

Nestle India

Performance Highlights

Quarterly Performance

(₹ cr)	3QCY12	3QCY11	% yoy	2QCY12	% qoq
Revenue	2,116	1,963	7.8	1,987	6.5
EBITDA	443	410	8.1	429	3.2
OPM (%)	21.0	20.9	6bp	21.6	(66)bp
PAT	267	261	2.3	247	8.1

Source: Company, Angel Research

For 3QCY2012, Nestle India (Nestle) reported a weak performance, both on the top-line and the bottom-line front. The top line growth at 7.8% yoy to ₹2,116cr was the lowest in the past several quarters with volume growth under pressure. The net profit grew by 2.3% yoy to ₹267cr.

Key highlights during the quarter: Domestic sales grew by 7.6% yoy. Exports to third parties grew by 29.7%, while exports to affiliates declined by 4.7% yoy. INR depreciation impacted the growth in sales favorably by 11.6%. Sales growth was affected due to portfolio optimization and pricing for value in certain products. Gross margins improved by 255bp yoy despite higher input costs due to better realization and superior product mix. Employee costs as a percentage of sales increased by 65bp on a yoy basis. Other expenses as a percentage of sales too rose by 155bp on a yoy basis. Thus, the OPM remained flat at 21.0%. Depreciation too rose by 86.8% on a yoy basis due to capacity addition carried out by the company. However, the bottom-line was boosted by reversal of ₹17.9cr (₹12cr net of tax) relating to exchange differences arising out of interest on foreign currency borrowings pertaining to previous periods (year and quarter) due to change in the accounting policy.

Outlook and valuation: We expect Nestle to post a top-line and bottom-line CAGR of 16% and 14.2% over FY2012-14E. At the current market price, Nestle is trading at rich valuations of 34.2x CY2013E EPS. 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	8,529	10,079
% chg	21.9	19.8	13.9	18.2
Net Profit (Adj.)	819	962	1,090	1,329
% chg	25.0	17.5	13.4	21.9
EBITDA (%)	20.0	20.7	20.8	21.1
EPS (₹)	84.9	99.7	113.1	137.8
P/E (x)	55.5	47.2	41.6	34.2
P/BV (x)	53.1	35.6	25.0	17.5
RoE (%)	114.0	90.3	70.5	60.2
RoCE (%)	149.4	88.1	57.9	58.0
EV/Sales (x)	7.2	6.0	5.3	4.5
EV/EBITDA (x)	36.1	29.7	26.1	21.3

Source: Company, Angel Research

NEUTRAL

CMP	₹4,709
Target Price	-

Investment Period	-
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Stock Info	
Sector	FMCG
Market Cap (₹ cr)	45,405
Net Debt (₹ cr)	609
Beta	0.5
52 Week High / Low	5024/3930
Avg. Daily Volume	6,711
Face Value (₹)	10
BSE Sensex	18,309
Nifty	5,574
Reuters Code	NEST.BO
Bloomberg Code	NEST@IN

Shareholding Pattern (%)	
Promoters	62.8
MF / Banks / Indian Fls	7.8
FII / NRIs / OCBs	11.4
Indian Public / Others	18.1

Abs. (%)	3m	1yr	3yr
Sensex	3.7	9.1	7.5
NEST	6.3	6.6	79.7

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Exhibit 1: Quarterly Performance

Y/E Dec (₹ cr)	3QCY12	3QCY11	% yoy	2QCY12	% qoq	9MCY12	9MCY11	% chg
Net Sales	2,116	1,963	7.8	1,987	6.5	6,150	5,536	11.1
Consumption of RM	971	945	2.7	902	7.6	2,812	2,701	4.1
(% of Sales)	45.9	48.2		45.4		45.7	48.8	
Staff Costs	167	142	17.4	167	0.3	488	400	22.0
(% of Sales)	7.9	7.3		8.4		7.9	7.2	
Other Expenses	534	465	14.8	488	9.4	1,519	1,294	17.4
(% of Sales)	25.2	23.7		24.6		24.7	23.4	
Total Expenditure	1,672	1,553	7.7	1,557	7.4	4,820	4,396	9.6
Operating Profit	443	410	8.1	429	3.2	1,330	1,140	16.7
OPM	21.0	20.9		21.6		21.6	20.6	
Interest	(8)	1		22		17	2	827.2
Depreciation	74	39	86.8	67	9.2	194	109	78.1
Other Income	17	12	43.1	11	53.2	42	33	28.5
PBT (excl. Extr Items)	395	382	3.4	351	(95.1)	1,162	1,062	9.4
Extr Income/(Expense)	8	7	6.1	(3)	(355.7)	18	20	
PBT (incl. Extr Items)	387	375	3.3	354	9.2	1,144	1,042	9.8
(% of Sales)	18.3	19.1		17.8		18.6	18.8	
Provision for Taxation	120	113	5.6	108	10.3	355	312	14.0
(% of PBT)	30.3	29.7		30.9		30.6	29.3	
Reported PAT	267	261	2.3	246	8.7	789	731	8.0
PATM	12.6	13.3		12.4		12.8	13.2	
Recurring PAT	275	269	2.4	243	13.2	807	751	7.4
Equity shares (cr)	9.6	9.6		9.6		9.6	9.6	
EPS (₹)	28	27	2.3	26	8.7	82	76	

