

Nestle India (NEST IN)

Rating: REDUCE | CMP: Rs16,400 | TP: Rs11,886

February 13, 2020

Q4CY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY20E	CY21E	CY20E	CY21E
Rating	REDUCE		REDUCE	
Target Price	11,886		12,093	
Sales (Rs. m)	138,650	153,888	138,650	153,888
% Chng.	-	-	-	-
EBITDA (Rs. m)	31,823	35,764	33,419	37,242
% Chng.	(4.8)	(4.0)	-	-
EPS (Rs.)	224.5	250.4	237.3	262.9
% Chng.	(5.4)	(4.7)	-	-

Key Financials - Standalone

Y/e Dec	CY18	CY19	CY20E	CY21E
Sales (Rs. bn)	113	124	139	154
EBITDA (Rs. bn)	27	29	32	36
Margin (%)	24.2	23.2	23.0	23.2
PAT (Rs. bn)	17	20	22	24
EPS (Rs.)	178.6	203.4	224.5	250.4
Gr. (%)	27.5	13.9	10.4	11.5
DPS (Rs.)	113.0	274.0	176.0	162.0
Yield (%)	0.7	1.7	1.1	1.0
RoE (%)	48.5	64.9	92.6	97.9
RoCE (%)	66.9	83.4	119.1	126.7
EV/Sales (x)	13.7	12.6	11.2	10.1
EV/EBITDA (x)	56.6	54.3	49.0	43.4
PE (x)	91.8	80.6	73.0	65.5
P/BV (x)	43.0	66.7	68.7	60.1

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.16,549 / Rs.9,875
Sensex / Nifty	41,460 / 12,175
Market Cap	Rs.1,581bn / \$ 22,160m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.2300.17m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.61
Domestic Institution	8.52
Public & Others	16.11
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.9	37.9	57.4
Relative	13.0	22.9	36.8

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Life time High Valuations; Switch to Britannia

Quick Pointers:

- Domestic sales grew 10%, exports decline 9.8%.
- Gross margins declined 220bps YoY to 56.8%, a 9 quarter low margins.
- Good response to Maggi Fusion Range and Milo Cocoa Malt Beverage mix

We cut our CY20 and CY21 EPS by 5.4% and 4.7% and maintain Reduce rating on Nestle given that it represents a classic confluence of life time high PE multiples and EBITDA margins in a scenario of rising input costs with an estimated 10% PAT CAGR over CY19-21. Although NESTLE has been able to report a strong 10% domestic sales growth in a tepid demand scenario, it has also benefitted from a relatively lower exposure to rural India (25% of sales) which has seen significant slowdown in demand from past few quarters. Although NESTLE has sustained growth momentum in KITKAT, MUNCH, Nescafe RTD and Maggi, success of new launches holds key to sustaining double digit sales growth.

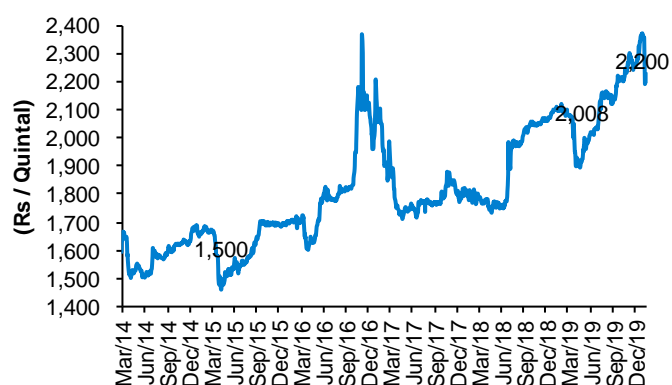
Gross margins have decline by 220bps YoY in 4QCY19 and sustaining these margins looks difficult given firm prices of Wheat, Sugar, Milk and SMP. We estimate PBT from operations growth CAGR of 10.6% over CY19-21 in comparison to 16% CAGR in past 3 years. Although strong parentage, brands and market leadership in key categories are positive, valuations at 65.5x CY21 EPS force us to retain reduce rating. We recommend switch to Britannia (trading at 39.9x FY22 standalone EPS with 15% PBT CAGR over FY20-22).

