

Nestle India Ltd

ADD

CMP Rs 17,095

Target Rs 18,157

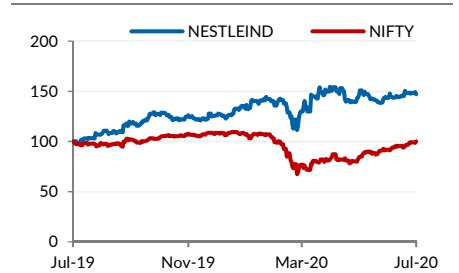
Upside 6.2%

HIGHLIGHTS	✓ NEST reported a 2%/5%/11% growth in revenue/EBITDA/PAT with a 3% domestic sales growth and a 9% decline in export sales.
	✓ Factories operated at 75% utilization on an average with Rs 286mn incremental COVID related costs in addition to higher incentives offered to the limited available manpower further impacting profitability.
	✓ Indicative domestic volume growth of 2% led by strong performance of dairy, coffee and noodles portfolio which faced initial supply constraints.
	✓ EBITDA margins improved 80bps yoy to 24.5% despite milk-price led 200bps compression in gross margin and higher COVID spends led by lower marketing spends and other overheads.
	✓ E-commerce channel (3.6% of sales) grew 122% yoy while Out of Home consumption channels witnessed a sharp decline.
	✓ While margins are clearly above estimates, revenue growth fell short of expectations given the supply disruptions which have now normalized.
Our View	✓ We reiterate our ADD rating on the stock as it provides high growth resilience in the current environment due to the nature of its portfolio and strong pedigree and distribution strength.
	✓ We maintain our price target at Rs 18,157 based on 60x CY22E earnings.
	✓ We maintain our estimates as we believe a 11%/14% revenue/PAT CAGR over CY19-22E remains achievable despite near-term hiccups.
Valuation	✓ NEST is currently trading at 65x/56x CY21/22E earnings.
Divergence from Consensus	✓ Our earnings estimates are unchanged, remaining 3% and 1% below consensus estimates for CY21/22 respectively.
Risk to our call	✓ Further unexpected disruptions in manufacturing or supply chain
	✓ Sharp inflation in key raw materials impacting margins adversely

Stock data (as on Jul 28, 2020)

Nifty	11,301
52 Week h/l (Rs)	18,370/11,150
Market cap (Rs/USD mn)	1648/22.0
Outstanding Shares (mn)	96
6m Avg t/o (Rs mn):	2,555
Div yield (%):	0.8
Bloomberg code:	NEST IN
NSE code:	NESTLEIND

Stock performance



	1M	3M	1Y
Absolute return	2.5%	-2.3%	50.7%

Shareholding pattern (As of Jun'20 end)

Promoter	62.8%
FII+DII	20.8%
Others	16.4%

Δ in earnings estimates

	CY20e	CY21e	CY22e
EPS (New)	227.9	263.6	303.0
EPS (Old)	227.9	263.6	303.0
% change	-	-	-

Exhibit 1: Result table

(Rs mn)	Q2 CY20	Q2 CY19	% YoY	Q1 CY20	% QoQ
Net sales	30,505	30,009	1.7	33,253	(8.3)
Operating profit	7,476	7,127	4.9	7,933	(5.8)
OPM (%)	24.5	23.7		23.9	
Depreciation	924	941	(1.8)	914	1.2
Interest	408	320	27.3	410	(0.4)
Other income	379	726	(47.7)	429	(11.5)
PBT	6,523	6,591	(1.0)	7,039	(7.3)
Tax	1,657	2,213	(25.1)	1,784	(7.1)
Effective tax rate (%)	25.4	33.6		25.3	
PAT	4,866	4,378	11.1	5,254	(7.4)
Minority int / exceptional	0	0		0	
OCI	(290)	(123)		(350)	
Reported PAT	4,866	4,378	11.1	5,254	(7.4)

