

# Nestlé India

**Rs3448**  
**OUTPERFORMER****RESULT NOTE****Mkt Cap: Rs332.4bn; US\$7.4bn**

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**Result:** Q4CY10

**Comment:** Stellar growth. 80% growth in PAT !

**Last report:** 29 October 2010 (Price Rs3484; Recommendation: Outperformer)

**Key valuation metrics**

Year to Decemembr 31	Net revenues	yoy chg (%)	Net Profit	EPS	yoy chg (%)	EV/EBITDA	PER (x)
CY08	43,242	23.4	5,341	55.4	28.9	38.2	62.2
CY09	51,294	18.6	6,551	67.9	22.7	32.0	50.7
CY10	62,547	21.9	8,194	85.0	25.1	26.2	40.6
CY11E	73,840	18.1	9,997	103.7	22.0	21.5	33.3
CY12E	86,771	17.5	12,028	124.8	20.3	17.8	27.6

**Key Highlights of Q4CY10 and CY10 results**

- Ahead of estimates, Nestle reported a revenue growth of 23.6% at Rs16.7bn (estimates of Rs16.0bn), EBITDA growth of 71% at Rs3.3bn (estimates of Rs2.6bn) with an EBITDA margin of 19.7% and PAT at Rs2.0bn (estimates of Rs1.6bn)
- While the domestic business reported a stellar growth of 26.6% at Rs15.9bn, exports business has reported 17.3% decline at Rs748m. This decline is due to diversion of capacity to domestic demand.
- While the entire consumer goods industry has witnessed margin contractions, Nestle has actually improved gross margins by 60 bps in Q4CY10 as against a year ago. Our sense is that the company has achieved this through a combination of intelligent pricing, superior product mix and better cost management. While raw material volatility is likely to be a phenomenon next year as well, our sense is that Nestle with its strong brand franchise and a robust cost management system is best placed to weather the storm.
- EBITDA margins have shown a sharp improvement from 14.3% to 19.7%. However these numbers are not strictly comparable as last year's results were impacted by higher employee costs due to one-time retirement benefits and higher brand-building activities.
- Employee costs came in lower at 7.1% (as against 10.2% in Q4FY09). Other expenses came in at 25.6% as against 27.3% a year ago.
- On a full year basis net sales increased by 21.9% to Rs 62.5bn with a PAT growth of 25% to Rs 8.2bn. Domestic sales maintained its stellar growth at 22.9%. While exports showed a reported growth of 7.6%, constant currency growth came in at 10.3%.
- Nestle has zero debt and a cash balance of Rs 2.5bn
- The Board has recommended a final dividend of Rs12.5 per equity share making the total dividend for the year Rs 48.5/share.
- RBI has approved external commercial borrowings up to \$450M.

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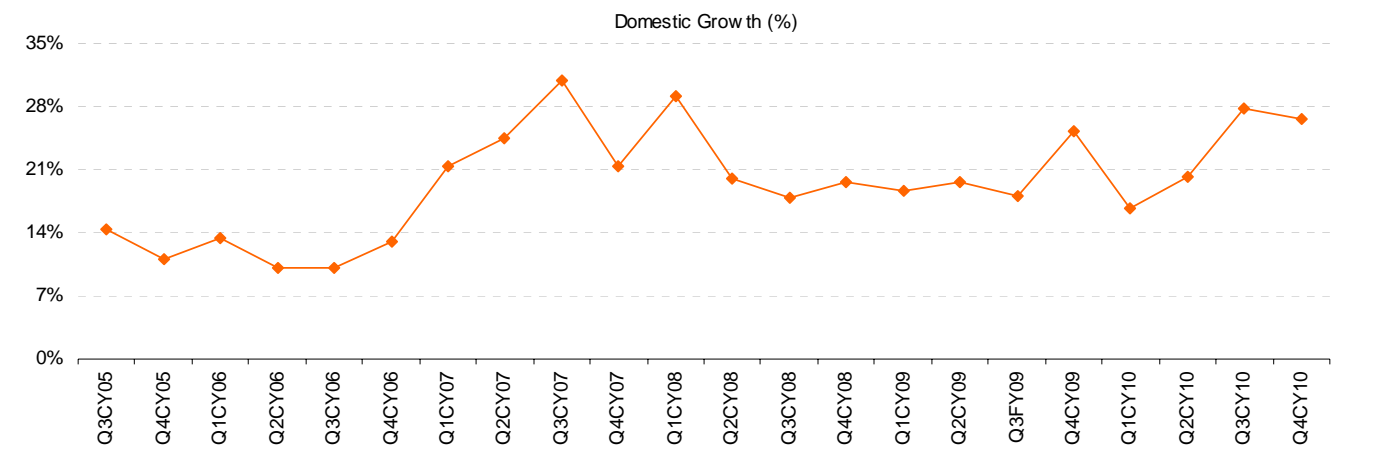
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- Our sense is that the company is now aggressively moving into capex expansion mode. While manufacturing expansion plans are on at Nanjangud, Samalkha and Ponda, Nestle has now acquired land for its new plant at Tahliwal. This capex expansion of potentially Rs25bn can start adding over Rs100bn of topline (more than Nestle's CY10 revenues of Rs62.5bn) in the next 5-6 years.

