

November 8, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 4,499	Rs 5,110
EPS change CY11E/12E (%)	NA
Target Price change (%)	+19
Nifty	5,284
Sensex	17,563

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	5	12	23
Rel. to Nifty	(3)	6	17	47

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	NEST@IN
Equity Capital (Rs mn)	964
Face Value(Rs)	10
No of shares o/s (mn)	96
52 Week H/L	4,517/3,160
Market Cap (Rs bn/USD mn)	434/8,814
Daily Avg Volume (No of sh)	22515
Daily Avg Turnover (US\$m)	1.9

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	62.8	62.8	62.8
FII/NRI	11.3	11.1	10.9
Institutions	8.0	8.2	8.5
Private Corp	2.1	2.0	1.8
Public	15.9	16.0	16.1

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com

+91 22 6612 1273

Sweta Jain

sweta.jain@emkayglobal.com

+91 22 6624 2479

- **Marginally lower sales growth at 19.9% yoy to Rs19.6 bn, but Ebidta growth at 27.2% yoy to Rs4.1 bn and APAT growth at 23.5% yoy to Rs2.7 bn, beats expectation**
- **Domestic growth of 20.7% yoy remains broad-based; also indicative volume growth of 16% yoy; but exports stumbles with growth of 4.6% yoy**
- **Better product mix coupled with Nestle initiatives on cost and operations management resulted in 90 bps expansion in gross margins and 120 bps expansion in Ebidta margins**
- **Maintain estimates for CY11E/12E at Rs 102.4/share and Rs 121.9/share. Maintain 'ACCUMULATE' rating with target price of Rs 5,110/share**

Q3CY11 performance was ahead of expectations on all counts

Despite marginally lower net sales growth at 19.9% yoy to Rs 19.6 bn, the Ebidta and APAT performance stood marginally ahead of expectations. Higher than expected margin expansion at 120 bps yoy to 20.9% resulted in Ebidta growth at 27.2% yoy to Rs4.1 bn. Nestle India reported 90 bps expansion in gross margins and gains from effective cost and operations management. With Pantnagar factory now eligible for 30% tax benefit (from earlier 100%), APAT grew 23.5% yoy to Rs2.7 bn, yet being ahead of expectations.

Domestic growth remains healthy, but exports continue to stumble

Revenue growth of 19.9% yoy in Q3CY11 is led by 20.7% yoy growth in domestic market operations. This is indicative of a healthy 15-16% volume growth. The growth remains broad-based across milk and nutrition, prepared dishes and cooking, chocolates and confectionary segments. Exports remains adversely impacted by ban on exports of milk powder, hence registered revenue growth of 4.6% yoy to Rs 0.9 bn.

Better product mix and Nestle excellence led to margin expansion

Despite input costs remaining high, Nestle has proved its mettle by delivering a 90 bps expansion in gross margins driven by richer product mix and Nestlé's cost reduction programs. This coupled with leverage driven from lower growth in other expenditure resulted in 120 bps yoy expansion in EBITDA margins to 20.9%.

Remains on expansion mode, additional \$25 mn drawn from Nestle SA

The Rs17 bn expansion plan of Nestle India for increasing production capacities remains onboard. For this, Nestle India has borrowed additional \$25 mn in the quarter, with total amount outstanding of \$ 85 mn equivalent to Rs4.2 bn as on 30th September 2011. Consequently, interest costs were up 22X yoy to Rs11 mn, to be fully expensed in forthcoming quarters.

