

Nestle India

Refer to important disclosures at the end of this report

Back to double-digit growth; upgrade to Hold

CMP: Rs 15,865

as of (October 23, 2020)

TP: Rs 15,800 (▲)

12 months

Rating: HOLD (▲)

Upside: (0.4) %

- Nestle saw a stronger-than-expected recovery with double-digit sales growth. Domestic business grew 10%, beating estimates by 3%, with strong performance from noodles, coffee and chocolates, benefitting from in-home consumption. EBITDA was largely in line with growth of 16%. PAT was flat due to lower ETR in the base.
- Gross margins expanded 180bps qoq, led by low milk prices, which are likely to sustain in the near term. Softer commodity prices and control on other overheads are likely to help maintain a positive margin outlook.
- Growth outlook has improved (vs. Q1), with a ramp-up in the supply chain and continued benefits from high in-home consumption. Growth in the core portfolio remains strong. Pick-up in innovation pace, which appears to have slowed down post Covid, would be positive.
- With Improved growth outlook and valuations reverting to reasonable levels (down ~12% from peak), we see limited downsides and hence, upgrade the stock to Hold from Sell, with a revised TP of Rs15,800 (from Rs15,600), based on 50x CY22E EPS.

Good pick-up in sales growth supported by volumes and mix: Nestle's growth recovered to double-digits after a weak Q2. Sales grew 10% to Rs35.4bn, with domestic/exports growth of 10%/9%. Noodles, coffee and chocolates saw robust double-digit growth, led by strong in-home consumption trends. Demand momentum of the out-of-home channel also improved but remained below pre-Covid level. The e-commerce channel grew 97%, contributing ~4% to domestic sales. Management plans to invest Rs26bn over the next three to four years in some of its existing manufacturing facilities and in an upcoming plant in Gujarat. Growth outlook seems good, with high in-home consumption. Pick-up in innovation pace, which appears to have slowed down post Covid, would be positive.

Margin outlook turning positive: Gross margin expanded 50bps to 58.1% yoy and 180bps qoq, led by lower milk prices, partly restricted by high prices of coffee and palm oil. EBITDA margin expanded by 120bps due to control on other overheads (up 4%). Employee costs grew 16% due to Covid-19 related incentives offered. PAT was flat due to lower ETR in the base and a decline in other Income by 40% due to lower yields and lower average liquidities. Commodity trends remained mixed with milk prices softening and coffee/palm oil witnessing steep inflation. Softening in milk prices, however, should sustain margin expansion witnessed in Q3.

Fairly valued; upgrade to Hold: Recovery to double-digit growth momentum is a positive. After the recent underperformance and correction by ~12% from the peak, the stock now appears to be fairly valued at 49x CY22E. With improved growth outlook and valuations reverting to reasonable levels, we see limited downsides and hence, upgrade the stock to Hold from Sell, with a revised TP of Rs15,800 (from Rs15,600), based on 50x CY22E EPS.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	CY18	CY19	CY20E	CY21E	CY22E
Revenue	1,12,923	1,23,689	1,32,921	1,48,499	1,65,983
EBITDA	26,245	27,710	31,258	36,283	41,483
EBITDA Margin (%)	23.2	22.4	23.5	24.4	25.0
APAT	17,217	19,944	22,136	25,957	29,941
EPS (Rs)	178.6	206.9	229.6	269.3	310.6
EPS (% chg)	27.5	15.8	11.0	17.3	15.3
ROE (%)	48.5	71.2	74.9	63.2	68.0
P/E (x)	88.8	76.7	69.1	58.9	51.1
EV/EBITDA (x)	56.9	54.4	47.4	40.7	35.4
P/BV (x)	41.6	79.2	38.5	36.1	33.5

Source: Company, Emkay Research



Change in Estimates

EPS Chg CY20E/CY21E (%)	(2.6)/(2.4)
Target Price change (%)	1.2
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

EPS Estimates		
	CY20E	CY21E
Emkay	229.6	269.3
Consensus	223.5	265.3
Mean Consensus TP (12M)	Rs 16,937	

