

Nestlé India (NESIND)

₹ 5011

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (CY14E).....	Changed from ₹ 140.1 to ₹ 130.1
EPS (CY15E).....	Introduced at ₹ 149.7
RATING.....	Unchanged

Discretionary slowdown hits hard...

Nestlé India (NIL) reported disappointing Q4CY13 results with net sales witnessing dismal growth of 4.6% YoY to ₹ 2252.3 crore against our estimate of 10.3% growth YoY to ₹ 2374.7 crore. We believe sales growth was largely led by price increases with volume growth remaining murky following the slowdown in urban discretionary demand. Margins in Q4CY13 witnessed a decline of ~190 bps YoY to 20.8% (I-direct estimate: 30 bps lower YoY to 22.4%). Margins were largely impacted by higher raw material cost to sales ratio that increased ~180 bps YoY to 46.6%. We believe that with urban consumption remaining muted following persisting high inflation in the economy and NIL's portfolio being largely urban centric, near term growth concerns would continue to prevail. However, led by NIL's strong brand strength (KitKat, Maggi, Nescafe) in higher growth segments (chocolates & packaged foods) and scope to increase penetration in rural areas, we remain positive on the long term outlook for Nestle. We maintain our HOLD rating on the stock.

Await revival in urban demand

NIL's strong brand strength in chocolates (No. 2 player), packaged foods (75-80% share in instant noodles) and beverages (No. 2 in instant coffee) has aided it to post healthy revenue growth of 15.9% CAGR in CY08-13 led by average volume growth of ~10%. However, with the company's product portfolio being largely urban centric and urban growth witnessing a significant slowdown since H2CY12, the volume growth has also come off to 3-5%. We believe that led by the company's strong brand equity, new launches (beverages, chocolates) and rationalisation of portfolio, growth would gain traction as urban growth revives and the company expands its presence in rural markets.

Near term growth concerns to prevail; maintain HOLD

Led by a slowdown in urban demand, we remain wary of the company's ability to manage volume growth along with price growth as in the past. We expect revenue growth to remain moderate at 8.3% CAGR in CY13-15E with margins remaining at ~22% (CY15E) in spite of an improvement in the product mix. We value the stock at its average trading multiple of 31x CY15E EPS, maintaining a target price of ₹ 5100 with HOLD rating.

Exhibit 1: Financial Performance

(₹ Crore)	Q4CY13	Q4CY13E	Q4CY12	Q3CY13	QoQ (Chg %)	YoY (Chg %)
Net Sales	2252.3	2374.7	2152.6	2348.3	-4.1	4.6
EBITDA	470.0	533.8	491.0	493.4	-4.7	-4.3
EBITDA Margin (%)	20.8	22.4	22.7	20.9	-13 bps	-195 bps
Depreciation	75.7	84.1	83.5	83.5	-9.4	-9.4
Interest	10.1	8.0	9.9	10.0	1.5	2.0
Other Income	31.9	14.6	12.6	23.1	38.3	152.4
PAT	281.6	310.3	278.9	285.0	-1.2	1.0
EPS (₹)	29.2	32.2	28.9	29.6	-1.2	1.0

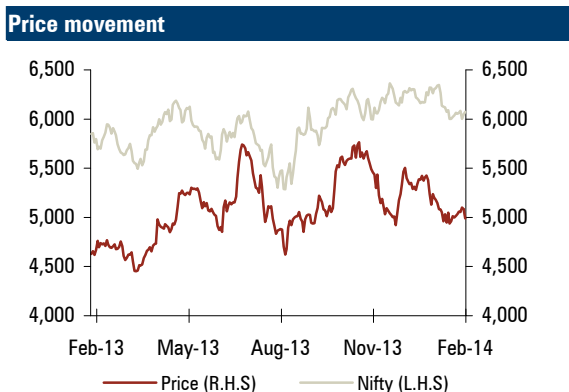
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 5100
Target Period	: 12-15 months
Potential Upside	: 2%

