

May 14, 2019

Q1CY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY19E	CY20E	CY19E	CY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	10,742		10,828	
Sales (Rs. m)	126,295	140,302	126,658	141,899
% Chng.	(0.3)	(1.1)		
EBITDA (Rs. m)	30,840	34,229	30,628	34,873
% Chng.	0.7	(1.8)		
EPS (Rs.)	201.9	227.0	202.6	235.4
% Chng.	(0.4)	(3.6)		

Key Financials

	CY17	CY18	CY19E	CY20E
Sales (Rs. bn)	100	113	126	140
EBITDA (Rs. bn)	22	27	31	34
Margin (%)	22.2	24.2	24.4	24.4
PAT (Rs. bn)	14	17	19	22
EPS (Rs.)	140.0	178.6	201.9	227.0
Gr. (%)	13.2	27.5	13.0	12.5
DPS (Rs.)	86.0	113.0	126.0	146.0
Yield (%)	0.8	1.1	1.2	1.4
RoE (%)	40.3	48.5	50.9	53.0
RoCE (%)	55.5	66.9	70.6	73.2
EV/Sales (x)	9.6	8.5	7.6	6.7
EV/EBITDA (x)	43.4	35.1	30.9	27.6
PE (x)	73.6	57.7	51.0	45.4
P/BV (x)	29.0	27.0	25.0	23.2

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.11,777 / Rs.9,047
Sensex / Nifty	37,091 / 11,148
Market Cap	Rs.993bn/ \$ 14,082m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1922.14m

Shareholding Pattern (%)

Promoter's	62.83
Foreign	12.55
Domestic Institution	7.69
Public & Others	16.93
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.1)	1.5	8.2
Relative	(1.9)	(3.8)	3.6

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Volume strategy plays out, margins have peaked

Quick Pointers:

- Domestic sales up 10.2% led by volumes
- Gross margins decline 60bps YoY and 40bps QoQ as input costs have started firming up
- Nestle to launch organic food products in "Milk Products and Nutrition"

We are cutting CY19 and CY20 EPS estimates of Nestle by 0.4% and 3.6% due as we believe that input costs led margin tailwinds are over. We now factor in 120bps decline in gross margins in CY19 and 30bps in CY20. Nestlé's 1QCY19 nos show 10.2% domestic sales growth (12% in 4Q18) in a challenging operating environment, showing success of new launches and volume focused strategy. We believe success of new launches and sustained innovation pipeline holds key to growth sustenance.

We expect medium term levers to play out led by 1) improved demand growth momentum on the back of rural package 2) Cluster based strategy to go deeper and increase sales in interiors 3) strong innovation and renovation with high success rates. We estimate 11.9% EBITDA and 12.8% PAT CAGR over CY18-20 and value the stock at 46x March 21 EPS and arrive at target price of Rs10742 (Rs10828 earlier). Retain Accumulate