Stock Details

Bloomberg Code	NEST IN
Face Value (Rs)	10
Shares outstanding (mn)	96
52 Week H/L	18,370 / 12,200
M Cap (Rs bn/USD bn)	1,530 / 20.78
Daily Avg Volume (nos.)	1,22,089
Daily Avg Turnover (US\$ mn)	27.0

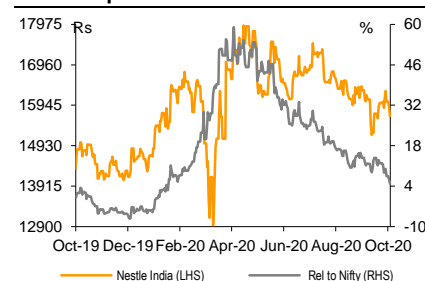
Shareholding Pattern Sep '20

Promoters	62.8%
FIIIs	11.5%
DIIIs	8.9%
Public and Others	16.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(8)	(9)	6
Rel. to Nifty	(4)	(14)	(29)	3

Relative price chart



Source: Bloomberg

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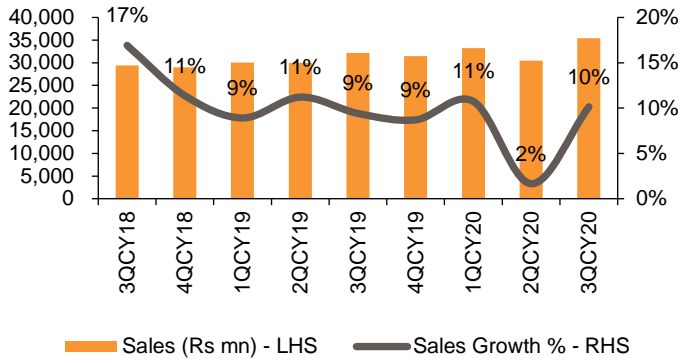
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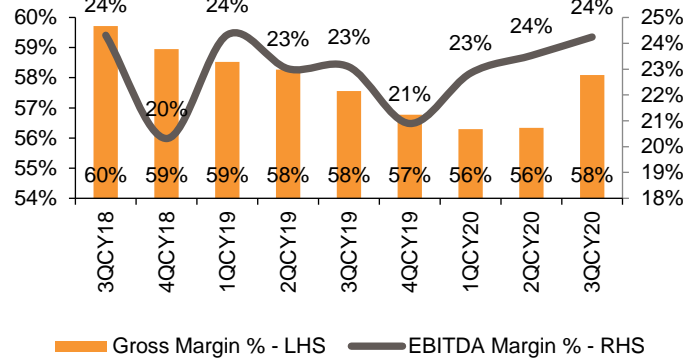
Story in Charts

