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## Company Update

Consumer Staples &  
Discretionary

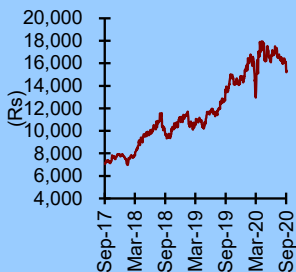
Target price Rs16,500

## Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	62.8	62.8	62.8
Institutional investors	20.9	20.9	20.8
MFs and others	4.1	4.2	4.5
Banks, FI's, Insurance co	4.6	4.7	4.0
FII's	12.2	12.0	12.3
Others	16.3	16.3	16.4

Source: BSE

## Price chart



## INDIA

## Nestle India

**HOLD**  
Maintained

## Beneath the surface #3: Our primary research with pharma indicates Nestlé's infant food business will likely face growth headwinds in CY2021

Rs15,735

**Our assertion / hypothesis:** Nestlé's infant nutrition business (~30% of revenues and ~40% of profits) will likely face growth headwinds in CY2021 due to consumers (now) delaying plans of having infants / babies due to fear of visiting hospitals. Given the premium pricing of infant nutrition products, the consuming households are mostly the upper-middle class / middle class, in our view.

We have drawn conclusions from (1) our primary research with pharmaceutical companies and (2) secondary sales data (market research) from AIOCD-AWACS (MUST see charts 1-3).

Though we are believers in Nestlé's long-term story, our current neutral stance is intact (given that only a part of its portfolio (Maggi and (somewhat) Coffee) would benefit from increased in-home consumption). HOLD rating retained.

- **Primary research with pharmaceutical companies and data on secondary sales confirms our hypothesis:** In our discussions with 9 pharma companies operating in the Indian gynaecological segment directly or indirectly, we notice a common trend of a decline in products prescribed by gynaecologists (in last six months). Even the data on secondary sales of gynaec and related products as per AIOCD-AWACS (market research agency) confirms the trend. See charts 1-3 for the declines in supplements taken during pregnancies and an increase in the sales of birth control medicines. Another key data point is the 74% drop in volumes in 1QFY21 at a chain of fertility clinic, Milan, which likely points to lower potential child births for the relevant target consumers. Yes, we do note that infant nutrition business growth is primarily driven by price/mix (premiumisation) and hence the industry may have appropriate (contingency) plans for CY2021 to mitigate this impact, if any.
- **Valuation and risks:** Our earnings estimates are unchanged; modelling revenue / EBITDA / PAT CAGR of 11 / 16 / 15 (%) over CY19-21E. Maintain HOLD rating with DCF-based target price unchanged at Rs 16,500. Key upside risk is greater-than-expected deflation in inputs and key downside risk is potential regulatory disruption in infant nutrition.

Market Cap	Rs1517bn/US\$20.6bn	Year to Dec	CY19	CY20E	CY21E	CY22E
Reuters/Bloomberg	NEST.BO/NEST IN	Revenue (Rs mn)	122,953	131,477	152,721	177,016
Shares Outstanding (mn)	96.4	Adj. Net Profit (Rs mn)	19,696	21,175	26,042	31,601
52-week Range (Rs)	17951/12945	Dil. Rec. EPS (Rs)	204.3	219.6	270.1	327.7
Free Float (%)	37.2	% Chg YoY	22.6	7.5	23.0	21.3
FII (%)	12.3	P/E (x)	77.0	71.6	58.3	48.0
Daily Volume (US\$'000)	36,289	CEPS (Rs)	237.1	258.2	310.8	371.4
Absolute Return 3m (%)	(5.6)	EV/EBITDA (x)	52.7	47.2	39.5	33.2
Absolute Return 12m (%)	15.4	Dividend Yield (%)	1.0	1.2	1.5	1.7
Sensex Return 3m (%)	6.9	RoCE (%)	33.0	39.3	40.2	39.4
Sensex Return 12m (%)	(2.6)	RoE (%)	70.3	95.4	90.0	84.3