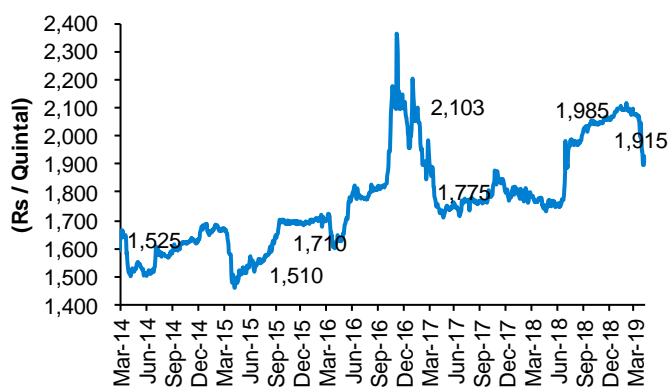
- Net Sales up 8.9%; Adj. PAT grew 8.2%:** Net sales grew 8.9% to Rs30bn (Est.30.3bn) led by domestic sales growth of 10.2% & volume growth across brands. Export sales were down 8.9% due to lower coffee exports to Turkey. Gross margins were down by 57bps to 58.53% due to higher input costs of Wheat, Palm Oil & SMP despite lower coffee and benign sugar prices. Gross margins were down by 57bps to 58.5% due to higher input costs of Wheat, Palm Oil & SMP despite lower coffee and benign sugar prices. EBITDA grew by 5.3% to Rs 7.5bn (Est. Rs7.73bn). EBITDA margins down by 86bps to 25% (Est. 25.5%) on lower gross margins & 36bps increase in staff costs. Adj. PAT increased by 8.2% to Rs 4.75bn (Est. Rs4.94bn) aided by 40bps lower depreciation and 30% increase in other income.
- Maggi, KitKat and Munch drive growth:** 1Q growth has been broad based, led by volumes. However, KitKat, Munch and Maggi have been key growth drivers. We believe that KitKat is showing strong traction showing success of Improved product and value added variants like KitKat Dessert Delight and KITKAT Dessert Delight Brownie Kubes. Munch sales have been led by increased visibility and sales of Munch Nuts, in our view. Nestle has launched more than 40 new products in the past 2 years out of which 25 have been a success. Healthy innovation pipeline and high success rate will enable double digit volume growth.
- Input costs are hardening, Gross margins have peaked out:** Input cost tailwind has given 260 bps gross margin gains in CY18, however margins have peaked out as prices of wheat, SMP and Cocoa are firming up. We estimate 120bps decline in gross margins in CY19 and 30bps in CY20.

Exhibit 1: Q1CY19 Results: Adjusted PAT up 8.2% on 8.9% sales growth, Gross margins have peaked out

Y/e Dec (Rs mn)	Q1CY19	Q1CY18	YoY gr. (%)	Q4CY18	CY18	CY17	YoY gr. (%)
Net Sales	30,030	27,572	8.9	28,973	1,12,923	1,00,096	12.8
Gross Profit	17,576	16,296	7.9	17,078	67,020	56,827	17.9
<i>% of NS</i>	<i>58.5</i>	<i>59.1</i>		<i>58.9</i>	<i>59.4</i>	<i>56.8</i>	
Other Expenses	10,082	9,176	9.9	10,941	39,696	34,614	14.7
EBITDA	7,495	7,119	5.3	6,137	27,324	22,214	23.0
<i>Margins (%)</i>	<i>25.0</i>	<i>25.8</i>		<i>21.2</i>	<i>24.2</i>	<i>22.2</i>	
Depreciation	780	825	(5.5)	784	3,357	3,423	(1.9)
Interest	316	311	1.7	252	1,120	919	21.8
Other Income	732	564	29.7	752	2,589	1,769	46.3
PBT	7,131	6,547	8.9	5,854	25,437	19,641	29.5
Tax	2,381	2,157	10.4	1,804	8,263	6,355	30.0
<i>Effective tax rate (%)</i>	<i>33.4</i>	<i>32.9</i>		<i>30.8</i>	<i>32.5</i>	<i>32.4</i>	
Adjusted PAT	4,750	4,391	8.2	4,049	17,174	13,287	29.3