Source: Company, Angel Research

Exhibit 2: 3QCY2012 Actual vs Angel estimates

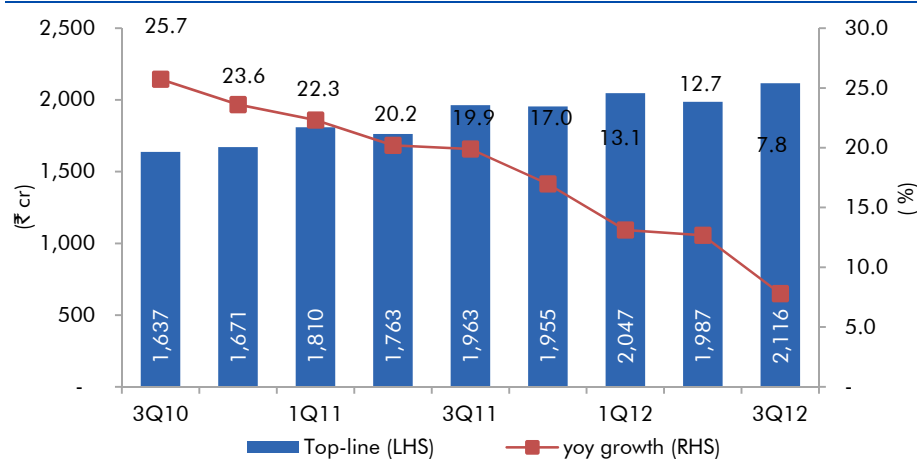
(₹ cr)	Actual	Angel Est.	% Diff.
Revenue	2,116	2,217	(4.6)
EBITDA	443	439	1.1
OPM (%)	21.0	19.8	117bp
PAT	267	270	(0.8)

Source: Company, Angel Research

Top-line growth moderate at 7.8% yoy

Nestle posted a 7.8% yoy growth in its top-line to ₹2,116cr, which was below our estimates. Domestic sales grew by 7.6% yoy mainly on account of better realizations and superior product mix. Exports to third parties grew by 29.7%, while exports to affiliates declined by 4.7% yoy. INR depreciation impacted the growth in sales favorably by 11.6%. Sales growth was affected due to portfolio optimization and pricing for value in certain products.

Exhibit 3: Top-line growth



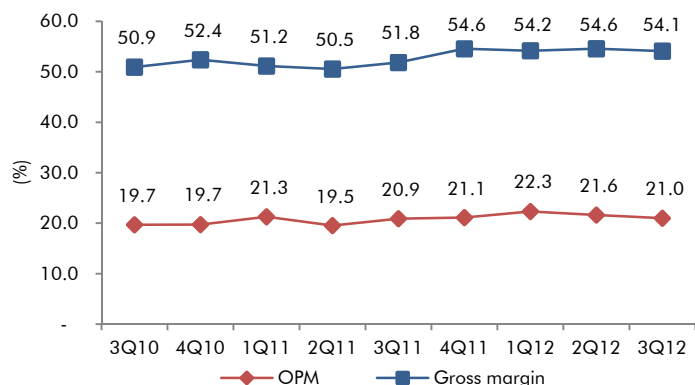
Source: Company, Angel Research

OPM flat yoy, despite higher gross margins

Gross margins improved by 255bp yoy despite higher input costs due to better realization and superior product mix. Employee costs as a percentage of sales increased by 65bp yoy. Employee costs rose on both accounts - ie increase in headcount to support business expansions and pay hikes carried out by the company. Other expenses as a percentage of sales too rose by 155bp on a yoy basis. Thus, OPM remained flat yoy at 21.0%.

