

Nestle India (NEST IN)

Rating: HOLD | CMP: Rs15,865 | TP: Rs15,122

October 23, 2020

Q3CY20 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	CY21E	CY22E	CY21E	CY22E
Rating	HOLD		REDUCE	
Target Price	15,122		14,496	
Sales (Rs. m)	1,51,726	1,69,573	1,52,545	1,69,105
% Chng.	(0.5)	0.3		
EBITDA (Rs. m)	36,818	40,572	36,435	40,130
% Chng.	1.1	1.1		
EPS (Rs.)	257.2	290.6	257.4	289.9
% Chng.	(0.1)	0.2		

Key Financials - Standalone

Y/e Dec	CY19	CY20E	CY21E	CY22E
Sales (Rs. bn)	124	136	152	170
EBITDA (Rs. bn)	29	33	37	41
Margin (%)	23.4	24.6	24.3	23.9
PAT (Rs. bn)	20	22	25	28
EPS (Rs.)	206.9	232.8	257.2	290.6
Gr. (%)	15.8	12.5	10.5	13.0
DPS (Rs.)	306.0	196.0	200.0	215.0
Yield (%)	1.9	1.2	1.3	1.4
RoE (%)	71.2	108.4	101.4	93.3
RoCE (%)	90.4	139.6	131.3	119.7
EV/Sales (x)	12.2	11.1	9.9	8.8
EV/EBITDA (x)	52.2	45.1	40.8	36.7
PE (x)	76.7	68.1	61.7	54.6
P/BV (x)	79.2	69.2	57.1	46.0

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.18,370 / Rs.12,200
Sensex / Nifty	40,686 / 11,930
Market Cap	Rs.1,530bn/ \$ 20,783m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.3896.62m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	11.51
Domestic Institution	8.91
Public & Others	16.82
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.3	(9.0)	5.9
Relative	(4.4)	(28.7)	1.7

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Steady recovery / capex plan Positive; Upgrade to Hold

Quick Pointers:

- Domestic/export sales grew 10.2% and 9.4%. E-com grew 97% to 4% of domestic sales.
- Double digit growth in key brands, boosted by in-home consumption.
- Commits to invest Rs 26bn in India over next 3-4 years

We are upgrading NEST to HOLD from reduce given 1) resilient performance 2) growth visibility given Rs26bn investment program 3) sustained performance in key brands like Maggi, Kitkat, Munch, Nescafe 4) 80% dividend payout and 100%+ FCF conversion and 15% stock correction from the peak. 3Q results were below expectations on delayed Diwali and slow pick up in OOH business even as factories and supply chain returned to normalcy and in-home consumption increased which enabled double digit growth in key brands.

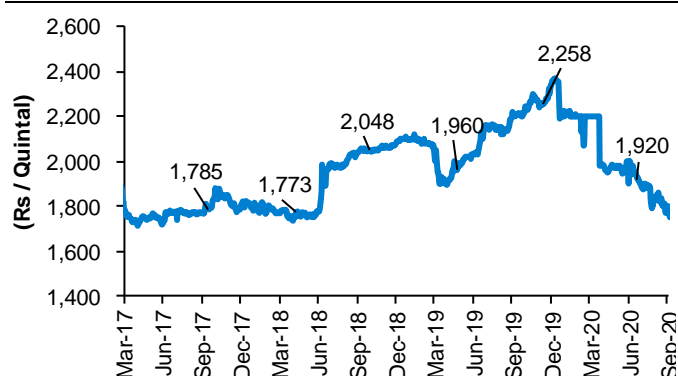
We expect NEST to invest incrementally in nutrition business in line with increased focus of the parent in wellness and Nutrition segment. We believe Rs26bn fresh investment is positive and will push growth given capacity constraints in a few lines including Maggi. Input costs are mixed as milk price reduction will be partly neutralized by higher Palmoil prices. We expect EPS to grow 12.5% in CY20 and at 11.7% CAGR over CY20-22E. we value the stock at 50xMARCH23 and arrive at target price of Rs15122 (Rs14496 earlier at 50xDEC22 EPS). Upgrade to Hold