Financial Snapshot

Rs Mn

YE-Dec	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E (x)	EV/ EBITDA (x)	P/BV (x)
CY09	51294	10,345	20.2	6,550	67.9	22.6	124.2	64.8	40.9	73.0
CY10	62547	12,497	20.0	8,187	84.9	25.0	114.0	51.8	33.7	49.6
CY11E	74838	15,470	20.7	9,892	102.6	20.8	92.5	42.9	27.6	33.1
CY12E	88991	18,836	21.2	11,731	121.7	18.6	74.4	36.2	22.6	22.7

Quarterly Results

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	9MCY11	9MCY10	YoY (%)
Net Sales	16,373	16,710	18,100	17,631	19,631	19.9	11.3	55,361	45,838	20.8
Expenditure	13,147	13,412	14,247	14,186	15,528	18.1	9.5	43,961	36,632	20.0
Material costs	8,034	7,956	8,841	8,718	9,454	17.7	8.4	27,013	22,600	19.5
% of sales	49.1	47.6	48.8	49.5	48.2	-91 bps	-129 bps	48.8	49.3	-51 bps
Employee expenses	1,041	1,180	1,205	1,375	1,424	36.8	3.5	4,004	3,155	26.9
% of sales	6.4	7.1	6.7	7.8	7.3	90 bps	-55 bps	7.2	6.9	35 bps
Other expenses	4,073	4,277	4,201	4,092	4,650	14.2	13.6	12,943	10,877	19.0
% of sales	24.9	25.6	23.2	23.2	23.7	-119 bps	48 bps	23.4	23.7	-35 bps
Operating profit	3,226	3,298	3,853	3,445	4,103	27.2	19.1	11,401	9,206	23.8
EBITDA (%)	19.7	19.7	21.3	19.5	20.9	120 bps	136 bps	20.6	20.1	2.5
Other income	95	139	128	80	121	27.3	51.5	328	288	14.2
Interest	1	1	1	6	12	2,200.0	98.3	18	10	85.6
Depreciation	306	358	327	367	394	28.7	7.3	1,087	920	18.2
PBT	3,015	3,078	3,653	3,152	3,819	26.7	21.2	10,624	8,564	24.1
Provision for contingencies	(11)	183	69	58	74	(768.2)	27.2	200	8	2,469.2
Reported PBT	3,026	2,895	3,584	3,094	3,745	23.8	21.0	10,423	8,556	21.8
Tax	840	861	1,027	956	1,134	35.0	18.6	3,116	2,404	29.6
Reported PAT	2,186	2,034	2,557	2,138	2,612	19.5	22.1	7,307	6,153	18.8
Adjusted PAT	2,175	2,217	2,626	2,196	2,685	23.5	22.3	7,508	6,160	21.9
EPS (Rs)	22.6	23.0	27.2	22.8	27.9	23.5	22.3	77.9	63.9	21.9

Margins (%)

	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	9MCY11	9MCY10	YoY (%)
EBIDTA	19.7	19.7	21.3	19.5	20.9	120 bps	136 bps	20.6	20.1	51 bps
EBIT	17.8	17.6	19.5	17.5	18.9	106 bps	144 bps	18.6	18.1	55 bps
EBT	18.4	18.4	20.2	17.9	19.5	104 bps	157 bps	19.2	18.7	51 bps
PAT	13.3	13.3	14.5	12.5	13.7	40 bps	122 bps	0.0	0.0	0 bps
Effective Tax rate	27.8	29.7	28.7	30.9	30.3	250 bps	-63 bps	29.9	28.1	180 bps

Maintain ACCUMULATE with TP of Rs 5,110/share

We believe that Nestle, with its strong brand equity and market position, will continue to benefit from the emerging foods industry. We remain positive on the long term prospects of the company and believe that it will continue to trade at premium valuations, considering its strong business model and lack of listed players in the packaged food and beverage segment. We retain our earnings estimates of Rs102.6/Share and Rs121.7/Share for CY11E and CY12E respectively. We maintain our ACCUMULATE rating on the stock with a target price of Rs 5,110/share (revised from Rs 4,298/share), rolling valuations on CY13E earnings.

