

Healthy volume growth momentum continues

Net sales for the quarter increased 8.9% YoY to ₹ 3,003 crore led by robust domestic volume growth driven by aggressive new launches last year. Operating profit increased 5.9% to ₹ 737.7 crore while margins declined 71 bps to 24.6% on a high base. Net profit increased 9.3% to ₹ 463.3 crore on account of higher other income (₹ 73 crore vs. ₹ 56 crore in the base quarter). Nestlé India (NIL) has announced an interim dividend of ₹ 23/share.

Increased distribution and A&P spend to drive revenues

Volume growth in CY18 was 11.1% YoY, led by strong growth in confectionary at 15% YoY, beverages at 11% YoY and prepared dishes at 14% YoY. Milk products posted 4.8% YoY volume growth. Given aggressive A&P done by the company behind new launches, we expect 11.5% CAGR volume growth in CY18-20E led by prepared food and chocolate segments. *Kit Kat*, *Milkmaid* and *Nescafe* have been relaunched while more brands are likely to be remodelled, pushing volume growth upwards. A further fillip to growth can come from increased distribution, new offerings in below ₹ 10 price point and the rising share of innovative products. Continuing with its focus on new product launches and strong positioning in nutrition, health and wellness, NIL has announced plans to launch organic food products in the 'milk products & nutrition' segment.

Driving "out-of-home" business via Maggi, Nescafe & KitKat

The "out-of-home" (OOH) business registered volume and value growth in CY18, led by increase in reach and distribution of KitKat, Maggi & Nescafe across key "out-of-home" channels, such as education institutes, airlines, railways, offices and food service channels like hotels and restaurants. Nescafe Classic, Maggi Coconut Milk Powder and Milk Maid performed well driven by new customer acquisitions and increased penetration through stronger customer engagement. Nestle is also driving OOH consumption by setting up 300 kiosks operated by third party-selling company products in several cities. This is expected to help maintain sustainable high single digit volume growth for a foreseeable future.

Valuation & Outlook

NIL has launched 39 products in the past two years out of which 25 were sustainable launches and 11 have been product withdrawals. Nestlé launched 13 new products in CY18 (ad spend up 44.4% YoY) across categories. NIL is targeting the youth segment, which has high disposable income, by leveraging health and wellness platform as it complements their changing and upwardly lifestyle. NIL plans to accelerate innovations centred on superior health, nutrition and wellness at appropriate price points. We expect earnings growth at 19.7% CAGR in CY18-20E led by strong sales growth CAGR of 12.9% in the same period. We reiterate **BUY** recommendation with a target price of ₹ 12000/share.

Key Financial Summary

Key Financials	CY16	CY17	CY18	CY19E	CY20E	CAGR (FY19-21E)
Net Sales	9409.6	9952.5	11216.2	12582.2	14303.6	12.9%
EBITDA	2061.5	2248.3	2759.8	3069.0	3659.3	15.1%
EBITDA Margin %	21.9	22.6	24.6	24.4	25.6	
Net Profit	1001.4	1225.2	1606.9	1925.1	2303.4	19.7%
EPS (₹)	103.85	127.07	166.66	199.66	238.90	
P/E	100.1	81.8	62.4	52.1	43.5	
RoNW %	34.0	37.5	45.6	45.9	47.0	
RoCE (%)	33.9	34.9	42.9	44.5	47.6	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	100277
Total Debt (CY18)	35.1
Cash & Investments (CY18)	3,535.2
EV	96,776.7
52 week H/L (₹)	11777 / 9080
Equity capital	96.4
Face value (₹)	10.0

Key Highlights

- Maintain BUY with a target price of ₹ 12000/share
- Domestic sales increased by 10% led by high single digit volume growth driven by volume led growth in Maggi, Kitkat and Munch
- Export sales decreased by 9% due to lower coffee exports to Turkey
- Gross margins declined by 57 bps YoY to 58.5% on account of higher commodity prices (milk up by ~20% on a YoY basis)

