

Nestle India

Muted 2Q; hit by supply disruptions

Nestle's 2QCY20 was a tad soft as the company clocked 2% YoY revenue growth. Domestic business clocked a mere 2.6% YoY growth (expectation 5%), much lower than its 11-12% consistent show in the last 8 quarters. Supply chain impact was higher for Nestle as Britannia and Marico's Saffola clocked a strong 26/16% YoY growth. Maggi, Nescafe and milk portfolio have done well at the end of the quarter. E-commerce channel was up 122% YoY (3.6% of domestic revenue) as MT continued to struggle during the quarter. OOH consumption experienced a sharp decline on account of lockdown and weak consumer sentiments. GM remained weak and contracted by 190bps YoY to 56%. Cost control initiatives expanded EBITDA margin by 130bps YoY to 25.2%. We expect supply chain related impact to normalize and pantry loading led bump up is now in the past. We maintain our EPS estimate for CY20/CY21/CY22. The stock is trading at 65x P/E on CY21 EPS and limits absolute upside in the medium term, making the risk-reward unattractive. We value Nestle at 50x P/E on Jun-22E EPS and derive a target price of Rs 14,103. Maintain REDUCE.

- **Weak domestic growth:** Net sales grew by 2% YoY (+11% in 2QCY19 and +11% in 1QCY20) vs expectation of 4% YoY growth. Domestic sales grew by 2.6% YoY while exports declined by 9.3% YoY. Domestic volume growth of ~2% YoY (+12% in 2QCY19 and +9% in 1QCY20). July has witnessed sporadic lockdowns in certain areas which has impacted the recovery rate of discretionary categories. Consumers are still cautious about spending on non-necessities and demand for OOH will remain under pressure.
- **Margins in-line:** Gross margin dipped by 193bps YoY (-137bps in 2QCY19 and -223bps in 1QCY20) vs expectation of a dip of 157bps YoY. Employee expenses grew by 18% YoY. However, other expenses declined by 19% YoY leading to and EBITDA margin expansion of 130bps YoY (-109bps in 2QCY19 and -146bps in 1QCY20) to 25.2%. Overall EBITDA grew by 7% YoY to Rs 7.7bn vs our expectation of Rs 7.6bn. Sharp dip in other income was offset by lower tax rate and APAT grew by 11% YoY (+11% in 2QCY19 and +10% in 1QCY20) to Rs 4.9bn.
- **Press release takeaways:** (1) E-commerce contributed 3.6% to revenue in 2QCY20; (2) milk products, Nescafe and Maggi faced supply constraints at the start of the quarter; (3) net cash grew from Rs 12.5bn in December to Rs 19.8bn in June.

Quarterly/Annual Financial summary

YE Dec (Rs mn)	2Q CY20	2Q CY19	YoY (%)	1Q CY20	QoQ (%)	CY19	CY20E	CY21E	CY22E
Net Sales	30,505	30,009	1.7	33,253	(8.3)	123,689	134,166	148,289	164,355
EBITDA	7,677	7,161	7.2	8,103	(5.3)	29,275	31,735	35,856	40,150
APAT	4,866	4,379	11.1	5,254	(7.4)	19,879	22,220	25,388	29,005
Diluted EPS (Rs)	50.5	45.4	11.1	54.5	(7.4)	206.2	230.5	263.3	300.8
P/E (x)						83.0	74.2	65.0	56.9
EV / EBITDA (x)						55.3	50.7	44.6	39.5
RoCE (%)						73.7	66.3	61.3	66.6

Source: Company, HSIE Research

REDUCE

CMP (as on 28 Jul 2020)	Rs 17,095
Target Price	Rs 14,103
NIFTY	11,301

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 14,103	Rs 14,103
EPS %	FY21E 0%	FY22E 0%

KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (Rs bn) / (\$ mn)	1,648/22,021
6m avg traded value (Rs mn)	2,655
52 Week high / low	Rs 18,370/11,128

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.7)	10.9	49.4
Relative (%)	(22.6)	16.9	47.7

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	62.76	62.76
FIs & Local MFs	9.12	8.71
FPIs	11.81	12.10
Public & Others	16.31	16.43
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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