

Nestle India

Performance Highlights

(₹ cr)	1QCY12	1QCY11	% yoy	Angel Est	% Diff
Revenue	2,047	1,810	13.1	2,141	(4.4)
EBITDA	457	385	18.7	450	1.7
OPM (%)	22.3	21.3	104	21.0	133bp
PAT	276	256	7.8	288	(4.4)

Source: Company, Angel Research

For 1QCY2012, Nestle India's (Nestle) top line grew by 13.1% yoy while bottom line grew by 7.8% yoy, about 4.4% below our estimates. Operating margin for the quarter increased by 104 bps due to higher realizations. Rupee depreciation favorably impacted export growth by 6.3%. **We maintain our Neutral view on the stock.**

Key highlights during the quarter: Top-line growth during the quarter was driven by higher realizations on domestic sales but volume growth was muted. The company's export sales growth stood at 3.3% yoy, whereas domestic sales growth stood at 13.7% yoy. Nestle's operating profit margin increased by 104 bps on account of cost rationalization. Earnings grew by modest ~7.8%,

Outlook and valuation: At the CMP, Nestle is trading at ~178% premium to the Sensex, significantly ahead of its five-year average historical premium of ~91%. We render caution on the company's high premium to the Sensex on account of 1) Modest Volume Growth and 2) competition in the high-growth noodles category from HUL (Knorr soupy noodles), GSKCHL (Horlicks Foodles) and ITC (Sunfeast Yipee). Hence, we continue to maintain our Neutral view on the stock.

Key financials

Y/E March (₹ cr)	CY2010	CY2011	CY2012E	CY2013E
Net Sales	6,255	7,491	8,731	10,539
% chg	21.9	19.8	16.6	20.7
Net Profit (Adj.)	819	962	1,150	1,426
% chg	25.0	17.5	19.6	24.0
EBITDA (%)	20.0	20.7	21.0	21.4
EPS (₹)	84.9	99.7	119.3	147.9
P/E (x)	55.3	47.1	39.4	31.8
P/BV (x)	52.9	35.6	24.1	16.4
RoE (%)	114.0	90.3	73.0	61.6
RoCE (%)	149.4	88.1	64.1	70.2
EV/Sales (x)	7.2	6.0	5.2	4.3
EV/EBITDA (x)	36.0	29.6	25.0	20.1

Source: Company, Angel Research

NEUTRAL

CMP	₹4,697
Target Price	-

Investment Period	-
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Stock Info	
Sector	FMCG
Market Cap (₹ cr)	45,292
Beta	0.5
52 Week High / Low	5024/3838
Avg. Daily Volume	7,148
Face Value (₹)	10
BSE Sensex	17,134
Nifty	5,191
Reuters Code	NEST.BO
Bloomberg Code	NEST@IN

Shareholding Pattern (%)	
Promoters	62.8
MF / Banks / Indian FIs	8.0
FII / NRIs / OCBs	11.3
Indian Public / Others	17.9

Abs. (%)	3m	1yr	3yr
Sensex	(0.6)	(11.9)	50.7
NEST	9.6	19.3	178.4

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Exhibit 1: Quarterly Performance