Key Financials				
₹ Crore	CY12	CY13E	CY14E	CY15E
Net Sales	8,302	9,061.9	9,937.0	11,131.0
EBITDA	1,857.5	1,978.3	2,184.6	2,470.3
Net Profit	1,067.4	1,147.8	1,253.9	1,443.7
EPS (₹)	110.7	119.0	130.1	149.7

Valuation summary				
	CY12	CY13E	CY14E	CY15E
P/E (x)	45.3	42.1	38.5	33.5
Target P/E (x)	46.1	42.8	39.2	34.1
Div. yield (%)	1.0	1.0	1.9	2.1
Price/Sales (x)	5.8	5.3	4.9	4.3
EV/EBITDA (x)	26.4	24.6	22.0	19.3
RoNW (%)	59.4	47.8	48.8	51.2
RoCE (%)	55.5	47.7	58.5	66.2

Stock data (₹ crore)	
Market Capitalization	₹ 53963.9 crore
Total Debt (CY12)	1,050.0
Cash and Investments (CY12)	236.5
EV	49,127.4
52 week H/L (₹)	5800 / 4433
Equity Capital (₹ crore)	96.4
Face value	₹ 10
MF Holding (%)	5.9
FII Holding (%)	13.1



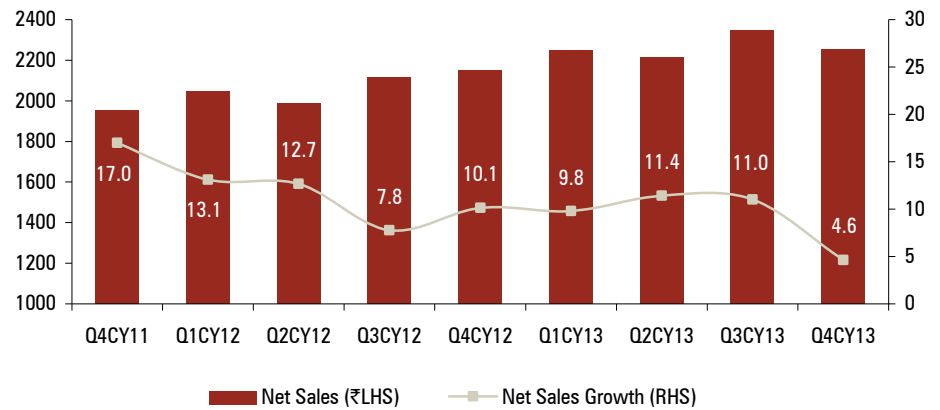
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Exhibit 2: Assumptions

Particulars	CY11	CY12	CY13E	CY14E	CY15E
Gross Sales (₹ crore)					
Milk Product and Nutrition	3351.0	3859.4	4214.5	4668.4	5319.8
Beverages	1068.4	1122.7	1162.3	1215.1	1289.0
Prepared dishes and cooking aids	2154.5	2430.2	2628.4	2890.6	3216.6
Chocolate and confectionery	1099.7	1169.1	1313.5	1496.7	1697.3
Overall Volume Growth (%)	6.8	0.8	4.4	5.5	6.7

Source: Company, ICICIdirect.com Research

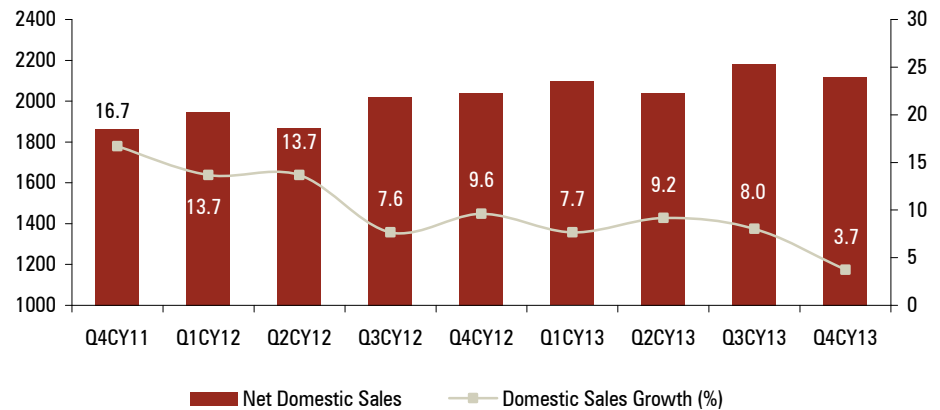
Exhibit 3: Sales and sales growth trend (Quarterly)



