

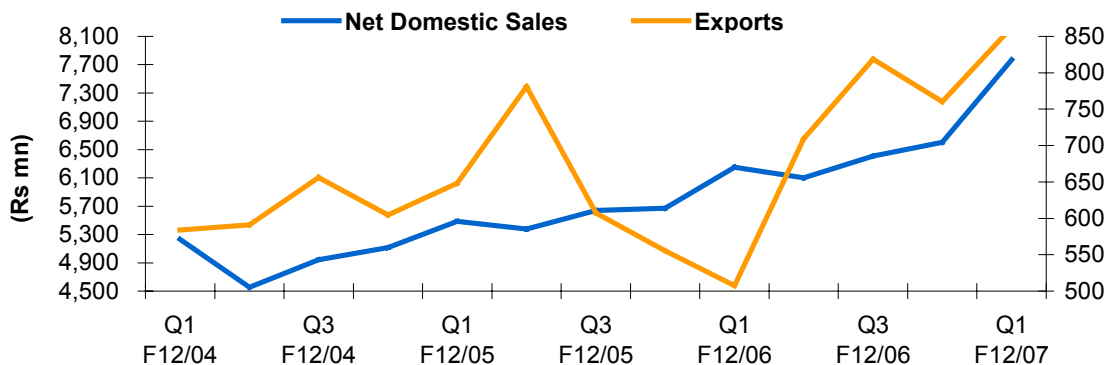
- Revenues grew 28% yoy to Rs8.6bn during Q1 F12/07 driven by strong 24% growth in domestic sales.
- Exports recorded strong 70% yoy growth driven by higher volume growth along with better realizations on account of higher green coffee prices.
- Margins expanded 90bps aided by lower overheads cost. Adjusted net profit post extraordinary items increased by 22% yoy to Rs1.1bn.

Financials Highlights

| Period to | 03/07 | 03/06 | Growth | 12/06 | 12/05 | Growth |
|-----------------------------|---------|---------|--------|----------|----------|--------|
| (Rs mn) | (3) | (3) | (%) | (12) | (12) | (%) |
| Gross Domestic Sales | 8,132 | 6,703 | 21.3 | 26,646 | 23,847 | 11.7 |
| Excise | (363) | (451) | (19.5) | (1,281) | (1,670) | (23.3) |
| Net Domestic Sales | 7,768 | 6,252 | 24.3 | 25,365 | 22,177 | 14.4 |
| Exports | 862 | 508 | 69.9 | 2,796 | 2,592 | 7.9 |
| Net sales | 8,631 | 6,759 | 27.7 | 28,161 | 24,769 | 13.7 |
| Expenditure | (6,843) | (5,421) | 26.2 | (22,776) | (19,549) | 16.5 |
| Operating profit | 1,788 | 1,338 | 33.6 | 5,385 | 5,221 | 3.1 |
| Other income | 70 | 50 | 37.9 | 206 | 237 | (13.2) |
| Interest | (2) | (0) | - | (4) | (2) | 109.5 |
| Depreciation | (179) | (157) | 14.1 | (663) | (568) | 16.6 |
| Impairment of Fixed Assets | 0 | 2 | - | (4) | 26 | - |
| PBT | 1,677 | 1,233 | 36.0 | 4,920 | 4,914 | 0.1 |
| Tax | (563) | (499) | 12.7 | (1,654) | (1,595) | 3.7 |
| PAT | 1,114 | 734 | 51.7 | 3,266 | 3,319 | (1.6) |
| Provision for contingencies | 724 | 152 | 377.0 | (115) | (223) | (48.5) |
| Extraordinary items | (754) | 0 | - | 0 | 0 | - |
| APAT | 1,085 | 886 | 22.4 | 3,151 | 3,096 | 1.8 |
| OPM (%) | 20.7 | 19.8 | - | 19.1 | 21.1 | - |
| Equity | 964 | 964 | | 964 | 964 | |
| Annualized EPS (Rs) | 45.0 | 36.8 | | 32.7 | 32.1 | |
| P/E, CMP - Rs1,099 | 24.4 | - | | 33.6 | - | |

Robust topline growth

Nestle surpassed our expectations by recording robust 27.7% yoy growth in revenues in Q1 F12/07 at Rs8.6bn driven by strong growth in domestic sales and exports. Net domestic sales registered 24.3% yoy increase at Rs7.8bn aided by higher volume growth and price hikes taken across categories. Exports recorded a sharp 69.9% yoy growth at Rs862mn driven by higher volume growth and better realizations on account of higher green coffee prices.



Source: IIL Research

Margins expand marginally by 90bps

Operating margins expanded marginally by 90bps to 20.7% aided by lower overheads cost. Sharp rise in raw material cost (210bps) on account of increase in prices of milk solids, green coffee and higher adspend restricted further margin expansion. We expect margin pressure to continue due to firm raw material prices and higher adspends.

Cost Analysis

| Period | 03/07 | 03/06 | Inc/Dec | 12/06 | 12/05 | Inc/Dec |
|--------------------------|------------|------------|---------|-------------|-------------|---------|
| As % of net sales | (3) | (3) | | (12) | (12) | |
| Raw Material | 47.3 | 45.1 | 2.1 | 45.9 | 43.9 | 2.0 |
| Staff | 7.5 | 8.0 | (0.5) | 7.7 | 7.4 | 0.3 |
| Others | 24.5 | 27.0 | (2.5) | 27.3 | 27.6 | (0.3) |

Net profit jumps 52% yoy

Other income for the quarter was higher at Rs70mn (includes interest on income tax refund) compared to Rs50mn in Q1 F12/06. Pre-tax profit increased by 36% yoy to Rs1.7bn. Effective tax rate was at 33.6% resulting in a tax outgo of Rs563mn. Net profit rose by 51.7% yoy to Rs1.1bn. The company has incurred a one-time charge of Rs754mn related to provision for certain employee benefits due to change in accounting standards. This was offset by a credit in provisions of Rs724mn relating to a reversal of contingency provisions made in the past, which are no longer applicable. Adjusted net profit after extraordinary items increased by 22% yoy to Rs1.1bn translating into an annualized EPS of Rs45.

Outlook

We expect Nestle to maintain the revenue growth of 14-15% pa going forward. The management has been making attempts to widen export basket of products. It is therefore upgrading Samalkha facility (milk products) to global standards. With the increasing share of prepared dishes and cooking aids from the Uttaranchal plant, the excise duty burden has reduced to 4.5% in Q1 F12/07 against 6.7% in Q1 F12/06. Strong brand portfolio (like Nestle, Maggi, Nescafe), expansion plans in the food business and new product launches will drive future growth of the company. The stock has corrected by almost 15% over the last one year. At the current market price of Rs1,099, the stock is trading at 22.8x F12/08E EPS of Rs48.1 per share. We recommend a 'Buy' rating on this stock.

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