

Nestle India

In-line result; steady recovery

Nestle's 3QCY20 was healthy as the company clocked 10% YoY growth (HSIE 8%). Packaged food category has done well, and Nestle's performance in the past two quarters was steady (6.5% YoY growth). Maggi, Kitkat and Nescafe (in-home consumption) posted double-digit growth. Exports also bounced back with 9% YoY growth. GM expansion was slower at 54bps YoY (58.1%). Cost control initiatives led to EBITDA growth of 16.5% (HSIE 16%). We expect Nestle's recovery to be steady, and we maintain our EBITDA estimates. As the increase in Capex has resulted in lower other income, we cut our EPS estimate for CY21/CY22 by 3/3%. The stock is trading at 60x P/E on CY21 EPS and limits absolute upside in the medium term, making the risk-reward unattractive. We roll forward our target price to Sep-22E EPS and value Nestle at 50x P/E to derive a TP of Rs 14,080. Maintain REDUCE.

- **Healthy revenue growth:** Revenue grew by 10% YoY (+11% in 3QCY19 and +3% in 2QCY20) vs the expectation of 8% YoY growth, driven by volumes and product mix. Domestic revenue grew by 10% YoY while Exports saw 9% YoY growth. Out of home consumption continued to remain muted. E-commerce channel was up 97% YoY (4% of domestic revenue) as MT continued to struggle during the quarter.
- **Margins in-line:** GM expanded by 54bps YoY (-216bps in 3QCY19 and -193bps in 2QCY20) missing our expectation of +145bps YoY expansion. Employee/Other expenses grew by 15/5% YoY. EBITDA margin saw an expansion of 140bps YoY to 25.6% (-118bps in 3QCY19 and +130bps in 2QCY20), vs our estimate of 172bps YoY expansion. EBITDA grew by 16.5% YoY (HSIE 16%). PBT clocked 12% YoY growth while PAT declined by 1% YoY due to lower tax rate in the base quarter.
- **Press release takeaways:** (1) Out of home demand showed improvement during the quarter; (2) Nestle plans to invest Rs 26bn over the next 3-4 years in manufacturing facilities in India; (3) the company declared an interim dividend of Rs 135 per share.

Quarterly/Annual Financial summary

YE Dec (Rs mn)	3Q CY20	3Q CY19	YoY (%)	2Q CY20	QoQ (%)	CY19	CY20E	CY21E	CY22E
Net Sales	35,417	32,158	10.1	30,505	16.1	1,23,689	1,34,107	1,48,222	1,64,280
EBITDA	9,079	7,794	16.5	7,677	18.3	29,275	32,886	35,719	40,000
APAT	5,871	5,952	(1.4)	4,866	20.7	19,879	22,220	24,548	28,019
Diluted EPS (Rs)	60.9	61.7	(1.4)	50.5	20.7	206.2	230.5	254.6	290.6
P/E (x)						77.0	68.8	62.3	54.6
EV / EBITDA (x)						51.2	45.5	41.6	37.0
RoCE (%)						73.7	62.1	51.3	51.9

Source: Company, HSIE Research

Change in Estimates

(Rs mn)	CY20E			CY21E			CY22E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Net Sales	1,34,107	1,34,166	0.0%	1,48,222	1,48,289	0%	1,64,280	1,64,355	0%
EBITDA	32,886	32,886	0.0%	35,719	35,856	0%	40,000	40,150	0%
PAT	22,220	22,220	0.0%	24,548	25,388	-3%	28,019	29,005	-3%
EPS	230.5	230.5	0.0%	254.6	263.3	-3%	290.6	300.8	-3%

Source: HSIE Research

REDUCE

CMP (as on 23 Oct 2020)	Rs 15,865
Target Price	Rs 14,080
NIFTY	11,930

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 14,103	Rs 14,080
EPS %	CY21E -3%	CY22E -3%

KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (Rs bn) / (\$ mn)	1,530/20,772
6m avg traded value (Rs mn)	2,480
52 Week high / low	Rs 18,370/12,200

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(8.1)	(9.0)	5.9
Relative (%)	(14.7)	(36.7)	1.7

SHAREHOLDING PATTERN (%)

	June-20	Sep-20
Promoters	62.76	62.76
FIs & Local MFs	8.71	8.91
FPIs	12.10	11.51
Public & Others	16.43	16.82
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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