



NEUTRAL

Price	Rs2,074
Target Price	-
Investment Period	-

Stock Info

Sector	FMCG
Market Cap (Rs cr)	19,984
Beta	0.3
52 WK High / Low	2,220 / 1,220
Avg Daily Volume	40,312
Face Value (Rs)	10

BSE Sensex	15,388
Nifty	4,571

BSE Code	500790
NSE Code	NESTLE
Reuters Code	NEST.BO
Bloomberg Code	NEST@IN

Shareholding Pattern (%)

Promoters	61.9
MF/Banks/Indian FIs	11.9
FII/ NRIs/ OCBs	9.9
Indian Public	16.3

Abs.	3m	1yr	3yr
Sensex (%)	34.9	7.7	44.1
Nestle (%)	21.6	28.6	99.3

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Performance Highlights

- Modest Top-line growth, up 17%:** For 2QCY2009, Nestle registered modest Top-line growth of 16.8% yoy to Rs1,210cr (Rs1,036cr) marginally below our estimate of Rs1,223cr, an 18% growth. Top-line growth was aided by the steady growth in Nestle's Net Domestic Sales (up 19.7% yoy to Rs1,130cr supported by Volume and Realisation growth). Export Sales fell during the quarter by 13.5% yoy to Rs79.1cr mainly due to the drop in Exports to Russia and Bangladesh, partially offset by improved realisations due to the depreciation of the Rupee against the US Dollar. The company's efforts to focus on innovation and renovation (*Nestle Kitkat* was launched in a new format, Nestle *Munch Guru* launched and Nestle *Milkybar Eclairs* launched in Strawberry flavour) also helped boost growth.
- Strong Bottom-line growth, up 34%:** Bottom-line (on a reported basis) grew 33.8% yoy to Rs162cr (Rs121.1cr) significantly ahead of our expectation of 22.3% growth to Rs148cr supported by Margin expansion, higher Other Income (up 31% yoy to Rs8.8cr) and lower Tax Rate (down 337bp yoy). Other Income during the quarter increased on account of receipt of the Export incentives backlog, higher liquidities and increase in Rate of Return.
- Margins expand by 281bp:** For the quarter, Nestle's Operating Margins delivered positive surprise expanding by 281bp to 21.6% (18.8%) driving robust EBITDA growth of 34.2% yoy to Rs261.8cr (Rs195cr) on the back of favorable sales mix, price hikes and cost optimisation measures initiated by the company (other expenditure declined by 223bp yoy). Gross Margins also improved by 193bp yoy on account of the staggered price hikes effected during the year and decline in input costs. Going forward, we expect Nestle to continue to benefit from softening input costs, judicious price hikes and a wider base of value-added products, which will aid Margin expansion in CY2009E.

Key Financials

Y/E Dec (Rs cr)	CY2007	CY2008	CY2009E	CY2010E
Net Sales	3,504	4,324	5,095	5,798
% chg	24.4	23.4	17.8	13.8
Net Profit	413.8	534.1	675.5	784.7
% chg	31.3	29.1	26.5	16.2
OPM (%)	19.9	20.0	21.0	21.2
EPS (Rs)	42.9	55.4	70.1	81.4
P/E (x)	48.3	37.4	29.6	25.5
P/BV (x)	47.8	42.2	34.9	29.4
RoE (%)	98.9	112.8	117.8	115.2
RoCE (%)	138.1	150.9	157.4	154.2
EV/Sales (x)	5.7	4.6	3.9	3.4
EV/EBITDA (x)	28.7	23.2	18.6	16.2

Source: Company, Angel Research

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 to register higher growth owing to their low penetration levels. On the Earnings front, we have marginally tweaked our numbers to factor in higher Gross Margin expansion, higher Staff costs and superior Operating leverage. Hence, we expect Nestle to report a CAGR of 27.8% in Bottom-line (post provisioning Earnings) during CY2008-10E boosted by a buoyant Top-line and Margin expansion. In terms of EBITDA, we expect Nestle to register 24% CAGR during CY2008-10E driven by Top-line growth and Margin expansion owing to easing commodity prices, better sales mix and staggered prices hikes.

At the CMP of Rs2,074, the stock is trading at 25.5x CY2010E Earnings. Nestle justifies its premium valuations vis-à-vis its peers on account of its global parent support, strong brand recall, excellent Return Ratios and superior EBITDA Margins. **However, at current levels, we believe the stock leaves little room for upside and negative surprises. Hence, we recommend a Neutral rating on the stock.**

Exhibit 1: 2QCY2009 Performance

Y/E Dec (Rs cr)	2QCY2009	2QCY2008	% chg	1HCY2009	1HCY2008	% chg
Net Sales	1,209.5	1,035.6	16.8	2,475.4	2,126.5	16.4
Consumption of RM	576.3	513.4	12.2	1,173.9	1,033.5	13.6
(% of Sales)	47.6	49.6		47.4	48.6	
Staff Costs	110.0	80.2	37.1	197.3	155.4	27.0
(% of Sales)	9.1	7.7		8.0	7.3	
Other Expenses	261.5	247.0	5.9	532.6	493.7	7.9
(% of Sales)	21.6	23.9		21.5	23.2	
Total Expenditure	947.8	840.6	12.7	1,903.9	1,682.5	13.2
Operating Profit	261.8	195.0	34.2	571.5	444.0	28.7
OPM (%)	21.6	18.8		23.1	20.9	
Interest	0.6	1.4	(58.7)	0.7	1.5	(50.3)
Depreciation	26.4	22.4	18.1	52.0	43.4	19.8
Other Income	8.8	6.7	31.0	19.1	13.0	47.3
PBT (excl. Extr Items)	243.6	178.0	36.9	537.8	412.1	30.5
Extr Income/(Expense)	(16.1)	(3.1)		(26.7)	(13.1)	
PBT (incl. Extr Items)	227.4	174.9	30.0	511.2	399.1	28.1
(% of Sales)	18.8	16.9		20.6	18.8	
Provision for Taxation	65.4	53.8	21.6	151.8	117.8	28.9
(% of PBT)	26.9	30.2		28.2	28.6	
Recurring PAT	178.2	124.2	43.5	386.0	294.3	31.2
PATM (%)	14.7	12.0		15.6	13.8	
Reported PAT	162.0	121.1	33.8	359.3	281.2	27.8
Equity shares (cr)	9.6	9.6		9.6	9.6	
EPS (Rs)	16.8	12.6		37.3	29.2	

Source: Company, Angel Research


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Ratings (Returns) :	Buy (Upside > 15%) Reduce (Downside upto 15%)	Accumulate (Upside upto 15%) Sell (Downside > 15%)	Neutral (5 to -5%)
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