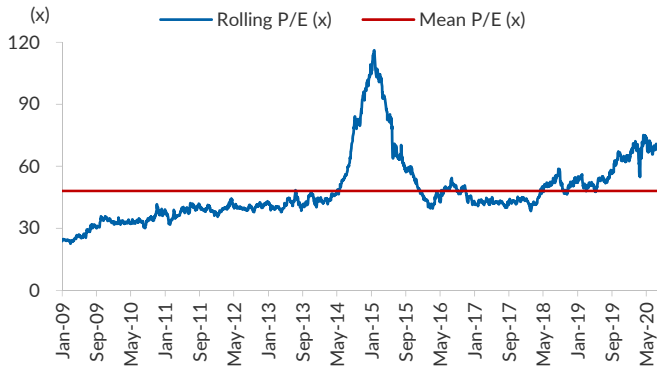
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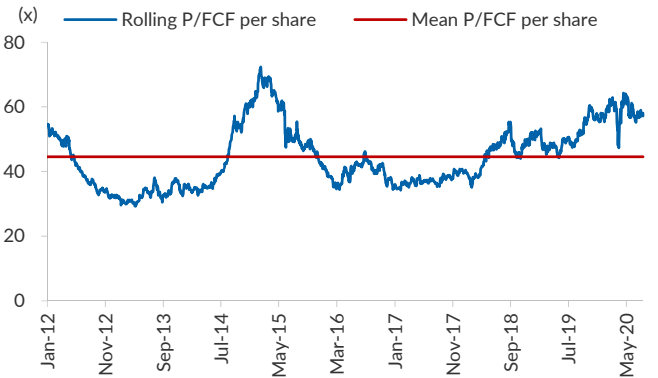
CHARTS

Exhibit 2: Currently trading at 69x one-yr fwd P/E...