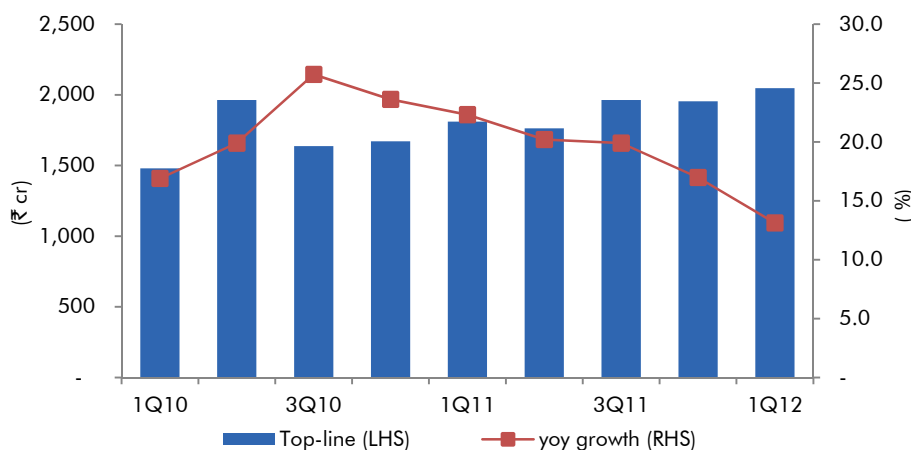
Y/E Dec (₹ cr)	1QCY12	1QCY11	% chg	CY11	CY10	% chg
Net Sales	2,047	1,810	13.1	8,848	7,491	18.1
Consumption of RM	938	884	6.1	4,223	3,589	17.7
(% of Sales)	45.8	48.8		47.7	47.9	
Staff Costs	155	120	28.4	637	546	16.6
(% of Sales)	7.6	6.7		7.2	7.3	
Other Expenses	497	420	18.3	2,132	1,802	18.3
(% of Sales)	24.3	23.2		24.1	24.1	
Total Expenditure	1,590	1,425	11.6	6,992	5,938	17.8
Operating Profit	457	385	18.7	1,855	1,553	19.5
OPM (%)	22.3	21.3		21.0	20.7	
Interest	2	0		15	5	193.6
Depreciation	53	33	61.3	238	153	55.4
Other Income	14	13	6.6	62	51	21.7
PBT (excl. Extr Items)	416	365	13.8	1,664	1,445	15.1
Extr (Income)/Expense	13	7	86.1	-	57	
PBT (incl. Extr Items)	403	358	12.4	1,664	1,388	19.9
(% of Sales)	19.7	19.8		18.8	18.5	
Provision for Taxation	127	103	23.9	499	426	17.1
(% of PBT)	30.6	28.1		30.0	29.5	
Reported PAT	276	256	7.8	1,165	962	21.1
PATM	13.5	14.1		13.2	12.8	
Recurring PAT	289	263	9.9	1,165	1,019	14.3
Equity shares (cr)	9.6	9.6		9.6	9.6	
EPS (₹)	29	27	7.8	121	100	

Source: Company, Angel Research

Double digit top line growth aided by higher realization...

Nestle registered a top line growth of 13.1% on account of higher realizations on domestic Sales. However, the sales has been adversely impacted by product portfolio and channel optimizations. Exports registered 3.3% yoy growth to ₹101cr.

Exhibit 2: Top line growth



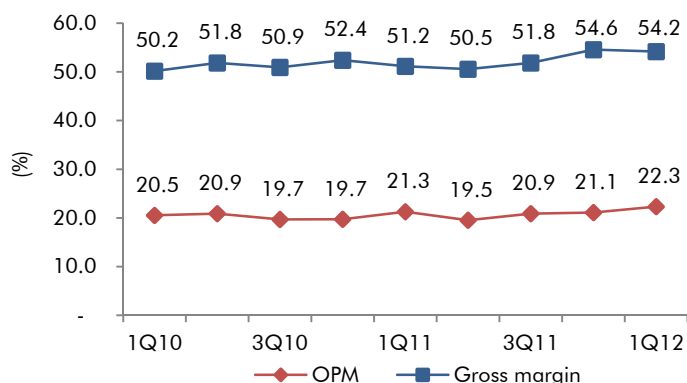
Source: Company, Angel Research

Margins boosted by higher realizations

OPM for the quarter increased by 104bp yoy as higher realization and product portfolio /channel mix offset the increase in input costs. Also, increase in headcount to support expanding business has resulted in higher employee costs.

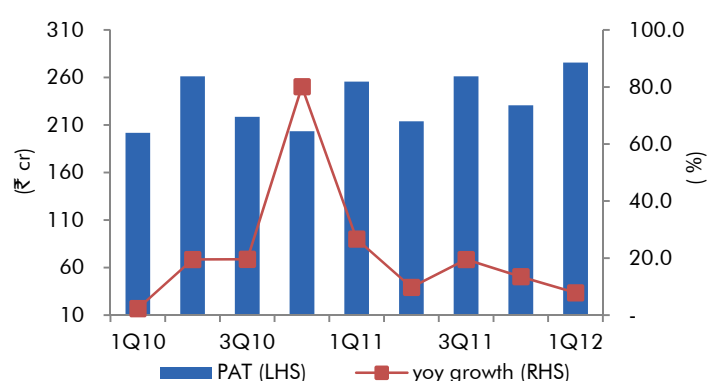
The company's profit growth was impacted by its Pantnagar plant's 100% income tax holiday reducing to 30% as it completed five years of operation. The company's profits (on a reported basis) registered only 7.8% yoy growth to ₹276cr.