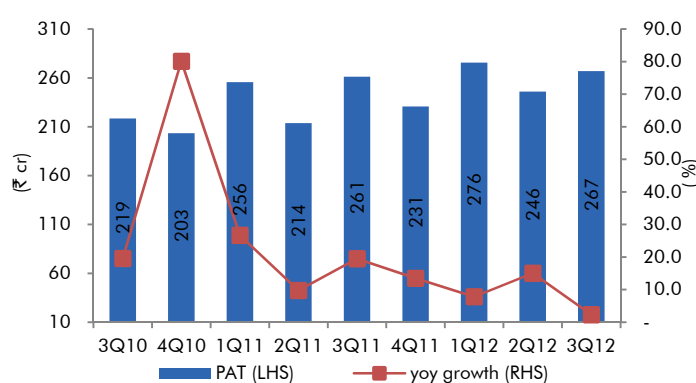
Depreciation too rose by 86.8% on a yoy basis due to capacity addition carried out by the company. However, the bottom-line was boosted by reversal of ₹17.9cr (₹12cr net of tax) relating to exchange differences arising out of interest on foreign currency borrowings pertaining to previous periods (year and quarter) due to change in the accounting policy.

Exhibit 4: Gross Margin expands yoy, but OPM flat



Source: Company, Angel Research

Exhibit 5: Net Profit growth modest at 2.3%



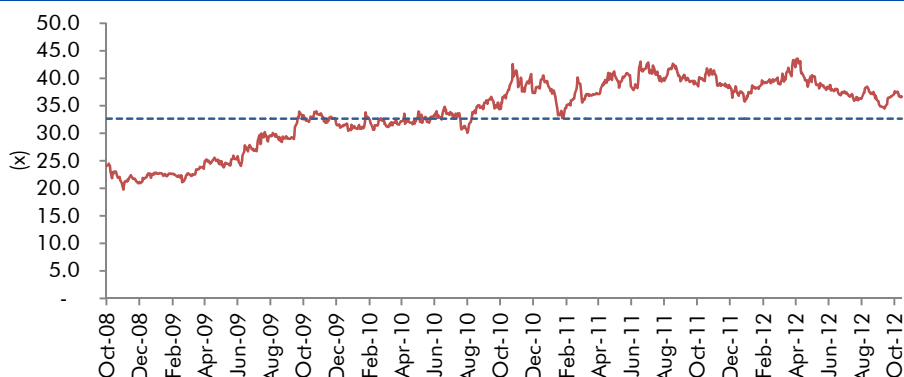
Source: Company, Angel Research

Investment Rationale

- Best play on emerging growth opportunity in the foods and beverages space:**
 Nestle enjoys a strong position across categories in the foods and beverages 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 ~250% premium to the Sensex capture full potential:**
 At the current market price, Nestle is trading at ~250% premium to the Sensex, significantly ahead of its five-year average historical premium of ~110%. While Nestle has been able to maintain these premium valuations because of its strong parentage, dominant brands, and high RoE and OPM, we believe the 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

We expect Nestle to post a top-line and bottom-line CAGR of 16% and 14.2% over FY2012-14E. At the current market price, Nestle is trading at rich valuations of 34.2x CY2013E EPS. Hence, we continue to maintain our Neutral view on the stock.

Exhibit 6: One-year forward PE


Source: Bloomberg, Angel Research; Note: Blue line represents 5-yr average

Exhibit 7: 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	37,892	3,950	-	-	31.9	27.0	3.2	2.7	37.4	35.3	17.0	19.2
Britannia	Buy	5,696	477	584	22	26.1	19.3	0.9	0.7	39.1	42.7	15.3	25.6
Colgate	Neutral	18,086	1,330	-	-	36.6	31.3	5.6	4.9	101.9	98.5	15.2	13.8
Dabur India	Neutral	21,955	126	-	-	28.2	24.1	3.6	3.0	43.2	41.4	15.9	18.9
Godrej Con	Neutral	23,066	678	-	-	29.7	24.5	3.8	3.1	26.4	26.1	24.7	31.1
GSK Con*	Neutral	12,765	3,035	-	-	27.2	23.0	3.7	3.1	36.3	34.0	16.8	24.9
HUL	Neutral	112,690	521	-	-	35.4	30.6	4.2	3.7	70.9	59.8	15.5	19.7
ITC	Neutral	214,654	275	-	-	29.4	25.1	6.9	5.9	35.8	35.3	17.2	17.7
Marico	Neutral	13,396	218	-	-	35.3	28.0	2.8	2.3	25.4	22.6	18.6	25.4
Nestle*	Neutral	45,407	4,709	-	-	41.6	34.2	5.2	4.4	70.5	60.2	16.0	14.2
TGBL	Neutral	10,726	173	-	-	26.2	22.2	1.4	1.3	8.2	9.5	9.7	16.6

