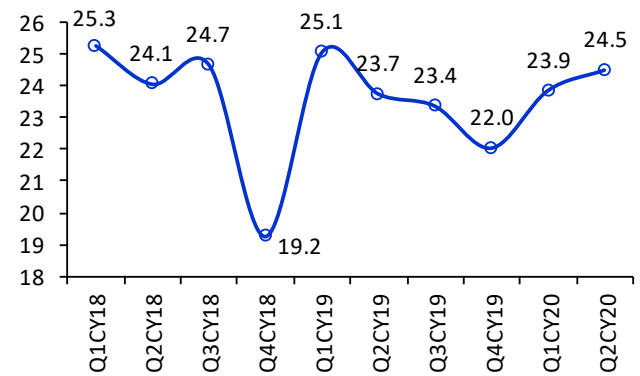
Source: Company, DART

Exhibit 2: EBITDA and EBITDA Growth Trend

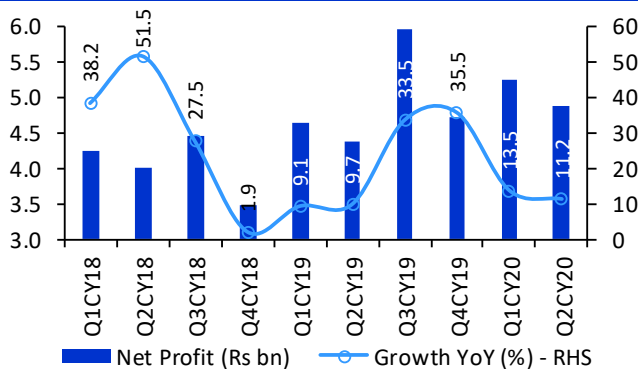

Source: Company, DART

Exhibit 3: Gross margin (%)


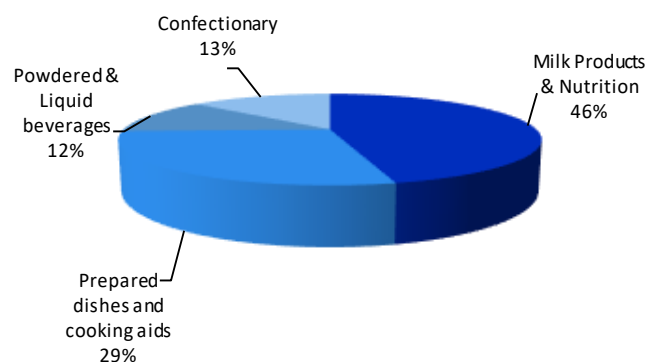
Source: Company, DART

Exhibit 4: EBITDA margin (%)


Source: Company, DART

Exhibit 5: Net Profit and Growth Trend


Source: Company, DART

Exhibit 6: Revenue Breakup (CY19)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
Revenue	123,689	132,748	148,726	163,867
Total Expense	95,046	103,398	114,488	126,009
COGS	52,239	56,941	62,635	69,211
Employees Cost	12,629	13,892	15,560	16,804
Other expenses	30,177	32,565	36,294	39,994
EBIDTA	28,643	29,350	34,239	37,858
Depreciation	3,164	3,524	3,714	4,359
EBIT	25,479	25,826	30,525	33,499
Interest	1,198	1,318	1,318	1,318
Other Income	2,469	2,963	3,407	3,918
Exc. / E.O. items	0	0	0	0
EBT	26,750	27,470	32,614	36,099
Tax	7,054	6,914	8,209	9,086
RPAT	19,696	20,556	24,405	27,013
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	19,696	20,556	24,405	27,013

Balance Sheet

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
Sources of Funds				
Equity Capital	964	964	964	964
Minority Interest	0	0	0	0
Reserves & Surplus	18,358	24,454	31,989	39,722
Net Worth	19,323	25,419	32,953	40,686
Total Debt	531	531	531	531
Net Deferred Tax Liability	180	180	180	180
Total Capital Employed	20,034	26,129	33,664	41,397

Applications of Funds

Net Block	22,267	20,743	19,030	21,670
CWIP	1,433	4,933	7,933	933
Investments	7,436	7,436	7,436	7,436
Current Assets, Loans & Advances	38,641	41,990	53,552	70,675
Inventories	12,831	11,929	13,366	14,727
Receivables	1,243	1,084	1,215	1,339
Cash and Bank Balances	13,080	17,490	27,485	43,123
Loans and Advances	594	594	594	594
Other Current Assets	818	818	818	818
Less: Current Liabilities & Provisions	49,744	48,973	54,286	59,317
Payables	14,947	12,652	14,176	15,619
Other Current Liabilities	34,797	36,321	40,110	43,698
<i>sub total</i>				
Net Current Assets	(11,103)	(6,983)	(734)	11,357
Total Assets	20,034	26,129	33,664	41,397

E – Estimates

Important Ratios

Particulars	CY19A	CY20E	CY21E	CY22E
(A) Margins (%)				
Gross Profit Margin	57.8	57.1	57.9	57.8
EBIDTA Margin	23.2	22.1	23.0	23.1
EBIT Margin	20.6	19.5	20.5	20.4
Tax rate	26.4	25.2	25.2	25.2
Net Profit Margin	15.9	15.5	16.4	16.5
(B) As Percentage of Net Sales (%)				
COGS	42.2	42.9	42.1	42.2
Employee	10.2	10.5	10.5	10.3
Other	24.4	24.5	24.4	24.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	21.3	19.6	23.2	25.4
Inventory days	38	33	33	33
Debtors days	4	3	3	3
Average Cost of Debt	271.5	248.0	248.0	248.0
Payable days	44	35	35	35
Working Capital days	(33)	(19)	(2)	25
FA T/O	5.6	6.4	7.8	7.6
(D) Measures of Investment				
AEPS (Rs)	204.3	213.2	253.1	280.2
CEPS (Rs)	237.1	249.7	291.6	325.4
DPS (Rs)	368.8	150.0	175.0	200.0
Dividend Payout (%)	180.6	70.3	69.1	71.4
BVPS (Rs)	200.4	263.6	341.8	422.0
RoANW (%)	70.3	91.9	83.6	73.4
RoACE (%)	72.4	94.8	86.0	75.5
RoAIC (%)	178.6	331.3	412.0	1504.3
(E) Valuation Ratios				
CMP (Rs)	16598	16598	16598	16598
P/E	81.3	77.9	65.6	59.2
Mcap (Rs Mn)	1,600,360	1,600,360	1,600,360	1,600,360
MCap/ Sales	12.9	12.1	10.8	9.8
EV	1,577,736	1,573,326	1,563,332	1,547,694
EV/Sales	12.8	11.9	10.5	9.4
EV/EBITDA	55.1	53.6	45.7	40.9
P/BV	82.8	63.0	48.6	39.3
Dividend Yield (%)	2.2	0.9	1.1	1.2
(F) Growth Rate (%)				
Revenue	9.5	7.3	12.0	10.2
EBITDA	9.0	2.5	16.7	10.6
EBIT	11.7	1.4	18.2	9.7
PBT	10.1	2.7	18.7	10.7
APAT	22.6	4.4	18.7	10.7
EPS	22.6	4.4	18.7	10.7

Cash Flow

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
CFO	26,641	24,370	31,864	34,918
CFI	7,269	(5,500)	(5,000)	0
CFF	(35,417)	(14,460)	(16,870)	(19,280)
FCFF	24,836	18,870	26,864	34,918
Opening Cash	16,101	13,080	17,490	27,485
Closing Cash	13,080	17,490	27,485	43,123

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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