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Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q1CY19	Q1CY19E	Q1CY18	YoY (%)	Q4CY18	QoQ (%)	Comments
Total Operating Income	3,003.0	3,113.9	2,757.2	8.9	2,897.3	3.6	Net sales witnessed growth of 8.9% mainly driven by broad based volume growth
Operating Income	20.6	19.2	20.4	0.8	18.4	11.5	
Raw Material Expenses	1,245.3	1,313.0	1,127.7	10.4	1,189.4	4.7	
Employee Expenses	303.8	287.6	269.0	12.9	279.9	8.5	
Other operating Expenses	716.2	819.3	663.7	7.9	828.9	-13.6	
EBITDA	737.7	694.0	696.9	5.9	599.0	23.2	
EBITDA Margin (%)	24.6	22.3	25.3	-71 bps	20.7	389 bps	Operating margins contracted 71 bps due to lower gross margins impacted by higher commodity costs
Depreciation	78.0	87.4	82.5	-5.5	85.4	-8.7	
Interest	31.6	29.6	31.1	1.7	25.2	25.6	
Other Income	73.2	62.3	56.4	29.7	75.2	-2.7	Other income increased 29.7% due to higher average liquidities as well as higher yields
PBT	701.3	639.3	639.7	9.6	522.2	34.3	
Exceptional Items	0.0	0.0	0.0	NA	41.5	NA	
Tax Outgo	238.1	240.1	215.7	10.4	180.4	31.9	
PAT	463.3	399.3	424.0	9.3	341.8	35.6	Net profit increased 9.3% on account of higher other income
Adj. PAT	463.3	399.3	424.0	9.3	368.9	25.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY19E			CY20E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	12,732.2	12,582.2	-1.2	14,484.7	14,303.6	-1.3	We slightly tweak our estimates
EBITDA	3151.0	3069.0	-2.6	3758.9	3659.3	-2.7	
EBITDA Margin(%)	24.7	24.4	-31 bps	26.0	25.6	-42 bps	
PAT	1961.1	1925.1	-1.8	2347.5	2303.4	-1.9	
EPS (₹)	203.4	199.7	-1.8	243.5	238.9	-1.9	

Source: Company, ICICI Direct Research

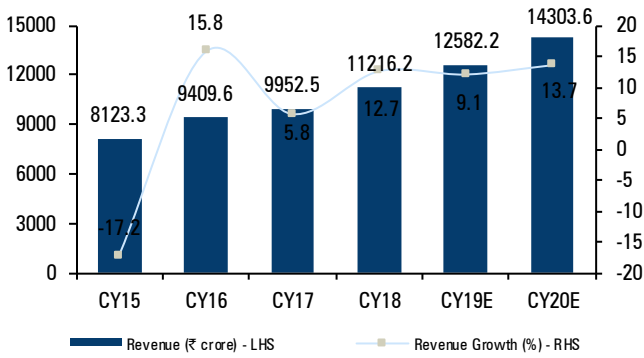
Exhibit 3: Assumptions

	Current				Earlier			Comments
	CY16	CY17	CY18	CY19E	CY20E	CY19E	CY20E	
Gross Sales (₹ crore)								
Milk Product and Nutrition	4,635.0	4,819.6	5,187.6	5,718.8	6,365.1	5,802.0	6,457.6	
Beverages	1,286.1	1,387.0	1,522.6	1,662.7	1,815.7	1,653.9	1,806.1	
Prepared dishes	2,317.6	2,707.1	3,105.3	3,642.5	4,389.5	3,793.5	4,571.5	
Chocolate & confectionery	1,170.9	1,221.4	1,400.7	1,558.2	1,733.3	1,482.8	1,649.5	Increase estimates on the back of robust sales growth in CY18
Volume Growth (%)								
Overall Volume Growth	25.0	10.9	11.1	11.0	12.3	12.1	12.3	
Milk Product and Nutrition	-2.4	1.6	4.8	6.0	6.0	6.0	6.0	
Beverages	-0.2	10.6	10.6	5.0	5.0	5.0	5.0	
Prepared dishes	71.5	19.0	14.5	15.0	17.0	17.0	17.0	
Chocolate & confectionery	6.7	4.3	14.7	8.0	8.0	8.0	8.0	