Exhibit 3: Gross Margin and OPM



Source: Company, Angel Research

Exhibit 4: Net Profit growth



Source: Company, Angel Research

Investment Concerns

- **Best play on emerging growth opportunity in the foods and beverages space:** Nestle enjoys a strong position across categories in the foods and beverage space through its diversified portfolio of established brands such as *Maggi*, *Nescafe*, *Everyday*, *Kit Kat* and *Milkmaid*. We are particularly bullish on underpenetrated categories such as instant noodles, value-added dairy products, chocolates and confectionery, which are witnessing an uptrend in consumer demand.
- **However, valuations at 178% premium to the Sensex capture full potential:** At the CMP, Nestle is trading at ~178% premium to the Sensex, significantly ahead of its five-year average historical premium of ~91%. While Nestle has been able to maintain these premium valuations because of its strong parentage, dominant brands, high RoE and OPM, we believe current valuations capture the full potential of near-term growth. We remain cautious in terms of Nestlé being able to maintain this triple-digit premium to the Sensex on account of muted volume growth and competition in the high-growth noodles category from HUL, GSKCHL and ITC.

Outlook and valuation

At the CMP, Nestle is trading at ~178% premium to the Sensex, significantly ahead of its five-year average historical premium of ~91%. We render caution on Nestlé's high premium to the Sensex on account of 1) Modest Volume Growth and 2) competition in the high-growth noodles category from HUL, GSKCHL and ITC. **Hence, we continue to maintain our Neutral view on the stock.**

Exhibit 5: Key assumptions

Sales (₹ cr)	CY09	CY10	CY11E	CY12E	CY13E	CY09-13E
Total Milk Products	2,311	2,776	3,351	3,907	4,693	19.4
Beverages	804	899	1,068	1,223	1,427	15.4
Prepared Dishes & Cooking Aids	1,335	1,725	2,154	2,626	3,344	25.8
Chocolates & Confectionaries	772	976	1,100	1,224	1,401	16.1
Total Gross Revenue	5,222	6,377	7,674	8,981	10,864	20.1
YoY % Growth						
Total Milk Products	19.2	20.1	20.7	16.6	20.1	
Beverages	0.4	11.8	18.8	14.5	16.6	
Prepared Dishes & Cooking Aids	26.9	29.2	24.9	21.9	27.3	
Chocolates & Confectionaries	13.6	26.4	12.7	11.3	14.5	
Total Revenue	16.8	22.1	20.3	17.0	21.0	
Volume Growth %						
Total Milk Products	13.1	7.6	2.5	6.0	8.2	
Beverages	(3.1)	13.2	0.9	6.0	7.0	
Prepared Dishes & Cooking Aids	21.7	24.4	13.2	15.0	19.0	
Chocolates & Confectionaries	9.7	21.2	(1.5)	6.0	8.0	
Total Gross Revenue	14.9	17.0	6.8	17.0	14.9	
Realisation Growth %						
Total Milk Products	5.4	11.6	17.8	10.0	11.0	
Beverages	3.6	(1.2)	17.8	8.0	9.0	
Prepared Dishes & Cooking Aids	4.3	3.9	10.3	6.0	7.0	
Chocolates & Confectionaries	3.5	4.3	14.4	5.0	6.0	

