

6 August 2019

Nestle India – BUY

CMP :Rs.11,920.0
Target Price :Rs.16,100.0
Upside : 35%+
Stop Loss :Rs.9,880.0 (Closing basis)

Investment Thesis

Recently, the stock price of Nestle India Ltd. (Nestle India) corrected by ~1% from 52-week high of Rs.12,012.00 despite reporting good set of numbers in the recent quarters.

Nestle India is a strong play in the food and beverage space with leadership in ~85% of the product portfolio. It is in the process of transformation, where it has devised a consumer cluster approach to drive growth by segregating India into 15 clusters, which would help in organized planning and tracking performance in an efficient way. Supported by higher advertisement expense for proper communication will set a strong platform for Nestle India's growth with a balanced portfolio. Nestle India's raw material cost has declined by 410bps YoY as % of sales for H1CY18, mainly on account of milk and sugar price, which decline by 12% and 14% respectively. In addition to this, lower crop production led to decline in coffee prices by 8% during last one year. With benign input prices and strong pricing power, Nestle India will ensure margin improvement, going forward.

Nestle India has launched newer products across segments like Maggi Nutri-licious Noodles, Milkybar Moosha, KitKat Dessert Delight, Milo Ready to drink, yogurt-based dip and spread as well as new variants of Grekko. It has also launched Nescafe RTD in many variants. Nestle India has renewed its focus on health nutrition space and ventured into breakfast cereals markets with the launch of NesPlus in the current year. It has also to foray into the adult oral nutrition supplement, pediatric allergy, critical care nutrition and disease specific supplements. Nestle India is also contemplating extending Maggi portfolio to other snacking products. We believe its continued focus on newer products and categories will result in higher volume growth in future also.

Financials

- During the past 5 years, revenue of Nestle India grew at a CAGR of 3.7% while PAT grew at a CAGR of 2.8% in the same period.

Standal. (Rs. Mn)	CY15	CY16	CY17	CY18E	CY19E
Revenue	81,753	91,413	1,00,096	1,15,110	1,32,377
EBITDA	15,832	18,498	20,965	24,110	27,727
% growth	-22.4	16.8	13.3	15.0	15.0
PAT	5,633	10,014	12,252	14,702	17,055
EPS (INR)	58.4	103.9	127.1	152.5	176.9
P/E (x)	166.4	93.6	76.5	63.7	54.9
RoE (%)	20.0%	30.5%	35.8%	39.2%	41.4%

- Nestle India has reported a healthy 16.8% YoY growth in revenue in Q1CY19 to Rs.29,220mn led by 17.5% YoY domestic sales growth backed by strong volume while exports increased 7.9% YoY.

Stock Data

Market Cap (Rs. Mn)	936,443
Market Cap (\$ Mn)	12,723.4
Shares O/S (in Mn)	96.4
Avg. Volume (3 month)	83,000
52-Week Range (Rs.)	12,012/ 6,887

Shareholding Pattern

Promoters	62.76%
FII's	12.11%
Institutions	8.09%
Others (incl. body corporate)	17.04%

Performance (%)	1M	6M	1Yr
Absolute	1.1%	3.4%	34.6%
BSE FMCG	-4.7%	-2.6%	7.6%

Key Ratios

Div Yield	0.7%
TTM PE	59.4x
ROE	39.8%
TTM EPS (Rs.)	163.6/-

- Nestle India's domestic growth was largely volume driven led by new product launches and product variants.
- EBITDA of Nestle India improved by 22.8% YoY to Rs.7,252mn in Q1CY19 mainly on the back of soft milk and sugar prices. As a result, EBITDA margin has also improved by 118bps YoY to 24.7% in Q1CY19.

Key Business Highlights

- Nestle India is an Indian company engaged in food business. Its product portfolio includes milk products & nutrition, beverages, prepared dishes & cooking aids and chocolate & confectionery.
- Nestle India's milk products and nutrition include NESTLE Baby & Me, and NESTLE NESLAC while its beverages include coffee products, such as NESCAFE, NESCAFE CLASSIC, NESCAFE Sunrise, NESCAFE Gold and NESCAFE Cappuccino.
- Nestle India has eight manufacturing plants strategically located at Moga, Samalkha, Nanjangud, Choladi, Ponda, Bicholim, Pantnagar and Tahlwal.

