

Nestle India Ltd.

Rs 4,445

KRChoksey
 INTEGRATED FINANCIAL SOLUTIONS

Strong profitability but Expensive valuations

SELL

Net sales were up 20% y-o-y to Rs 1963 crores on the back of strong domestic volumes & price increases.

Export growth was moderate on account of ban on export of milk powder.

Gross margins improved by 90 bps y-o-y on account of price hikes taken by the company to mitigate rising milk & coffee prices. EBITDA grew by higher rate of 27% y-o-y to Rs 410 crores.

Increase in effective tax rate is on account of Pantangar facility coming out of 100% tax exemption.

Net profit grew at a lower rate of 20% y-o-y on account of higher depreciation & effective tax rate.

Strong domestic performance drives topline : Nestle maintained double digit growth, with Net sales up 20% y-o-y to Rs 1963 crores, driven by 21% y-o-y growth in the domestic markets, partially offset by subdued export growth of 5% (on account of ban on export of milk powder). The growth was driven by volume across segments & steep price hikes taken by the company in the Infant & Baby food and Beverage segment.

Low RM cost & Other expenses lead to margin expansion – Nestle's gross margin expanded 129 bps q-o-q & 91 bps y-o-y on account of lower raw material cost (commensurate price hikes implemented by Nestle). This coupled with 123 bps y-o-y decline in other expenditure as a % to sales resulted in Operating margins expanding by 124 bps y-o-y. Consequently Operating profit grew at a higher rate of 27% y-o-y to Rs 410 crores. We expect margins to improve in H2CY12 with moderation in commodity prices.

Adj Net profit was up 24% y-o-y to Rs 268 crores impacted by higher depreciation, increase in interest expense & effective tax rate (end of first 5 years of tax holiday @ 100% of pantnagar profits).

Valuations & Views – We maintain our positive outlook on Nestle considering its strong double digit growth despite inflationary pressures leveraging on its strength in terms of product mix, presence in high growth categories, distribution channels & brand equity. Going forward we expect Nestle's topline & earnings to grow at a CAGR of 22-23% over CY10-12E. However with recent run in the stock price, the stock is trading at 42x CY11E EPS of Rs 105 & 35x CY12E EPS of Rs 128. Considering expensive valuations, we recommend SELL on the stock with a target price of Rs 3975 (31x CY12E EPS of Rs 128).

Key Financials

Rs Crore

Financials	CY09	CY10	CY11E	CY12E
Sales	5129.4	6254.7	7587.0	9267.4
EBITDA	1034.5	1249.7	1553.8	1898.0
PAT	655.0	818.7	1016.0	1236.6
OPM	20.2%	20.0%	20.5%	20.5%
NPM	12.8%	13.1%	13.4%	13.3%
EPS	67.9	84.9	105.4	128.2
P/E	65.4	52.4	42.2	34.7

Source: Company Data, KRChoksey Estimates

Target Price (Rs): 3,975

Potential Upside : -10%

Previous TP (Rs): 3,895

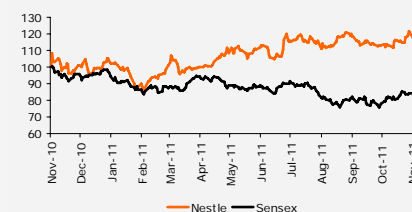
Market Data

Shares outs (Cr)	9.64
Equity Cap (Rs.Cr)	96.42
Mkt Cap (Rs. Cr)	41933
52 Wk H/L (Rs)	4549 / 3160
Avg Vol (1yr avg)	44074
Face Value (Rs)	10
Bloomberg Code	NEST IN

Market Info:

SENSEX	17,607
NIFTY	5,295

Price Performance



Share Holding pattern (%)

Particulars	Sep11	Jun11	Chg
Promoters	62.8	62.8	0.0
FIIs	10.9	10.7	0.2
DII	8.0	8.2	-0.2
Others	18.4	18.4	0.0
Total	100.0	100.0	

Source: BSE

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Q3CY11 Result (Rs Crore)

Particulars	Q3CY11	Q2CY11	Q3CY10	Q-o-Q	Y-o-Y	Key Comments
Domestic Sales	1877.2	1643.5	1555.1	14%	21%	Price hikes & volume growth
Exports	86.0	119.6	82.2	-28%	5%	Ban on export of milk powder
Net Sales	1963.1	1763.1	1637.3	11%	20%	
Total Expenditure	1552.8	1418.6	1315.4	9%	18%	
(inc)/dec in stock	89.2	-7.6	47.2	-	-	
Consumption of Raw materials	822.4	853.9	728.4	-4%	13%	Lower cost on account of price hikes
Purchase of Traded Goods	33.8	25.5	27.9	32%	21%	
COGS	945.4	871.8	803.4	8%	18%	
Employee Cost	142.4	137.5	104.1	4%	37%	
Other expenditure	465.0	409.2	407.9	14%	14%	Lower Ad spend
EBITDA	410.3	344.5	321.9	19%	27%	Higher domestic sales & lower RM cost
Depreciation	39.4	36.7	30.6	7%	29%	
Other Income	12.1	8.0	9.5	52%	27%	
EBIT	383.0	315.8	300.8	21%	27%	
Interest	1.2	0.6	0.1	98%	-	
PBT	381.9	315.2	300.8	21%	27%	
Tax	113.4	95.6	84.0	19%	35%	
Adj PAT	268.5	219.6	216.8	22%	24%	
Provision for Contingencies-Others	1.2	0.0	2.8	-	-58%	
Provision for Contingencies -from op	6.2	5.8	-4.6	7%	-	
Reported PAT	261.2	213.8	218.6	22%	20%	
EPS	27.1	22.2	22.7	22%	20%	
GPM	51.8%	50.5%	50.9%	129bps	91bps	Lower RM cost
OPM	20.9%	19.5%	19.7%	136bps	124bps	
NPM	13.7%	12.5%	13.2%	122bps	44bps	

