

April 21, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 3,829	Rs 4,092
EPS change CY 11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,885
Sensex	19,602

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	5	13	36
Rel. to Nifty	(2)	1	17	21

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumer
Bloomberg	NEST@IN
Equity Capital (Rs mn)	964
Face Value(Rs)	10
No of shares o/s (mn)	96
52 Week H/L	4,199/2,570
Market Cap (Rs bn/USD mn)	369/8,322
Daily Avg Volume (No of sh)	40939
Daily Avg Turnover (US\$m)	3.3

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	62.8	62.8	62.8
FII/NRI	10.9	11.1	11.0
Institutions	8.5	8.4	8.4
Private Corp	1.8	1.8	1.8
Public	16.1	16.1	16.0

Source: Capitaline

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- Net sales growth at 22.3% yoy to Rs 18.1 bn is in line with our expectations. APAT growth at 33.3% yoy to Rs 2.6 bn is marginally higher than our estimate of Rs 2.5 bn
- Revenue growth is largely driven by 23.1% yoy growth in the domestic markets and 10.2% yoy increase in exports, as expected
- Proves its mettle - Better sales mix and lower promotional volumes offsetting higher input cost drives 75 bps expansion in EBITDA margins, a positive surprise
- No change in earnings - CY11E EPS at Rs 104.1/share and CY12E EPS at Rs 124.0/share - Maintain 'ACCUMULATE' rating with target price of Rs 4,092/share

Sales in line; APAT marginally higher than expectations

While higher-than-expected margin expansion and other income resulted in higher-than-expected APAT growth of 33.3% yoy (vs. our expectation of 25.5%) to Rs 2.6 bn, net sales growth of 22.3% yoy to Rs 18.1 bn is in line with our expectation of Rs 18.2 bn. EBITDA margin expansion of 75 bps to 21.3% is higher than our expectation of 10 bps expansion; a positive surprise.

Strong growth in domestic market continues...

Impressive growth continues in the domestic market with sales increasing by 23.1% yoy to Rs 17.1 bn, which is indicative of a strong volume growth (in high teens). We believe healthy growth in its prepared dishes and chocolates and confectionary segments has aided this robust growth in the domestic market. Exports posted a 10% growth yoy during 1QCY11, after declining for the last two quarters.

Better product mix aids EBITDA margin expansion

While input costs continue to remain high, Nestle has proved its mettle by delivering a 100 bps expansion in gross margins driven by richer product mix and lower promotional volumes. This has offset 24% increase in other expenditure (driven by redesigning costs of factory layouts), resulting in 75 bps expansion in EBITDA margins to 21.3%. Moreover, higher other income (up 40% yoy) has aided strong APAT growth of 33.3% to Rs 2.6 bn.

Maintain estimates... Re-iterate our ACCUMULATE rating

Nestle continues to impress with the robust growth momentum, which is a testament of its strong brand equity and a strengthening market position. We continue to remain positive on its future growth prospects driven by strong demand outlook and higher investments by the company to capitalize on the same. We maintain our CY11E EPS at Rs 104.1/share and CY12E EPS at Rs 124.0/share and re-iterate our ACCUMULATE rating on the stock with a target price of Rs 4,092/share.

Financial Snapshot

										Rs Mn
YE- Dec	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E (x)	EV/ EBITDA (x)	P/BV (x)
CY09	51,294	10,345	20.2	6,550	67.9	22.6	124.2	56.4	35.5	63.5
CY10	62,547	12,497	20.0	8,187	84.9	25.0	114.0	45.1	29.3	43.2
CY11E	74,838	15,285	20.4	10,041	104.1	22.6	93.3	36.8	24.1	28.4
CY12E	88,991	18,481	20.8	11,957	124.0	19.1	74.6	30.9	19.9	19.3

Quarterly Results

Rs mn	Q1CY10	Q2CY10	Q3CY10	Q4CY10	Q1CY11	YoY Gr (%)	QoQ Gr (%)
Net Sales	14,798	14,667	16,373	16,710	18,100	22.3	8.3
Expenditure	11,758	11,728	13,154	13,412	14,247	21.2	6.2
Material costs	7,376	7,191	8,034	7,956	8,841	19.9	11.1
% of sales	49.8	49.0	49.1	47.6	48.8	-100 bps	123 bps
Employee expenses	998	1,116	1,041	1,180	1,205	20.7	2.1
% of sales	6.7	7.6	6.4	7.1	6.7	-9 bps	-40 bps
Other expenses	3,384	3,420	4,079	4,277	4,201	24.1	(1.8)
% of sales	22.9	23.3	24.9	25.6	23.2	34 bps	-239 bps
Operating profit	3,040	2,940	3,219	3,298	3,853	26.7	16.9
EBITDA (%)	20.5	20.0	19.7	19.7	21.3	74 bps	155 bps
Other income	91	101	95	139	128	39.6	(8.3)
Interest	6	4	1	1	1	(87.3)	(30.0)
Depreciation	310	304	306	358	327	5.6	(8.6)
PBT	2,816	2,733	3,008	3,078	3,653	29.7	18.7
Provision for contingencies	(48)	67	(18)	183	69	(244.6)	(62.2)
Reported PBT	2,864	2,667	3,026	2,895	3,584	25.1	23.8
Tax	845	718	840	861	1,027	21.5	19.3
Reported PAT	2,019	1,948	2,186	2,034	2,557	26.7	25.7
Adjusted PAT	1,971	2,015	2,168	2,217	2,626	33.3	18.5
Adjusted PAT (%)	13.3	13.7	13.2	13.3	14.5	119 bps	124 bps
EPS (Rs)	20.4	20.9	22.5	23.0	27.2	33.3	18.5