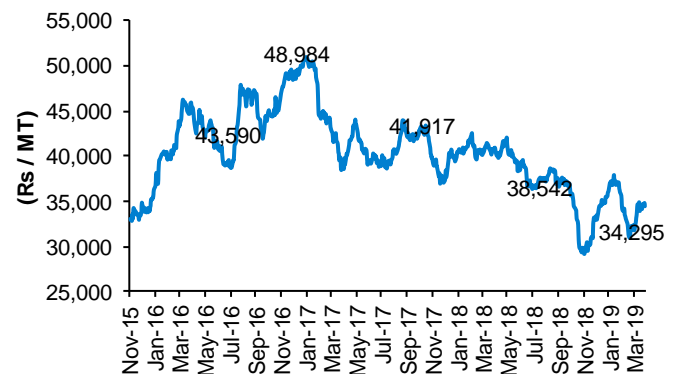
Source: Company, PL

Exhibit 2: Wheat prices up 16.9% YoY and 2% QoQ



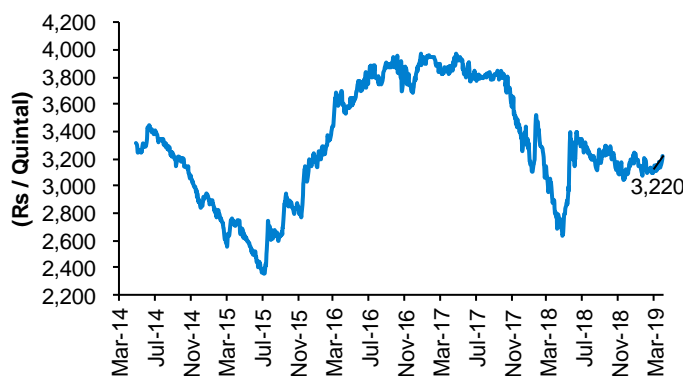
Source: Company, PL

Exhibit 3: Palm oil spurts; down 14.4% YoY and up 4.1% QoQ



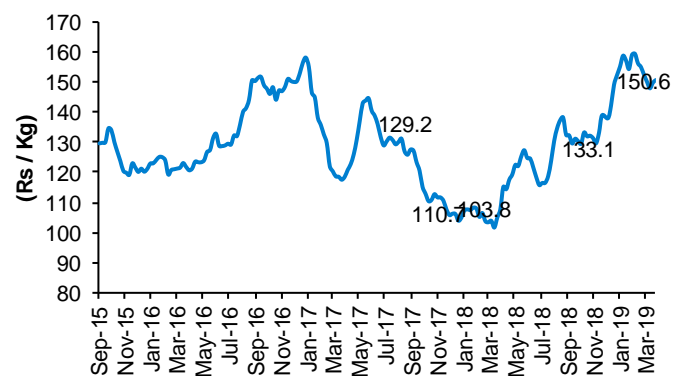
Source: Company, PL

Exhibit 4: Sugar prices benign, down 3% YoY and flat QoQ



Source: Company, PL

Exhibit 5: SMP prices firming; up 44.8% YoY and 16.5% QoQ



Source: Company, PL

Exhibit 6: Maggi, Chocolates and beverages to drive volumes

Y/e March	CY17	CY18	CY19E	CY20E	CY21E	CY22E
Milk Products						
Volume (MT)	130,796	137,066	141,863	146,829	152,702	158,810
Volume growth	1.59%	4.79%	3.50%	3.50%	4.00%	4.00%
Sales Value (Rs m)	48,196	51,876	55,840	60,106	65,010	70,315
Growth in Value	3.98%	7.64%	7.64%	7.64%	8.16%	8.16%
% of sales	47.55%	46.25%	44.51%	43.13%	42.11%	41.10%
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	10.55%	10.60%	7.50%	7.50%	7.20%	7.00%
Growth in Value	7.84%	9.78%	9.65%	9.65%	9.34%	9.14%
%Sales	13.69%	13.58%	13.43%	13.33%	13.24%	13.12%
Prepared Dishes & Cooking Aids						
Volume (MT)	210,427	240,879	274,602	310,300	347,536	389,241
Value (Rs m)	27,071	31,053	35,931	41,211	46,849	53,257
Growth in Volume	18.97%	14.47%	14.00%	13.00%	12.00%	12.00%
Growth in Value	16.81%	14.71%	15.71%	14.70%	13.68%	13.68%
%Sales	26.71%	27.69%	28.89%	30.00%	30.99%	31.99%
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	140,388	619,743
Growth in Volume	4.29%	14.66%	12.00%	10.00%	9.00%	9.00%
Growth in Value	9.50%	20.39%	17.60%	125.50%	232.45%	341.45%
%Sales	13.05%	14.20%	15.06%	30.74%	92.86%	372.25%