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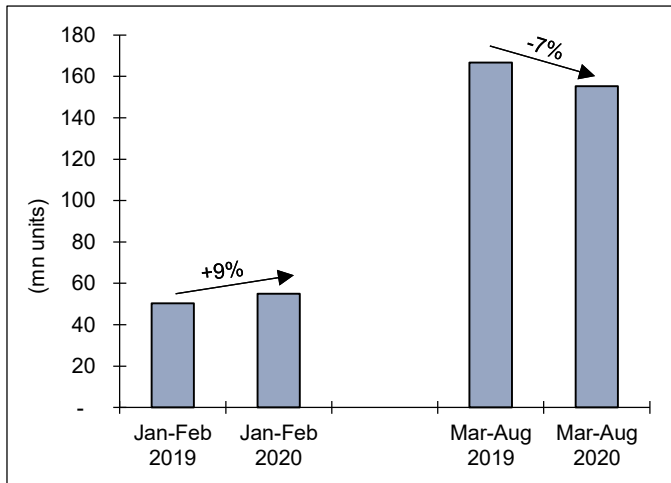
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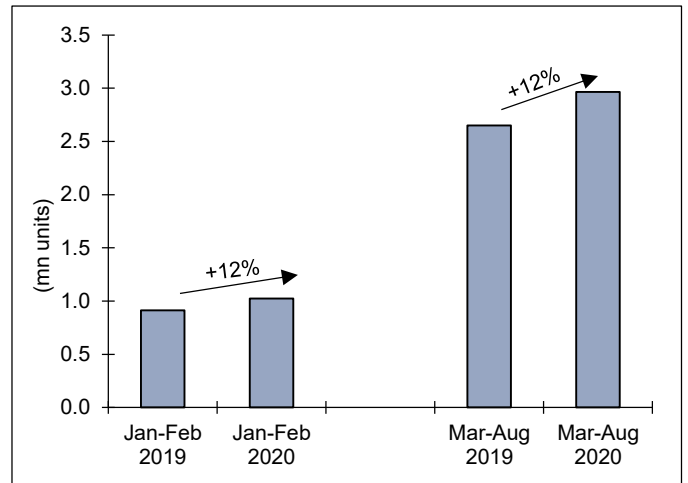
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**Chart 1: Gynaecological product volume decline in Mar-Aug**