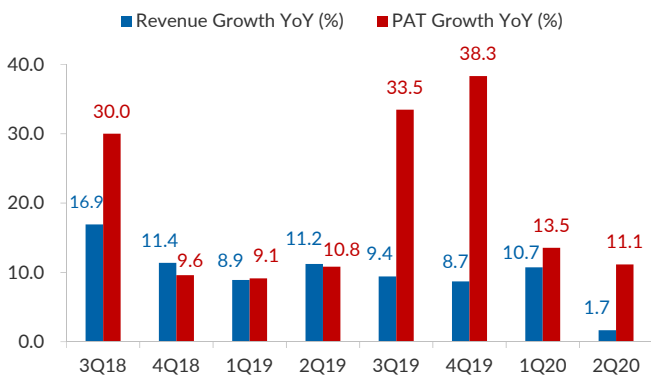
Source: Company, YES Sec - Research

Exhibit 3: ...and 57x one-yr fwd P/FCF



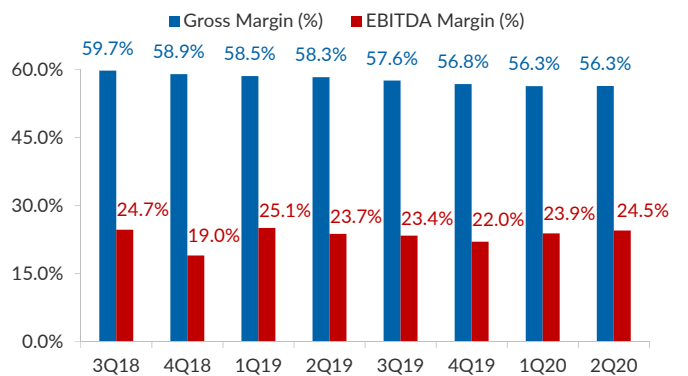
Source: Company, YES Sec - Research

Exhibit 4: PAT growth remains in double-digits for 5th qtr



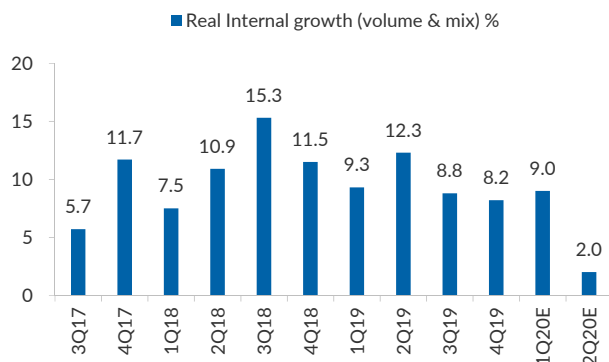
Source: Company, YES Sec - Research

Exhibit 5: GMs stabilize after 6 quarters of decline



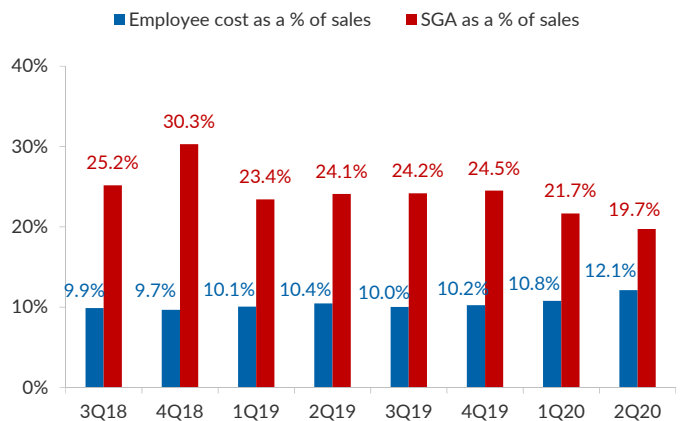
Source: Company, YES Sec - Research

Exhibit 6: Volumes witnessing a temporary blip



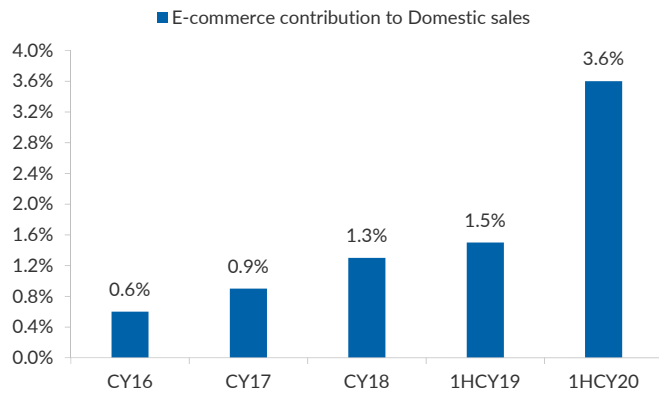
Source: Company, YES Sec - Research

Exhibit 7: SGA lower despite higher COVID-related costs



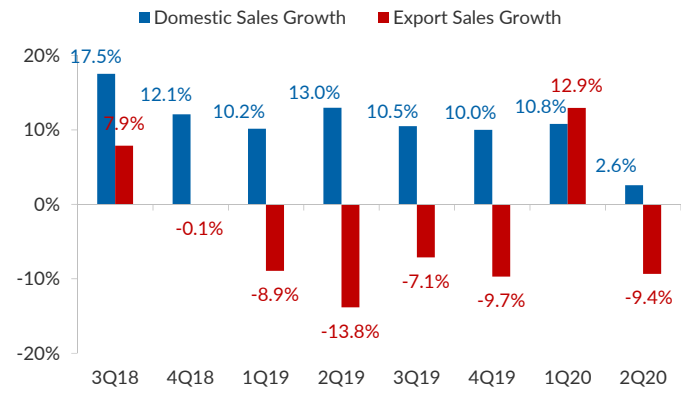
Source: Company, YES Sec - Research

Exhibit 8: E-commerce has seen a 122% growth



Source: Company, YES Sec – Research

Exhibit 9: Exports business remains highly volatile



Source: Company, YES Sec – Research

FINANCIALS

Exhibit 10: Balance sheet

Y/e 31 Mar (Rs mn)	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Equity capital	964	964	964	964	964	964	964
Reserves	31,859	33,242	35,773	18,358	22,985	28,644	35,212
Net worth	32,823	34,206	36,737	19,323	23,949	29,608	36,176
Debt	332	351	351	531	531	531	531
Deferred tax liab (net)	1,553	1,220	588	180	180	180	180
Other non current liabilities	19,729	22,922	24,654	29,073	31,981	35,179	38,697
Total liabilities	54,437	58,699	62,331	49,107	56,641	65,498	75,583
Fixed Asset	29,183	27,103	25,058	23,700	24,502	23,273	21,803
Investments	17,557	19,789	26,585	17,511	17,511	17,511	17,511
Other Non-current Assets	1,704	1,788	1,833	1,832	2,015	2,217	2,439
Net Working Capital	(2,807)	(4,555)	(7,245)	(7,016)	(6,550)	(7,343)	(8,279)
Inventories	9,401	9,025	9,656	12,831	14,002	15,731	17,784
Sundry debtors	979	890	1,246	1,243	1,474	1,656	1,872
Loans and Advances	166	288	179	125	368	414	468
Other current assets	315	170	224	260	286	315	346
