

Estimate change	↓
TP change	↓
Rating change	↔

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Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USD\$)	1648.6 / 22.3
52-Week Range (INR)	18301 / 11128
1, 6, 12 Rel. Per (%)	-7/17/46
12M Avg Val (INR M)	1950

Financials & Valuations (INR b)

Y/E Dec	2020E	2021E	2022E
Sales	135.3	152.6	175.5
Sales Gr. (%)	9.4	12.8	15.0
EBITDA	32.3	35.9	41.8
Margin (%)	23.9	23.6	23.8
Adj. PAT	21.4	24.5	29.1
Adj. EPS (INR)	221.9	254.4	302.0
EPS Gr. (%)	7.3	14.7	18.7
BV/Sh.(INR)	244.5	280.8	324.4

Ratios

RoE (%)	99.8	96.9	99.8
RoCE (%)	103.0	99.8	102.3
Payout (%)	78.9	84.5	84.4

Valuations

P/E (x)	77.0	67.2	56.6
P/BV (x)	69.9	60.9	52.7
EV/EBITDA (x)	50.0	44.7	38.1
Div. Yield (%)	1.0	1.3	1.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	62.8	62.8	62.8
DII	8.8	9.2	7.6
FII	12.1	11.8	13.0
Others	16.4	16.2	16.7

FII Includes depository receipts

CMP: INR17,099 TP: INR16,700 (-2%)

Neutral

Sales below expectations, EBITDA in-line

- Nestlé (NEST)'s revenues for the quarter disappointed, weighed by ephemeral lockdown issues, which impacted manufacturing. We believe this would not pose much of a challenge going forward. EBITDA margins were in-line likely due to ad spend cuts, aligned with peers that have reported their results thus far.
- NEST remains among the best structural plays in the Indian Consumer space, led by: (a) massive growth opportunity in the Indian Foods space, and (b) the evident revival in topline and earnings momentum ahead of peers in recent years. Valuations are, however, rich at 67.2x CY21 EPS and 56.6x CY22 EPS. Maintain **Neutral**.

Lockdown disruption affects performance

- NEST reported net sales growth of 1.7% YoY to INR30.5b** (est.: INR32.1b). Domestic sales grew 2.6% YoY during the quarter, whereas export sales declined 9.3% YoY.
- EBITDA grew by 5% YoY to INR7.6b (est.: INR7.6b), PBT was flat YoY at INR6.6b (est.: INR6.8b), and adj. PAT grew 11.1% YoY to INR5b (est.: INR5.1b).
- Gross margins contracted 190bp YoY to 56.3%** on higher commodity costs, particularly the cost of milk and its derivatives.
- Higher staff costs as a percentage of sales (+170bp YoY to 12.1%) and lower other expenses as a percentage of sales (-440bp YoY to 19.4%) led to **EBITDA margin expansion of 80bp YoY to 24.9% (est.: 23.8%) in 2QCY20**.
- Other income decreased by 48% during the quarter, weighed by lower average liquidity and lower yield.
- Balance sheet and cash flows:
 - Compared with Dec'19, inventories/receivables were higher by 15.2%/40.5% to INR14.8b/INR1.7b, respectively, whereas payables were down 20.9% to INR11.8b as of Jun'20-end.
 - Compared with Dec'19, cash and cash equivalents were up 26% to INR29.2b as of Jun'20-end.
 - Cash flow from operating activities was down 22.2% YoY to INR8.1b for 1HCY20.

Highlights from management commentary

- In the past three months, the company has witnessed volatility, uncertainty, and stresses never imagined nor experienced before. This has led to disruptions across the value chain, in turn impacting results. However, NEST built back the momentum strongly as the quarter ended.
- EVERYDAY Dairy Whitener, Nestlé a+ Milk, the portfolio of other milk-based products, NESCAFÉ Classic, and NESCAFÉ Sunrise performed well in 2QCY20. MAGGI also witnessed solid growth toward the end of the quarter following initial supply constraints.

Valuation and view

- There has been no material change in our CY20/CY21 EPS estimates.
- The longer term narrative of NEST's topline and earnings growth remains extremely attractive. Not only is the successful implementation of its growth strategy in recent years a positive, but the Packaged Foods segment in India also offers immense growth opportunities. This is particularly true for a company with a strong pedigree and distribution strength.
- In the near term, the stock offers better resilience on the topline v/s peers owing to the nature of its portfolio and its superior efficiency.
- However, current valuations of 67.2x CY21E EPS and 56.6x CY22E EPS appear to be completely factoring upside for the next year. We value the company at 60x Jun'22E EPS to arrive at TP of INR16,700. Maintain **Neutral**.