Source: Company, ICICI Direct Research

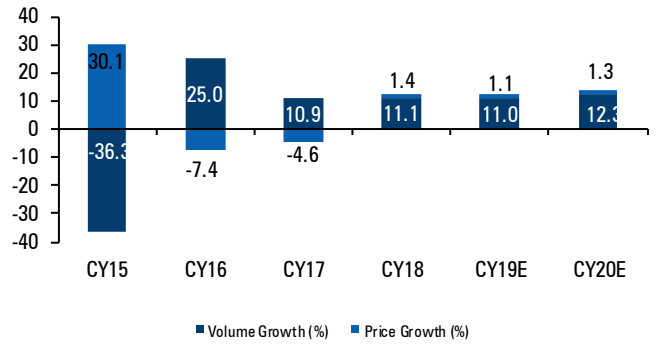
Key Metrics

Exhibit 4: Revenue growth trend



Source: Company, ICICI Direct Research

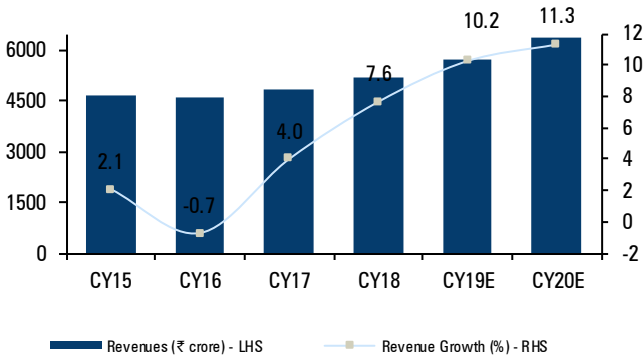
Exhibit 5: Volume growth to drive revenue



Source: Company, ICICI Direct Research

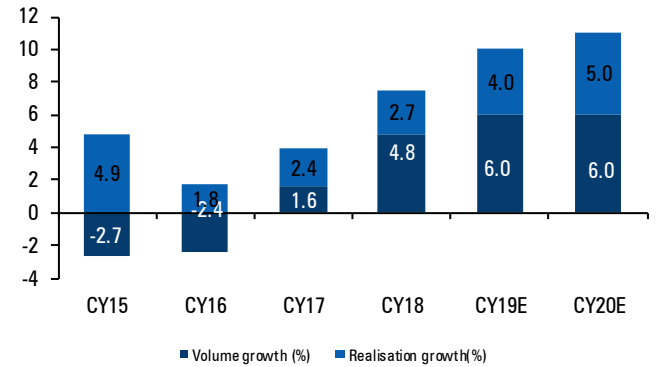
Milk products & nutrition – Focus on value addition

Exhibit 6: Revenue to grow at 10.8% CAGR over CY18-20E



Source: Company, ICICI Direct Research

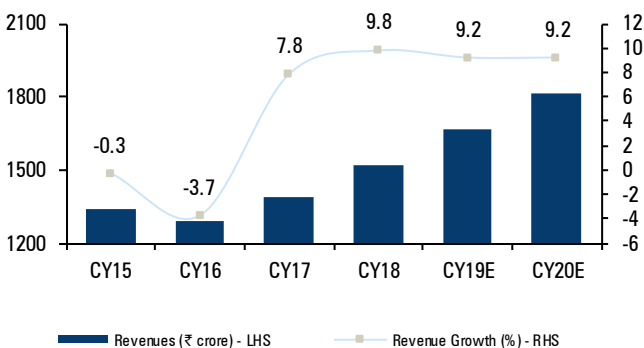
Exhibit 7: Revenue growth to be mix of volume & price growth