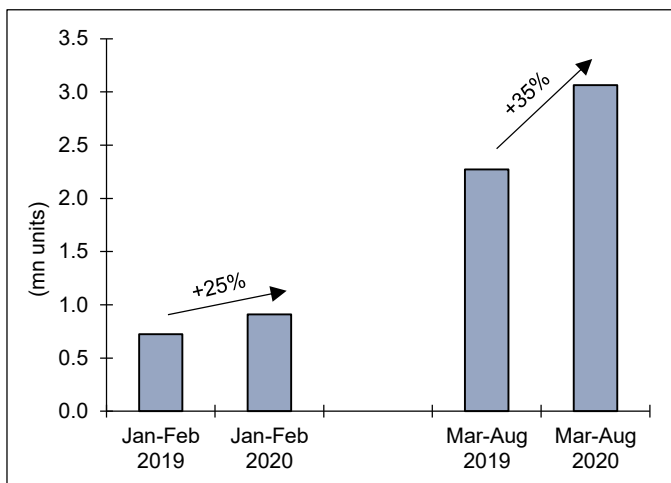
Source: AIOCD-AWACS, I-Sec research

**Chart 2: Increase in sales of birth control medicines – Brand Mankind**



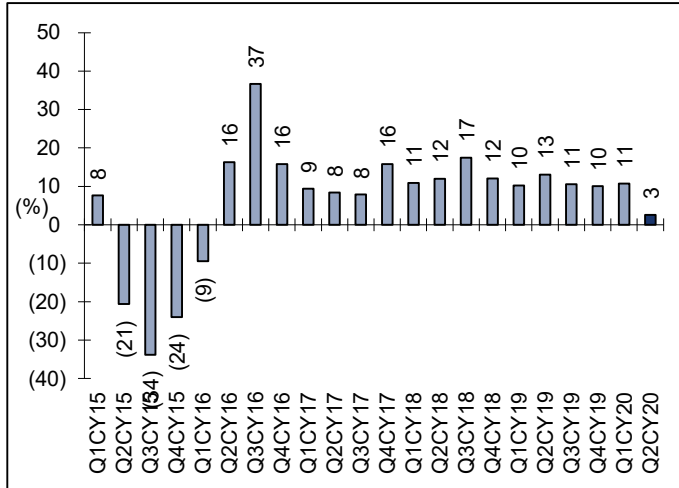
Source: AIOCD-AWACS, I-Sec research

**Chart 3: Increase in sales of birth control medicines – Brand Zydus Cadila**



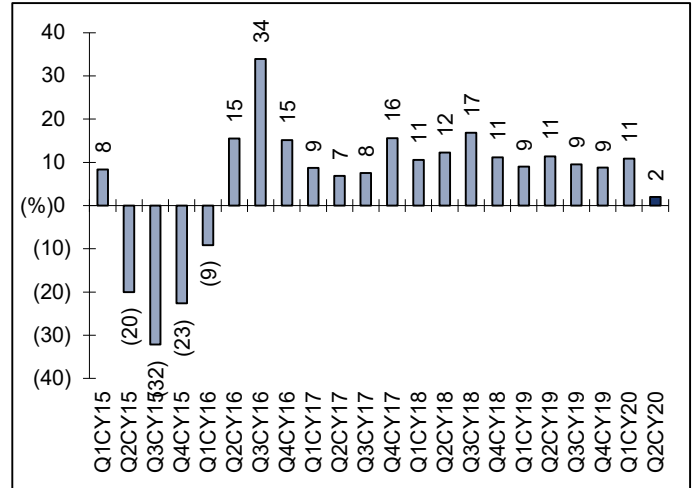
Source: AIOCD-AWACS, I-Sec research

**Chart 4: Domestic revenue growth**



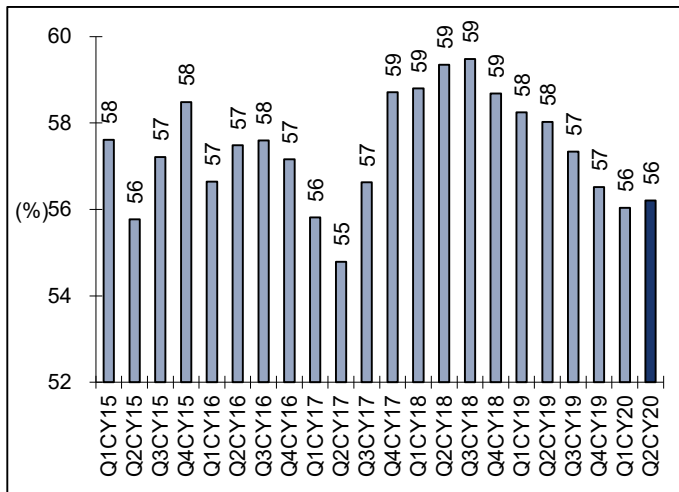
Source: Company data, I-Sec research

**Chart 5: Revenue growth**



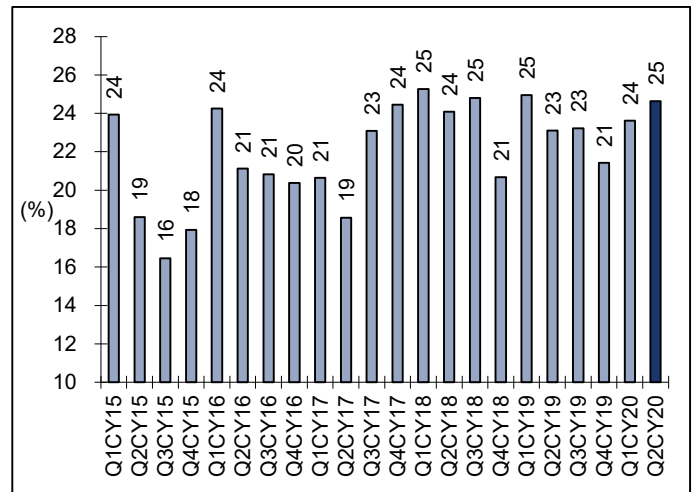
Source: Company data, I-Sec research

**Chart 6: Gross margin**



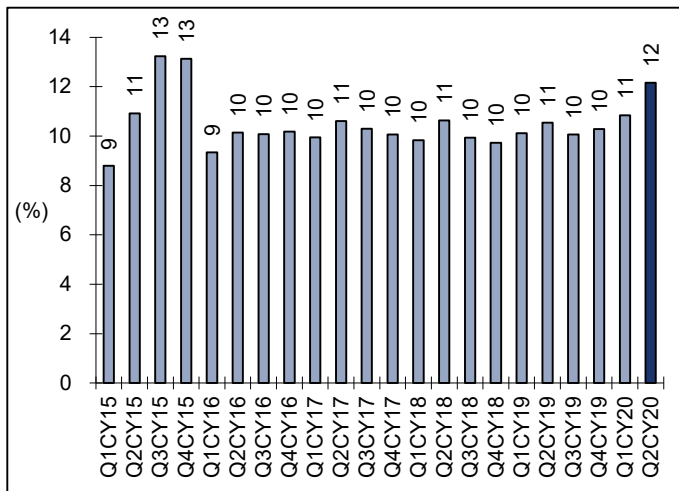
Source: Company data, I-Sec research

**Chart 7: EBITDA margin**



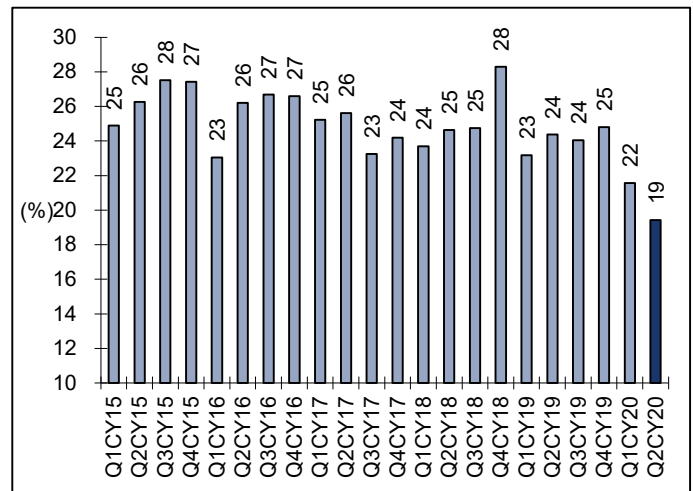
Source: Company data, I-Sec research

**Chart 8: Employee costs (as a % of sales)**



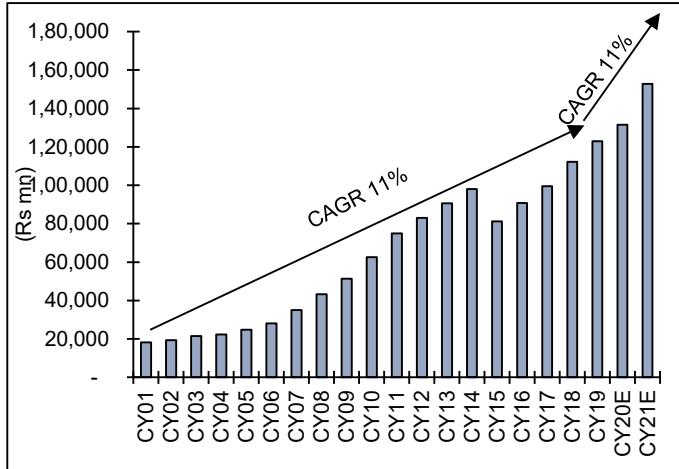