Source: Company Data, KRChoksey Research

Revision of Estimates

Particulars(Rs Cr)	CY11E			CY12E		
	Estimated	Revised		Estimated	Revised	
Sales	7,525.30	7,587.0	0.8%	9,191.40	9,267.4	0.8%
EBITDA	1,481.00	1,553.8	4.9%	1,882.40	1,898.0	0.8%
PAT	953.8	1,016.0	6.5%	1,211.70	1,236.6	2.1%

Source: KRChoksey Research

Profit & Loss Statement (Rs Crore)

Particlars	CY09	CY10	CY11E	CY12E
Net Sales	5150.0	6273.6	7609.8	9295.2
Material Consumed	2457.0	3138.5	3656.9	4457.6
Mfg Expenses	1646.5	1949.5	2376.3	2911.8
(inc)/Dec in stock	-8.7	-82.9	0.0	0.0
Total Expenditure	4094.9	5005.1	6033.2	7369.4
Operating Profit	1034.5	1249.7	1553.8	1898.0
OPM	20.2%	20.0%	20.5%	20.5%
Other Income	17.2	23.8	27.3	35.2
Depreciation	111.3	127.8	159.8	206.2
Interest	1.4	1.1	13.1	13.1
PBT	917.0	1145.1	1431.0	1741.7
Provision for Tax	262.0	326.4	415.0	505.1
Tax Rate	28.6%	28.5%	29.0%	29.0%
PAT	655.0	818.7	1016.0	1236.6
EPS	67.9	84.9	105.4	128.2

Cash Flow

Particlars	CY09	CY10	CY11E	CY12E
Net Profit Before Tax	917.0	1145.1	1431.0	1741.7
Operating Cash Flow	927.9	1036.8	1242.8	1574.2
Investing Cash Flow	-255.2	-445.9	-900.0	-800.0
Financing Cash Flow	-542.4	-543.8	-339.2	-736.5
Change in Cash	130.3	47.1	3.6	37.8
Opening Cash	228.6	358.8	406.0	409.5
Closing Cash balance	358.8	406.0	409.5	447.3

Balance Sheet (Rs Crore)

Particlars	CY09	CY10	CY11E	CY12E
Shareholders Funds	581.3	855.4	1277.1	1790.3
Share Capital	96.4	96.4	96.4	96.4
R&S	484.8	759.0	1180.7	1693.9
Borrowed Funds	0.0	0.0	268.3	268.3
Capital Employed	581.3	855.4	1545.3	2058.6
Net Block	896.2	1012.7	1753.0	2346.8
Capital WIP	79.6	348.9	348.9	348.9
Investments	203.3	150.7	150.7	150.7
Total CA	856.6	1046.0	1144.0	1350.0
Total CL	1422.4	1669.6	1817.9	2104.5
Net Current Assets	-565.8	-623.6	-673.9	-754.5
Deferred Tax	-32.0	-33.3	-33.3	-33.3
TOTAL ASSETS	581.3	855.4	1545.4	2058.6

Key Ratios

Particlars	CY09	CY10	CY11E	CY12E
OPM	20.2%	20.0%	20.5%	20.5%
NPM	12.8%	13.1%	13.4%	13.3%
EPS	67.9	84.9	105.4	128.2
BVPS	60.3	88.7	132.5	185.7
ROE	112.7%	95.7%	79.6%	69.1%
ROCE	158.0%	134.0%	93.5%	85.2%
PE	65.4	52.4	42.2	34.7
EV/EBITDA	40.9	33.9	27.4	22.4

Du-pont Analysis

	CY09	CY10	CY11E	CY12E
NPM	12.7%	13.0%	13.4%	13.3%
Asset Turnover	8.9	7.3	4.9	4.5
Financial Leverage	1.0	1.0	1.2	1.1
ROE	112.7%	95.7%	79.6%	69.1%

Source: Company Data, KRChoksey Research

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Nestle India Ltd.			
	CMP (Rs)	TP (Rs)	Recommendation
09-Nov-11	4445	3975	SELL
01-Aug-11	4349	3895	SELL
25-Apr-11	3828	4012	HOLD

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Hold	5% - 15%
Reduce	0 – 5%
Sell	Less than 0%

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