

Result Update – Q3CY20

- ❑ NESTLÉ India Limited reported 10.1% year over year (y/y) increase in revenues to ₹35,417 million in Q2CY20 driven by volume and mix. Domestic sales increased by 10.2% while export sales grew 9.4%.
- ❑ The quarter witnessed increase in In-Home consumption with Key brands like MAGGI Noodles, MAGGI Sauces, KITKAT, Nestlé MUNCH, NESCAFÉ CLASSIC & NESCAFÉ SUNRISE registering double digit growth. Demand in Out of Home channel improved during the quarter, however, remains weak due to the impact from COVID-19 pandemic.
- ❑ Management noted that growth in the quarter was mainly driven by an improved supply situation, as factories returned to normal output. Further, the quarter continued with strong performance in the e-commerce channels, which grew by 97% and now contributes about 4% of domestic sales.
- ❑ The quarter recorded continued rise in cost of raw materials consumed, however, prices of key commodities (milk, wheat, coffee and sugar) prices witnessed bit moderation. Also, employee benefits expenses were higher due to incentives offered to production manpower in view of COVID. However, on a positive note, other expenses decreased on the back of reduction in other overheads due to restricted operations. Consequently, EBITDA improved 15.3% y/y to ₹8,836 million in the quarter. Further, EBITDA margin stood at 24.9%, up from 23.8% in previous year quarter.
- ❑ Profit before tax grew 12.4% y/y to ₹7,865 million. Profit after tax declined 1.4% y/y to ₹5,871 million owing to lower tax in previous year quarter. The cumulative effect of lower tax rate made applicable from 1 April 2019 was adjusted fully in Q3CY19.
- ❑ In line with its growth strategy, the company plans to invest ₹26 billion over the next three to four years to enhance existing manufacturing capacities as well as towards the new under construction factory in Sanand, Gujarat. This planned investment is focused on categories across culinary, chocolates, coffee, milk and nutrition.
- ❑ In its annual investor meet, management stated that the company witnessed sharp increase in rural growth in the July-September period and the rural market recorded twice the rate of growth in urban market. Notably, the company's rural distribution now covers nearly 90,000 villages and rural India contributes about 20-25% to the company's sales.
- ❑ In terms of overall distribution channel, sales in modern trade is witnessing decline and general trade sales remains buoyant. However, there has been significant growth in sales through e-commerce channels. Also, management remains focused with supply chain simplification. In this regard, the company is reducing manufacturing complexities, prioritizing key pack sizes across products, helping vendors to focus on key materials and leveraging different transport networks like waterways and rail.

- ❑ Amid the current scenario, NESTLÉ India is recalibrating and innovating products with focus on nutrition, immunity, value addition and affordability. Also, the company remains focused on expediting penetration in small towns, tier-2, tier-3 cities while further expanding presence in rural markets. Additionally, the company is undertaking cost management efforts with Project Shark to achieve cost savings of ₹700 million this year.
- ❑ We believe, NESTLÉ India, enjoying strong market position with leadership in about 85% of its product portfolio, remains well positioned for sustainable growth given its diverse product mix with continued new launches, expanding distribution network and benefit from new capex. Further, moderation in key commodity prices and expense management initiative should support margins in the near term. We have updated our estimates factoring in latest numbers and continue to remain positive on the company and maintain our **BUY** rating with a revised target price of **₹19,445 per share**.

Financials:

(In ₹ mn)	Q3-CY20	Q3-CY19	Chg	9M-CY20	9M-CY19	Chg
Net Sales	35,417	32,158	10.1%	99,175	92,196	7.6%
Operating Expense	26,581	24,494	8.5%	74,930	69,878	7.2%
EBITDA	8,836	7,664	15.3%	24,245	22,318	8.6%
Other Income	345	564	-38.9%	1,153	2,022	-43.0%
Depreciation	911	911	0.0%	2,749	2,766	-0.6%
EBIT	8,270	7,318	13.0%	22,648	21,574	5.0%
Interest	405	321	26.2%	1,222	980	24.7%
PBT	7,865	6,997	12.4%	21,426	20,594	4.0%
Tax	1,994	1,044		5,435	5,636	
Exceptional Items						
PAT	5,871	5,953	-1.4%	15,991	14,958	6.9%
Minority /Other Adj.	-	-		-	-	
Consolidated PAT	5,871	5,953	-1.4%	15,991	14,958	6.9%

