

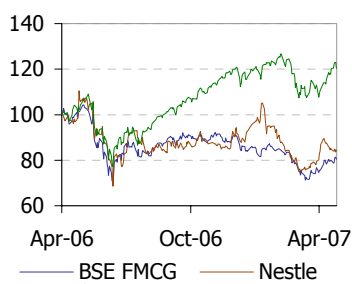
# Nestle India

Relative to sector: **Outperformer**

Lead Analyst: **Hemant B Patel**  
Email: hemantp@enam.com  
Tel: 9122 6754 7617

Associate: **Akhil Kejriwal**  
Email: akhil@enam.com  
Tel: 9122 6754 7629

## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 96mn
Market cap	: Rs 97.2bn
52 week high/low	: Rs 1,387/ Rs 800
Avg. daily vol. (6mth)	: 34,300 shares
Bloomberg code	: NEST IN
Reuters code	: NEST.BO

## Shareholding (%) Mar-07 QoQ chg

Promoters	: 61.9	0.0
FII's	: 8.9	(0.2)
MFs / UTI	: 4.1	0.3
Banks / FIs	: 6.1	0.4
Others	: 19.0	(0.5)

## STRONG FOOTING

Nestle India reported net sales of Rs 8.63bn ( $\uparrow$  28%), EBIDTA (excl. provisions) of Rs 1.78bn ( $\uparrow$  34%) and adj. net profit of Rs 1.1bn ( $\uparrow$  52%) in Q1CY07. Judicious price increases and ongoing cost rationalisation programmes have resulted in a 90bps increase in EBIDTA margins to 20.7% and a 207bps increase in adj. PAT margins to 12.9%, both excluding provisions for contingencies.

## Highlights –Q1CY07

- **Domestic growth gets stronger:** Domestic sales growth of 24% YoY was amongst the highest in the recent past. Volume and select price increase across categories were the key contributors. Although export sales ( $\uparrow$  69.9% YoY) have been on a volume revival path since Q3CY06, this quarter they were pushed up due to higher realisations largely on account of increase in green coffee prices. We continue to maintain our revenue growth forecast at 14% in CY07.
- **Well managed earnings:** Higher raw material cost ( $\uparrow$  214bps) was off set by lower personnel cost ( $\downarrow$  54bps) and operating overheads ( $\downarrow$  252bps) in Q1CY07. The prices of key raw materials; milk ( $\uparrow$  8%YoY,  $\uparrow$  1%QoQ), wheat ( $\uparrow$  12%YoY,  $\downarrow$  3%QoQ) and sugar ( $\downarrow$  20%YoY,  $\downarrow$  12%QoQ) have begun to soften in CY07. Growth in sales volume resulting in better absorption of structural fixed cost is expected to further improve operating margins going ahead.
- **Health & wellness focus:** Nestle continues to innovate and add to its health & wellness portfolio. It has introduced rice atta noodles and leads the market with the first low fat dahi called 'Slim Dahi', under its fresh 'n' natural line of products.

With encouraging domestic volume off-take and a demonstrable pricing power, we expect revenue growth of 13% CAGR and earnings growth of 20% CAGR over the next 2 years. At CMP (Rs 1008), the stock trades at 26x CY07E and 22x CY08E earnings. We maintain our sector **Outperformer** rating.

## Financial summary

Y/E Dec	Net Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2005	24,750	3,092	-	32.1	22	31.4	91.8	134.8	19.4	25.0
2006	28,192	3,190	-	33.1	3	34.4	85.9	125.4	20.9	25.5
2007E	32,204	3,782	41.1	39.2	19	25.7	91.9	136.6	15.4	30.0
2008E	35,848	4,572	47.4	47.4	21	21.3	97.5	147.8	13.0	35.0

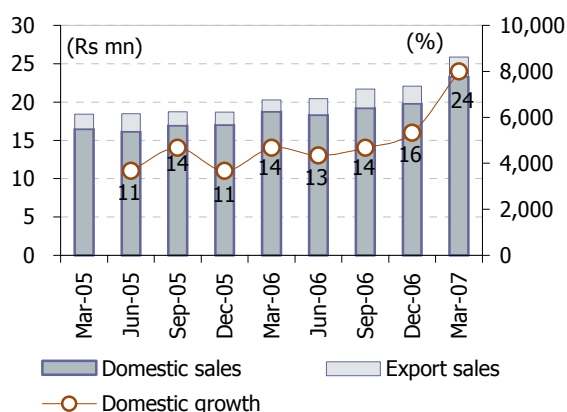
Source: \*Consensus broker estimates, Company, ENAM estimates

