



## ACCUMULATE

Price	Rs1,705
Target Price	Rs1,831
Investment Period	12 months

### Stock Info

Sector	FMCG
Market Cap (Rs cr)	16,438
Beta	0.3
52 WK High / Low	1,880 / 1,220
Avg Daily Volume	35,820
Face Value (Rs)	10

BSE Sensex	11,403
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Nifty	3,474
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BSE Code	500790
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NSE Code	NESTLE
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Reuters Code	NEST.BO
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Bloomberg Code	NEST @IN
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### Shareholding Pattern (%)

Promoters	61.9
MF/Banks/Indian FIs	13.4
FII/ NRIs/ OCBs	8.4
Indian Public	16.3

Abs.	3m	1yr	3yr
Sensex (%)	23.5	(34.4)	(5.3)
Nestle (%)	15.3	4.9	34.0

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## Performance Highlights

- Modest Top-line growth, up 16%:** For 1QCY2009, Nestle registered a modest Top-line growth of 16% yoy to Rs1,266cr (Rs1,091cr), which was marginally ahead of our estimate of Rs1,248cr. Top-line growth was aided by steady growth in its Net Domestic Sales (up 18.7% yoy to Rs1,192cr supported by growth both in Volumes and Realisations). Export Sales declined 15.1% yoy to Rs73.4cr during the quarter mainly due to the drop in Exports to Russia, but partially offset by improved realisations due to the depreciation of the Indian Rupee against the US Dollar. The company's efforts to focus on innovation and renovation (*Nestle Kitkat* renovated) also helped boost growth. Products like *Nescafe*, *Maggi*, *Nesvita*, *Kitkat* and *Munch* continued to perform strongly and led their respective categories.
- Bottom-line growth robust, up 23%:** Bottom-line (on a reported basis) grew 23.2% yoy to Rs197.3cr (Rs160.2cr) ahead of our expectation of 13.3% growth to Rs181.5cr supported by Margin expansion and higher Other Income (up 64.7% yoy to Rs10.3cr). Other Income during the quarter was favourably impacted due to the backlog of Export incentives received and higher liquidities supplemented by higher rate of return.
- Margins expand by 164bp:** For the quarter, Nestle's Operating Margins expanded by 164bp to 24.5% (22.8%) driving robust EBITDA growth of 24.4% yoy to Rs309.7cr (Rs249cr) on the back of a favourable Sales mix, price hikes and cost optimisation measures initiated by the company (Other Expenditure fell by 119bp yoy). Gross Margins also improved by 46bp yoy on the back of staggered price hikes across the year. Going forward, we expect Nestle to benefit from softening input costs, and coupled with judicious price hikes and a wider base of value-added products will aid Margin expansion in CY2009E.

## Key Financials

Y/E Dec (Rs cr)	CY2007	CY2008	CY2009E	CY2010E
<b>Net Sales</b>	<b>3,504</b>	<b>4,324</b>	<b>5,095</b>	<b>5,798</b>
% chg	24.4	23.4	17.8	13.8
<b>Net Profit</b>	<b>413.8</b>	<b>534.1</b>	<b>660.2</b>	<b>767.9</b>
% chg	31.3	29.1	23.6	16.3
OPM (%)	19.9	20.0	20.6	20.9
<b>EPS (Rs)</b>	<b>42.9</b>	<b>55.4</b>	<b>68.5</b>	<b>79.6</b>
P/E (x)	39.7	30.8	24.9	21.4
P/BV (x)	39.3	34.7	29.5	25.3
RoE (%)	98.9	112.8	118.3	118.3
RoCE (%)	138.1	150.9	158.3	159.2
EV/Sales (x)	4.7	3.8	3.2	2.8
EV/EBITDA (x)	23.6	19.0	15.6	13.5

Source: Company, Angel Research, Note: Price As on April 29, 2009

## Outlook and Valuation

During CY2008-10E, we expect Nestle to report a CAGR of 20.6% in Top-line largely owing to steady growth in its Domestic business supported by renewed consumer demand across categories, innovative product launches and superior pricing power. We have factored in an overall volume CAGR of 12.1% (16.9% yoy growth in CY2008) over the mentioned period backed by steady growth in the Milk/Nutrition category and higher off-take in Segments like Prepared Dishes, Culinary products, Chocolates and Confectionery, which have the potential for higher growth owing to their low penetration levels. On the Earnings front, we expect Nestle to report a CAGR of 26.3% in Bottom-line (post provisioning Earnings) during CY2008-10E boosted by a buoyant Top-line and Margin expansion. We expect Nestle to register 22.9% CAGR in EBITDA over CY2008-10E driven by Top-line growth and Margin expansion on the back of easing commodity prices, better Sales mix and staggered prices hikes.