Source: Company, ICICIdirect.com Research

Lower domestic sales at 3.7% YoY kept overall sales growth of the company lower at 4.6%. Though export sales posted ~21% increase YoY, the lower contribution from the segment kept overall growth muted

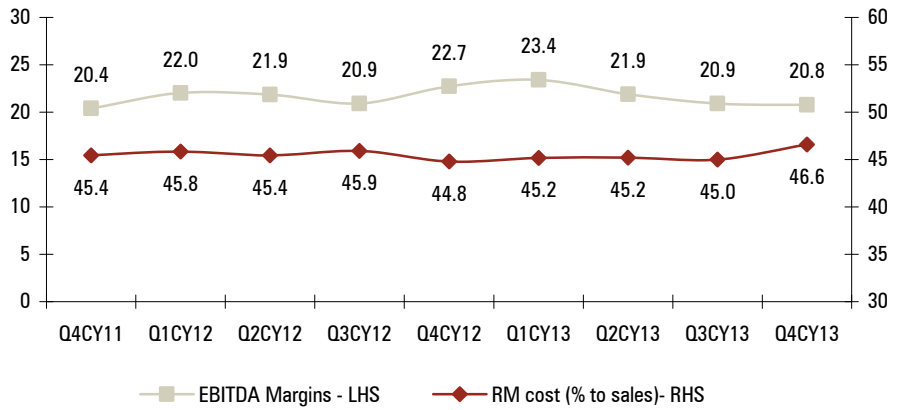
Exhibit 4: Net domestic sales (LHS) (in ₹ crore) and net domestic sales growth in % (RHS)



Source: Company, ICICIdirect.com Research

Exhibit 5: EBITDA margins and raw material cost to sales - Quarterly

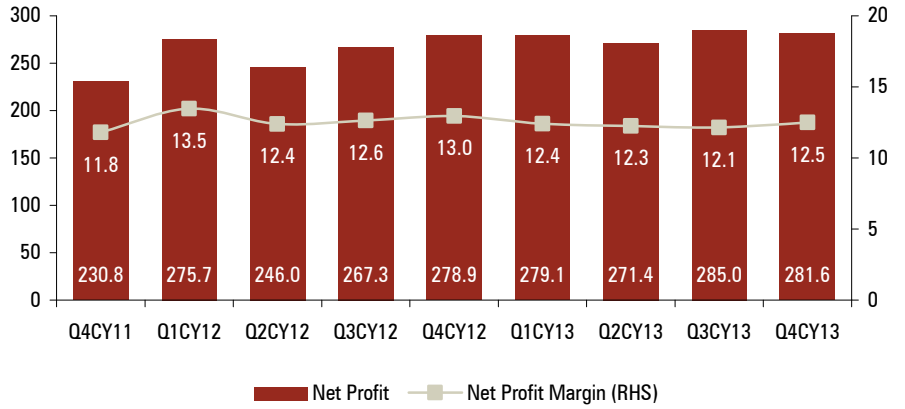
Margins during the quarter were largely impacted by higher raw material cost that reported an increase of ~180 bps YoY to 46.6%



Source: Company, ICICIdirect.com Research

Exhibit 6: PAT (₹ crore) – Quarterly and PAT Growth (%)