Sundry creditors	7,992	9,846	12,404	14,947	16,213	18,214	20,592
Other current liabilities	5,138	4,206	4,573	5,674	5,527	6,209	7,020
Provision	538	875	1,573	855	940	1,034	1,137
Cash & equivalents	8,800	14,574	16,101	13,081	19,162	29,840	42,110
Total Assets	54,437	58,699	62,331	49,107	56,641	65,498	75,583

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Revenue	91,413	100,096	112,922	123,689	134,497	151,097	170,822
Operating profit	20,301	22,214	27,324	29,204	31,171	35,571	40,627
Depreciation	3,537	3,423	3,357	3,438	3,198	3,229	3,470
Interest expense	909	919	1,120	1,249	1,300	1,393	1,491
Other income	1,509	1,769	2,589	2,469	2,716	3,042	3,407
Profit before tax	17,365	19,641	25,437	26,986	29,388	33,991	39,073
Taxes	5,440	6,141	8,220	7,051	7,406	8,566	9,846
Adj. PAT	11,924	13,500	17,217	19,935	21,982	25,425	29,226
Exceptional loss	1,911	1,248	1,148	249	-	-	-
Net profit	10,014	12,252	16,069	19,686	21,982	25,425	29,226

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
PBIT	18,274	20,560	26,557	28,235	30,688	35,384	40,563
Depreciation	3,537	3,423	3,357	3,438	3,198	3,229	3,470
Tax paid	(5,440)	(6,141)	(8,220)	(7,051)	(7,406)	(8,566)	(9,846)
Working capital Δ	(1,972)	1,748	2,690	(229)	(467)	793	937
Other operating items							
Operating cashflow	14,399	19,590	24,384	24,393	26,014	30,840	35,123
Capital expenditure	(1,433)	(1,343)	(1,312)	(2,080)	(4,000)	(2,000)	(2,000)
Free cash flow	12,965	18,247	23,072	22,313	22,014	28,840	33,123
Equity raised	1,420	(890)	(404)	(1,538)	0	0	-
Investments	(4,307)	(2,232)	(6,796)	9,074	-	-	-
Debt financing/disposal	154	20	-	180	-	-	-
Interest Paid	(909)	(919)	(1,120)	(1,249)	(1,300)	(1,393)	(1,491)
Dividends paid	(6,789)	(9,980)	(13,134)	(35,563)	(17,356)	(19,766)	(22,659)
Other items	1,270	1,528	(93)	3,762	2,724	2,997	3,296
Net Δ in cash	3,805	5,774	1,526	(3,020)	6,082	10,678	12,270