Source: Company, PL

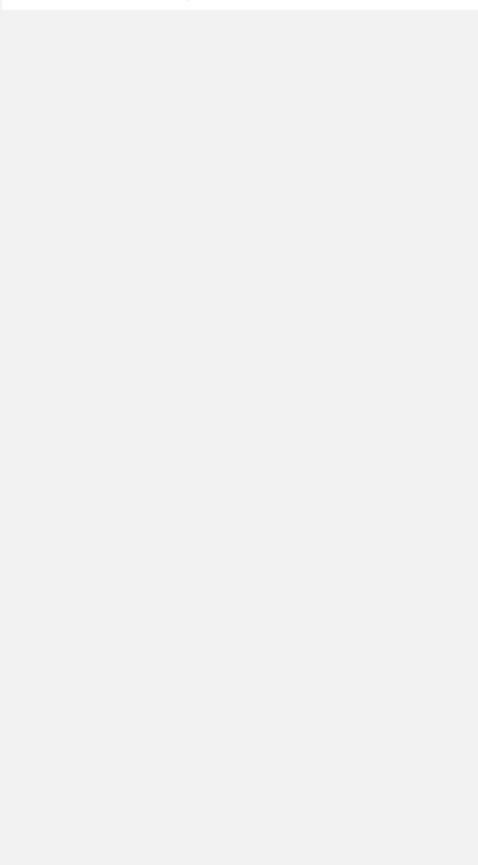
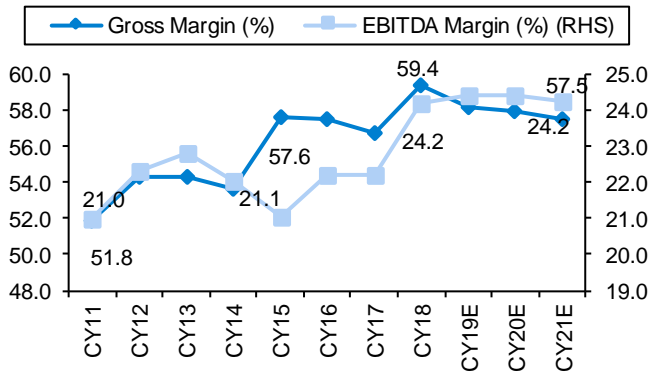
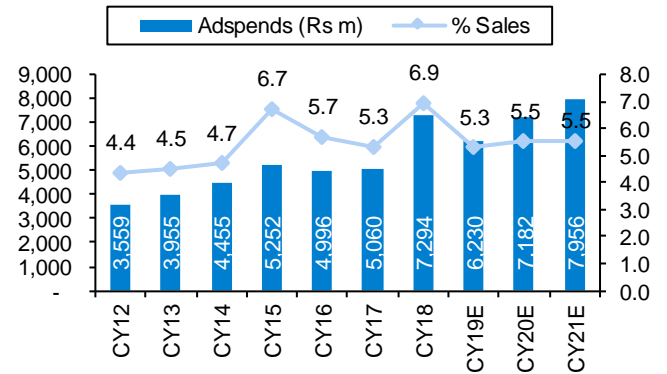