Source: Company data, I-Sec research

**Chart 9: Other expenses (as a % of sales)**



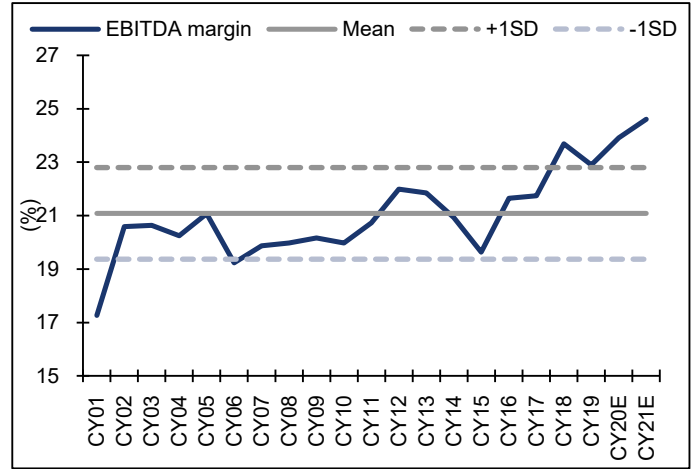
Source: Company data, I-Sec research

**Chart 10: Revenue and growth rates**



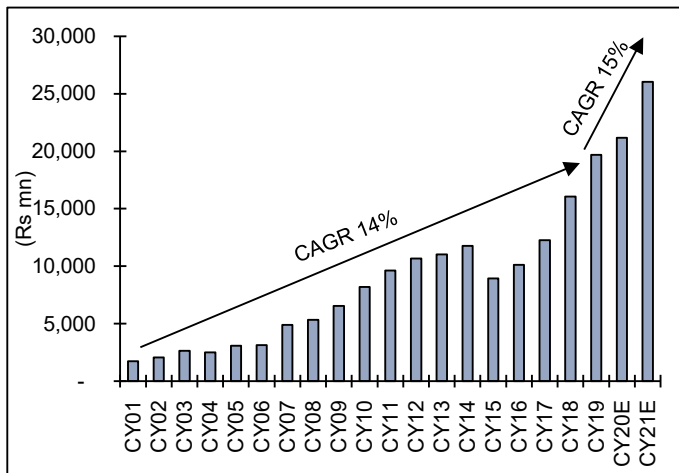
Source: Company data, I-Sec research

**Chart 11: EBITDA margin**



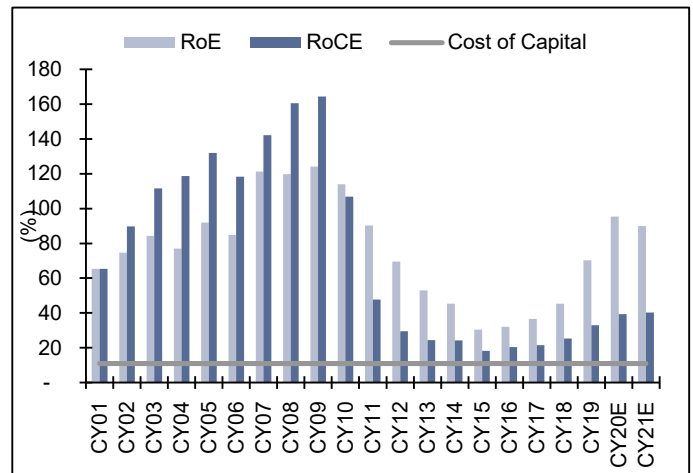
Source: Company data, I-Sec research

**Chart 12: Net profit and growth rates**



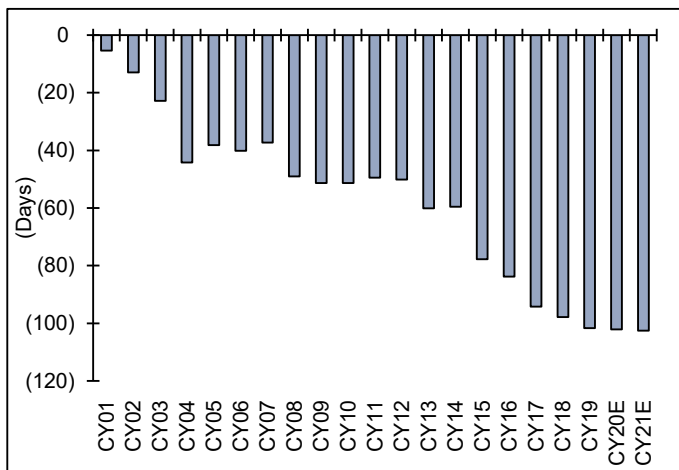
Source: Company data, I-Sec research

**Chart 13: Return ratios and cost of capital**



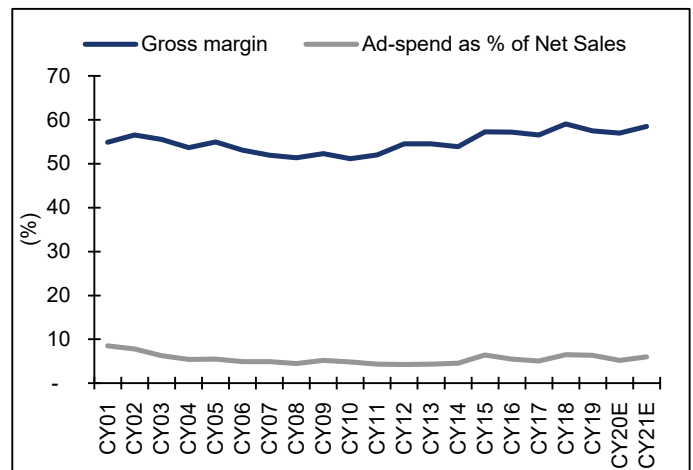
Source: Company data, I-Sec research

**Chart 14: Net working capital days**



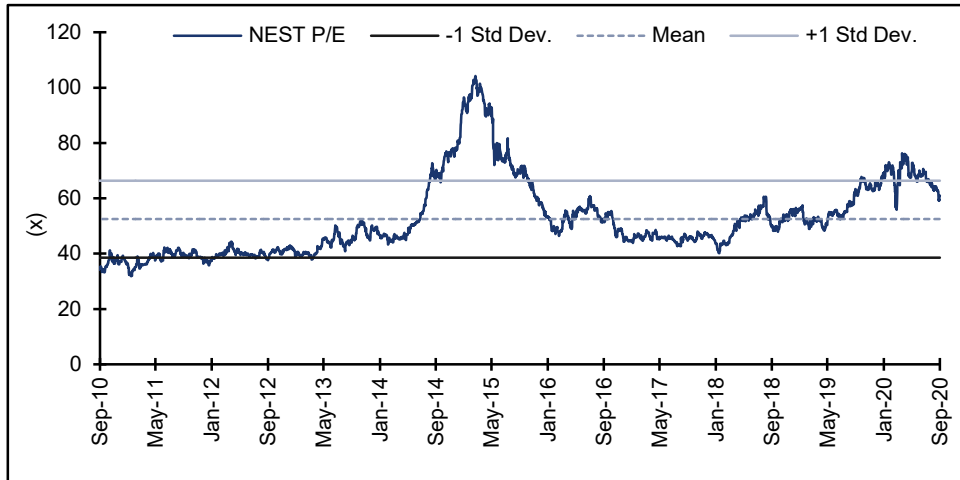
Source: Company data, I-Sec research

**Chart 15: Gross margin and ad-spends**



Source: Company data, I-Sec research

Chart 16: Mean P/E and standard deviations



Source: Company data, I-Sec research