Source: Company, Angel research

Exhibit 6: Peer valuation

Company	Reco.	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	PAT
Asian Paints	Neutral	33,729	3516	3,516	-	29.0	24.4	2.9	2.5	36.9	34.7	19.3	17.0
Britannia	Buy	6,675	559	650	16	25.6	20.2	1.1	1.0	45.2	44.1	17.7	35.5
Colgate	Neutral	14,776	1087	1,087	-	28.8	25.5	4.8	4.2	129.4	120.1	16.4	12.9
Dabur India	Neutral	19,101	110	112	2	25.1	21.4	3.3	2.9	41.4	42.1	21.4	16.3
Godrej Con	Neutral	17,005	526	512	(3)	23.2	19.4	3.0	2.6	29.9	36.3	27.3	13.1
GSK Con*	Neutral	11,924	2835	2,835	-	28.2	24.0	3.5	3.0	33.3	31.9	16.6	18.2
HUL	Neutral	89,898	416	416	-	29.1	25.4	3.3	2.9	84.3	76.7	13.3	15.3
ITC	Neutral	191,553	246	252	3	27.2	23.7	6.4	5.5	34.8	33.1	17.0	19.7
Marico	Neutral	10,961	178	178	-	26.7	22.0	2.5	2.1	30.5	28.8	22.2	17.1
Nestle*	Neutral	45,292	4697	4,697	-	39.4	31.8	5.2	4.3	73.0	61.6	18.6	18.3
TGBL	Buy	7,161	116	136	17	18.5	15.4	0.9	0.8	8.9	10.2	8.7	8.8

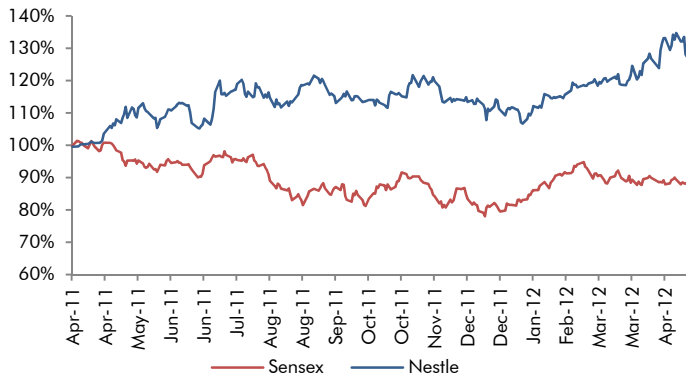
Source: Company, Angel Research; Note: #denotes CAGR for FY2011-13E; *December Year Ending

Exhibit 7: Angel vs. Consensus estimates

Top-line (₹ cr)	CY2012E	CY2013E	EPS (₹)	CY2012E	CY2013E
Angel estimates	8,731	10,539	Angel estimates	119.3	147.9
Consensus	8,958	10,759	Consensus	121.0	147.0
Diff (%)	(2.5)	(2.1)	Diff (%)	(1.4)	0.6