- Sales up 10.1%, PBT up 12.7%:** Net sales grew 10.1% to Rs 35.42bn (Est Rs 36.01bn) on back of volume growth and better product mix. Gross margins up 50bps to 58.1% (Est 57%). EBITDA grew by 15.5 % to Rs 8.94bn (Est Rs 9.18bn). EBITDA margins up by 120bps to 25.2% (Est 25.5%) on account of lower OHs due to restricted operations. PBT at Rs 7.96bn up 12.7% YoY. Other income declined 38.9% YoY to Rs 345m due to lower yields and lower liquidity. Adj. PAT de-grew by 0.9% to Rs 5.97bn (Est Rs 6.22bn) due to higher tax rate at 25% vs 14.8% in 2Q20. Declared Interim dividend of Rs 135/share.
- Double digit growth across key brands:** Key brands like Maggi Noodles, Maggi Sauces, Kitkat, Nestlé Munch, Nescafé Classic & Nescafé Sunrise witnessed double digit growth driven by an increase in in-home consumption. Though demand in out of home channels improved during 2Q, it continues to be impacted by Covid. We continued our strong performance in the e-commerce channels, which grew by 97% and now contributes about 4% of domestic sales.
- Gross margins marginally up by 50bps to 58.1%:** Prices of milk and its derivatives and palm oil remained firm during 3Q; SMP prices/palm oil up 9.6%/44.1% YoY. While wheat prices and sugar prices have softened by 11.9/1.4% YoY. We expect palm oil prices to increase at slower rate and prices of wheat and sugar to continue to soften resulting in flat margins YoY in 4Q.

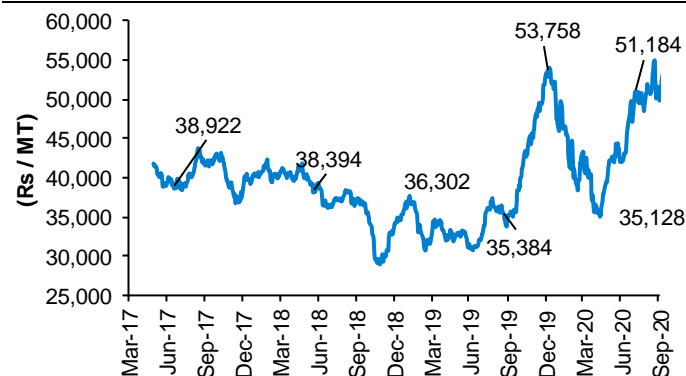
Exhibit 1: Q3CY20 Results: Sales up 10.1% even as OOH remains impacted due to COVID

Y/e Dec (Rs mn)	Q3CY20	Q3CY19	YoY gr. (%)	Q2CY20	9MCY20	9MCY19	YoY gr. (%)
Net Sales	35,417	32,158	10.1	33,253	99,174	92,196	7.6
Gross Profit	20,574	18,508	11.2	18,720	56,480	53,571	5.4
% of NS	58.1	57.6	0.5	56.3	57.0	58.1	-1.2
Other Expenses	11,639	10,774	8.0	10,714	31,955	30,966	3.2
EBITDA	8,935	7,734	15.5	8,006	24,525	22,605	8.5
Margins (%)	25.2	24.1	1.2	24.1	24.7	24.5	0.2
Depreciation	911	911	0.0	914	2,749	2,766	(0.6)
Interest	405	321	26.2	410	1,222	980	24.7
Other Income	345	564	(38.9)	429	1,153	2,022	(43.0)
PBT	7,965	7,067	12.7	7,111	21,707	20,881	4.0
Tax	1,994	1,045	90.9	1,784	5,435	5,696	(4.6)
Effective tax rate (%)	25.0	14.8		25.1	25.0	27.3	
Adjusted PAT	5,970	6,022	(0.9)	5,327	16,272	15,185	7.2

