

Nestle India Ltd

Performance Update

(` cr)	1QCY20	1QCY19	% yoy	4QCY19	% qoq
Revenue	3,325	3,003	10.7	3,149	5.6
EBITDA	793	753	5.4	694	14.3
OPM (%)	23.9	25.1	(121bp)	22.0	182bp
Reported PAT	525	463	13.5	473	11.2

Source: Company, Angel Research

For 1QCY20, Nestle India Ltd (NIL) posted healthy set of numbers, exceeding our expectations on top-line and bottom-line fronts. Revenue grew by ~11% yoy. However, reported operating margins contracted by 121bps yoy. On the bottom-line front, NIL reported growth of ~14% yoy to `525cr on the back of healthy revenue growth and lower taxes.

Top-line grew ~11% yoy: Nestle's top-line grew by ~11% yoy to `3,325cr driven by volumes and mix, implying double-digit volume growth. Maggi and chocolates recorded strong performance. E-commerce contribution grew significantly, whereas out of home sector performance was subdued. During the quarter, exports grew by ~13%.

PAT grew ~14% yoy: On the operating front, the company reported margin contraction, down 121bps yoy on the back of higher prices of milk and other agri inputs. Going forward, we expect operating margin improvement on back of recent softening in milk prices and other inputs, decline in competitive intensity and measures for cost efficiencies. On the bottom-line front, NIL reported growth of ~14% yoy to `525cr on the back of healthy revenue growth and lower taxes.

Outlook and Valuation: We forecast Nestle to report healthy top-line CAGR of ~9% to `14,558cr over CY2019-21E on the back of strong brand, wide distribution network and new product launches. On the bottom-line front (reported PAT), we estimate ~10% CAGR to `2,333cr due to strong revenue and gradual improvement in operating margin. **Thus, we maintain BUY on the stock with Target Price of `19,100.**

Key Financials

Y/E March (` cr)	CY2018	CY2019	CY2020E	CY2021E
Net sales	11,292	12,369	13,235	14,558
% chg	12.8	9.5	7.0	10.0
Adj. Net profit	1,607	1,970	2,091	2,333
% chg	31.2	22.6	6.2	11.6
EBITDA margin (%)	23.2	23.2	22.7	23.3
EPS (`)	166.7	204.3	216.9	242.0
P/E (x)	98.6	80.4	75.8	67.9
P/BV (x)	43.1	33.2	26.4	21.2
RoE (%)	43.7	41.2	34.9	31.3
RoCE (%)	61.5	52.8	44.1	40.4
EV/Sales (x)	13.7	12.4	11.5	10.4
EV/EBITDA (x)	58.9	53.6	50.6	44.4

Source: Company, Angel Research

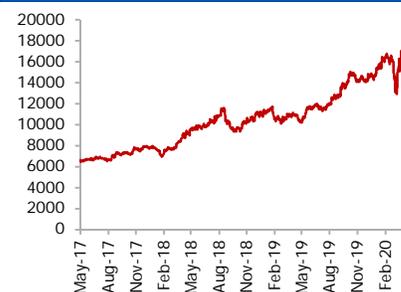
BUY

CMP	`16,370
Target Price	`19,100
Investment Period	12 months

Stock Info	
Sector	FMCG
Market Cap (` cr)	1,61,196
Net Debt (` cr)	(4,200)
Beta	0.5
52 Week High / Low	18,301/10,225
Avg. Daily Volume	5,117
Face Value (`)	10
BSE Sensex	31,405
Nifty	9,221
Reuters Code	NEST.BO
Bloomberg Code	NEST.IN

Shareholding Pattern (%)			
Promoters	62.8		
MF / Banks / Indian	9.1		
FII / NRIs / OCBs	12.2		
Indian Public/Others	16.0		
Abs.(%)			
	3m	1yr	3yr
Sensex	(22.8)	(13.7)	5.6
NIL	0.6	60.1	149.9

Historical share price chart



Source: Company, Angel Research

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1QCY20 Performance

Y/E March (₹ cr)	1QCY20	1QCY19	% yoy	4QCY19	% qoq	CY2019	CY2018	% chg
Net Sales	3,325	3,003	10.7	3,149	5.6	12369	11292	9.5
Consumption of RM	1453	1245	16.7	1361	6.7	5223.9	4,590	13.8
(% of Sales)	43.7	41.5		43.2		42.2	40.6	
Staff Costs	358.4	301.8	18.7	322	11.3	1258.2	1124.2	11.9
(% of Sales)	10.8	10.1		10.2		10.2	10.0	
Other Expenses	720.3	703.1	2.4	772	(6.7)	2,961	2,960	0.0
(% of Sales)	21.7	23.4		24.5		23.9	26.2	
Total Expenditure	2,532	2,250	12.5	2,455	3.1	9,443	8,675	8.9
Operating Profit	793	753	5.4	694	14.3	2,926	2,618	11.8
OPM	23.9	25.1		22.0		23.7	23.2	
Interest	41	34	20.8	31	31.6	129	112	15.3
Depreciation	91	91	(0.0)	94	(2.4)	370	336	10.3
Other Income	43	73	(41.5)	45	(4.1)	247	259	(4.7)
PBT (excl. Ext Items)	704	701	0.5	614	14.6	2,673	2,429	10.1
Ext (Income)/Expense	-	-		-		-	-	
PBT (incl. Ext Items)	704	701	0.5	614	14.6	2,673	2,429	10.1
(% of Sales)	21.2	23.3		19.5		21.6	21.5	
Provision for Taxation	178.4	237.9	(25.0)	141	26.1	705	822	(14.2)
(% of PBT)	25.3	34.0		23.0		26.4	33.8	
Reported PAT	525	463	13.5	473	11.2	1,968	1,607	22.5
PATM	15.8	15.4		15.0		15.9	14.2	
Minority Interest After NP								
Reported PAT	525	463	13.5	473	11.2	1,968	1,607	22.5

Source: Company, Angel Research

Outlook and Valuation

We forecast Nestle to report healthy top-line CAGR of ~9% to `14,558cr over CY2019-21E on the back of strong brand, wide distribution network and new product launches. On the bottom-line front (reported PAT), we estimate ~10% CAGR to `2,333cr due to strong revenue and gradually improvement in operating margin. **Thus, we maintain BUY on the stock with Target Price of `19,100.**

Downside risks to our estimates

Volatile milk prices: Increase in milk prices will have a negative impact on the company's performance.

Economic slowdown: Economic slowdown will affect the performance of the company.

Competition: Losing market share due to stiff competition could impact the profitability of company.

Company Background

Nestle India Ltd (Nestle) manufactures and sell a variety of food products such as Milk Products and Nutrition, Prepared dishes and Cooking aids, Powdered and Liquid Beverages and Confectionery. Nestle has market leadership in ~85% of Portfolio. Wide distribution network (4.6mn outlets) across the Indian and Strong brand recall.

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Disclosure of Interest Statement	Nestle India
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)