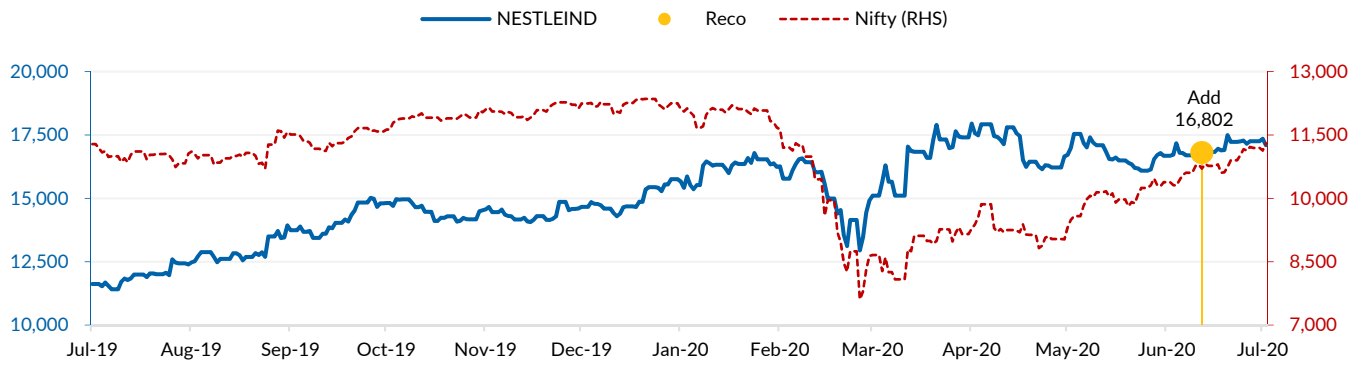
Exhibit 13: Du-Pont Analysis

Y/e 31 Mar (Rs mn)	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Tax burden (x)	0.69	0.69	0.68	0.74	0.75	0.75	0.75
Interest burden (x)	0.95	0.96	0.96	0.96	0.96	0.96	0.96
EBIT margin (x)	0.20	0.21	0.24	0.23	0.23	0.23	0.24
Asset turnover (x)	1.42	1.41	1.46	1.63	1.79	1.77	1.75
Financial leverage (x)	2.11	2.11	2.18	2.70	3.46	3.18	2.97
RoE (%)	39	40.3	48.5	71.1	101.6	94.9	88.9

Exhibit 14: Ratio analysis

Y/e 31 Mar	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Growth matrix (%)							
Revenue growth	12	9.5	12.8	9.5	8.7	12.3	13.1
Op profit growth	93	9.4	23.0	6.9	6.7	14.1	14.2
EBIT growth	124	12.5	29.2	6.3	8.7	15.3	14.6
Net profit growth	112	13.2	27.5	15.8	10.3	15.7	14.9
Profitability ratios (%)							
OPM	22.2	22.2	24.2	23.6	23.2	23.5	23.8
EBIT margin	20.0	20.5	23.5	22.8	22.8	23.4	23.7
Net profit margin	13.0	13.5	15.2	16.1	16.3	16.8	17.1
RoCE	59.4	60.7	74.1	99.2	138.4	129.6	121.4
RoNW	39.1	40.3	48.5	71.1	101.6	94.9	88.9
RoA	18.5	19.1	22.3	26.3	29.3	29.9	29.9
Per share ratios							
EPS	123.7	140.0	178.6	206.8	228.0	263.7	303.1
Dividend per share	58.5	86.0	113.0	306.0	180.0	205.0	235.0
Cash EPS	160.4	175.5	213.4	242.4	261.2	297.2	339.1
Book value per share	340.4	354.8	381.0	200.4	248.4	307.1	375.2
Payout (%)							
Dividend payout	57	73.9	76.3	178.4	79.0	77.7	77.5
Tax payout	31	31.3	32.3	26.1	25.2	25.2	25.2
Liquidity ratios							
Debtor days	4	3.2	4.0	3.7	4.0	4.0	4.0
Inventory days	38	32.9	31.2	37.9	38.0	38.0	38.0
Creditor days	31.9	35.9	40.1	44.1	44.0	44.0	44.0

Recommendation Tracker



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