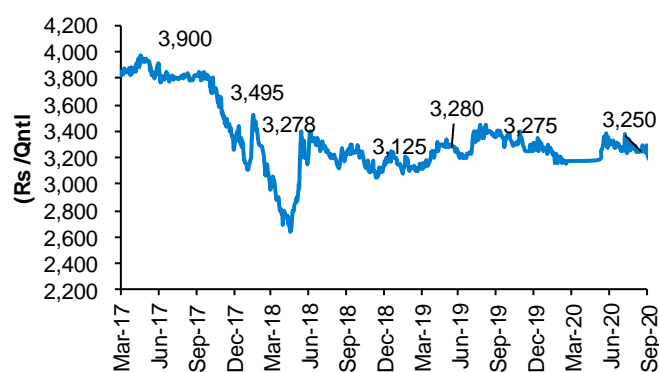
Source: Company, PL

Exhibit 2: Wheat prices down 6.9% QoQ, 11.9% YoY


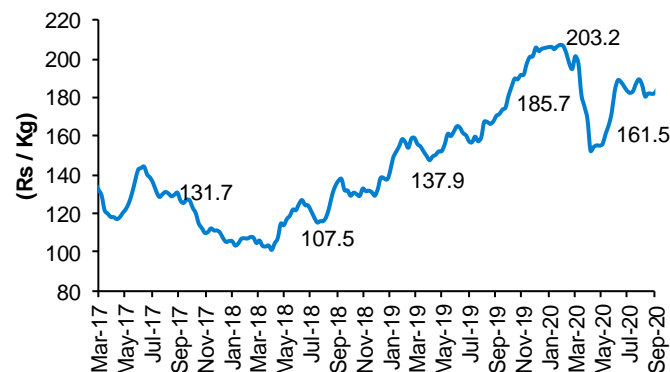
Source: Company, PL

Exhibit 3: Palmoil prices up 22.6% QoQ, 44.1% YoY


Source: Company, PL

Exhibit 4: Sugar down 1.4% YoY


Source: Company, PL

Exhibit 5: SMP prices up 9.6% YoY


Source: Bloomberg, PL

Exhibit 6: Maggi, Chocolates and beverages to drive volumes in the long term

Y/e March	CY17	CY18	CY19E	CY20E	CY21E	CY22E
Milk Products						
Volume (MT)	1,30,796	1,37,066	1,38,941	1,45,888	1,53,182	1,59,310
Volume growth	1.6%	4.8%	1.4%	5.0%	5.0%	4.0%
Sales Value (Rs m)	48,196	51,876	56,518	61,124	66,748	72,194
Growth in Value	4.0%	7.6%	8.9%	8.1%	9.2%	8.2%
% of sales	47.6%	46.3%	46.0%	45.4%	44.2%	42.8%
Beverages						
Volume (MT)	24,423	27,013	29,039	31,217	33,465	35,807
Value (Rs m)	13,870	15,226	16,695	18,307	20,017	21,847
Growth in Volume	10.6%	10.6%	7.5%	7.5%	7.2%	7.0%
Growth in Value	7.8%	9.8%	9.7%	9.7%	9.3%	9.1%
%Sales	13.7%	13.6%	13.4%	13.3%	13.2%	13.1%
Prepared Dishes & Cooking Aids						
Volume (MT)	2,10,427	2,40,879	2,74,602	3,10,300	3,47,536	3,89,241
Value (Rs m)	27,071	31,053	35,931	41,211	46,849	53,257
Growth in Volume	19.0%	14.5%	14.0%	13.0%	12.0%	12.0%
Growth in Value	16.8%	14.7%	15.7%	14.7%	13.7%	13.7%
%Sales	26.7%	27.7%	28.9%	30.0%	31.0%	32.0%
Chocolate & Confectionery						
Volume (MT)	36,803	42,197	47,261	51,987	56,666	61,765
Value (Rs m)	13,227	15,924	18,727	42,228	1,40,388	6,19,743
Growth in Volume	4.3%	14.7%	12.0%	10.0%	9.0%	9.0%
Growth in Value	9.5%	20.4%	17.6%	125.5%	232.5%	341.5%
%Sales	13.1%	14.2%	15.1%	30.7%	92.9%	372.3%