Quarterly performance

(INR m)

Y/E December	CY19				CY20				CY19	CY20E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Net Sales	30,030	30,009	32,158	31,493	33,253	30,505	36,178	35,363	123,689	135,298	32,109	-5.0%
YoY Change (%)	8.9	11.2	9.4	8.7	10.7	1.7	12.5	12.3	9.5	9.4	7.0	
COGS	12,453	12,522	13,650	13,614	14,533	13,319	15,556	15,162	52,239	58,570	13,229	
Gross Profit	17,576	17,487	18,508	17,879	18,720	17,186	20,621	20,201	71,450	76,728	18,880	
Margin (%)	58.5	58.3	57.6	56.8	56.3	56.3	57.0	57.1	57.8	56.7	58.8	
EBITDA	7,645	7,226	7,595	6,730	8,006	7,584	8,538	8,143	28,892	32,271	7,642	-0.8%
Margins (%)	25.5	24.1	23.6	21.4	24.1	24.9	23.6	23.0	23.4	23.9	23.8	
YoY Growth (%)	7.4	8.7	2.4	9.6	4.7	5.0	12.4	21.0	5.7	11.7	8.1	
Depreciation	914	941	780	796	914	924	928	942	3,164	3,708	921	
Interest	339	320	299	284	410	408	413	421	1,198	1,651	413	
Other income	732	726	564	447	429	379	400	488	2,469	1,696	523	
PBT	7,124	6,691	7,080	6,097	7,111	6,631	7,597	7,268	26,999	28,607	6,831	-2.9%
Tax	2,379	2,213	1,045	1,416	1,784	1,657	1,914	1,854	7,054	7,209	1,721	
Rate (%)	33.4	33.1	14.8	23.2	25.1	25.0	25.2	25.5	26.1	25.2	25.2	
Adjusted PAT	4,745	4,478	6,035	4,681	5,327	4,975	5,682	5,414	19,944	21,398	5,109	-2.6%
YoY Change (%)	8.1	8.0	30.4	15.6	12.3	11.1	-5.8	15.7	15.8	7.3	14.1	

E: MOFSL Estimates

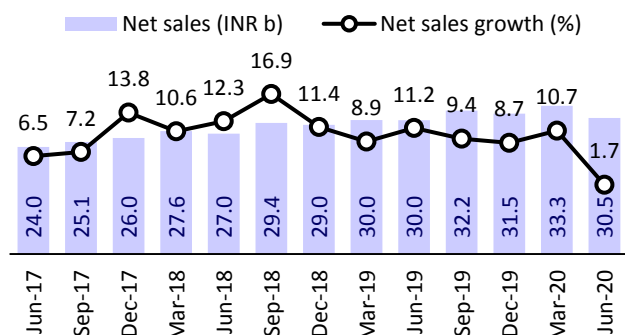
Key Performance Indicators

Y/E December	CY19				CY20	
	1Q	2Q	3Q	4Q	1Q	2Q
2Y average growth (%)						
Sales	9.8	11.8	13.2	10.0	9.8	6.4
EBITDA	21.2	26.8	14.0	2.4	6.1	6.8
PAT	23.4	33.6	31.4	5.6	10.2	9.5
% of Sales						
COGS	41.5	41.7	42.4	43.2	43.7	43.7
Employee Expenses	10.1	10.5	10.0	10.2	10.2	9.9
Other Expenses	23.5	24.2	23.9	25.2	24.0	24.6
Depreciation	3.0	3.1	2.4	2.5	2.7	3.0
YoY change (%)						
COGS	10.4	15.0	15.3	14.5	16.7	6.4
Employee Expenses	12.9	10.4	10.9	15.3	18.0	17.5
Other Expenses	8.6	10.2	6.4	-2.7	1.2	-18.8
Other Income	29.7	20.5	-15.9	-40.6	-41.5	-47.7
EBIT	6.9	7.8	5.0	10.8	5.4	6.0