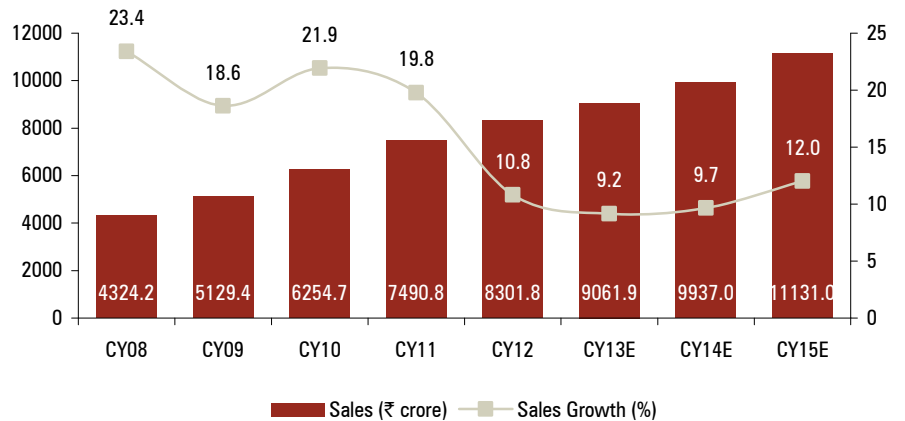
Lower sales growth and margins kept earnings growth flat YoY



Source: Company, ICICIdirect.com Research

Exhibit 7: Sales (LHS) and sales growth (RHS) trend

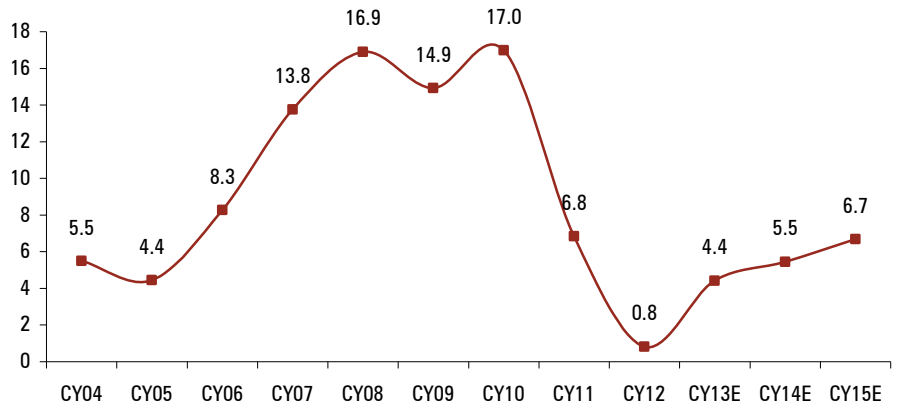
NIL has been facing challenges in sales growth since CY12 following the increasing competition and slowing demand scenario in the economy



Source: Company, ICICIdirect.com Research

Exhibit 8: Volume growth (%) trend

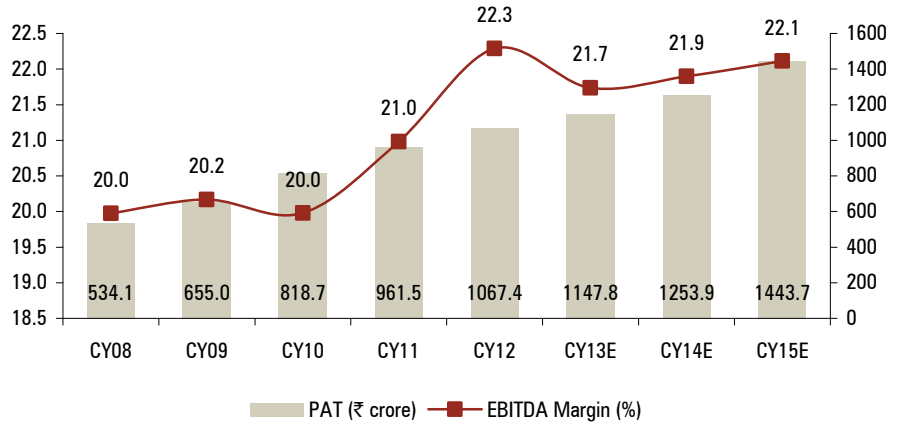
We expect volume growth to gain traction gradually as urban growth revives and the company increases its presence in the rural markets