Exhibit 7: Gross Margins have likely peaked out



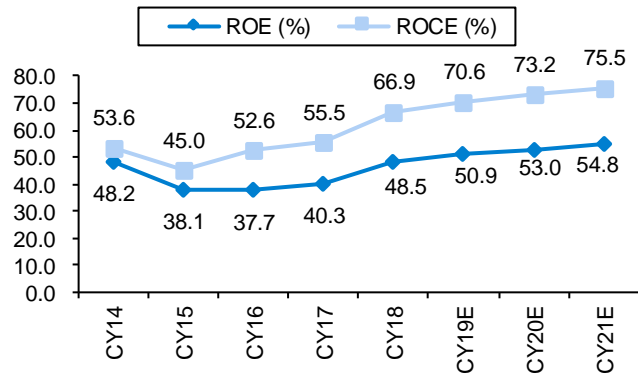
Source: Company, PL

Exhibit 8: Ad-spend is likely to remain elevated



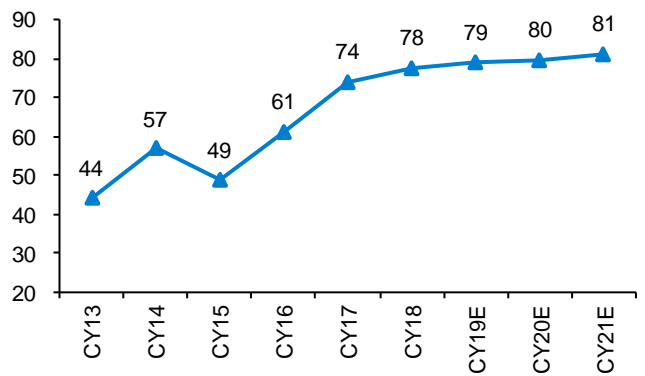
Source: Company, PL

Exhibit 9: ROE and ROCE to inch up gradually

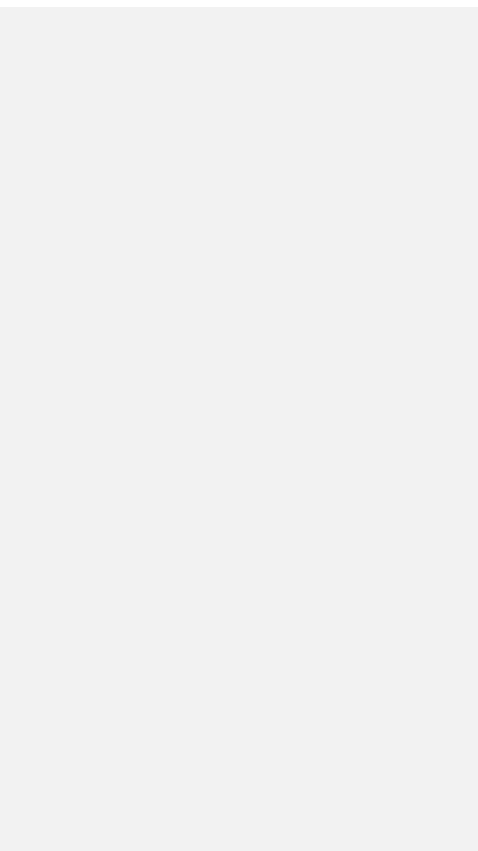


Source: Company, PL

Exhibit 10: Expect dividend payout to improve gradually



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
Net Revenues	100,096	112,923	126,295	140,302
YoY gr. (%)	9.5	12.8	11.8	11.1
Cost of Goods Sold	43,269	45,902	52,852	59,019
Gross Profit	56,827	67,020	73,442	81,283
Margin (%)	56.8	59.4	58.2	57.9
Employee Cost	10,175	11,242	12,545	13,937
Other Expenses	11,993	14,841	14,727	16,513
EBITDA	22,214	27,324	30,840	34,229
YoY gr. (%)	9.4	23.0	12.9	11.0
Margin (%)	22.2	24.2	24.4	24.4
Depreciation and Amortization	3,423	3,357	3,582	3,749
EBIT	18,791	23,967	27,257	30,480
Margin (%)	18.8	21.2	21.6	21.7
Net Interest	919	1,120	1,274	1,442
Other Income	1,769	2,589	2,977	3,532
Profit Before Tax	19,641	25,437	28,961	32,570
Margin (%)	19.6	22.5	22.9	23.2
Total Tax	6,141	8,220	9,499	10,683
Effective tax rate (%)	31.3	32.3	32.8	32.8
Profit after tax	13,500	17,217	19,462	21,887
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,500	17,217	19,462	21,887
YoY gr. (%)	13.2	27.5	13.0	12.5
Margin (%)	13.5	15.2	15.4	15.6
Extra Ord. Income / (Exp)	(1,248)	(1,148)	(1,262)	(1,389)
Reported PAT	12,252	16,069	18,199	20,498
YoY gr. (%)	22.4	31.2	13.3	12.6
Margin (%)	12.2	14.2	14.4	14.6
Other Comprehensive Income	(890)	(404)	(500)	(500)
Total Comprehensive Income	11,362	15,665	17,699	19,998
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	140.0	178.6	201.9	227.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
Non-Current Assets				
Gross Block	55,779	57,049	59,706	62,491
Tangibles	55,779	57,049	59,706	62,491
Intangibles	-	-	-	-
Acc: Dep / Amortization	29,618	33,043	36,747	40,631
Tangibles	29,618	33,043	36,747	40,631
Intangibles	-	-	-	-
Net fixed assets	26,162	24,006	22,959	21,860
Tangibles	26,162	24,006	22,959	21,860
Intangibles	-	-	-	-
Capital Work In Progress	942	1,052	1,105	1,160
Goodwill	-	-	-	-
Non-Current Investments	6,316	7,735	7,835	7,961
Net Deferred tax assets	(1,220)	(588)	(1,063)	(1,597)
Other Non-Current Assets	896	907	1,148	1,273
Current Assets				
Investments	28,276	34,943	39,263	46,990
Inventories	9,025	9,656	11,292	12,522
Trade receivables	890	1,246	1,340	1,470
Cash & Bank Balance	234	409	449	482
Other Current Assets	170	224	246	271
Total Assets	73,626	80,881	86,465	94,902
Equity				
Equity Share Capital	964	964	964	964
Other Equity	33,241	35,773	38,827	41,855
Total Network	34,206	36,737	39,791	42,819
Non-Current Liabilities				
Long Term borrowings	351	351	351	351
Provisions	22,916	24,649	26,964	29,808
Other non current liabilities	6	5	5	5
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	9,846	12,404	12,308	13,744
Other current liabilities	5,081	6,146	5,982	6,577
Total Equity & Liabilities	73,626	80,881	86,466	94,902