Exhibit 1: Good recovery in sales growth driven by volume and mix



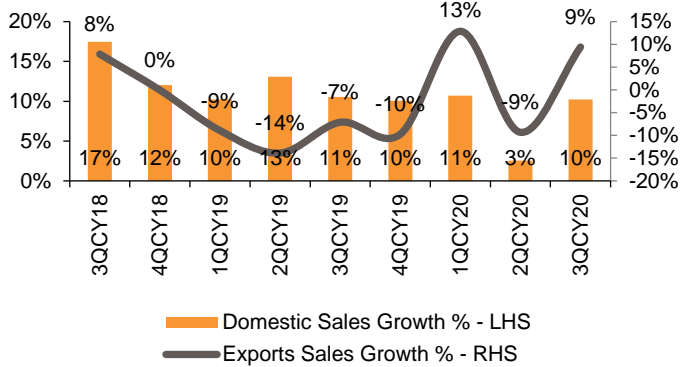
Source: Company, Emkay Research

Exhibit 2: Softer input prices and control on overheads drive margin expansion



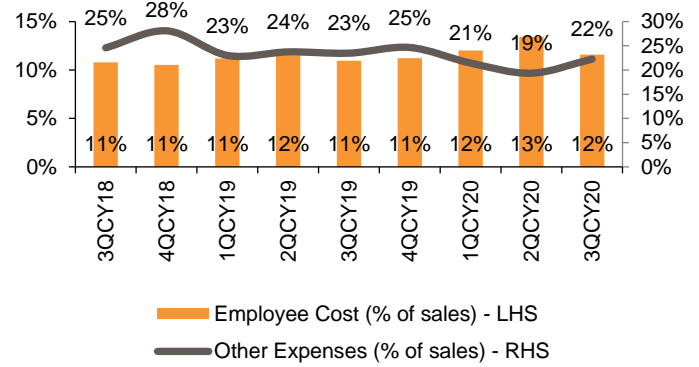
Source: Company, Emkay Research

Exhibit 3: Domestic sales boosted by in in-home consumption and improved supply chain



Source: Company, Emkay Research

Exhibit 4: Higher employee expenses due to Covid-19 incentives offered



Source: Company, Emkay Research

Exhibit 5: One-year forward PER

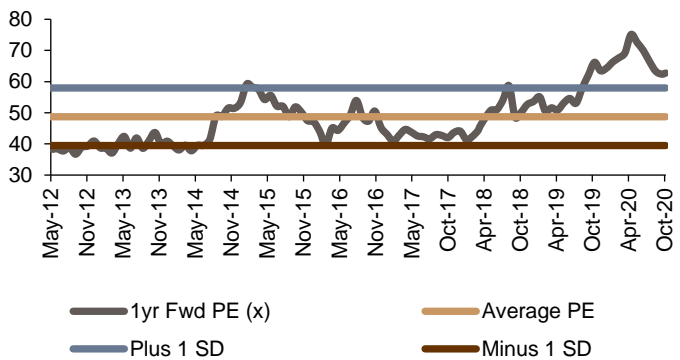


Exhibit 7: Actual vs. Estimates (Q3CY20)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues	35,417	34,544	34,427	2.5%	2.9%	Growth driven by both domestic sales and exports
EBITDA	8,586	8,439	8,458	1.7%	1.5%	
EBITDA Margin (%)	24.2%	24.4%	24.6%	-19	-33	16% increase in employee costs limits margin gains
APAT	5,987	6,020	5,732	-0.6%	4.4%	Lower other income and low ETR in base impact PAT

Source: Company, Emkay Research

Exhibit 8: Quarterly Performance (Standalone)

Y/E, Mar (Rs. mn)	3QCY19	4QCY19	1QCY20	2QCY20	3QCY20	YoY (%)	QoQ (%)	9MCY19	9MCY20	Growth (%)
Revenue	32,158	31,493	33,253	30,504	35,417	10.1	16.1	92,196	99,174	7.6
Expenditure	24,734	24,913	25,657	23,329	26,831	8.5	15.0	70,560	75,816	7.4
Consumption of RM	13,650	13,614	14,533	13,319	14,843	8.7	11.4	38,625	42,695	10.5
as % of sales	42.4%	43.2%	43.7%	43.7%	41.9%			41.9%	43.1%	
Employee Cost	3,530	3,532	3,993	4,104	4,101	16.2	-0.1	10,341	12,199	18.0
as % of sales	11.0%	11.2%	12.0%	13.5%	11.6%			11.2%	12.3%	
Other expenditure	7,554	7,767	7,130	5,906	7,887	4.4	33.6	21,594	20,923	-3.1
as % of sales	23.5%	24.7%	21.4%	19.4%	22.3%			23.4%	21.1%	
EBITDA	7,424	6,580	7,596	7,176	8,586	15.6	19.7	21,636	23,358	8.0
Depreciation	911	936	914	924	911	0.0	-1.4	2,766	2,749	-0.6
EBIT	6,514	5,645	6,683	6,252	7,675	17.8	22.8	18,870	20,609	9.2
Other Income	564	447	429	379	345	-38.9	-9.1	2,022	1,153	-43.0
Exceptional items	81	-49	73	109	155			298	336	12.8
PBT	6,997	6,141	7,039	6,522	7,865	12.4	20.6	20,594	21,426	4.0
Total Tax	1,044	1,415	1,784	1,657	1,994	91.0	20.4	5,636	5,435	-3.6
Reported PAT	5,953	4,726	5,254	4,866	5,871	-1.4	20.7	14,958	15,991	6.9
Extra ordinary items	-69	38	-54	-81	-116			298	336	12.8
Adjusted PAT	6,021	4,689	5,309	4,947	5,987	-0.6	21.0	15,170	16,242	7.1
Adjusted EPS (Rs)	62.5	48.6	55.1	51.3	62.1	-0.6	21.0	157	168	7.1