Source: Company, PL

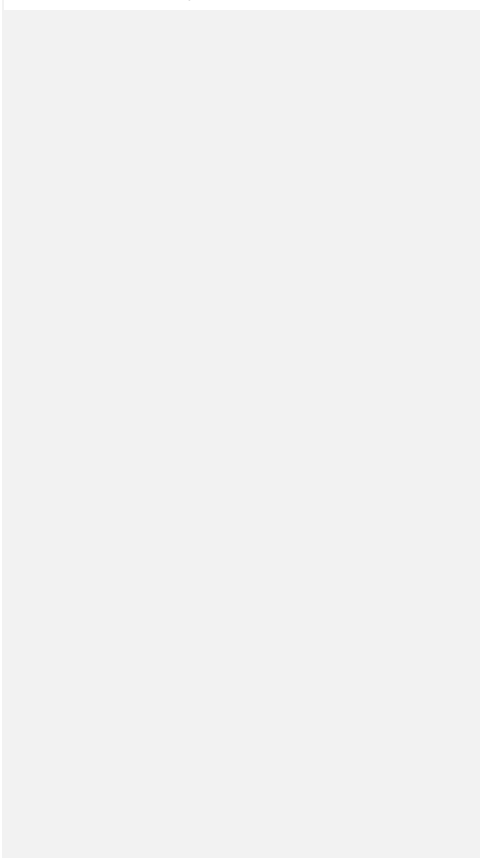
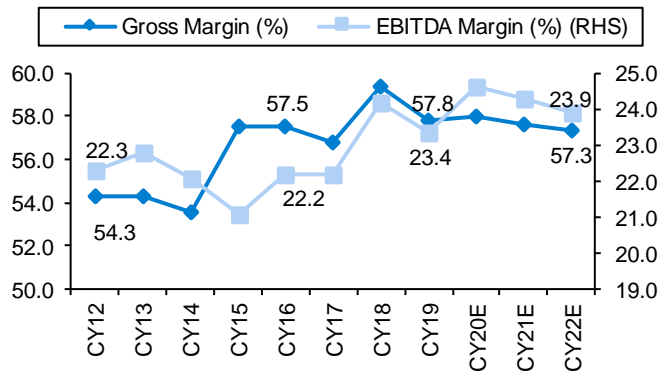
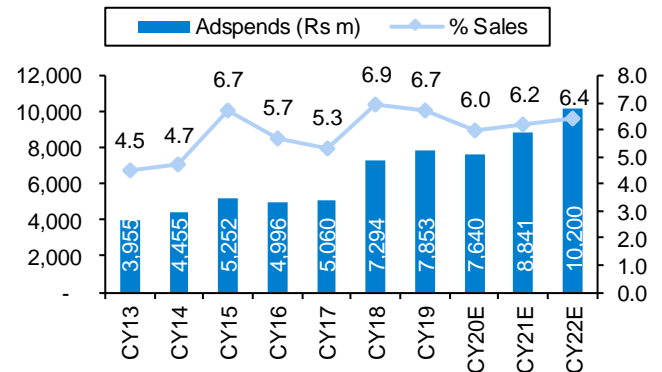
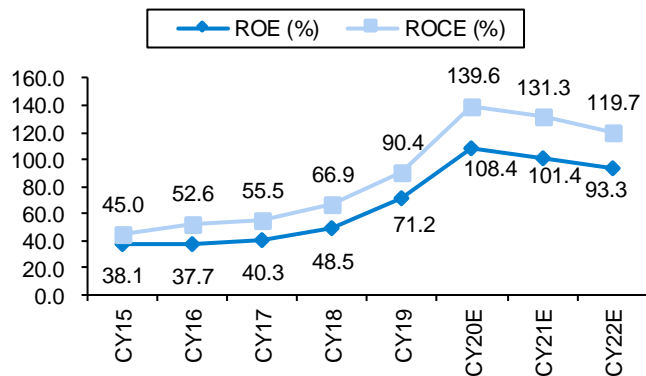