- Sales up 8.7%, EBITDA grows 9.6%:** Net sales grew 8.7% to Rs31.49bn (Est.32.2bn); Domestic Sales Growth at 10% largely driven by volume & mix. Export Sales dropped by 9.7% due to lower exports of coffee to Turkey. Gross margins were down by 220bps to 56.8% due to higher input costs of Wheat and SMP. EBITDA grew by 9.6% to Rs 6.73bn (Est. Rs7.38bn). EBITDA margins rise by 20bps to 21.4% (Est. 22.9%) as other expenses were down 300 bps. Adj. PAT increased by 15.6% to Rs 4.68bn (Est. Rs4.98bn) mainly led by lower tax rate of 23.2% even though other income was down 40%.
- Maggi and Chocolates segment continue good performance:** MAGGI, KITKAT, Nestle MUNCH, NESCAFE RTD, NANGROW and CEREGROW delivered strong performances during the quarter. New launches like KITKAT DESSERT DELIGHT, MAGGI Fusion Range and MILO Cocoa-Malt Beverage Mix have witnessed encouraging response.
- Input costs are headwinds ahead:** Input costs continue to harden in 4QCY19 resulting in 220bps gross margin decline. Wheat prices are up 9.5% YoY, palm oil is up 35% YoY and Sugar is up 4.7% YoY. In addition, SMP prices are up 47% YoY. We estimate 110bps decline in gross and 40bps decline in EBITDA margins in CY20 due to high input cost inflation.

Exhibit 1: Q4CY19 Results: Adjusted PAT up 15.6% mainly on lower tax rate of 23.2%, Gross margins declined 220bps

Y/e Dec (Rs mn)	Q4CY19	Q4CY18	YoY gr. (%)	Q3CY19	CY19	CY18	YoY gr. (%)
Net Sales	31,493	28,973	8.7	32,158	1,23,689	1,12,923	9.5
Gross Profit	17,879	17,078	4.7	18,508	71,450	67,020	6.6
<i>% of NS</i>	<i>56.8</i>	<i>58.9</i>		<i>57.6</i>	<i>57.8</i>	<i>59.4</i>	
Other Expenses	11,149	10,941	1.9	10,913	42,558	39,696	7.2
EBITDA	6,730	6,137	9.6	7,595	28,892	27,324	5.7
<i>Margins (%)</i>	<i>21.4</i>	<i>21.2</i>		<i>23.6</i>	<i>23.4</i>	<i>24.2</i>	
Depreciation	796	784	1.5	780	3,164	3,357	(5.8)
Interest	284	252	12.8	299	1,198	1,120	7.0
Other Income	447	752	(40.6)	564	2,469	2,589	(4.7)
PBT	6,097	5,854	4.2	7,080	26,999	25,437	6.1
Tax	1,416	1,804	(21.5)	1,045	7,054	8,220	(14.2)
<i>Effective tax rate (%)</i>	<i>23.2</i>	<i>30.8</i>		<i>14.8</i>	<i>26.1</i>	<i>32.3</i>	
Adjusted PAT	4,681	4,049	15.6	6,035	19,944	17,217	15.8