Margins (%)						(bps)	(bps)			
EBIDTA	23.1	20.9	22.8	23.5	24.2	120	70	23.5	23.6	10
EBIT	20.3	17.9	20.1	20.5	21.7	140	120	20.5	20.8	30
EBT	21.8	19.5	21.2	21.4	22.2	40	80	22.3	21.6	-70
PAT	18.7	14.9	16.0	16.2	16.9	-180	70	16.5	16.4	-10
Effective Tax rate	14.9	23.0	25.3	25.4	25.4	1,040	0	27.4	25.4	-200

Source: Company, Emkay Research

Exhibit 9: Revision in Earnings' Estimates

	CY20E			CY21E			CY22E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	1,31,704	1,32,921	0.9	1,48,293	1,48,499	0.1	1,64,879	1,65,983	0.7
EBITDA	31,347	31,258	(0.3)	36,219	36,283	0.2	40,982	41,483	1.2
EBITDA Margin (%)	23.8	23.5	-30 bps	24.4	24.4	0 bps	24.9	25.0	10 bps
APAT	22,719	22,136	(2.6)	26,593	25,957	(2.4)	30,447	29,941	(1.7)
EPS	235.7	229.6	(2.6)	275.9	269.3	(2.4)	315.8	310.6	(1.7)

Source: Company, Emkay Research

Exhibit 10: Revenue Assumptions

	CY18	CY19	CY20E	CY21E	CY22E
Milk Products and Nutrition	8%	9%	7%	10%	10%
Beverages	10%	-1%	9%	11%	12%
Prepared Dishes and cooking aids	15%	13%	9%	13%	13%
Chocolate and confectionery	15%	17%	6%	14%	13%
Total Revenue (Rs mn)	1,12,162	1,22,953	1,32,184	1,47,689	1,65,093

Source: Company, Emkay Research

Exhibit 11: Relative Valuation

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Asian Paints	2,120	2,034	Hold	1,920	29.4	37.7	43.6	72.1	56.3	48.7	45.6	36.5	31.6
Berger Paints	609	592	Sell	450	7.6	9.5	11.1	80.3	64.0	55.0	49.8	40.6	35.0
Britannia	3,470	835	Buy	4,500	79.7	85.2	98.8	43.5	40.7	35.1	33.0	31.2	27.2
Colgate	1,465	398	Buy	1,600	33.2	36.1	40.5	44.1	40.6	36.2	28.6	26.3	23.5
Dabur	519	918	Hold	500	10.0	11.7	13.2	51.9	44.5	39.3	41.9	35.1	30.7
Emami	361	160	Hold	270	11.4	12.6	13.9	31.6	28.7	26.0	21.6	19.2	17.0
GCPL	681	697	Hold	645	15.7	17.5	20.0	43.4	38.8	34.0	30.0	27.0	23.7
HUL	2,144	5,037	Hold	2,250	35.2	42.6	49.1	60.9	50.4	43.6	42.8	35.5	30.9
ITC	171	2,100	Buy	255	10.6	13.2	14.6	16.2	13.0	11.7	11.9	9.4	8.4
Marico	359	463	Hold	350	8.8	9.9	11.0	40.6	36.2	32.7	28.5	25.4	22.9
Nestle	15,865	1,530	Hold	15,800	229.6	269.3	310.6	69.1	58.9	51.1	47.4	40.7	35.4
Pidilite	1,500	762	Sell	1,200	21.9	27.8	31.5	68.6	54.0	47.6	48.5	38.3	33.6
Radico Khaitan	448	60	Buy	600	18.8	22.8	26.5	23.9	19.7	16.9	14.8	12.3	10.5
United Breweries	960	254	Buy	1,225	11.8	22.8	27.9	81.2	42.2	34.5	33.8	22.0	18.6
United Spirits	527	383	Buy	640	9.0	14.7	17.2	58.4	35.9	30.7	32.8	22.4	19.5