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY17	CY18	CY19E	CY20E
PBT	19,641	25,437	28,961	32,570
Add. Depreciation	3,423	3,357	3,582	3,749
Add. Interest	919	1,120	1,274	1,442
Less Financial Other Income	1,769	2,589	2,977	3,532
Add. Other	(1,011)	(2,760)	(2,273)	(2,273)
Op. profit before WC changes	22,972	27,153	31,544	35,488
Net Changes-WC	(5,387)	(4,198)	(6,476)	(7,187)
Direct tax	(6,141)	(8,220)	(9,499)	(10,683)
Net cash from Op. activities	11,444	14,735	15,569	17,618
Capital expenditures	(1,343)	(1,312)	(2,587)	(2,706)
Interest / Dividend Income	1,769	2,589	2,977	3,532
Others	(1,110)	(1,481)	-	-
Net Cash from Inv. activities	(683)	(203)	390	826
Issue of share cap. / premium	17	(102)	-	-
Debt changes	20	-	-	-
Dividend paid	(9,980)	(13,134)	(14,645)	(16,970)
Interest paid	(919)	(1,120)	(1,274)	(1,442)
Others	-	-	-	-
Net cash from Fin. activities	(10,861)	(14,356)	(15,919)	(18,412)
Net change in cash	(101)	176	40	33
Free Cash Flow	10,101	13,423	12,982	14,912