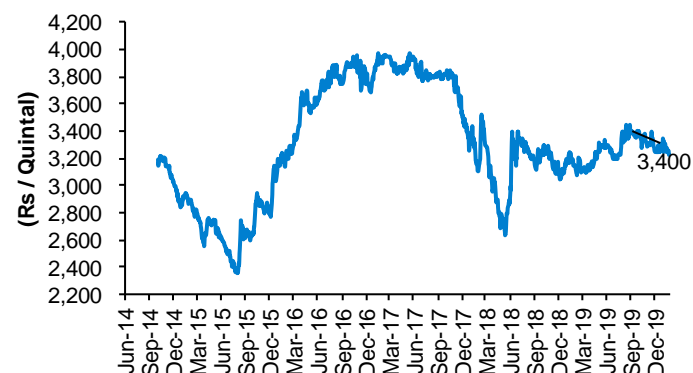
Source: Company, PL

Exhibit 2: Wheat prices up 9.5% YoY and 5.8% QoQ


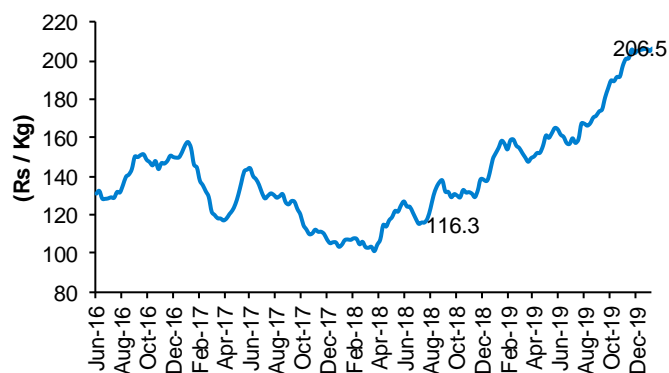
Source: Company, PL

Exhibit 3: Palm oil prices up 35% YoY and 31.6% QoQ


Source: Company, PL

Exhibit 4: Sugar up 4.7% YoY and flat QoQ


Source: Company, PL

Exhibit 5: SMP prices rally; up 47.4% YoY and 17.8% QoQ


Source: Company, 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	1,41,863	1,47,538	1,53,439	1,59,577
Volume growth	1.6%	4.8%	3.5%	4.0%	4.0%	4.0%
Sales Value (Rs m)	48,196	51,876	55,840	60,396	64,696	69,303
Growth in Value	4.0%	7.6%	7.6%	8.2%	7.1%	7.1%
% of sales	47.6%	46.3%	45.2%	43.9%	42.3%	41.0%
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

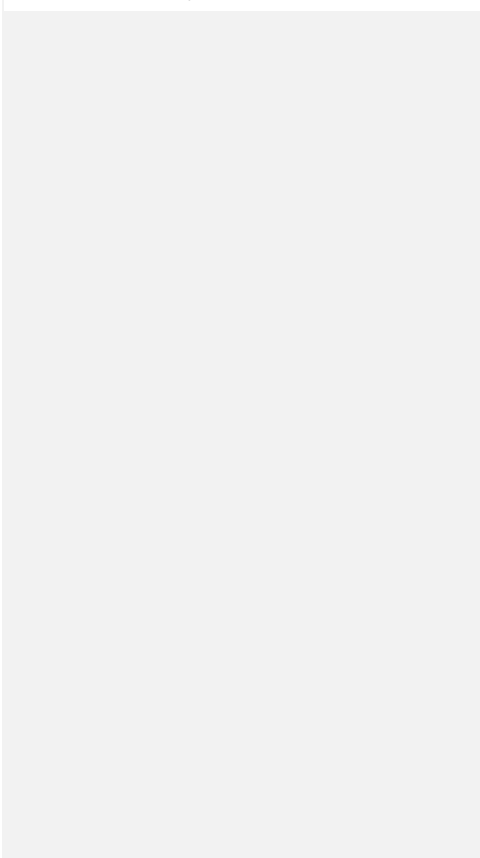
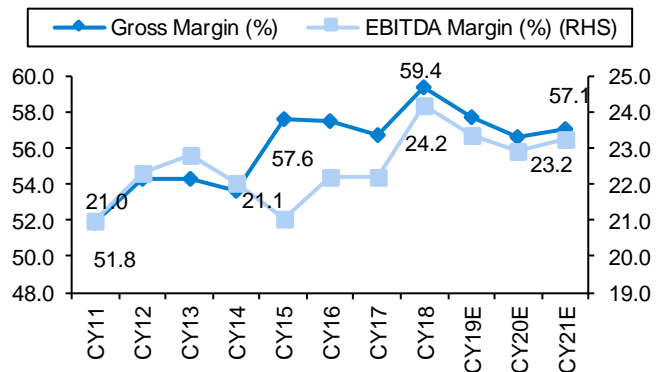
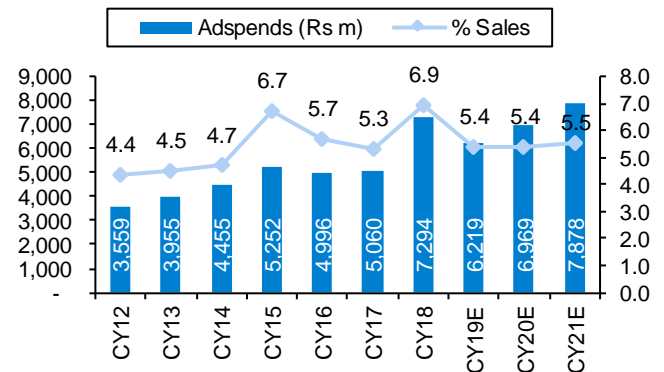
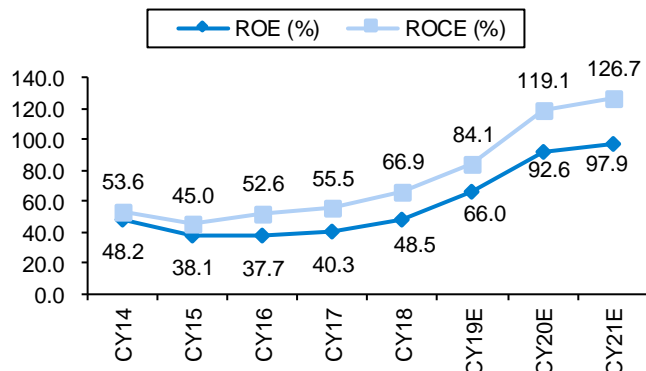