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Dec (Rs mn)	CY18	CY19	CY20E	CY21E	CY22E
Revenue	1,12,923	1,23,689	1,32,921	1,48,499	1,65,983
Expenditure	86,678	95,979	1,01,662	1,12,216	1,24,501
EBITDA	26,245	27,710	31,258	36,283	41,483
Depreciation	3,357	3,164	3,524	3,799	4,102
EBIT	22,888	24,547	27,734	32,484	37,380
Other Income	2,589	2,469	1,792	2,150	2,580
Interest expenses	41	17	0	0	0
PBT	25,437	26,999	29,526	34,634	39,961
Tax	8,220	7,054	7,390	8,677	10,020
Extraordinary Items	(1,148)	(249)	200	200	200
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	16,069	19,696	22,336	26,157	30,141
Adjusted PAT	17,217	19,944	22,136	25,957	29,941

Balance Sheet

Y/E Dec (Rs mn)	CY18	CY19	CY20E	CY21E	CY22E
Equity share capital	964	964	964	964	964
Reserves & surplus	35,773	18,358	38,808	41,424	44,649
Net worth	36,737	19,323	39,772	42,388	45,614
Minority Interest	0	0	0	0	0
Loan Funds	351	531	531	531	531
Net deferred tax liability	588	180	180	180	180
Total Liabilities	37,677	20,034	40,483	43,099	46,325
Net block	24,006	22,267	21,543	22,544	23,242
Investment	26,585	17,511	17,511	17,511	17,511
Current Assets	29,238	29,371	53,508	60,718	69,376
Cash & bank balance	16,101	13,081	38,332	43,883	50,710
Other Current Assets	391	377	377	377	377
Current liabilities & Provision	43,204	50,549	53,511	59,106	65,237
Net current assets	(13,966)	(21,177)	(3)	1,612	4,139
Misc. exp	0	0	0	0	0
Total Assets	37,677	20,034	40,483	43,099	46,325

Cash Flow

Y/E Dec (Rs mn)	CY18	CY19	CY20E	CY21E	CY22E
PBT (Ex-Other income) (NI+Dep)	22,848	24,530	27,734	32,484	37,380
Other Non-Cash items	0	0	0	0	0
Chg in working cap	3,746	3,782	4,078	3,936	4,299
Operating Cashflow	20,623	24,189	28,146	31,741	35,962
Capital expenditure	(1,312)	(1,805)	(2,800)	(4,800)	(4,800)
Free Cash Flow	19,312	22,384	25,346	26,941	31,162
Investments	(6,796)	9,074	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(5,519)	9,738	(1,008)	(2,650)	(2,220)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	0	180	0	0	0
Dividend paid (incl tax)	(13,134)	(35,563)	(20,248)	(23,141)	(26,516)
Other Financing Cash Flow	(404)	(1,548)	18,362	(400)	(400)
Financing Cashflow	(13,578)	(36,947)	(1,886)	(23,541)	(26,916)
Net chg in cash	1,526	(3,020)	25,252	5,550	6,827
Opening cash position	14,574	16,101	13,081	38,332	43,883
Closing cash position	16,101	13,081	38,332	43,883	50,710

Source: Company, Emkay Research

Key Ratios

Profitability (%)	CY18	CY19	CY20E	CY21E	CY22E
EBITDA Margin	23.2	22.4	23.5	24.4	25.0
EBIT Margin	20.3	19.8	20.9	21.9	22.5
Effective Tax Rate	32.3	26.1	25.0	25.1	25.1
Net Margin	15.2	16.1	16.7	17.5	18.0
ROCE	69.4	93.6	97.6	82.9	89.4
ROE	48.5	71.2	74.9	63.2	68.0
RoIC	(819.2)	(272.0)	(192.7)	(177.9)	(173.6)

