

CMP: Rs 16758
Rating : Not Rated

Stock Info

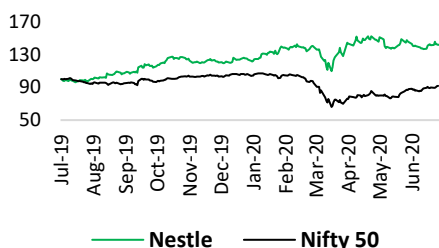
BSE	500790
NSE	NSTLEIND
Bloomberg	NEST IN
Reuters	NSET.NS
Sector	FMCG
Face Value (Rs)	10
Equity Capital (Rs mn)	964
Mkt Cap (Rs mn)	1611106
52w H/L (Rs)	18301 / 11270
Avg Yearly Volume (in 000')	115.7

Shareholding Pattern %

(As on March, 2020)

Promoters	62.76
FII	11.81
DII	9.12
Public & Others	16.31

NESTLE Vs Nifty



Peer Group Comparison (as on Mar20)

in mn.	BRITANIA	ITC	NESTLE
Revenue	115995	509685	126186
EBITDA	18432	192601	29199
EBITDAM (%)	15.9	37.8	23.1
PAT	13932	155846	20317
PATM (%)	12.1	30.0	16.1
EPS (Rs)	58	13	211
PE(x)	63	15.7	79.7
ROE(%)	31.9	23.4	105.1
D/E(x)	0.3	0.0	0.0

AGM Highlights (19th June 2020)

Highlights from Chairman's Speech

New products launches: Chairman discussed about company's wide range of products and its geographical reach. The new products introduction in 2019 ranged from entry into organic food category with 'Ceregrow' Organic Selection, traditional Indian breakfast MAGGI, Poha and Upma to the launch of the world's number 1 Cocoa Malt Beverage, MILO in India.

Dividend: The company confirmed the payment of three interim dividends, aggregating to Rs. 101/- per equity share, for the year 2019 out of current year profits and a special interim dividend of Rs. 180/- per equity share out of accumulated profits of previous years (surplus in the profit & loss account) and has declared a final dividend of Rs 61 per share for financial year ended 31st Dec 2019.

Highlights from Q & A section

Growth of business : Both 'prepared dishes and cooking aids' and the 'chocolates and confectionary' categories have exhibited remarkable growth in the last couple of years. The Company is looking at with a greater degree of confidence, both in the prepared dishes and cooking aids category and chocolates and confectionery category. On Nutrition products, breastfeeding is the best practice. If for any reason, it is not possible to breastfeed, the nutrition products of the company do play role. This category has enjoyed enormous trust with consumers, with the medical fraternity, and indeed, the Company registered satisfactory growth in the last couple of years. On coffee products, the performance was mixed, while on domestic front during last three years the company witnessed satisfactory volume and value growth, however on the export front, the supply of coffee to Turkey, which was one of the company's largest exports to an affiliate, suffered due to re-alignment of Affiliate's capacities in Europe. The company's recent forays into NESCAFÉ Gold has been very encouraging, especially in the COVID period and the company witnessed increased traction for the NESCAFÉ Gold. The company expects to do well in the coffee products and finding growth opportunities.

Longer term roadmap: The company will focus on the core categories it operates, 'milks and nutrition', 'prepared dishes and cooking aids', 'chocolates and confectionery', and of course, 'coffee and beverages'. In addition, the company has forayed into new products like Breakfast Cereals business under the brand name NESPLUS, Nestlé Health Science business, which are witnessing satisfactory performance.

in mn.	CY18	CY19	CY20E	CY21E
Revenue	112922	123689	134045	151215
EBITDA	26166	28627	29117	34073
EBITDAM (%)	23.2	23.1	21.7	22.5
PAT	16069	19696	22143	26126
PATM (%)	14.2	15.9	16.5	17.3
EPS	167	204	230	271
PE(x)	100.5	82.0	73.0	62.0

Source: Arihant Research, Company Filings, Bloomberg Consensus

AGM Highlights continued:

Innovation : The company's pace of innovation and renovation has been almost three times of what it had been in the previous five to ten years. The Company has become more innovative and agile in terms of responding to the consumer needs and the consumer journey. In the year 2020, despite the COVID-19 situation the company has launched new variants of MAGGI Noodles on e-commerce platforms. The diversification strategy of the Company is to focus on areas where the company has strength, opportunity and where it can add value to the consumers.

Focus on Rural market: The company has a lot of opportunity in milk and nutrition area in the Rural market. The growth of the Company in recent past has come from Tier-2 and Tier-3 towns, which reflects that semi-urban India and rural India is receptive to Nestlé brands and to the fact that the good quality, good safe nutrition is important and the opportunity in rural India continues to be strong. The company will be looking at expanding quite aggressively into rural opportunities as well.

Production Capacity & Supply of products: All eight factories of the Company are operational with an average of about 80% of the manufacturing capacity. All the Distribution Centres are operational. Therefore, most of the essential products manufactured by the Company are being made available to the consumers.

Capex Plan: The company has plans to put up its ninth factory in Sanand in Gujarat with an investment of over Rs. 700 Crores. Unfortunately, the civil construction work has been impeded due to labour shortage in the wake of COVID-19.

Price hike : No price increase was taken up during the COVID-19 period and has no plans of price hike in near future.

High Inventory levels: The inventory turnover ratio was 10.9, that has deteriorated roughly 10% from 2018 mainly due to two reasons, first is the increase stocks of raw materials because of higher forecasted prices of milk solids and its derivatives. The second reason was an increase in finished good stocks, to handle the forecasted sales in quarter one of 2020 being higher in line with the continuing growth of the Company and that necessitated an increase in finished goods stocks in Q4 of 2019.

Increase in debt: The company has substantial shareholder funds and very little borrowings overall. As on date, there are some non-current borrowings, which are in the nature of tax incentive from the state of Karnataka, which is an interest free loan in lieu of VAT payable on goods produced and sold in the state of Karnataka. This is a new benefit available for seven years and repayments starts from 2021. Overall Company's debt is negligible, and the Company was having good liquidities.

Decline in cash balances : Decline in cash balances or liquidity was primarily due to outgo of special interim dividend paid in 2019 of Rs 180 per equity share.

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880