E: MOFSL Estimates

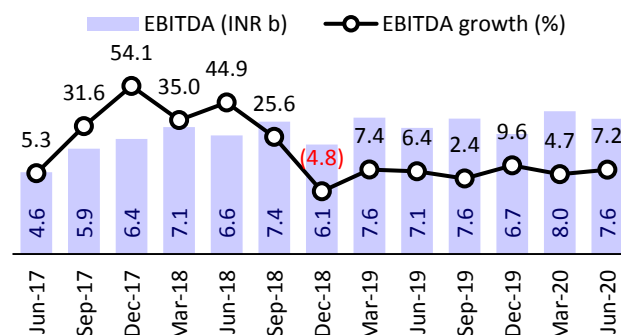
Key exhibits

Exhibit 1: Reported net sales grew 1.7% YoY to INR30.5b



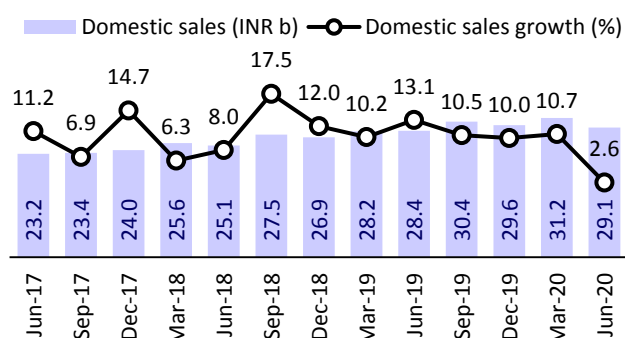
Source: Company, MOFSL

Exhibit 2: Reported EBITDA grew 7.2% YoY to INR7.6b



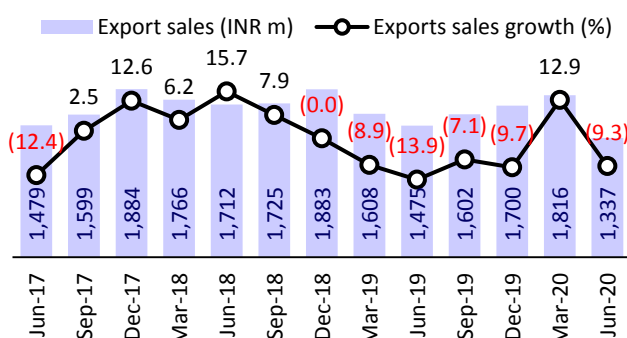
Source: Company, MOFSL

Exhibit 3: Domestic sales rose 2.6% YoY to INR29.1b



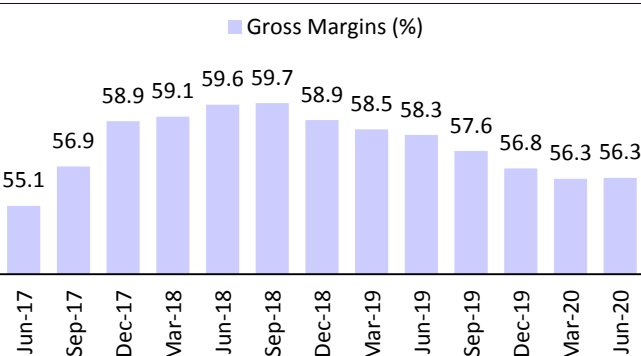
Source: Company, MOFSL

Exhibit 4: Export sales declined 9.3% YoY to INR1.3b



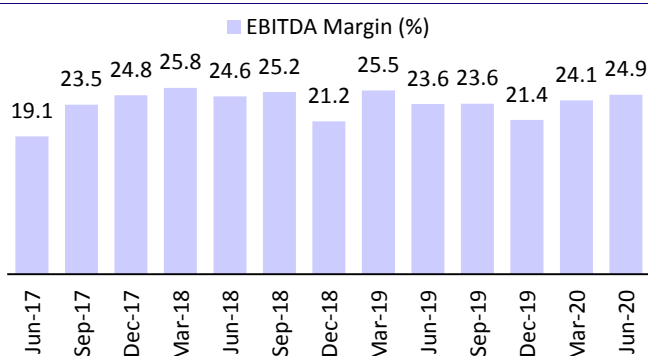
Source: Company, MOFSL

Exhibit 5: Gross margins contracted by 190bp YoY to 56.3%



Source: Company, MOFSL

Exhibit 6: EBITDA margins expanded by 80bp YoY to 24.9%



Source: Company, MOFSL

Highlights from management commentary

- In the past three months, the company has witnessed volatility, uncertainty, and stresses never imagined nor experienced before. This has led to disruptions across the value chain, in turn impacting results. However, NEST built back the momentum strongly as the quarter ended.
- On average, factories were operating at 75% capacity during the quarter.
- The company's eight factories have restored their manufacturing capabilities almost to pre-COVID-19 levels.