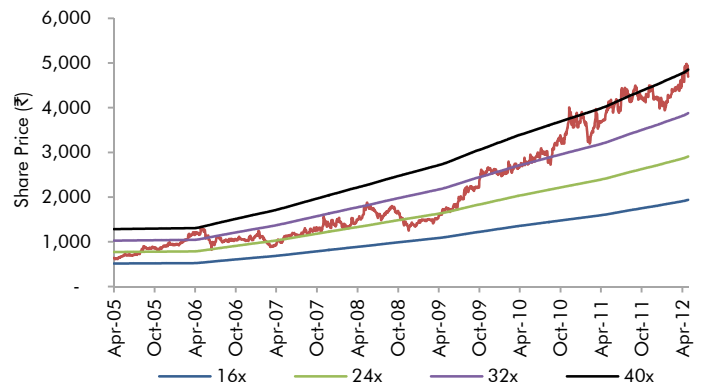
Source: Company, Angel Research

Exhibit 8: Absolute returns of Nestlé vs. Sensex



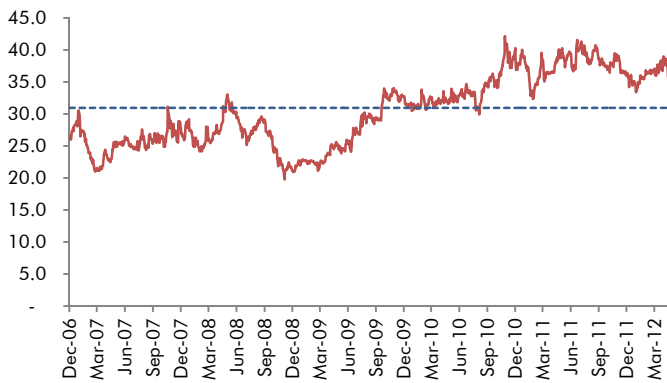
Source: Company, Angel Research

Exhibit 9: One-year forward P/E band



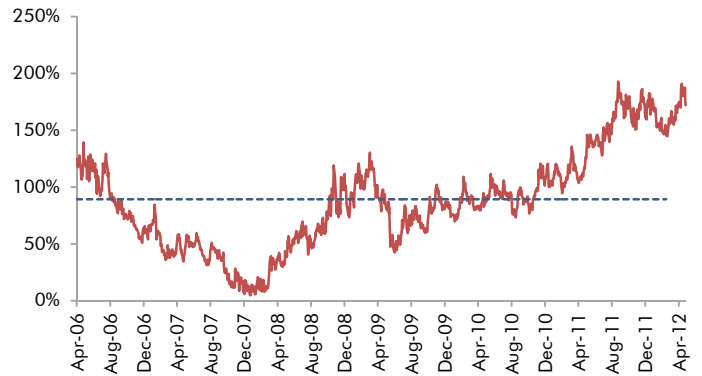
Source: Company, Angel Research

Exhibit 10: One-yr forward P/E chart



Source: Company, Angel Research

Exhibit 11: One-yr forward Premium v/s Sensex chart



Source: Company, Angel Research

Profit & Loss Statement

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Gross sales	4,471	5,222	6,377	7,674	8,981	10,864
Less: Excise duty	147	93	122	183	250	326
Net Sales	4,324	5,129	6,255	7,491	8,731	10,539
Total operating income	4,324	5,129	6,255	7,491	8,731	10,539
% chg	23.4	18.6	21.9	19.8	16.6	20.7
Total Expenditure	3,461	4,095	5,005	5,938	6,899	8,285
Cost of Materials	2,104	2,448	3,056	3,589	4,166	4,961
Advertising Exp	194	268	303	328	419	506
Personnel	307	432	433	546	629	780
Others	855	947	1,213	1,475	1,685	2,038
EBITDA	864	1,034	1,250	1,553	1,832	2,253
% chg	24.1	19.8	20.8	24.3	18.0	23.0
(% of Net Sales)	20.0	20.2	20.0	20.7	21.0	21.4
Dep. & Amortisation	92	111	128	153	235	284
EBIT	771	923	1,122	1,399	1,597	1,969
% chg	24.1	19.7	21.5	24.7	14.1	23.3
(% of Net Sales)	17.8	18.0	17.9	18.7	18.3	18.7
Interest & other Charges	2	1	1	5	15	6
Other Income	34	38	43	51	61	74
(% of PBT)	4.2	3.9	3.7	3.5	3.7	3.6
Share in profit of Asso.	0	-	-	-	-	-
Recurring PBT	804	960	1,163	1,445	1,643	2,037
% chg	24.4	19.4	21.2	24.2	13.7	24.0
Extraordinary Expense/(Inc.)	31	43	18	57	0	0
PBT (reported)	773	917	1,145	1,388	1,643	2,037
Tax	239	262	326	426	493	611
(% of PBT)	29.7	27.3	28.1	29.5	30.0	30.0
PAT (reported)	534	655	819	962	1,150	1,426
Add: Share of earn of asso	0	-	-	-	-	-
Less: Minority interest (MI)	0	-	-	-	-	-
PAT after MI (reported)	534	655	819	962	1,150	1,426
ADJ. PAT	565	698	837	1,019	1,150	1,426
% chg	31.0	23.5	20.0	21.7	12.9	24.0
(% of Net Sales)	13.1	13.6	13.4	13.6	13.2	13.5
Basic EPS (₹)	55.4	67.9	84.9	99.7	119.3	147.9
FDEPS (₹)	55.4	67.9	84.9	99.7	119.3	147.9
% chg	29.1	22.6	25.0	17.5	19.6	24.0