Source: Company, ICICIdirect.com Research

Exhibit 9: EBITDA margins (%) and PAT (₹ crore) trend

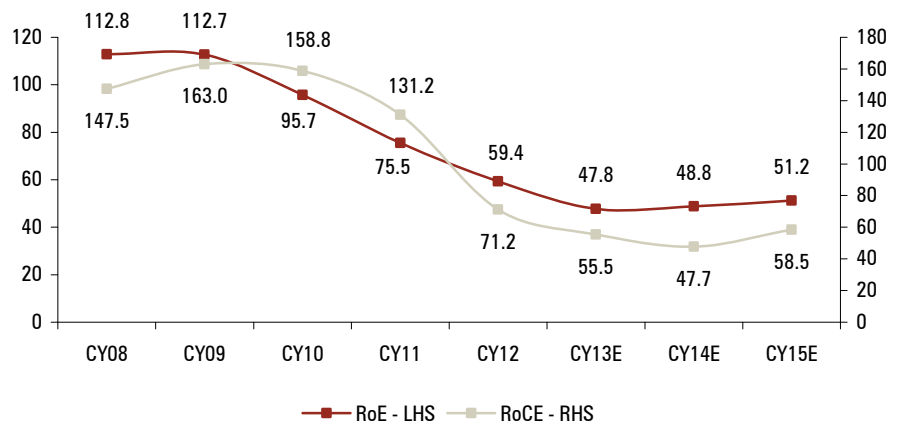
We expect margins, going forward, to remain at ~22% following the inability of the company to pass on prices in an increasingly competitive market and slowing consumer demand



Source: Company, ICICIdirect.com Research

Exhibit 10: Return ratios trend

Led by the huge debt on NIL's books (taken for capacity expansion), return ratios have witnessed a decline. We believe that as the debt has been repaid by CY16E and the higher free cash flows increase the dividend payout, return ratios would be back on track



Source: Company, ICICIdirect.com Research

Revising estimates

Considering the persisting slowdown in the urban demand and NIL's presence in rural markets (higher growth markets) being relatively lower, we remain wary of NIL's sales growth revival in CY14E. Further, we believe that to sustain the expected growth NIL would be unable to pass on the impact of higher cost easily, and would thereby maintain margins at current levels. Hence, we are revising our estimates for CY14E downwards.

We are also introducing our estimates for CY15E. We expect sales for CY15E to post growth of 12% YoY with margins at 22.1% driving PAT growth at 15.1% YoY.

Exhibit 11: Revised estimates

	Old	CY14E		CY15E Introduced
		New	% change	
Net Sales	10422.4	9937.0	-4.7	11131.0
EBITDA	2334.0	2184.6	-6.4	2470.3
EBITDAM(%)	22.3	21.9	-42bps	22.1
PAT	1350.9	1253.9	-7.2	1443.7

Source: Company, ICICIdirect.com Research

Financial Performance

Exhibit 12: Profit & Loss Account

	(₹ Crore)			
(Year-end December)	CY12	CY13E	CY14E	CY15E
Total operating Income	8,334.0	9,101.1	9,976.9	11,171.7
Growth (%)	10.9	9.2	9.6	12.0
Raw Material Expenses	3,776.4	4,122.4	4,346.5	4,829.8
Employee Expenses	663.4	741.5	857.6	979.4
Marketing Expenses	756.1	0.0	996.3	1,117.7
Administrative Expenses	801.8	41.3	934.6	1,037.0
Other expenses	478.9	2,217.6	657.3	737.5
Total Operating Expenditure	6,476.5	7,122.8	7,792.3	8,701.4
EBITDA	1,857.5	1,978.3	2,184.6	2,470.3
Growth (%)	17.8	6.5	10.4	13.1
Depreciation	277.2	330.0	358.6	374.2
Interest	26.6	36.5	22.0	14.0
Other Income	31.0	83.1	67.5	72.7
PBT	1,584.8	1,694.9	1,871.5	2,154.8
Others	32.7	-13.8	0.0	0.0
Total Tax	484.7	560.9	617.6	711.1
PAT	1,067.4	1,147.8	1,253.9	1,443.7
Growth (%)	11.0	7.5	9.2	15.1
EPS (₹)	110.7	119.0	130.1	149.7