We have marginally tweaked our estimates to factor CY2008 Annual report, consistent traction in Revenues across Divisions and better Operating Margins (90bp Margin expansion during CY2008-10E). At the CMP of Rs1,705, the stock is trading at 21.4x CY2010E Earnings. We believe Nestle's premium valuation is justified compared to its peers on account of the support from its global parent, strong brand recall, excellent Return Ratios and superior EBITDA Margins. **We recommend an Accumulate on the stock, with a revised Target Price of Rs1,831 (Rs1,626) at which level the stock would be trading at 23x CY2010E EPS of Rs79.6.**

### Exhibit 1: 1QCY2009 Performance

Y/E Dec (Rs cr)	1QCY2009	1QCY2008	% chg	CY2008	CY2007	% chg
<b>Net Sales</b>	<b>1,265.9</b>	<b>1,090.9</b>	<b>16.0</b>	<b>4,324.2</b>	<b>3,504.4</b>	<b>23.4</b>
Consumption of RM	597.7	520.1	14.9	2,104.1	1,685.0	24.9
(% of Sales)	47.2	47.7		48.7	48.1	
Staff Costs	87.4	75.2	16.2	314.6	269.4	16.8
(% of Sales)	6.9	6.9		7.3	7.7	
Other Expenses	271.1	246.6	9.9	1,042.0	853.7	22.1
(% of Sales)	21.4	22.6		24.1	24.4	
<b>Total Expenditure</b>	<b>956.2</b>	<b>841.9</b>	<b>13.6</b>	<b>3,460.7</b>	<b>2,808.1</b>	<b>23.2</b>
<b>Operating Profit</b>	<b>309.7</b>	<b>249.0</b>	<b>24.4</b>	<b>863.6</b>	<b>696.3</b>	<b>24.0</b>
OPM (%)	24.5	22.8		20.0	19.9	
Interest	0.2	0.1	77.8	1.6	0.9	92.9
Depreciation	25.6	21.1	21.6	92.4	74.7	23.6
Other Income	10.3	6.3	64.7	34.1	25.4	33.9
<b>PBT (excl. Extr Items)</b>	<b>294.3</b>	<b>234.1</b>	<b>25.7</b>	<b>803.6</b>	<b>646.1</b>	<b>24.4</b>
Extr Income/(Expense)	(10.5)	(10.0)		(30.8)	(17.5)	
<b>PBT (incl. Extr Items)</b>	<b>283.7</b>	<b>224.2</b>	<b>26.6</b>	<b>772.8</b>	<b>628.6</b>	<b>22.9</b>
(% of Sales)	22.4	20.5		17.9	17.9	
Provision for Taxation	86.4	64.0	35.0	238.7	214.8	11.1
(% of PBT)	29.4	27.3		29.7	33.2	
<b>Recurring PAT</b>	<b>207.8</b>	<b>170.1</b>	<b>22.2</b>	<b>564.9</b>	<b>431.3</b>	<b>31.0</b>
PATM (%)	16.4	15.6		13.1	12.3	
<b>Reported PAT</b>	<b>197.3</b>	<b>160.2</b>	<b>23.2</b>	<b>534.1</b>	<b>413.8</b>	<b>29.1</b>
Equity shares (cr)	9.6	9.6		9.6	9.6	
<b>EPS (Rs)</b>	<b>20.5</b>	<b>16.6</b>		<b>55.4</b>	<b>42.9</b>	

Source: Company, Angel Research


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<b>Ratings (Returns) :</b>	<b>Buy (Upside &gt; 15%)</b> <b>Reduce (Downside upto 15%)</b>	<b>Accumulate (Upside upto 15%)</b> <b>Sell (Downside &gt; 15%)</b>	<b>Neutral (5 to -5%)</b>
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