Balance Sheet

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
SOURCES OF FUNDS						
Equity Share Capital	96	96	96	96	96	96
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	377	485	759	1,178	1,781	2,660
Shareholders' Funds	473	581	855	1,274	1,877	2,756
Minority Interest	-	-	-	-	-	-
Total Loans	-	-	-	971	771	121
Deferred Tax Liability	37	32	33	43	43	43
Total Liabilities	510	613	889	2,288	2,691	2,920
APPLICATION OF FUNDS						
Gross Block	1,405	1,641	1,855	2,552	3,358	4,053
Less: Acc. Depreciation	652	745	842	976	1,212	1,495
Net Block	753	896	1,013	1,576	2,147	2,558
Capital Work-in-Progress	109	80	349	1,419	1,007	608
Goodwill	-	-	-	-	-	-
Investments	35	203	151	134	334	634
Current Assets	798	857	1,046	1,273	1,389	1,593
Cash	194	156	255	227	181	135
Loans & Advances	124	138	151	196	253	306
Other	481	563	639	849	955	1,153
Current liabilities	1,185	1,422	1,670	2,114	2,186	2,474
Net Current Assets	(387)	(566)	(624)	(840)	(797)	(880)
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	510	613	889	2,288	2,691	2,920

Cash Flow Statement

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Profit before tax	773	917	1,145	1,388	1,643	2,037
Depreciation	92	111	128	153	235	284
Change in Working Capital	84	131	140	125	(30)	37
Interest / Dividend (Net)	(19)	(16)	(23)	(22)	(21)	(41)
Direct taxes paid	239	262	326	426	493	611
Others	21	(14)	(11)	55	(60)	-
Cash Flow from Operations	713	868	1,052	1,273	1,275	1,706
(Inc.)/ Dec. in Fixed Assets	(261)	(206)	(483)	(1,767)	(395)	(296)
(Inc.)/ Dec. in Investments	60	(168)	53	16	(200)	(300)
Cash Flow from Investing	(201)	(375)	(431)	(1,751)	(595)	(596)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(3)	-	-	971	(200)	(650)
Dividend Paid (Incl. Tax)	372	547	545	543	547	547
Interest / Dividend (Net)	(19)	(16)	(23)	(22)	(21)	(41)
Cash Flow from Financing	(356)	(531)	(522)	450	(726)	(1,156)
Inc./(Dec.) in Cash	156	(38)	100	(28)	(46)	(46)
Opening Cash balances	38	194	156	255	227	181
Closing Cash balances	194	156	255	227	181	135

Key Ratios

Y/E Dec (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Valuation Ratio (x)						
P/E (on FDEPS)	84.8	69.1	55.3	47.1	39.4	31.8
P/CEPS	72.3	59.1	47.9	40.6	32.7	26.5
P/BV	95.7	77.9	52.9	35.6	24.1	16.4
Dividend yield (%)	0.9	1.0	1.0	1.0	1.0	1.0
EV/Sales	10.4	8.8	7.2	6.0	5.2	4.3
EV/EBITDA	52.2	43.6	36.0	29.6	25.0	20.1
EV / Total Assets	88.4	73.6	50.7	20.1	17.0	15.5
Per Share Data (₹)						
EPS (Basic)	55.4	67.9	84.9	99.7	119.3	147.9
EPS (fully diluted)	55.4	67.9	84.9	99.7	119.3	147.9
Cash EPS	65.0	79.5	98.2	115.6	143.7	177.3
DPS	42.5	48.5	48.5	48.5	48.5	48.5
Book Value	49.1	60.3	88.7	132.1	194.7	285.8
Returns (%)						
ROCE (Pre-tax)	160.7	164.3	149.4	88.1	64.1	70.2
Angel ROIC (Pre-tax)	180.9	250.4	219.0	81.9	54.5	63.7
ROE	119.8	124.2	114.0	90.3	73.0	61.6
Turnover ratios (x)						
Asset Turnover (GB)	3	3	3	3	3	3
Inventory / Sales (days)	37	35	34	36	35	35
Receivables (days)	4	5	4	6	5	5
Payables (days)	43	42	44	49	45	44
WC cycle (ex-cash) (days)	(7)	(7)	(7)	(7)	(9)	(10)

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Disclosure of Interest Statement

Nestle India

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)