- The e-commerce channel grew by 122% in the quarter and now contributes 3.6% to domestic sales.
- Demand in all out-of-home consumption channels declined sharply due to the lockdown.
- EVERYDAY Dairy Whitener, Nestlé a+ Milk, the portfolio of other milk-based products, NESCAFÉ Classic, and NESCAFÉ Sunrise performed well in 2QCY20. MAGGI also witnessed solid growth toward the end of the quarter following initial supply constraints.

Valuation and view

What has happened in the last 10 years?

- After reporting weak growth on all fronts in the first half of the decade, NEST has done very well in the second half and particularly well in the past three years.
- Decadal performance has been decidedly modest, with sales/EBITDA/PAT CAGR ranging from 8–10% during CY10–20.
- However, in the past five years, NEST has witnessed an accelerated sales CAGR of ~11%, with a 13–14% EBITDA and PAT CAGR.
- Beginning with damage control post the MAGGI crisis in 2015, management initiated a series of measures, including (but not limited to): (a) bringing focus back on volume-led double-digit sales growth, (b) launching more than 60 new products over a two-year period, (c) backing up new launches and the focus on volume-led growth with a sharp increase in ad spends, and (d) focusing on distribution expansion, more recently.

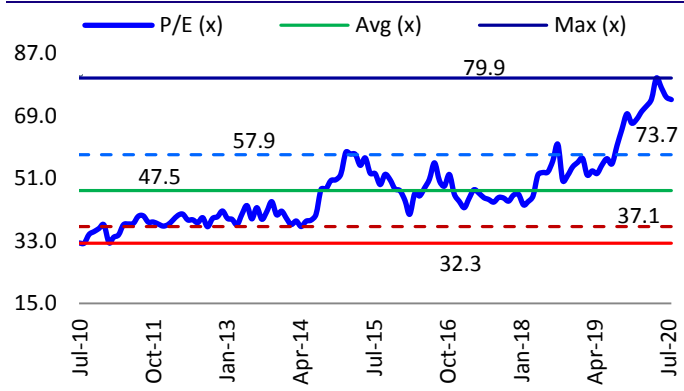
Our view on the stock

- There has been no material change in our CY20/CY21 EPS estimates.
- The longer term narrative of NEST's topline and earnings growth remains extremely attractive. Not only is the successful implementation of its growth strategy in recent years a positive, but the Packaged Foods segment in India also offers immense growth opportunities. This is particularly true for a company with a strong pedigree and distribution strength.
- In the near term, the stock offers better resilience on the topline v/s peers owing to the nature of its portfolio and its superior efficiency.
- However, current valuations of 67.2x CY21E EPS and 56.6x CY22E EPS appear to be completely factoring upside for the next year. We value the company at 60x Jun'22E EPS to arrive at TP of INR16,700. Maintain **Neutral**.

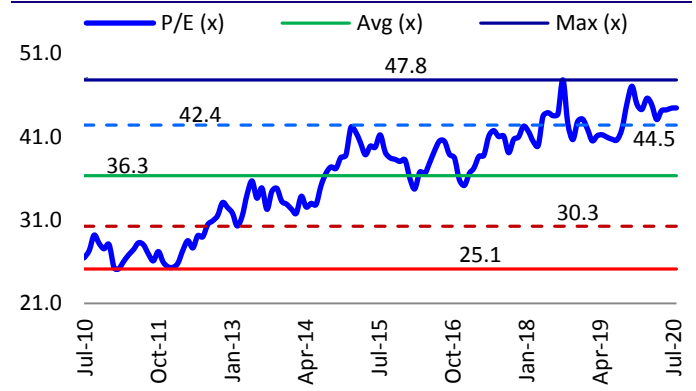
Exhibit 7: PAT forecasts for CY20 up by 0.6%, but down by 2.5%/2.3% for CY21/CY22