## Results Update

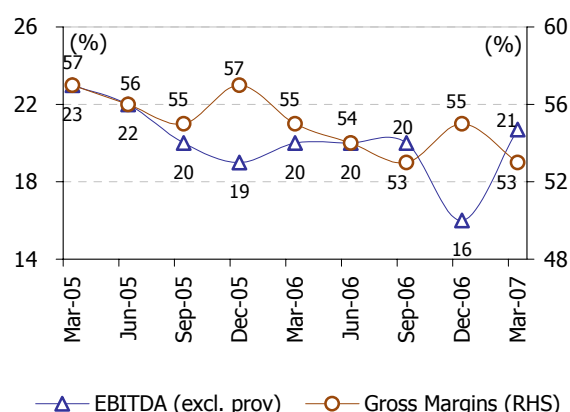
(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Dec-07E	Dec-06	% Chg
<b>Net Sales</b>	<b>8,631</b>	<b>6,759</b>	<b>27.7</b>	<b>7,363</b>	<b>17.2</b>	<b>32,204</b>	<b>28,192</b>	<b>14.2</b>
<b>EBIDTA</b>	<b>2,512</b>	<b>1,463</b>	<b>71.8</b>	<b>1,039</b>	<b>141.8</b>	<b>6,273</b>	<b>5,203</b>	<b>20.6</b>
Other income	70	50	37.9	73	(4.8)	250	309	(19.0)
<b>PBIDT</b>	<b>2,582</b>	<b>1,513</b>	<b>70.6</b>	<b>1,112</b>	<b>132.1</b>	<b>6,523</b>	<b>5,512</b>	<b>18.3</b>
Depreciation	179	157	14.1	177	1.2	788	663	18.9
Interest	2	-	533.3	1	35.7	4	4	(9.1)
<b>PBT</b>	<b>2,401</b>	<b>1,356</b>	<b>77.1</b>	<b>934</b>	<b>157.1</b>	<b>5,731</b>	<b>4,844</b>	<b>18.3</b>
Tax	563	499	12.7	303	85.5	1,948	1,654	17.8
<b>Adjusted PAT</b>	<b>1,838</b>	<b>857</b>	<b>114.5</b>	<b>631</b>	<b>191.5</b>	<b>3,782</b>	<b>3,190</b>	<b>18.6</b>
Extra ordinary income/ (exp.)	(754)	2	-	(6)	-	-	(39)	-
<b>Reported PAT</b>	<b>1,085</b>	<b>859</b>	<b>26.3</b>	<b>625</b>	<b>73.6</b>	<b>3,782</b>	<b>3,151</b>	<b>20.0</b>
No. of shares (mn)	96	96	-	96	-	96	96	-
EBIDTA margins (%)	29.1	21.6	-	14.1	-	19.5	18.5	-
PBIDT margins (%)	29.9	22.4	-	15.1	-	20.3	19.6	-
<b>EPS - annualized (Rs.)</b>	<b>76.3</b>	<b>35.6</b>	<b>114.5</b>	<b>26.2</b>	<b>191.6</b>	<b>39.2</b>	<b>33.1</b>	<b>18.6</b>

Source: Company, ENAM Research

## Sales trend

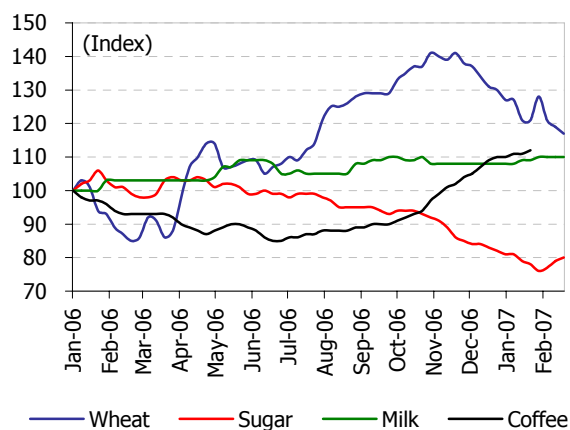


## Gross margins &amp; EBITDA trend

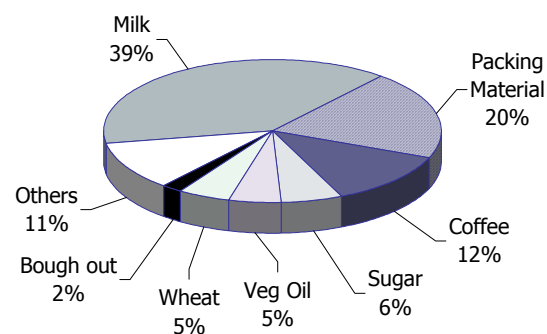


Source: Company

## Key raw material price trend



## Material cost break-up



Source: CMIE, Bloomberg, Company

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