Source: Company, ICICIdirect.com Research

Exhibit 14: Balance Sheet

	(₹ Crore)			
(Year-end December)	CY12	CY13E	CY14E	CY15E
Liabilities				
Equity Capital	96.4	96.4	96.4	96.4
Reserve and Surplus	1,701.5	2,305.8	2,474.8	2,721.8
Total Shareholders funds	1,797.9	2,402.2	2,571.2	2,818.2
Total Debt	1,050.0	1,050.0	550.0	350.0
Deferred Tax Liability	162.1	162.1	162.1	162.1
Long Term Provisions	1,025.1	1,175.1	1,375.1	1,475.1
Total Liabilities	4,035.0	4,789.3	4,658.3	4,805.3
Assets				
Gross Block	4,427.6	4,577.6	4,677.6	4,677.6
Less: Acc Depreciation	1,223.3	1,553.2	1,911.9	2,286.1
Net Block	3,204.3	3,024.3	2,765.7	2,391.5
Capital WIP	344.1	694.1	50.0	50.0
Total Fixed Assets	3,548.4	3,718.4	2,815.7	2,441.5
LT Loans & Advances	125.5	110.2	118.4	137.6
Inventory	745.6	744.0	943.9	1,129.8
Debtors	87.6	124.1	163.3	198.2
Loans and Advances	54.2	54.6	64.7	68.9
Current Investments	365.9	542.1	751.7	808.9
Cash	236.5	639.6	782.5	907.7
Total Current Assets	1,489.6	2,104.5	2,706.0	3,113.6
Creditors	539.4	620.7	571.7	548.9
Provisions	30.8	46.6	40.0	38.4
Other Current Liabilities	558.3	476.6	370.0	300.1
Total Current Liabilities	1,128.4	1,143.8	981.8	887.4
Net Current Assets	361.2	960.7	1,724.2	2,226.2
Application of Funds	4,035.0	4,789.3	4,658.3	4,805.3

Source: Company, ICICIdirect.com Research

Exhibit 13: Cash Flow Statement

	(₹ Crore)			
(Year-end December)	CY12	CY13E	CY14E	CY15E
Profit before Tax	1,067.4	1,147.8	1,253.9	1,443.7
Add: Depreciation	277.2	330.0	358.6	374.2
(Inc)/dec in Current Assets	-190.0	-211.8	-458.6	-282.4
Inc/(dec) in CL	-339.1	15.4	-162.1	-94.4
CF from operating activities	815.5	1,281.3	991.9	1,441.2
(Inc)/dec in LT loans & adv	38.5	15.3	-8.2	-19.2
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-878.0	-500.0	544.1	0.0
Others	251.8	150.0	200.0	100.0
CF from investing activities	-587.7	-334.7	735.8	80.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	325.0	0.0	-500.0	-200.0
Dividend paid & dividend tax	-543.5	-543.5	-1,084.9	-1,196.7
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-218.5	-543.5	-1,584.9	-1,396.7
Net Cash flow	9.3	403.2	142.9	125.3
Opening Cash	227.2	236.5	639.6	782.5
Closing Cash	236.5	639.6	782.5	907.7

Source: Company, ICICIdirect.com Research

Exhibit 15: Ratio Analysis

(Year-end December)	CY12	CY13E	CY14E	CY15E
Per share data (₹)				
EPS	110.7	119.0	130.1	149.7
Cash EPS	139.5	153.3	167.2	188.6
BV	186.5	249.1	266.7	292.3
DPS	48.5	48.5	97.0	107.0
Cash Per Share	24.5	66.3	81.2	94.1
Operating Ratios (%)				
EBITDA Margin	22.4	21.8	22.0	22.2
PBT / Net Sales	18.7	18.9	18.8	19.4
PAT Margin	12.9	12.7	12.6	13.0
Inventory days	32.5	30.0	31.0	34.0
Debtor days	3.9	5.0	6.0	6.5
Creditor days	23.7	25.0	21.0	18.0
Return Ratios (%)				
RoE	59.4	47.8	48.8	51.2
RoCE	55.5	47.7	58.5	66.2
RoIC	29.6	27.4	32.6	37.4
Valuation Ratios (x)				
P/E	45.3	42.1	38.5	33.5
EV / EBITDA	26.4	24.6	22.0	19.3
EV / Net Sales	5.9	5.4	4.8	4.3
Market Cap / Sales	5.8	5.3	4.9	4.3
Price to Book Value	26.9	20.1	18.8	17.1
Solvency Ratios				
Debt/EBITDA	0.4	0.2	0.0	0.0
Debt / Equity	0.6	0.4	0.2	0.1
Current Ratio	1.3	1.8	2.8	3.5
Quick Ratio	1.1	1.3	2.0	2.5