Per Share Data (Rs)	CY18	CY19	CY20E	CY21E	CY22E
EPS	178.6	206.9	229.6	269.3	310.6
CEPS	213.4	239.7	266.2	308.7	353.1
BVPS	381.1	200.4	412.6	439.7	473.2
DPS	113.0	306.0	210.0	240.0	275.1

Valuations (x)	CY18	CY19	CY20E	CY21E	CY22E
PER	88.8	76.7	69.1	58.9	51.1
P/CEPS	74.3	66.2	59.6	51.4	44.9
P/BV	41.6	79.2	38.5	36.1	33.5
EV / Sales	13.3	12.3	11.2	10.0	8.9
EV / EBITDA	56.9	54.4	47.4	40.7	35.4
Dividend Yield (%)	0.7	1.9	1.3	1.5	1.7

Gearing Ratio (x)	CY18	CY19	CY20E	CY21E	CY22E
Net Debt/ Equity	(1.0)	(1.2)	(1.2)	(1.3)	(1.3)
Net Debt/EBIDTA	(1.3)	(0.8)	(1.5)	(1.5)	(1.5)
Working Cap Cycle (days)	(97.2)	(101.1)	(105.3)	(103.9)	(102.4)

Growth (%)	CY18	CY19	CY20E	CY21E	CY22E
Revenue	12.8	9.5	7.5	11.7	11.8
EBITDA	23.2	5.6	12.8	16.1	14.3
EBIT	28.0	7.2	13.0	17.1	15.1
PAT	31.2	22.6	13.4	17.1	15.2

Quarterly (Rs mn)	Q3CY19	Q4CY19	Q1CY20	Q2CY20	Q3CY20
Revenue	32,158	31,493	33,253	30,504	35,417
EBITDA	7,424	6,580	7,596	7,176	8,586
EBITDA Margin (%)	23.1	20.9	22.8	23.5	24.2
PAT	5,953	4,726	5,254	4,866	5,871
EPS (Rs)	61.7	49.0	54.5	50.5	60.9

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	62.8	62.8	62.8	62.8	62.8
FIs	12.6	12.1	11.8	12.1	11.5
DIs	8.5	8.9	9.1	8.7	8.9
Public and Others	16.1	16.3	16.3	16.4	16.8

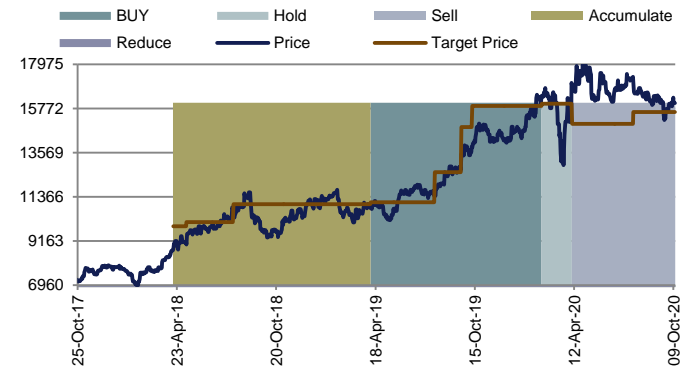
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Jul-20	17,095	15,600	12m	Sell	Ashit Desai
13-May-20	16,512	15,000	12m	Sell	Ashit Desai
14-Apr-20	16,600	15,000	12m	Sell	Ashit Desai
08-Apr-20	16,871	15,000	12m	Sell	Ashit Desai
13-Feb-20	16,412	16,000	12m	Hold	Ashit Desai
25-Dec-19	14,586	15,900	12m	Buy	Ashit Desai
10-Oct-19	13,820	15,900	12m	Buy	Ashit Desai
20-Sep-19	13,499	14,850	12m	Buy	Ashit Desai
03-Aug-19	11,412	12,600	12m	Buy	Ashit Desai
14-May-19	10,199	11,100	12m	Buy	Ashit Desai
09-Apr-19	10,790	11,100	12m	Buy	Ashit Desai
14-Feb-19	10,629	11,000	12m	Accumulate	Ashit Desai
26-Oct-18	9,569	11,000	12m	Accumulate	Ashit Desai
03-Aug-18	10,325	11,000	12m	Accumulate	Ashit Desai
10-May-18	8,982	10,100	12m	Accumulate	Ashit Desai
16-Apr-18	8,749	9,900	12m	Accumulate	Ashit Desai