**We remain upbeat about Nestle's sustainable double digit volume growth given the attractive categories that it operates in (suited to India consumerism story and organized retail boom) and increased focus on mass segment (through <Rs10 SKUs and deeper distribution). At a time when gross margin compressions have been a feature across consumer companies, we are impressed by Nestle's ability to improve gross margins despite commodities like coffee almost doubling. While the competitive intensity is increasing in few of the foods categories (HUL, ITC, GSK Consumer vying for noodles category), we believe that Nestle with few of the strongest consumer brands (Maggi, KitKat, Nescafe, Munch, Polo, Milkmaid, Everyday, etc) will sustain the growth momentum. We upgrade our earnings estimate for CY11 by 4% and roll forward our earnings to CY12. At 27.6x CY12E, we see merit in Nestle commanding the premium valuations and maintain Outperformer with a price target of Rs4000.**

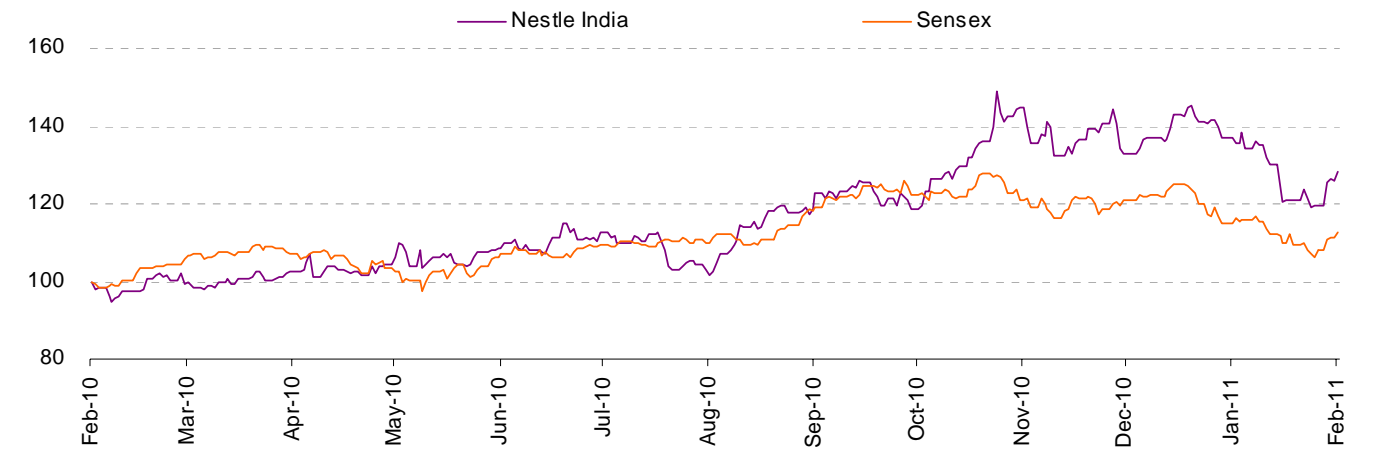
### Strong double digit domestic growth



### Quarterly Results

(Rs M)	Q4CY09	CY09	Q1CY10	Q2CY10	Q3CY10	Q4CY10	CY10	CY11E	CY12E
<b>Sales</b>	<b>13,518</b>	<b>51,294</b>	<b>14,798</b>	<b>14,667</b>	<b>16,373</b>	<b>16,710</b>	<b>62,547</b>	<b>73,840</b>	<b>86,771</b>
% yoy	24.0	18.6	16.9	21.3	25.7	23.6	21.9	18.1	17.5
Total Expenditure	11,585	40,948	11,758	11,728	13,154	13,412	50,086	58,855	68,769
<b>EBIDTA</b>	<b>1,933</b>	<b>10,346</b>	<b>3,040</b>	<b>2,940</b>	<b>3,219</b>	<b>3,298</b>	<b>12,462</b>	<b>14,985</b>	<b>18,002</b>
Operating Margin (%)	14.3	20.2	20.5	20.0	19.7	19.7	19.9	20.3	20.7
Other Income	106	378	91	101	95	139	449	536	639
Interest	5	14	6	4	1	1	0	0	0
Depreciation	307	1113	310	304	306	358	1272	1456	1756
<b>PBT</b>	<b>1,727</b>	<b>9,597</b>	<b>2,816</b>	<b>2,733</b>	<b>3,008</b>	<b>3,078</b>	<b>11,639</b>	<b>14,065</b>	<b>16,886</b>
Provisions and write offs	156	426	(48)	67	(18)	183	180	180	180
Current tax	442	2,620	845	718	840	861	3,265	3,888	4,678
Deferred tax	0		0	0	0	0			
Tax Rate (%)	26	27	30	26	28	28	28	28	28
<b>PAT</b>	<b>1129</b>	<b>6,551</b>	<b>2019</b>	<b>1948</b>	<b>2186</b>	<b>2034</b>	<b>8,194</b>	<b>9,997</b>	<b>12,028</b>
% yoy	(6.7)	22.7	2.3	20.3	19.6	80.1	25.1	22.0	20.3

Relative price performance



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