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	59,368	70,155
Growth	18.3	22.2	18.6	18.2
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	5,028	5,832
% Of Sales	8.4	6.9	6.7	6.6
Manufacturing Expenses	3,992	5,300	5,964	6,783
% Of Sales	7.8	8.5	8.0	7.6
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
Ebidta	10,345	12,497	15,470	18,836
Growth	19.8	20.8	23.8	21.8
Ebidta%	20.2	20.0	20.7	21.2
Other Income	378	427	495	564
Interest	14	11	84	210
Depreciation	1,113	1,278	1,648	2,311
PBT	9,596	11,635	14,233	16,879
Tax	2,620	3,264	4,341	5,148
PAT (Before EO Item)	6,976	8,370	9,892	11,731
Growth	23.5	20.0	18.2	18.6
Net Margin%	13.6	13.4	13.2	13.2
E/O Item	426	184	0	0
Reported PAT	6,550	8,187	9,892	11,731

Cash Flow

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Pre-Tax Profit	9,170	11,451	14,233	16,879
Depreciation	1,113	1,278	1,648	2,311
Chg in W Cap	1,416	1,583	(453)	425
Tax Paid	(2,613)	(3,256)	(4,375)	(5,148)
Operating CashFlow	9,086	11,056	11,054	14,467
Capex	(2,249)	(5,136)	(10,511)	(8,000)
Free Cash Flow	6,837	5,920	543	6,467
Investments	(1,684)	526	0	0
Equity Capital	0	0	0	0
Loans	0	0	4,200	0
Dividend	(5,471)	(5,448)	(5,617)	(5,841)
Others	(63)	(1)	67	0
Net Change in Cash	(380)	997	(807)	626
Opening Cash Position	1,936	1,556	2,553	1,746
Closing Cash Position	1,556	2,553	1,746	2,372

Balance Sheet

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Equity Share Capital	964	964	964	964
Reserves	4,848	7,590	11,865	17,755
Networth	5,813	8,554	12,829	18,719
Secured Loans	0	0	4,200	4,200
Unsecured Loans	0	0	0	0
Loan Funds	0	0	4,200	4,200
Total Liabilities	5,813	8,554	17,029	22,919
Gross Block	16,408	18,547	28,547	36,547
Less: Depreciation	7,446	8,420	10,068	12,379
Net Block	8,962	10,127	18,479	24,168
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	12,209	14,675
Inventories	4,987	5,760	7,095	8,299
Debtors	642	633	1,497	1,780
Cash & Bank	1,556	2,553	1,746	2,372
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)	(6,624)	(6,424)
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	(295)	(299)	(333)	(333)
Total Assets	5,813	8,554	17,029	22,919

Key Ratios

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Profitability %				
Ebidta Mgn	20.2	20.0	20.7	21.2
PAT Mgn	13.6	13.4	13.2	13.2
ROCE	157.1	143.9	105.6	83.0
ROE	124.2	114.0	92.5	74.4
Per Share Data				
EPS	67.9	84.9	102.6	121.7
CEPS	83.9	100.1	119.7	145.6
BVPS	60.3	88.7	133.1	194.1
DVPS	48.5	48.5	50.0	52.0
Valuations				
PER	64.8	51.8	42.9	36.2
CPER	52.4	44.0	36.8	30.2
P/BV	73.0	49.6	33.1	22.7
Ev/Sales	8.2	6.7	5.7	4.8
Ev/Ebidta	40.9	33.7	27.6	22.6
Dividend Yield	1.1	1.1	1.1	1.2
Turnover X Days				
Debtor TO	4.6	3.7	7.3	7.3
Inventory TO	35.5	33.6	34.6	34.0
Gearing Ratio				
Net Debt/Equity	-26.8	-29.8	19.1	9.8
Total Debt/Equity	0.0	0.0	32.7	22.4

Recommendation History: Nestle India – NEST IN

Date	Reports			
15/09/2011	Consumers Sector Sector Update			
01/08/2011	Nestle India Q2CY11 Result Update	Accumulate	4,349	4,268
21/04/2011	Nestle Q1CY11 Result Update	Accumulate	3,829	4,092
07/04/2011	Consumer Sector Report Rule of the game...			

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/11/2011	Jubilant FoodWorks Q2FY12 Result Update	Accumulate	815	900
31/10/2011	Colgate Palmolive Q2FY12 Result Update	Reduce	1,003	826
31/10/2011	Hindustan Unilever Q2FY12 Result Update	Hold	375	347
24/10/2011	Titan Industries Q2FY12 Result Update	Hold	226	225

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

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