INR m	New			Old			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Net Sales	135,298	152,563	175,513	135,591	152,885	175,872	-0.2%	-0.2%	-0.2%
EBITDA	32,271	35,937	41,841	31,669	36,768	42,793	1.9%	-2.3%	-2.2%
Adjusted PAT	21,398	24,533	29,117	21,274	25,170	29,814	0.6%	-2.5%	-2.3%

Source: Company, MOFSL

Exhibit 8: NEST P/E (x)

Source: Company, MOFSL

Exhibit 9: Consumer sector P/E (x)

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E December	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net Sales	81,753	91,413	100,096	112,923	123,689	135,298	152,563	175,513
Change (%)	-17.0	11.8	9.5	12.8	9.5	9.4	12.8	15.0
Gross Profit	47,064	52,585	56,827	67,020	71,450	76,728	87,693	101,528
Margin (%)	57.6	57.5	56.8	59.4	57.8	56.7	57.5	57.8
Other Expenditure	30,598	32,284	34,614	39,696	42,558	44,457	51,756	59,687
EBITDA	16,466	20,301	22,214	27,324	28,892	32,271	35,937	41,841
Change (%)	-21.6	23.3	9.4	23.0	5.7	11.7	11.4	16.4
Margin (%)	20.1	22.2	22.2	24.2	23.4	23.9	23.6	23.8
Depreciation	3,473	3,537	3,423	3,357	3,164	3,708	4,154	4,443
Int. and Fin. Ch.	33	909	919	1,120	1,198	1,651	1,684	1,718
Other Inc.- Rec.	1,101	1,509	1,769	2,589	2,469	1,696	2,701	3,247
PBT	14,062	17,365	19,641	25,437	26,999	28,607	32,799	38,927
Change (%)	-23.4	23.5	13.1	29.5	6.1	6.0	14.7	18.7
Margin (%)	17.2	19.0	19.6	22.5	21.8	21.1	21.5	22.2
Tax	2,504	5,440	6,141	8,220	7,054	7,209	8,265	9,810
Tax Rate (%)	17.8	31.3	31.3	32.3	26.1	25.2	25.2	25.2
Adjusted PAT	11,558	11,924	13,500	17,217	19,944	21,398	24,533	29,117
Change (%)	-7.3	3.2	13.2	27.5	15.8	7.3	14.7	18.7
Margin (%)	14.1	13.0	13.5	15.2	16.1	15.8	16.1	16.6
Non-rec. (Exp)/Inc.	5,925	1,911	1,248	1,148	249	274	301	331
Reported PAT	5,633	10,014	12,252	16,069	19,695	21,124	24,232	28,786
Balance Sheet								(INR m)
Y/E December	2015	2016	2017	2018	2019	2020E	2021E	2022E
Share Capital	964	964	964	964	964	964	964	964
Reserves	27,214	31,859	33,242	35,773	18,358	22,609	26,112	30,310
Net Worth	28,178	32,823	34,206	36,737	19,323	23,574	27,076	31,275
Loans	177	332	351	351	531	531	531	531
Capital Employed	28,356	33,155	34,557	37,089	19,854	24,105	27,607	31,806
Gross Block	51,174	30,951	33,584	34,854	36,092	41,592	44,592	47,592
Less: Accum. Depn.	22,195	3,650	7,423	10,848	13,825	17,533	21,687	26,130
Net Fixed Assets	28,979	27,301	26,162	24,006	22,267	24,059	22,905	21,462
Capital WIP	2,308	1,882	942	1,052	1,433	1,433	1,433	1,433
Investments	13,249	17,557	19,789	26,585	18,315	19,826	23,418	26,453
Current	9,831	12,814	13,936	19,251	10,075	11,586	15,177	18,213
Non-current	3,418	4,743	5,853	7,334	8,240	8,240	8,240	8,240
Curr. Assets, L&A	16,269	21,365	26,734	29,238	28,567	32,947	39,142	48,669
Inventory	8,208	9,401	9,025	9,656	12,831	13,020	13,467	15,354
Account Receivables	784	979	890	1,246	1,243	1,474	1,246	1,434
Cash and Bank Balance	4,996	8,800	14,574	16,101	13,081	14,782	19,923	26,625
Others	2,281	2,185	2,245	2,236	1,413	3,671	4,506	5,257
Curr. Liab. and Prov.	30,720	33,396	37,849	43,204	50,549	53,980	59,111	66,031
Account Payables	7,435	7,992	9,846	12,404	14,947	15,886	17,595	20,067
Other Liabilities	4,659	5,145	4,212	4,578	5,678	5,379	6,066	6,979
Provisions	18,625	20,260	23,791	26,222	29,924	32,715	35,450	38,984
Net Curr. Assets	-14,451	-12,032	-11,115	-13,966	-21,982	-21,033	-19,968	-17,362
Def. Tax Liability	-1,729	-1,553	-1,220	-588	-180	-180	-180	-180
Appl. of Funds	28,356	33,155	34,558	37,089	19,854	24,105	27,608	31,806