## Financial summary

Table 1: Profit &amp; Loss statement

(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
<b>Net Sales</b>	<b>122,953</b>	<b>131,477</b>	<b>152,721</b>	<b>177,016</b>
Operating Expenses	94,797	100,040	115,136	132,407
<b>EBITDA</b>	<b>28,156</b>	<b>31,437</b>	<b>37,585</b>	<b>44,608</b>
% margins	22.9	23.9	24.6	25.2
Depreciation & Amortisation	3,164	3,722	3,924	4,214
Gross Interest	1,198	1,662	1,843	2,126
Other Income	3,205	2,530	3,285	4,281
<b>Recurring PBT</b>	<b>26,999</b>	<b>28,583</b>	<b>35,103</b>	<b>42,549</b>
Less: Taxes	7,054	7,134	8,774	10,646
Less: Impairment/ Provisions	(249)	(274)	(287)	(302)
<b>Net Income (Reported)</b>	<b>19,696</b>	<b>21,175</b>	<b>26,042</b>	<b>31,601</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>19,696</b>	<b>21,175</b>	<b>26,042</b>	<b>31,601</b>

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
<b>Assets</b>				
Total Current Assets	38,172	49,077	66,277	86,411
of which cash & cash eqv.	13,081	23,035	37,760	55,081
Total Current Liabilities & Provisions	21,475	23,036	26,842	31,209
<b>Net Current Assets</b>	<b>16,697</b>	<b>26,041</b>	<b>39,435</b>	<b>55,202</b>
Investments	8,710	8,799	9,019	9,270
Net Fixed Assets	22,267	20,066	19,197	18,346
Capital Work-in-Progress	1,433	1,433	1,433	1,433
<b>Total Assets</b>	<b>49,107</b>	<b>56,339</b>	<b>69,084</b>	<b>84,252</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>29,605</b>	<b>31,089</b>	<b>36,111</b>	<b>41,855</b>
<b>Deferred Tax Liability</b>	<b>180</b>	<b>180</b>	<b>180</b>	<b>180</b>
Minority Interest	0	0	0	0
Equity Share Capital	964	964	964	964
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	18,358	24,106	31,829	41,253
Less: Misc. Exp. n.w.o.				
<b>Net Worth</b>	<b>19,323</b>	<b>25,071</b>	<b>32,793</b>	<b>42,217</b>
<b>Total Liabilities</b>	<b>49,107</b>	<b>56,339</b>	<b>69,084</b>	<b>84,252</b>