Exhibit 7: Gross Margins have likely peaked out


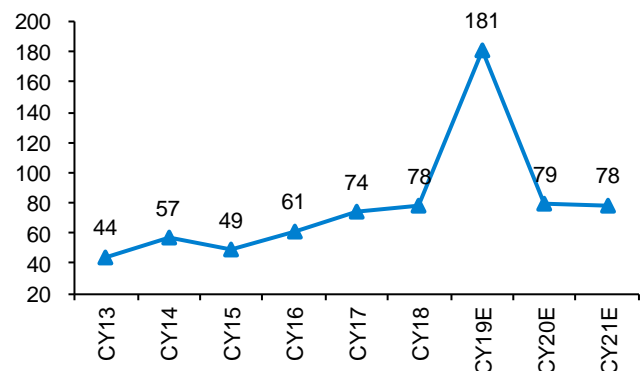
Source: Company, PL

Exhibit 8: Ad-spend is likely to remain elevated


Source: Company, PL

Exhibit 9: ROE and ROCE increased due to special dividend


Source: Company, PL

Exhibit 10: One-time dividend (Rs180/ share) to boost payout


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
Net Revenues	112,923	123,689	138,650	153,888
YoY gr. (%)	12.8	9.5	12.1	11.0
Cost of Goods Sold	45,902	52,472	60,070	66,087
Gross Profit	67,020	71,217	78,580	87,801
Margin (%)	59.4	57.6	56.7	57.1
Employee Cost	11,242	12,541	13,910	15,440
Other Expenses	14,841	14,973	16,263	18,077
EBITDA	27,324	28,659	31,823	35,764
YoY gr. (%)	23.0	4.9	11.0	12.4
Margin (%)	24.2	23.2	23.0	23.2
Depreciation and Amortization	3,357	3,164	3,577	4,158
EBIT	23,967	25,496	28,246	31,606
Margin (%)	21.2	20.6	20.4	20.5
Net Interest	1,120	1,198	1,436	1,625
Other Income	2,589	2,469	2,122	2,283
Profit Before Tax	25,437	26,766	28,932	32,265
Margin (%)	22.5	21.6	20.9	21.0
Total Tax	8,220	7,155	7,282	8,121
Effective tax rate (%)	32.3	26.7	25.2	25.2
Profit after tax	17,217	19,612	21,650	24,144
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	17,217	19,612	21,650	24,144
YoY gr. (%)	27.5	13.9	10.4	11.5
Margin (%)	15.2	15.9	15.6	15.7
Extra Ord. Income / (Exp)	(1,148)	(429)	(1,389)	(1,527)
Reported PAT	16,069	19,182	20,261	22,617
YoY gr. (%)	31.2	19.4	5.6	11.6
Margin (%)	14.2	15.5	14.6	14.7
Other Comprehensive Income	(404)	(685)	(500)	(500)
Total Comprehensive Income	15,665	18,498	19,761	22,117
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	178.6	203.4	224.5	250.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
Non-Current Assets				
Gross Block	57,049	58,560	60,628	70,474
Tangibles	57,049	58,560	60,628	70,474
Intangibles	-	-	-	-
Acc: Dep / Amortization	33,043	36,444	40,155	44,461
Tangibles	33,043	36,444	40,155	44,461
Intangibles	-	-	-	-
Net fixed assets	24,006	22,116	20,473	26,013
Tangibles	24,006	22,116	20,473	26,013
Intangibles	-	-	-	-
Capital Work In Progress	1,052	2,500	7,500	2,000
Goodwill	-	-	-	-
Non-Current Investments	7,735	7,825	7,953	8,022
Net Deferred tax assets	(588)	(950)	(1,314)	(1,720)
Other Non-Current Assets	907	1,068	1,261	1,397
Current Assets				