Exhibit 7: Gross Margins have likely peaked out


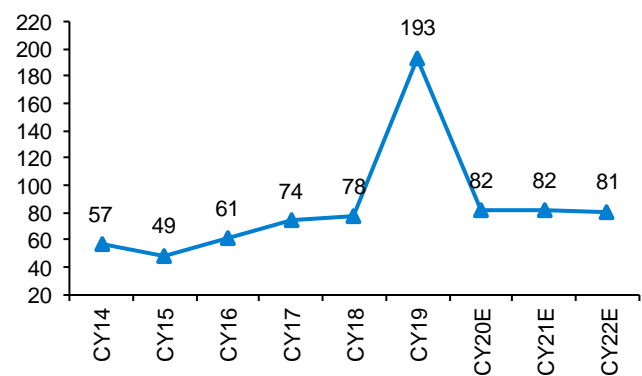
Source: Company, PL

Exhibit 8: Ad-spend is likely to remain flat going forward


Source: Company, PL

Exhibit 9: ROE and ROCE increased due to special dividend


Source: Company, PL

Exhibit 10: One-time dividend boosted payout in CY19


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Net Revenues	1,23,689	1,35,502	1,51,726	1,69,573
YoY gr. (%)	9.5	9.6	12.0	11.8
Cost of Goods Sold	52,239	56,984	64,375	72,338
Gross Profit	71,450	78,518	87,351	97,235
Margin (%)	57.8	57.9	57.6	57.3
Employee Cost	12,630	14,418	15,542	17,372
Other Expenses	15,570	15,283	17,851	20,269
EBITDA	28,892	33,371	36,818	40,572
YoY gr. (%)	5.7	15.5	10.3	10.2
Margin (%)	23.4	24.6	24.3	23.9
Depreciation and Amortization	3,164	3,716	4,226	4,386
EBIT	25,728	29,654	32,592	36,186
Margin (%)	20.8	21.9	21.5	21.3
Net Interest	1,198	1,367	1,474	1,647
Other Income	2,469	1,709	2,023	2,900
Profit Before Tax	26,999	29,996	33,141	37,439
Margin (%)	21.8	22.1	21.8	22.1
Total Tax	7,054	7,550	8,342	9,423
Effective tax rate (%)	26.1	25.2	25.2	25.2
Profit after tax	19,944	22,446	24,799	28,016
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	19,944	22,446	24,799	28,016
YoY gr. (%)	15.8	12.5	10.5	13.0
Margin (%)	16.1	16.6	16.3	16.5
Extra Ord. Income / (Exp)	(249)	(273)	(305)	(341)
Reported PAT	19,696	22,174	24,494	27,675
YoY gr. (%)	22.6	12.6	10.5	13.0
Margin (%)	15.9	16.4	16.1	16.3
Other Comprehensive Income	(1,548)	(500)	(500)	(500)
Total Comprehensive Income	18,148	21,674	23,994	27,175
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	206.9	232.8	257.2	290.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Non-Current Assets				
Gross Block	58,287	59,939	70,433	73,097
Tangibles	58,287	59,939	70,433	73,097
Intangibles	-	-	-	-
Acc: Dep / Amortization	36,020	39,736	43,962	48,348
Tangibles	36,020	39,736	43,962	48,348
Intangibles	-	-	-	-
Net fixed assets	22,267	20,203	26,471	24,749
Tangibles	22,267	20,203	26,471	24,749
Intangibles	-	-	-	-
Capital Work In Progress	1,433	7,500	5,000	5,250
Goodwill	-	-	-	-
Non-Current Investments	7,906	7,975	8,040	8,111
Net Deferred tax assets	(180)	(557)	(974)	(1,445)
Other Non-Current Assets	804	876	981	1,096
Current Assets				
Investments	22,746	24,532	28,036	39,963
Inventories	12,831	11,956	13,304	14,737
Trade receivables	1,243	1,421	1,550	1,663
Cash & Bank Balance	410	430	459	644
Other Current Assets	260	286	315	346
Total Assets	70,582	75,994	85,056	97,556
Equity				
Equity Share Capital	964	964	964	964
Other Equity	18,358	21,135	25,845	32,291
Total Network	19,323	22,099	26,810	33,255
Non-Current Liabilities				
Long Term borrowings	531	531	204	204
Provisions	29,069	31,395	33,910	36,720
Other non current liabilities	4	4	4	4
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	14,947	14,051	14,991	16,846
Other current liabilities	6,528	7,356	8,162	9,081
Total Equity & Liabilities	70,582	75,994	85,056	97,556

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
PBT	26,999	29,996	33,141	37,439
Add. Depreciation	3,164	3,716	4,226	4,386
Add. Interest	1,198	1,367	1,474	1,647
Less Financial Other Income	2,469	1,709	2,023	2,900
Add. Other	(375)	81	(66)	(646)
Op. profit before WC changes	30,985	35,161	38,775	42,826
Net Changes-WC	(73)	469	156	1,100
Direct tax	(7,054)	(7,550)	(8,342)	(9,423)
Net cash from Op. activities	23,857	28,081	30,589	34,503
Capital expenditures	(1,806)	(7,719)	(7,994)	(2,914)
Interest / Dividend Income	2,469	1,709	2,023	2,900
Others	12,095	(1,786)	(3,504)	(11,928)
Net Cash from Inv. activities	12,758	(7,796)	(9,475)	(11,941)
Issue of share cap. / premium	(34)	-	-	-
Debt changes	180	-	(327)	-
Dividend paid	(35,562)	(18,897)	(19,283)	(20,729)
Interest paid	(1,198)	(1,367)	(1,474)	(1,647)
Others	-	-	-	-
Net cash from Fin. activities	(36,615)	(20,265)	(21,085)	(22,377)
Net change in cash	0	20	29	185
Free Cash Flow	22,052	20,362	22,595	31,589