Source: Company, ICICIdirect.com Research

Company Description

Nestlé India (NIL), a subsidiary of Nestlé SA of Switzerland, was established in India in 1912. Nestle SA holds a 62.76% stake in Nestle India. It operates under four segments, milk products & nutrition, prepared dishes and cooking aids, chocolates & confectionery and beverages. The company enjoys high brand equity with its popular brands in each category. Maggi, largest and most popular brand of NIL India, occupies 86.5% share by value (July, 2010) in the instant noodles category. The brand also has soups, ketchup and other culinary products under its umbrella. Nescafe, the instant coffee brand, is the market leader in India with ~37% share by value (FY11). Cerelac, the infant food brand' is one of the oldest brands occupying ~70% share by value (FY11) in the infant food category. In the milk and milk products category the company is present through its brand 'Nestle A+'. 'KitKat', 'MilkyBar', 'Polo' and 'Munch' are the popular brands in the chocolate & confectionery segment and 'Nestle Pure Life' in the bottled water segment.

Exhibit 16: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 17: Recent Releases

Date	Event	CMP	Target Price	Rating
25-Mar-13	Quick Comment	4610	4993	HOLD
5-Apr-13	Q4FY13 Preview	4454	4993	HOLD
14-May-13	Q1CY13 Result Update	4881	4564	HOLD
5-Jul-13	Q1FY14 Preview	5151	4564	HOLD
29-Jul-13	Q2CY13 Result Update	5383	4989	HOLD
7-Oct-13	Q2FY14 Preview	5070	4989	HOLD
31-Oct-13	Q3CY14 Result Update	5597	5100	HOLD
8-Jan-14	Q3FY14 Result Update	5422	5100	HOLD

Source: Company, ICICIdirect.com Research

ICICIdirect.com Universe (FMCG)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Colgate (COLPAL)	1,321	1,365	Hold	17,965	36.5	39.3	44.6	36.2	33.6	29.6	26.7	27.7	20.7	125.2	99.3	125.6	101.5	90.8	97.1
Dabur India (DABIND)	173	180	Hold	30,152	4.4	5.2	6.5	39.4	33.0	26.8	39.4	33.0	26.8	39.3	41.2	44.0	39.9	38.7	39.3
Hindustan Unilever (HINLEV)	560	590	Hold	121,100	17.6	17.8	18.0	31.9	31.5	31.2	29.8	26.5	23.5	140.9	116.5	111.8	142.0	106.0	91.6
ITC Limited (ITC)	320	387	Buy	253,440	9.3	11.3	12.8	34.2	28.3	25.0	23.5	19.4	17.3	43.7	46.2	46.2	33.3	34.9	35.1
Jyothy Lab (JYOLAB)	199	207	Hold	3,602	1.1	5.4	8.6	186.8	36.9	23.1	30.7	20.2	17.0	10.0	10.8	11.5	3.0	11.1	15.8
Marico (MARIN)	216	262	Buy	13,928	6.1	7.9	9.7	35.2	27.2	22.3	23.5	19.8	15.1	29.8	28.9	32.9	25.3	22.4	23.7
Nestle (NESIND)	5,011	5,100	Hold	48,314	110.7	119.0	130.1	45.3	42.1	38.5	26.4	24.6	22.0	55.5	47.7	58.5	59.4	47.8	48.8
Tata Global Bev (TATTEA)	139	182	Buy	8,596	6.0	8.4	8.6	23.1	16.6	16.2	11.2	11.1	9.1	10.5	9.5	11.0	7.7	10.0	9.6
VST Industries (VSTIND)	1,590	2,021	Buy	2,455	81.8	91.2	118.4	19.4	17.4	13.4	13.4	11.2	8.6	52.0	61.2	73.7	41.6	45.6	54.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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