Source: Company Data, PL Research

Key Financial Metrics

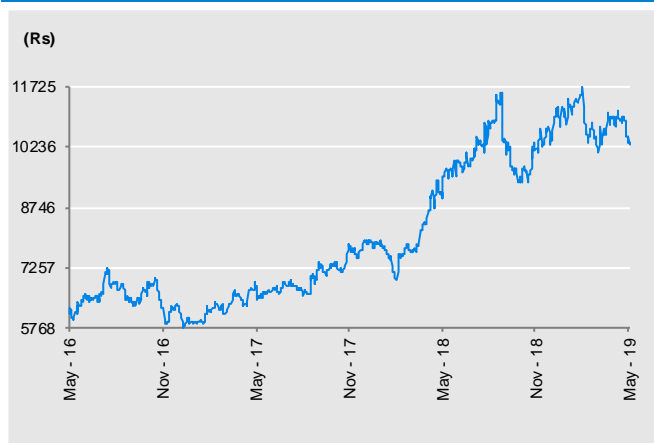
Y/e Dec	CY17	CY18	CY19E	CY20E
Per Share(Rs)				
EPS	140.0	178.6	201.9	227.0
CEPS	175.5	213.4	239.0	265.9
BVPS	354.8	381.0	412.7	444.1
FCF	104.8	139.2	134.6	154.7
DPS	86.0	113.0	126.0	146.0
Return Ratio(%)				
RoCE	55.5	66.9	70.6	73.2
ROIC	41.7	52.6	58.3	64.3
RoE	40.3	48.5	50.9	53.0
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(1.0)	(1.0)	(1.1)
Net Working Capital (Days)	0	(5)	1	1
Valuation(x)				
PER	73.6	57.7	51.0	45.4
P/B	29.0	27.0	25.0	23.2
P/CEPS	175.5	213.4	239.0	265.9
EV/EBITDA	43.4	35.1	30.9	27.6
EV/Sales	9.6	8.5	7.6	6.7
Dividend Yield (%)	0.8	1.1	1.2	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q2CY18	Q3CY18	Q4CY18	Q1CY19
Net Revenue	26,984	29,394	28,973	30,030
YoY gr. (%)	12.3	16.9	11.4	8.9
Raw Material Expenses	10,890	11,841	11,894	12,453
Gross Profit	16,094	17,552	17,078	17,576
Margin (%)	59.6	59.7	58.9	58.5
EBITDA	6,648	7,420	6,137	7,495
YoY gr. (%)	(6.6)	11.6	(17.3)	22.1
Margin (%)	24.6	25.2	21.2	25.0
Depreciation / Depletion	817	930	784	780
EBIT	5,830	6,490	5,353	6,715
Margin (%)	21.6	22.1	18.5	22.4
Net Interest	283	275	252	316
Other Income	602	670	752	732
Profit before Tax	6,150	6,886	5,854	7,131
Margin (%)	22.8	23.4	20.2	23.7
Total Tax	2,003	2,257	1,804	2,381
Effective tax rate (%)	32.6	32.8	30.8	33.4
Profit after Tax	4,147	4,629	4,049	4,750
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,147	4,629	4,049	4,750
YoY gr. (%)	59.3	32.3	(4.3)	8.2
Margin (%)	15.4	15.7	14.0	15.8
Extra Ord. Income / (Exp)	(197)	(168)	(632)	(118)
Reported PAT	3,950	4,461	3,418	4,633
YoY gr. (%)	50.0	30.0	9.6	9.3
Margin (%)	14.6	15.2	11.8	15.4
Other Comprehensive Income	(67)	(61)	(95)	(99)
Total Comprehensive Income	3,884	4,400	3,323	4,534
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	43.0	48.0	42.0	49.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-18	UR	8,893	9,785
2	24-Aug-18	Hold	10,996	11,363
3	5-Oct-18	Hold	10,996	9,348
4	19-Oct-18	Accumulate	10,996	9,609
5	26-Oct-18	Accumulate	11,129	9,569
6	7-Jan-19	Accumulate	11,129	10,786
7	14-Feb-19	Accumulate	11,059	10,629
8	5-Apr-19	Accumulate	10,828	10,981

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,433	1,386
2	Avenue Supermarts	HOLD	1,228	1,251
3	Britannia Industries	Accumulate	3,145	2,783
4	Colgate Palmolive	Hold	1,258	1,227
5	Crompton Greaves Consumer Electricals	BUY	272	232
6	Dabur India	Hold	430	382
7	Emami	Accumulate	484	412
8	Future Retail	BUY	554	446
9	GlaxoSmithKline Consumer Healthcare	Hold	8,139	6,996
10	Hindustan Unilever	Hold	1,764	1,694
11	ITC	BUY	369	289
12	Jubilant FoodWorks	Accumulate	1,458	1,418
13	Kansai Nerolac Paints	Accumulate	464	419
14	Marico	Hold	351	340
15	Nestle India	Accumulate	10,828	10,981
16	Pidilite Industries	Accumulate	1,163	1,287
17	Titan Company	BUY	1,264	1,132
18	Voltas	HOLD	584	580

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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