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Consumer Goods & Retail



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Sector

Consumer Goods & Retail

Analyst bio

Ashit Desai holds a PGDM and FRM (US GARP) with 12 years of research experience on the sell side. His team currently covers 24 stocks in the Indian Consumer and Retail space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Consumer Goods & Retail	11.67	11.67	0%	0	100.00
Asian Paints	1.44	0.71	-51%	-73	6.12
Berger Paints	0.23	0.00	-100%	-23	0.00
Britannia Industries	0.62	0.89	43%	26	7.58
Colgate-Palmolive	0.29	0.35	19%	6	2.97
Dabur India	0.44	0.49	11%	5	4.16
Emami	0.12	0.00	-100%	-12	0.00
Godrej Consumer Products	0.39	0.46	19%	7	3.95
Hindustan Unilever	2.97	2.39	-20%	-58	20.45
ITC	2.25	2.48	10%	24	21.26
Marico	0.28	0.33	18%	5	2.84
Nestle India	0.87	0.70	-19%	-17	6.00
Pidilite Industries	0.35	0.00	-100%	-35	0.00
Radico Khaitan	0.00	0.38	NA	38	3.25
United Breweries	0.10	0.46	360%	36	3.96
United Spirits	0.00	0.29	NA	29	2.46
Varun Beverages	0.10	0.22	129%	13	1.91
ABFRL	0.07	0.26	251%	19	2.22
Jubilant FoodWorks	0.21	0.22	9%	2	1.93
Page Industries	0.18	0.00	-100%	-18	0.00
Shoppers Stop	0.00	0.00	NA	0	0.00
Titan Company	0.78	1.04	33%	26	8.93
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

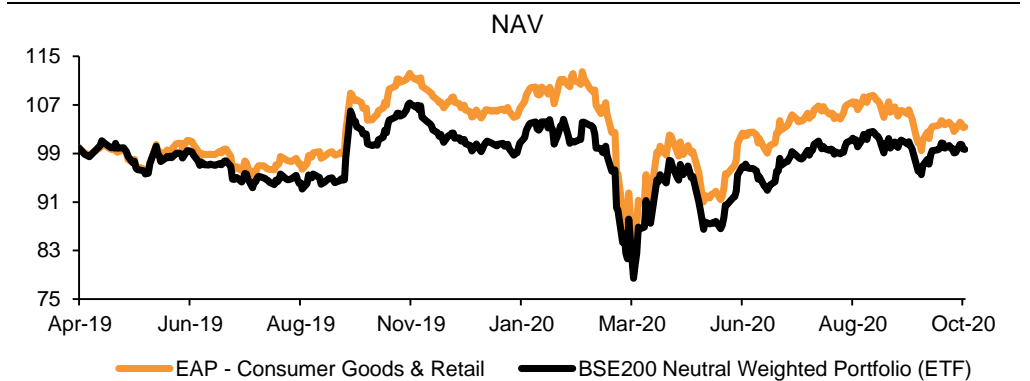
Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Jan-20	23-Apr-20	23-Jul-20	22-Sep-20	22-Oct-20
EAP - Consumer Goods & Retail	100.0	108.8	99.4	106.7	100.7	103.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	103.3	95.9	100.2	96.1	99.7

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 24 Oct 2020 02:51:40 (SGT)

Dissemination Date: 24 Oct 2020 02:52:40 (SGT)

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