Investments	34,943	23,664	22,291	28,282
Inventories	9,656	11,125	12,709	14,011
Trade receivables	1,246	1,314	1,453	1,592
Cash & Bank Balance	409	978	1,056	1,173
Other Current Assets	224	246	271	298
Total Assets	80,881	71,635	75,877	83,790
Equity				
Equity Share Capital	964	964	964	964
Other Equity	35,773	22,756	22,059	25,346
Total Network	36,737	23,720	23,023	26,310
Non-Current Liabilities				
Long Term borrowings	351	351	351	204
Provisions	24,649	26,964	29,803	32,947
Other non current liabilities	5	5	5	5
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	12,404	13,597	14,812	15,390
Other current liabilities	6,146	6,048	6,568	7,214
Total Equity & Liabilities	80,881	71,634	75,877	83,790

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
PBT	25,437	26,999	28,932	32,265
Add. Depreciation	3,357	3,164	3,577	4,158
Add. Interest	1,120	1,198	1,436	1,625
Less Financial Other Income	2,589	2,469	2,122	2,283
Add. Other	(2,760)	(1,140)	(1,107)	(943)
Op. profit before WC changes	27,153	30,221	32,838	37,105
Net Changes-WC	(4,198)	10,700	1,228	(6,351)
Direct tax	(8,220)	(7,226)	(7,282)	(8,121)
Net cash from Op. activities	14,735	33,695	26,784	22,633
Capital expenditures	(1,312)	(2,837)	(6,934)	(4,198)
Interest / Dividend Income	2,589	2,469	2,122	2,283
Others	(1,481)	-	-	-
Net Cash from Invst. activities	(203)	(368)	(4,813)	(1,914)
Issue of share cap. / premium	(102)	-	-	-
Debt changes	-	-	-	(147)
Dividend paid	(13,134)	(31,848)	(20,457)	(18,830)
Interest paid	(1,120)	(1,198)	(1,436)	(1,625)
Others	-	-	-	-
Net cash from Fin. activities	(14,356)	(33,046)	(21,894)	(20,602)
Net change in cash	176	280	78	117
Free Cash Flow	13,423	30,858	19,850	18,435

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY18	CY19	CY20E	CY21E
Per Share(Rs)				
EPS	178.6	203.4	224.5	250.4
CEPS	213.4	236.2	261.6	293.5
BVPS	381.0	246.0	238.8	272.9
FCF	139.2	320.1	205.9	191.2
DPS	113.0	274.0	176.0	162.0
Return Ratio(%)				
RoCE	66.9	83.4	119.1	126.7
ROIC	52.6	54.3	53.8	58.2
RoE	48.5	64.9	92.6	97.9
Balance Sheet				
Net Debt : Equity (x)	(1.0)	(1.0)	(1.0)	(1.1)
Net Working Capital (Days)	(5)	(3)	(2)	1
Valuation(x)				
PER	91.8	80.6	73.0	65.5
P/B	43.0	66.7	68.7	60.1
P/CEPS	213.4	236.2	261.6	293.5
EV/EBITDA	56.6	54.3	49.0	43.4
EV/Sales	13.7	12.6	11.2	10.1
Dividend Yield (%)	0.7	1.7	1.1	1.0