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	2015	2016	2017	2018	2019	2020E	2021E	2022E
Basic (INR)								
EPS	119.9	123.7	140.0	178.6	206.8	221.9	254.4	302.0
Cash EPS	155.9	160.4	175.5	213.4	239.7	260.4	297.5	348.1
BV/Share	292.2	340.4	354.8	381.0	200.4	244.5	280.8	324.4
DPS	48.5	63.0	86.0	115.0	342.0	175.0	215.0	255.0
Payout (%)	40.5	50.9	61.4	64.4	165.3	78.9	84.5	84.4
Valuation (x)								
P/E	142.6	138.3	122.1	95.8	82.7	77.0	67.2	56.6
Cash P/E	109.7	106.6	97.4	80.1	71.3	65.7	57.5	49.1
EV/Sales	19.9	17.8	16.1	14.2	13.1	11.9	10.5	9.1
EV/EBITDA	99.0	79.9	72.7	58.8	56.0	50.0	44.7	38.1
P/BV	58.5	50.2	48.2	44.9	85.3	69.9	60.9	52.7
Dividend Yield (%)	0.3	0.4	0.5	0.7	2.0	1.0	1.3	1.5
Return Ratios (%)								
RoE	40.9	39.1	40.3	48.5	71.2	99.8	96.9	99.8
RoCE	40.7	40.8	41.7	50.2	73.2	103.0	99.8	102.3
Working Capital Ratios								
Debtor (Days)	3.4	3.8	3.2	4.1	3.7	4.0	3.0	3.0
Asset Turnover (x)	2.7	2.8	2.8	3.1	4.3	6.1	5.9	5.9
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E December	2015	2016	2017	2018	2019	2020E	2021E	2022E
(INR m)								
OP/(loss) before Tax	8,136	15,454	18,393	24,290	26,750	28,562	31,783	37,397
Int./Div. Received	756	1,378	1,353	2,477	2,497	1,696	2,701	3,247
Depn. and Amort.	3,673	3,537	3,423	3,357	3,164	3,708	4,154	4,443
Interest Paid	33	35	7	41	17	1,651	1,684	1,718
Direct Taxes Paid	3,422	5,029	6,041	8,813	6,729	7,209	8,265	9,810
Incr in WC	3,316	2,040	3,750	4,128	1,632	753	4,076	4,095
CF from Operations	10,981	14,659	18,178	20,525	22,337	25,770	30,731	34,597
Others	-3,594	-1,538	639	-2,592	11,723	1,468	3,416	4,445
Incr in FA	1,493	1,133	1,959	1,628	1,522	5,500	3,000	3,000
Free Cash Flow	9,488	13,526	16,219	18,897	20,815	20,270	27,731	31,597
Pur of Investments	373	1,528	1,118	1,604	159	1,511	3,592	3,035
CF from Invest.	-5,461	-4,199	-2,438	-5,824	10,043	-5,543	-3,176	-1,590
Incr in Debt	-32	4	0	0	0	0	0	0
Dividend Paid	4,098	5,640	8,292	10,895	29,503	16,874	20,730	24,587
Others	-854	-1,020	-1,674	-2,279	-5,896	-1,651	-1,684	-1,718
CF from Fin. Activity	-4,983	-6,656	-9,966	-13,174	-35,400	-18,525	-22,415	-26,305
Incr/Decr of Cash	537	3,805	5,774	1,526	-3,020	1,702	5,141	6,701
Add: Opening Balance	4,458	4,996	8,800	14,574	16,101	13,081	14,783	19,924
Closing Balance	4,996	8,800	14,574	16,101	13,081	14,783	19,924	26,625

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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