Source: Company, ICICI Direct Research

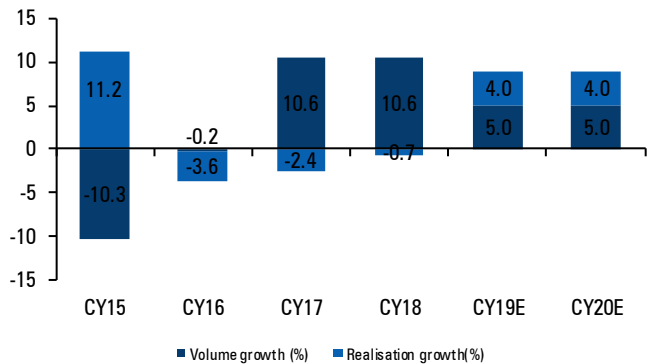
Beverages – Focus on differentiated products

Exhibit 8: Beverages revenue growth expected at 9.2% CAGR



Source: Company, ICICI Direct Research

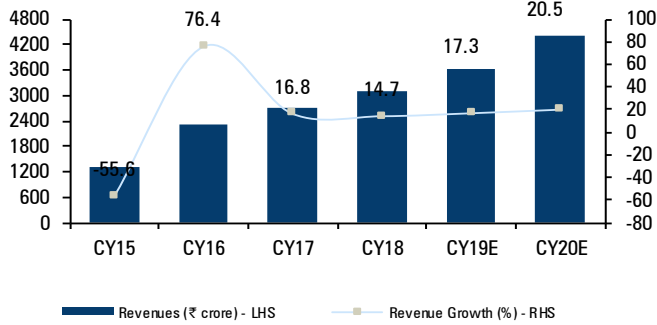
Exhibit 9: Volume growth expected to be in focus in near term



Source: Company, ICICI Direct Research

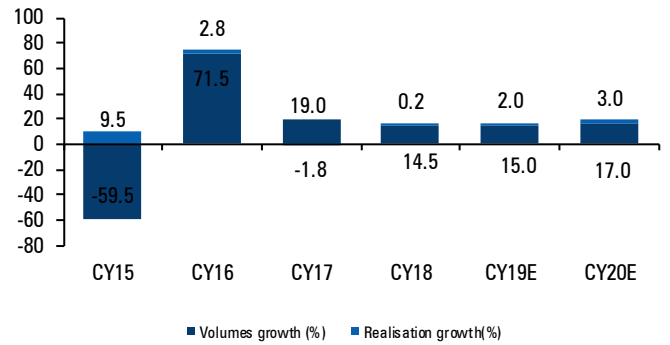
Prepared dishes – Rebuilding, reinvigorating portfolio

Exhibit 10: Prepared dishes sales to reach pre Maggi ban level



Source: Company, ICICI Direct Research

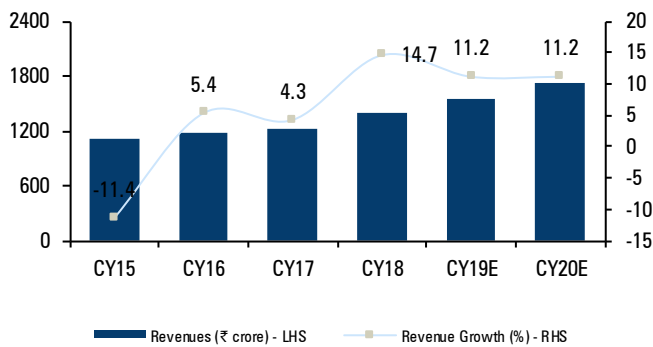
Exhibit 11: Innovation to generate healthy volume growth