Source: Company Data, PL Research

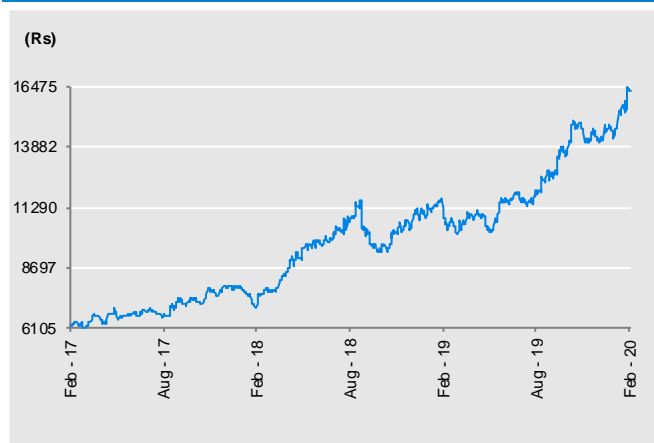
Quarterly Financials (Rs m)

Y/e Dec	Q1CY19	Q2CY19	Q3CY19	Q4CY19
Net Revenue	30,030	30,009	32,158	31,493
YoY gr. (%)	8.9	11.2	9.4	8.7
Raw Material Expenses	12,453	12,522	13,650	13,614
Gross Profit	17,576	17,487	18,508	17,879
Margin (%)	58.5	58.3	57.6	56.8
EBITDA	7,495	7,073	7,595	6,730
YoY gr. (%)	5.3	6.4	2.4	9.6
Margin (%)	25.0	23.6	23.6	21.4
Depreciation / Depletion	780	808	780	796
EBIT	6,715	6,264	6,815	5,934
Margin (%)	22.4	20.9	21.2	18.8
Net Interest	316	299	299	284
Other Income	732	726	564	447
Profit before Tax	7,131	6,691	7,080	6,097
Margin (%)	23.7	22.3	22.0	19.4
Total Tax	2,381	2,213	1,045	1,416
Effective tax rate (%)	33.4	33.1	14.8	23.2
Profit after Tax	4,750	4,478	6,035	4,681
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,750	4,478	6,035	4,681
YoY gr. (%)	8.2	8.0	30.4	15.6
Margin (%)	15.8	14.9	18.8	14.9
Extra Ord. Income / (Exp)	(118)	(100)	(81)	49
Reported PAT	4,633	4,378	5,954	4,730
YoY gr. (%)	9.3	10.8	33.5	38.4
Margin (%)	15.4	14.6	18.5	15.0
Other Comprehensive Income	(99)	(123)	-	(340)
Total Comprehensive Income	4,534	4,256	5,954	4,390
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	49.3	46.4	62.6	48.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Reduce	12,093	14,594
2	9-Nov-19	Reduce	12,093	14,490
3	3-Oct-19	Hold	12,149	13,710
4	20-Aug-19	Hold	10,900	12,004
5	13-Aug-19	Hold	10,900	11,951
6	2-Aug-19	UR	-	11,412
7	4-Jul-19	Accumulate	10,656	11,884
8	14-May-19	Accumulate	10,742	10,300
9	5-Apr-19	Accumulate	10,828	10,981
10	14-Feb-19	Accumulate	11,059	10,629

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,815	1,779
2	Avenue Supermarts	Reduce	1,639	1,877
3	Britannia Industries	BUY	3,725	3,156
4	Colgate Palmolive	Reduce	1,270	1,391
5	Crompton Greaves Consumer Electricals	BUY	306	267
6	Dabur India	Hold	486	479
7	Emami	Accumulate	361	300
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	567	601
11	Hindustan Unilever	Accumulate	2,136	2,034
12	ITC	BUY	310	235
13	Jubilant FoodWorks	BUY	1,913	1,749
14	Kansai Nerolac Paints	Accumulate	545	499
15	Marico	Accumulate	357	315
16	Nestle India	Reduce	12,093	14,594
17	Pidilite Industries	Hold	1,447	1,522
18	Titan Company	Hold	1,264	1,273
19	Voltas	Hold	694	682

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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