Margins (%)	Q1CY10	Q2CY10	Q3CY10	Q4CY10	Q1CY11	YoY Gr (%)	QoQ Gr (%)
EBIDTA	20.5	20.0	19.7	19.7	21.3	74 bps	155 bps
EBIT	18.5	18.0	17.8	17.6	19.5	103 bps	189 bps
EBT	19.0	18.6	18.4	18.4	20.2	115 bps	176 bps
PAT	13.3	13.7	13.2	13.3	14.5	119 bps	124 bps
Effective Tax rate	29.5	26.9	27.8	29.7	28.7	-87 bps	-109 bps

Financials

Income Statement

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Net Sales	51,294	62,547	74,838	88,991
Growth	18.6	21.9	19.6	18.9
Expenses	40,949	50,051	59,553	70,510
Growth	18.3	22.2	19.0	18.4
Raw Materials	24,484	30,556	36,731	43,582
% Of Sales	47.7	48.9	49.1	49.0
Employee Cost	4,324	4,334	5,071	5,933
% Of Sales	8.4	6.9	6.8	6.7
Manufacturing Expenses	3,992	5,300	6,106	7,037
% Of Sales	7.8	8.5	8.2	7.9
Admin Expenses	2,455	3,048	3,551	4,128
% Of Sales	4.8	4.9	4.7	4.6
Selling & Distribn Expenses	5,694	6,813	8,094	9,830
% Of Sales	11.1	10.9	10.8	11.0
Ebitda	10,345	12,497	15,285	18,481
Growth	19.8	20.8	22.3	20.9
Ebitda%	20.2	20.0	20.4	20.8
Other Income	378	427	495	564
Interest	14	11	10	10
Depreciation	1,113	1,278	1,628	2,193
PBT	9,596	11,635	14,142	16,841
Tax	2,620	3,264	4,101	4,884
PAT (Before EO Item)	6,976	8,370	10,041	11,957
Growth	23.5	20.0	20.0	19.1
Net Margin%	13.6	13.4	13.4	13.4
E/O Item	426	184	0	0
Reported PAT	6,550	8,187	10,041	11,957

CashFlow

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Pre-Tax Profit	9,170	11,451	14,142	16,841
Depreciation	1,113	1,278	1,628	2,193
Chg in W Cap	1,416	1,583	296	567
Tax Paid	(2,613)	(3,256)	(4,135)	(4,884)
Operating CashFlow	9,086	11,056	11,930	14,718
Capex	(2,249)	(5,136)	(8,011)	(8,000)
Free Cash Flow	6,837	5,920	3,919	6,718
Investments	(1,684)	526	0	0
Equity Capital	0	0	0	0
Loans	0	0	0	0
Dividend	(5,471)	(5,448)	(5,617)	(5,841)
Others	(63)	(1)	67	0
Net Change in Cash	(380)	997	(1,630)	876
Opening Cash Position	1,936	1,556	2,553	923
Closing Cash Position	1,556	2,553	923	1,799

Balance Sheet

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Equity Share Capital	964	964	964	964
Reserves	4,848	7,590	12,014	18,130
Networth	5,813	8,554	12,978	19,094
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
Loan Funds	0	0	0	0
Total Liabilities	5,813	8,554	12,978	19,094
Gross Block	16,408	18,547	26,047	34,047
Less: Depreciation	7,446	8,420	10,047	12,241
Net Block	8,962	10,127	16,000	21,806
Capital Work in Progress	796	3,489	4,000	4,000
Investments	2,033	1,507	1,507	1,507
Current Assets	8,566	10,460	10,638	13,213
Inventories	4,987	5,760	7,095	8,299
Debtors	642	633	748	890
Cash&Bank	1,556	2,553	923	1,799
Loans&Advances	1,380	1,514	1,871	2,225
Current Lia & Provisions	14,249	16,730	18,833	21,099
Net Current Assets	(5,684)	(6,270)	(8,195)	(7,886)
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	(295)	(299)	(333)	(333)
Total Assets	5,813	8,554	12,978	19,094

Key Ratios

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Profitability %				
Ebitda Mgn	20.2	20.0	20.4	20.8
PAT Mgn	13.6	13.4	13.4	13.4
ROCE	157.1	143.9	123.0	101.5
ROE	124.2	114.0	93.3	74.6
Per Share Data				
EPS	67.9	84.9	104.1	124.0
CEPS	83.9	100.1	121.0	146.8
BVPS	60.3	88.7	134.6	198.0
DVPS	48.5	48.5	50.0	52.0
Valuations				
PER	56.4	45.1	36.8	30.9
CPER	45.6	38.3	31.6	26.1
P/BV	63.5	43.2	28.4	19.3
Ev/Sales	7.2	5.9	4.9	4.1
Ev/Ebitda	35.5	29.3	24.1	19.9
Dividend Yield	1.3	1.3	1.3	1.4
Turnover X Days				
Debtor TO	4.6	3.7	3.7	3.7
Inventory TO	35.5	33.6	34.6	34.0
Gearing Ratio				
Net Debt/Equity	-26.8	-29.8	-7.1	-9.4
Total Debt/Equity	0.0	0.0	0.0	0.0

Recommendation History: Nestle India – NEST IN

Date	Reports
07/04/2011	Consumer Sector Report Rule of the game...

Recent Research Reports

Date	Reports	Reco	CMP	Target
22/03/2011	Titan Industries Management Meet Update	Accumulate	3,431	3,876
22/03/2011	GCPL Management Meet Update	Accumulate	370	420
28/02/2011	Jubilant Foodworks Event Update	Accumulate	527	600
23/02/2011	FMCG Sector Update			

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