Source: Company, ICICI Direct Research

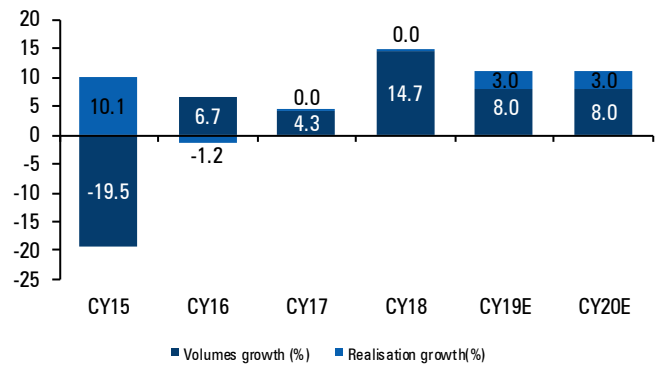
Chocolate & confectionery – Focus on premiumisation

Exhibit 12: Sales to gain traction, going forward



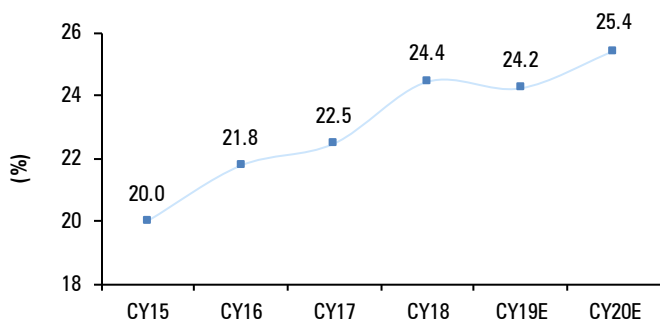
Source: Company, ICICI Direct Research

Exhibit 13: Volume growth to support higher growth



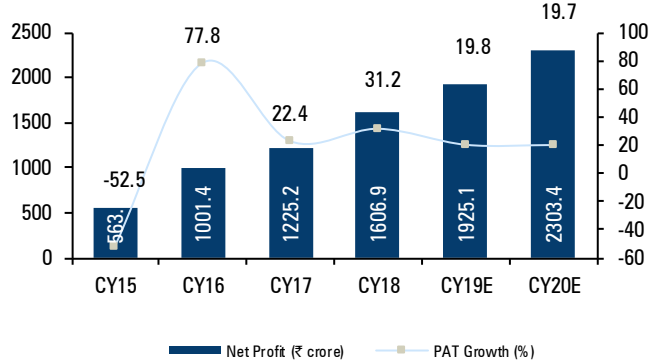
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA margin to remain at elevated levels