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q4CY19	Q1CY20	Q2CY20	Q3CY20
Net Revenue	31,493	33,253	30,505	35,417
YoY gr. (%)	8.7	10.7	1.7	10.1
Raw Material Expenses	13,614	14,533	13,319	14,843
Gross Profit	17,879	18,720	17,186	20,574
Margin (%)	56.8	56.3	56.3	58.1
EBITDA	6,730	8,006	7,584	8,935
YoY gr. (%)	9.6	4.7	7.2	17.6
Margin (%)	21.4	24.1	24.9	25.2
Depreciation / Depletion	796	914	924	911
EBIT	5,934	7,092	6,660	8,024
Margin (%)	18.8	21.3	21.8	22.7
Net Interest	284	410	408	405
Other Income	447	429	379	345
Profit before Tax	6,097	7,111	6,631	7,965
Margin (%)	19.4	21.4	21.7	22.5
Total Tax	1,416	1,784	1,657	1,994
Effective tax rate (%)	23.2	25.1	25.0	25.0
Profit after Tax	4,681	5,327	4,975	5,970
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,681	5,327	4,975	5,970
YoY gr. (%)	15.6	12.3	11.1	(1.1)
Margin (%)	14.9	16.0	16.3	16.9
Extra Ord. Income / (Exp)	49	(73)	(109)	(100)
Reported PAT	4,730	5,254	4,866	5,871
YoY gr. (%)	38.4	13.5	11.1	(1.4)
Margin (%)	15.0	15.8	16.0	16.6
Other Comprehensive Income	(340)	(350)	(290)	(506)
Total Comprehensive Income	4,390	4,904	4,576	5,365
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	48.5	55.2	51.6	61.9

Source: Company Data, PL Research

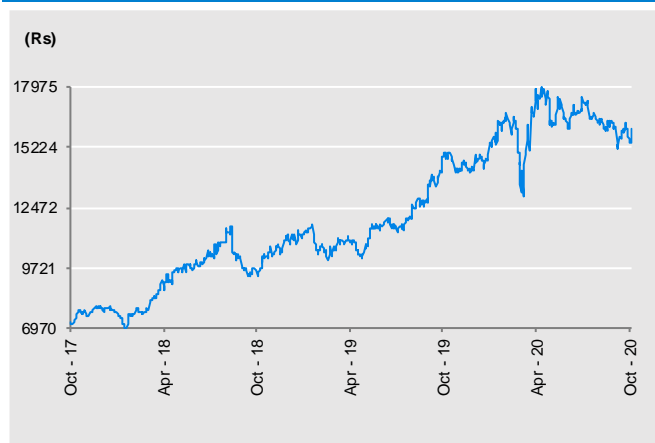
Key Financial Metrics

Y/e Dec	CY19	CY20E	CY21E	CY22E
Per Share(Rs)				
EPS	206.9	232.8	257.2	290.6
CEPS	239.7	271.3	301.0	336.1
BVPS	200.4	229.2	278.1	344.9
FCF	228.7	211.2	234.3	327.6
DPS	306.0	196.0	200.0	215.0
Return Ratio(%)				
RoCE	90.4	139.6	131.3	119.7
ROIC	54.2	58.1	57.6	63.5
RoE	71.2	108.4	101.4	93.3
Balance Sheet				
Net Debt : Equity (x)	(1.2)	(1.1)	(1.1)	(1.2)
Net Working Capital (Days)	(3)	(2)	0	(1)
Valuation(x)				
PER	76.7	68.1	61.7	54.6
P/B	79.2	69.2	57.1	46.0
P/CEPS	239.7	271.3	301.0	336.1
EV/EBITDA	52.2	45.1	40.8	36.7
EV/Sales	12.2	11.1	9.9	8.8
Dividend Yield (%)	1.9	1.2	1.3	1.4

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	Reduce	14,496	16,305
2	28-Jul-20	Reduce	14,089	17,095
3	08-Jul-20	Reduce	14,609	16,912
4	12-May-20	Reduce	13,127	17,462
5	15-Apr-20	Reduce	11,886	17,326
6	13-Feb-20	Reduce	11,886	16,400
7	03-Jan-20	Reduce	12,093	14,594
8	09-Nov-19	Reduce	12,093	14,490

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,000	2,100
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	564	498
4	Britannia Industries	BUY	4,301	3,553
5	Colgate Palmolive	Hold	1,445	1,427
6	Crompton Greaves Consumer Electricals	BUY	308	280
7	Dabur India	Hold	469	522
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	571	688
11	Hindustan Unilever	BUY	2,502	2,173
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	550	477
15	Marico	Hold	359	372
16	Nestle India	Reduce	14,496	16,305
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,254
19	Titan Company	Accumulate	1,352	1,254
20	Voltas	Accumulate	702	672

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

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