Source: Company data, I-Sec research

Table 3: Quarterly trends

(Rs mn, year ending December 31)

	Sep 19	Dec 19	Mar 20	Jun 20
<b>Net sales</b>	<b>31,993</b>	<b>31,307</b>	<b>33,058</b>	<b>30,415</b>
% growth (YoY)	10.5	10.0	10.7	2.6
<b>EBITDA</b>	<b>7,430</b>	<b>6,706</b>	<b>7,811</b>	<b>7,494</b>
Margin (%)	23.2	21.4	23.6	24.6
Other income	564	447	429	379
Extraordinaries (Net)	-	-	-	-
<b>Net profit</b>	<b>5,954</b>	<b>4,726</b>	<b>5,254</b>	<b>4,866</b>

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
<b>Operating Cashflow</b>	<b>20,705</b>	<b>24,877</b>	<b>29,499</b>	<b>34,830</b>
Working Capital	1,632	2,537	6,133	7,046
Changes				
Capital Commitments	(1,545)	(1,521)	(3,054)	(3,363)
<b>Free Cashflow</b>	<b>20,792</b>	<b>25,893</b>	<b>32,578</b>	<b>38,513</b>
<b>Cashflow from Investing Activities</b>	<b>830</b>	<b>161</b>	<b>(744)</b>	<b>(252)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	163	(2,193)	(1,843)	(2,126)
Dividend paid	(35,563)	(15,427)	(18,320)	(22,177)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(12,233)</b>	<b>9,955</b>	<b>14,724</b>	<b>17,321</b>
Closing cash & balance	13,081	23,035	37,760	55,081

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending December 31)

	CY19	CY20E	CY21E	CY22E
<b>Per Share Data (Rs)</b>				
EPS	204.3	219.6	270.1	327.7
Cash EPS	237.1	258.2	310.8	371.4
Dividend per share (DPS)	342.0	160.0	190.0	230.0
Book Value per share (BV)	200.4	260.0	340.1	437.8
<b>Growth (%)</b>				
Net Sales	9.6	6.9	16.2	15.9
EBITDA	6.0	11.7	19.6	18.7
PAT	22.6	7.5	23.0	21.3
DPS	202.7	(53.2)	18.8	21.1
<b>Valuation Ratios (x)</b>				
P/E	77.0	71.6	58.3	48.0
P/CEPS	66.4	60.9	50.6	42.4
P/BV	78.5	60.5	46.3	35.9
EV / EBITDA	52.7	47.2	39.5	33.2
EV / Sales	12.1	11.3	9.7	8.4
<b>Operating Ratios</b>				
Raw Material / Sales (%)	42.5	43.0	41.5	41.3
Employee cost / Sales (%)	10.3	11.1	10.6	10.6
Other exps / Sales (%)	24.3	22.0	23.3	22.9
Other Income / PBT (%)	11.9	8.9	9.4	10.1
Effective Tax Rate (%)	26.4	25.2	25.2	25.2
Working Capital (days)	(27.9)	(28.0)	(28.1)	(28.2)
Inventory Turnover (days)	38.1	37.9	37.7	37.5
Receivables (days)	3.7	3.6	3.6	3.5
Payables (days)	44.4	44.6	44.8	45.0
Net D/E (x)	(1.6)	(1.6)	(1.7)	(1.7)
<b>Profitability Ratios (%)</b>				
Net Income Margins	16.0	16.1	17.1	17.9
RoACE	33.0	39.3	40.2	39.4
RoAE	70.3	95.4	90.0	84.3
Dividend Payout	198.2	72.9	70.3	70.2
Dividend Yield	1.0	1.2	1.5	1.7
EBITDA Margins	22.9	23.9	24.6	25.2

Source: Company data, I-Sec research

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