Valuation

- Nestle India has launched 39 products in the past 2-3 years, out of which 25 were sustainable launches and product withdrawals were 11. Contribution from new launches has increased significantly over the years. It was mere 1.5% in 2016, which grew to 2.6% in 2017 and is currently at 3.0%. It remains focused on new launches to drive growth and expects new launches to contribute 3- 5% going ahead. It is also keen on bringing a few global brands to India, which may provide further thrust. We believe, Nestle India will grow at a healthy double-digit growth rate on account of aggression in product launches and marketing initiatives.
- Nestle India has successfully worked towards rebuilding its core and regaining its position for brand Maggi. Maggi has gained 600bps market share in the past two years and was successful in gaining 61% market share as against pre-ban level of ~75%. In terms of value-sales and distribution, Maggi has reached its erstwhile peak achieved in 2014. However, in volume terms, it is still 10% away from peak volume levels. We believe with the strong comeback of Maggi and new variant launches under the brand, revenues from prepared dishes will grow at ~20.0% CAGR in CY18-20E.
- With increase in demand for convenient meal options by urban consumers, Nestle India is entering into the breakfast cereal market in India by adding Nestle Breakfast Cereals from Cereal Partners Worldwide (CPW) to its portfolio in CY18 as part of its strategy to focus on health and nutrition products. It is expected that adding breakfast cereals to its portfolio, Nestle India will further strengthen its presence in the healthy and nutritious food segments which is a less penetrated fast-growing category in India.
- With a strong play in the food and beverage space, leadership in ~85% of the product portfolio, launched newer products across segments, increasing contribution from new launches, regaining its position for brand Maggi and entering into the breakfast cereal market, we value Nestle India at 91.0x CY19E EPS of Rs.176.90 to arrive at target price of Rs.16,100.00, an upside of ~35%.

Risk & Concern

- If any regulatory hurdle like Maggi ban erupts in the future, it will hamper the growth prospect of Nestle India.
- Nestle India may face higher competition due as other companies which are into prepared dishes had significantly increased its ad expenditure and capture market share from Nestle India.
- Economic slowdown or below-expected monsoon may impact consumption pattern in India and growth prospects of Nestle India.

Graphs & Charts

Figure 1: Net Sales Trend

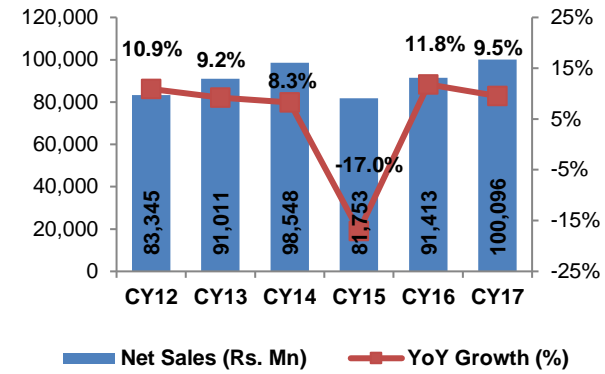


Figure 2: EBITDA & EBITDA Margin Trend

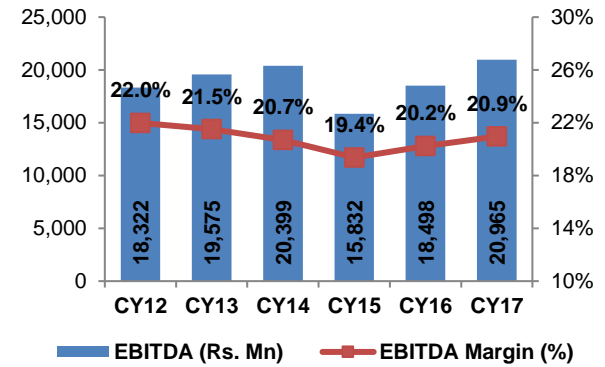


Figure 3: PAT Trend

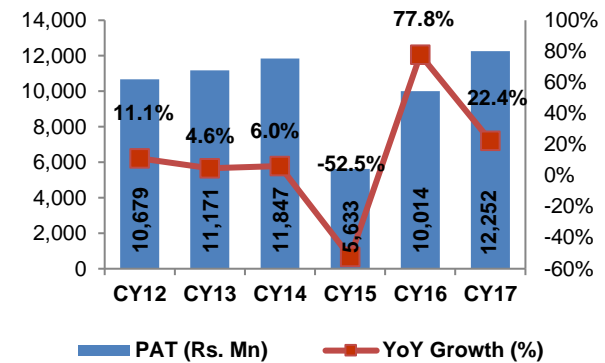
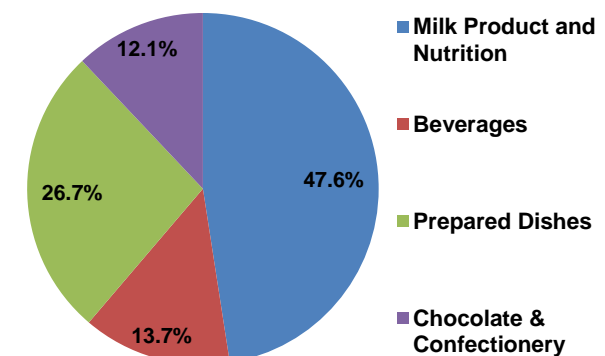


Figure 4: Segment-wise Revenue Break-up



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