Source: Company, ICICI Direct Research

Exhibit 15: PAT to grow at CAGR of 19.7% over CY18-20E



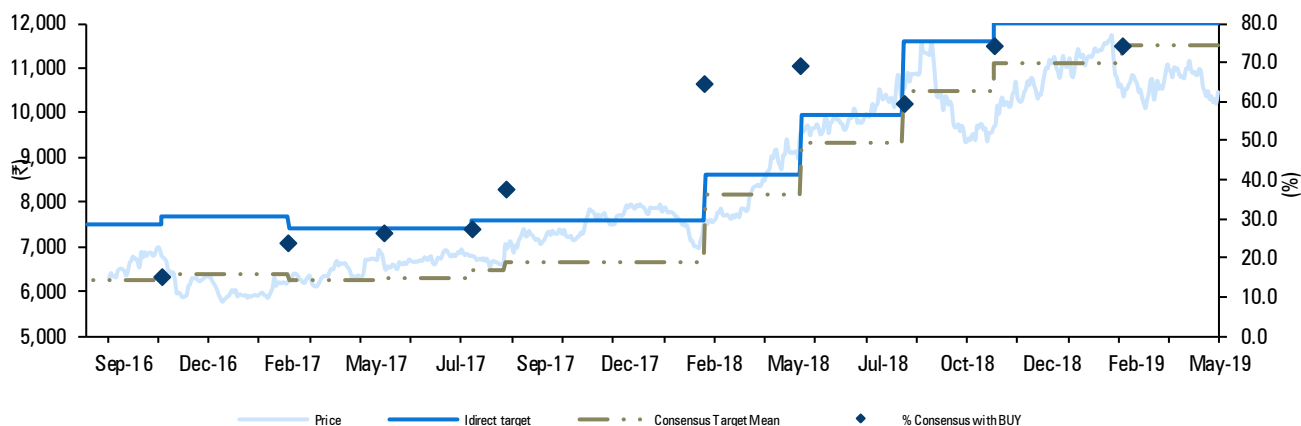
Source: Company, ICICI Direct Research

Exhibit 16: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY17	9952.5	0.0	127.1	0.0	81.8	44.0	37.5	34.9
CY18	11216.2	12.7	166.7	31.2	62.4	35.8	45.6	42.9
CY19E	12582.2	12.2	199.7	19.8	52.1	32.0	45.9	44.5
CY20E	14303.6	13.7	238.9	19.7	43.5	26.8	47.0	47.6

Source: Company, ICICI Direct Research

Exhibit 17: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 18: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Nestle SA	31-Dec-18	34.28	33.05m	0.00m
2	Maggi Enterprises, Ltd.	31-Dec-18	28.48	27.46m	0.00m
3	Life Insurance Corporation of India	31-Dec-18	3.23	3.11m	-1.17m
4	ARISAIG Partners (Asia) Pte. Ltd.	31-Dec-18	1.40	1.35m	-0.12m
5	The Vanguard Group, Inc.	31-Mar-19	0.87	0.83m	0.00m
6	SBI Funds Management Pvt. Ltd.	31-Mar-19	0.84	0.81m	0.00m
7	BlackRock Institutional Trust Company, N.A.	31-Mar-19	0.76	0.74m	0.00m
8	Axis Asset Management Company Limited	31-Mar-19	0.67	0.65m	0.03m
9	Aberdeen Standard Investments (Asia) Limited	28-Feb-19	0.64	0.62m	-0.09m
10	DSP Investment Managers Pvt. Ltd.	31-Mar-19	0.28	0.27m	-0.03m

Source: Reuters, ICICI Direct Research

Exhibit 19: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Aberdeen Asset Managers Ltd.	13.72m	0.09m	Life Insurance Corporation of India	-185.99m	-1.17m
American Century Investment Management, Inc.	13.69m	0.09m	ARISAIG Partners (Asia) Pte. Ltd.	-19.38m	-0.12m
Kotak Mahindra Asset Management Company Ltd.	12.22m	0.08m	Matthews International Capital Management, L.L.C.	-17.63m	-0.11m
Columbia Threadneedle Investments (US)	6.97m	0.04m	J O Hambro Capital Management Limited	-16.39m	-0.10m
Axis Asset Management Company Limited	4.86m	0.03m	Aberdeen Standard Investments (Asia) Limited	-13.72m	-0.09m

Source: Reuters, ICICI Direct Research

Exhibit 20: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	62.8	62.8	62.8	62.8	62.8
FII	11.9	12.2	12.1	12.4	12.6
DII	8.0	8.0	8.0	7.5	7.7
Others	17.3	17.0	17.1	17.4	17.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 21: Profit and loss statement				
	₹ crore			
(Year-end December)	CY17	CY18	CY19E	CY20E
Total operating income	10,009.6	11,292.3	12,665.8	14,395.6
Growth (%)		12.8	12.2	13.7
Raw Material Expenses	3,617.4	3,823.2	5,149.0	5,730.1
Employee Expenses	1,017.5	1,124.2	1,245.6	1,401.8
Marketing Expenses	1,010.7	1,285.2	0.0	0.0
Administrative Expenses	1,024.7	1,086.0	94.4	100.1
Other expenses	1,091.0	1,214.0	3,107.8	3,504.4
Total Operating Expenditure	7,761.3	8,532.5	9,596.8	10,736.3
EBITDA	2,248.3	2,759.8	3,069.0	3,659.3
Growth (%)		22.8	11.2	19.2
Depreciation	379.4	346.8	327.2	358.7
Interest	91.9	112.0	117.8	133.3
Other Income	176.9	258.9	289.6	313.5
PBT	1,927.0	2,532.6	2,886.2	3,453.4
Others	87.7	103.7	0.0	0.0
Total Tax	614.1	822.0	961.1	1,150.0
PAT	1,225.2	1,606.9	1,925.1	2,303.4
Growth (%)		31.2	19.8	19.7
EPS (₹)	127.1	166.7	199.7	238.9