Margins	Q3-CY20	Q3-CY19	Chg BPS	9M-CY20	9M-CY19	Chg BPS
Operating Margin %	24.9%	23.8%	112	24.4%	24.2%	24
Net Margin %	16.6%	18.5%	-193	16.1%	16.2%	-10

Consolidated Financials:

(In ₹ mn)	CY-18	CY-19	CY-20E	CY-21E
Net Sales	112,923	123,689	134,524	151,743
Operating Expense	86,757	95,046	101,575	114,425
EBITDA	26,166	28,643	32,949	37,318
Other Income	2,600	2,469	1,614	2,428
Depreciation	3,357	3,164	3,682	4,154
EBIT	25,409	27,949	30,881	35,592
Interest	1,120	1,198	1,637	1,666
Misc. items	-	-	-	-
PBT	24,290	26,750	29,244	33,927
Tax	8,220	7,054	7,361	8,539
Minority Interest	-	-	-	-
PAT	16,069	19,696	21,883	25,388
Margins	CY-18	CY-19	CY-20E	CY-21E
Sales Growth %	12.8%	9.5%	8.8%	12.8%
Operating Margin %	23.2%	23.2%	24.5%	24.6%
Net Margin %	14.2%	15.9%	16.3%	16.7%

(In ₹ mn)	CY-18	CY-19	CY-20E	CY-21E
Liabilities				
Equity Share Capital	964	964	964	964
Reserves & Surplus	35,773	18,358	40,242	65,629
Total Shareholder's Funds	36,737	19,323	41,206	66,593
Minority Interest	-	-	-	-
Long-Term Liabilities	351	531	562	562
Other Long-term Liabilities	24,654	29,073	31,980	31,980
Deferred Tax Liability	588	180	180	180
Short-term Liabilities	18,550	21,475	25,987	27,206
Total	80,881	70,582	99,915	126,521
Assets				
Net Fixed Assets	25,058	23,700	24,082	25,069
Long-Term L&A	1,120	1,274	1,529	1,835
Non Current Investments	7,334	7,436	9,667	11,600
Other Non-Current Assets	-	-	-	-
Current Asset	47,370	38,172	64,636	88,017
Total	80,881	70,582	99,915	126,521
(In ₹ mn)	CY-18	CY-19	CY-20E	CY-21E
EPS (₹)	166.7	204.3	227.0	263.3
P/E (x)	105.1	85.8	77.2	66.5
P/B (x)	46.0	87.4	41.0	25.4
ROE	43.7%	101.9%	53.1%	38.1%

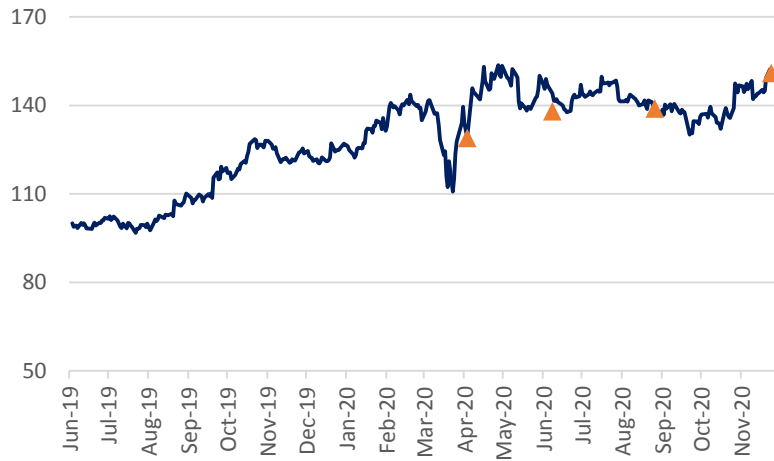
Source: Company, Anand Rathi Research

Key Risks:

- ❑ Volatility in raw material prices may put pressure on profitability.
- ❑ Intense competition.
- ❑ Slowdown in consumption.

Rating and Target Price history:

NEST IN rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 25 November 2020 close.

NEST IN rating details

Date	Rating	Target Price (₹)	Share Price (₹)
6-Apr-2020	BUY	17,902	15,105
22-Jun-2020	BUY	18,710	16,141
31-Aug-2020	BUY	18,710	15,957
25-Nov-2020	BUY	19,445	17,520

Source: Bloomberg, Anand Rathi Research

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