Source: Company, ICICI Direct Research

Exhibit 22: Cash flow statement				
	₹ crore			
(Year-end December)	CY17	CY18	CY19E	CY20E
Profit after Tax	1,225.2	1,606.9	1,925.1	2,303.4
Add: Depreciation	379.4	346.8	327.2	358.7
(Inc)/dec in Current Assets	-77.2	-646.9	58.9	-576.5
Inc/(dec) in CL	126.0	362.2	-269.3	216.9
CF from operating activities	1,653.4	1,669.0	2,041.9	2,302.6
(Inc)/dec in LT loans & adv	18.0	6.2	40.1	0.0
(Inc)/dec in other investments	-111.0	-148.1	0.0	-100.0
(Inc)/dec in Fixed Assets	-171.5	-142.2	-400.0	-500.0
Others	285.9	110.1	59.5	60.0
CF from investing activities	8.95	-162.6	-228.6	-540.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	2.0	0.0	0.0	0.0
Dividend paid & dividend tax	-998.0	-1,313.4	-1,438.1	-1,588.5
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-89.0	-40.4	30.2	0.0
CF from financing activities	-1,085.0	-1,353.7	-1,407.9	-1,588.5
Net Cash flow	577.4	152.7	405.4	174.0
Opening Cash	880.0	1,457.4	1,610.1	2,015.5
Closing Cash	1,457.4	1,610.1	2,015.5	2,189.5

Source: Company, ICICI Direct Research

Exhibit 23: Balance sheet				
	₹ crore			
(Year-end December)	CY17	CY18	CY19E	CY20E
Liabilities				
Equity Capital	96.4	96.4	96.4	96.4
Reserve and Surplus	3,324.2	3,577.3	4,094.5	4,809.4
Total Shareholders funds	3,420.6	3,673.8	4,190.9	4,905.8
Total Debt	35.1	35.1	35.1	35.1
Deferred Tax Liability	122.0	58.8	18.8	-21.2
Long Term Provisions	2,291.6	2,464.9	2,564.9	2,664.9
Total Liabilities	5,869.9	6,233.1	6,809.8	7,584.7
Assets				
Gross Block	3,358.4	3,485.4	3,785.4	4,185.4
Less: Acc Depreciation	742.3	1,084.8	1,412.0	1,770.7
Net Block	2,616.2	2,400.6	2,373.4	2,414.7
Capital WIP	94.2	105.2	205.2	305.2
Total Fixed Assets	2,710.3	2,505.8	2,578.6	2,719.9
LT Loans & Advances	46.4	40.1	0.0	0.0
Inventory	902.5	965.6	1,344.4	1,606.7
Debtors	89.0	124.6	172.4	274.3
Loans and Advances	28.8	17.9	155.1	176.3
Current Investments	1,459.7	2,018.9	1,396.1	1,587.1
Cash	1,457.4	1,610.1	2,015.5	2,189.5
Total Current Assets	3,937.4	4,737.0	5,083.5	5,834.0
Creditors	984.6	1,240.4	861.8	979.7
Provisions	87.5	157.3	241.3	274.3
Other Current Liabilities	420.6	457.3	482.6	548.6
Total Current Liabilities	1,492.7	1,855.0	1,585.7	1,802.6
Net Current Assets	2,444.7	2,882.0	3,497.8	4,031.4
Application of Funds	5,869.9	6,233.1	6,809.8	7,584.7

Source: Company, ICICI Direct Research

Exhibit 24: Key ratios				
	₹ crore			
(Year-end December)	CY17	CY18	CY19E	CY20E
Per share data (₹)				
EPS	127.1	166.7	199.7	238.9
Cash EPS	166.4	202.6	233.6	276.1
BV	354.8	381.0	434.7	508.8
DPS	86.0	113.0	124.3	136.7
Cash Per Share	77.0	112.5	146.4	183.6
Operating Ratios (%)				
EBITDA Margin	22.5	24.4	24.2	25.4
PBT / Net Sales	18.5	21.7	22.9	24.1
PAT Margin	12.3	14.3	15.3	16.1
Inventory days	33.1	31.4	39.0	41.0
Debtor days	3.3	4.1	5.0	7.0
Creditor days	36.1	40.4	25.0	25.0
Return Ratios (%)				
RoE	37.5	45.6	45.9	47.0
RoCE	34.9	42.9	44.5	47.6
RoIC	43.3	53.4	59.7	64.8
Valuation Ratios (x)				
P/E	81.8	62.4	52.1	43.5
EV / EBITDA	44.0	35.8	32.0	26.8
EV / Net Sales	9.9	8.8	7.8	6.9
Market Cap / Sales	10.1	8.9	8.0	7.0
Price to Book Value	29.3	27.3	23.9	20.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.7	1.9	2.0
Quick Ratio	1.1	1.2	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 25: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	TP (₹)		Rating	(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E		
Colgate (COLPAL)	1,120	1,350	Hold	34,950	28.9	31.9	35.8	38.8	35.1	31.3	7.8	7.1	6.5	62.1	59.2	55.4	43.3	41.7	38.8
Dabur India (DABIND)	365	450	Buy	66,747	8.2	9.2	10.2	44.6	39.8	35.9	7.8	7.0	6.3	29.6	28.1	28.4	25.7	24.0	24.3
GSK CH (GLACON)	7,130	8,340	Buy	30,028	166.5	233.7	244.1	42.8	30.5	29.2	6.9	6.3	5.8	29.8	36.1	33.4	20.1	24.0	22.8
Hindustan Unilever (HINLEV)	1,700	1,900	Hold	378,000	28.5	32.9	37.9	59.6	51.7	44.9	9.9	8.7	7.6	100.8	123.7	162.3	87.2	106.9	141.3
ITC Limited (ITC)	298	340	Buy	352,275	10.3	11.3	12.6	29.0	26.5	23.7	7.9	7.2	6.6	30.8	32.7	33.3	21.5	22.2	22.6
Jyothy Lab (JYOLAB)	150	220	Buy	6,181	5.3	5.9	6.7	28.2	25.3	22.4	3.5	3.1	2.8	28.6	37.5	38.9	22.6	28.2	29.2
Marico (MARLIM)	350	425	Buy	46,963	8.8	8.7	9.8	39.8	40.4	35.9	6.4	5.5	4.9	38.0	42.6	41.7	31.6	35.8	34.6
Nestle (NESIND)	10,400	12,000	Buy	100,277	166.7	199.7	238.9	62.4	52.1	43.5	8.9	8.0	7.0	42.9	44.5	47.6	45.6	45.9	47.0
Tata Global Bev (TATGLO)	200	240	Buy	12,938	7.2	7.9	8.7	27.6	25.3	22.9	1.8	1.7	1.6	8.4	9.1	9.5	6.5	7.2	7.6
VST Industries (VSTIND)	3,480	3,900	Buy	5,348	146.9	164.4	178.8	23.7	21.2	19.5	4.9	4.4	4.0	51.4	51.1	50.3	34.2	34.4	33.9
Varun Beverage (VARBEV)	900	1,040	Hold	17,530	11.7	16.4	18.6	76.8	54.8	48.3	4.4	3.4	2.5	12.7	14.2	13.3	12.1	15.0	11.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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