Source: Company, Angel Research; Note: #denotes CAGR for FY2012-14E; *December Year Ending

Exhibit 8: Angel vs. Consensus estimates

Top-line (₹ cr)	CY2012E	CY2013E	EPS (₹)	CY2012E	CY2013E
Angel estimates	8,529	10,079	Angel estimates	113.1	137.8
Consensus	8,505	10,086	Consensus	113.6	137.6
Diff (%)	0.3	(0.1)	Diff (%)	(0.5)	0.1

Source: Company, Angel Research

Company Background

Nestlé India, a 61.9% subsidiary of its global parent Nestlé SA, is one of the largest and most diversified food and beverage (F&B) companies in India. The company's product portfolio in CY2010 comprised of milk products and nutrition (~44% of sales), prepared dishes and cooking aids (~27%), chocolates and confectionery (~15%) and beverages (~14%). While Nestlé entered the Indian market way back in 1912, when it began as a trading company, its real activity in the country started in 1961 when it set up its first factory at Moga, Punjab, to develop milk. Nestlé has seven factories across the country and is now involved in the manufacturing and marketing of a range of quality products across the F&B segment.

Profit & Loss Statement

Y/E Dec. (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Gross sales	4,471	5,222	6,377	7,674	8,773	10,391
Less: Excise duty	147	93	122	183	244	312
Net Sales	4,324	5,129	6,255	7,491	8,529	10,079
Total operating income	4,324	5,129	6,255	7,491	8,529	10,079
% chg	23.4	18.6	21.9	19.8	13.9	18.2
Total Expenditure	3,461	4,095	5,005	5,938	6,759	7,952
Cost of Materials	2,104	2,448	3,056	3,589	4,089	4,773
Advertising Exp	194	268	303	328	409	484
Personnel	307	432	433	546	614	746
Others	855	947	1,213	1,475	1,646	1,949
EBITDA	864	1,034	1,250	1,553	1,770	2,127
% chg	24.1	19.8	20.8	24.3	14.0	20.2
(% of Net Sales)	20.0	20.2	20.0	20.7	20.8	21.1
Dep. & Amortisation	92	111	128	153	230	271
EBIT	771	923	1,122	1,399	1,541	1,856
% chg	24.1	19.7	21.5	24.7	10.1	20.5
(% of Net Sales)	17.8	18.0	17.9	18.7	18.1	18.4
Interest & other Charges	2	1	1	5	43	28
Other Income	34	38	43	51	60	71
(% of PBT)	4.2	3.9	3.7	3.5	3.8	3.7
Share in profit of Asso.	0	-	-	-	-	-
Recurring PBT	804	960	1,163	1,445	1,557	1,898
% chg	24.4	19.4	21.2	24.2	7.8	21.9
Extraordinary Exp./ (Inc.)	31	43	18	57	0	0
PBT (reported)	773	917	1,145	1,388	1,557	1,898
Tax	239	262	326	426	467	569
(% of PBT)	29.7	27.3	28.1	29.5	30.0	30.0
PAT (reported)	534	655	819	962	1,090	1,329
Add: Share of earn of asso.	0	-	-	-	-	-
Less: Minority interest (MI)	0	-	-	-	-	-
PAT after MI (reported)	534	655	819	962	1,090	1,329
ADJ. PAT	565	698	837	1,019	1,090	1,329
% chg	31.0	23.5	20.0	21.7	7.0	21.9
(% of Net Sales)	13.1	13.6	13.4	13.6	12.8	13.2
Basic EPS (₹)	55.4	67.9	84.9	99.7	113.1	137.8
FDEPS (₹)	55.4	67.9	84.9	99.7	113.1	137.8
% chg	29.1	22.6	25.0	17.5	13.4	21.9

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	1,721	2,502
Shareholders' Funds	473	581	855	1,274	1,817	2,598
Minority Interest	-	-	-	-	-	-
Total Loans	-	-	-	971	1,171	721
Deferred Tax Liability	37	32	33	43	43	43
Total Liabilities	510	613	889	2,288	3,031	3,363
APPLICATION OF FUNDS						
Gross Block	1,405	1,641	1,855	2,552	3,280	3,877
Less: Acc. Depreciation	652	745	842	976	1,206	1,477
Net Block	753	896	1,013	1,576	2,074	2,399
Capital Work-in-Progress	109	80	349	1,419	1,312	582
Goodwill	-	-	-	-	-	-
Investments	35	203	151	134	334	634
Current Assets	798	857	1,046	1,273	1,476	2,170
Cash	194	156	255	227	295	775
Loans & Advances	124	138	151	196	247	292
Other	481	563	639	849	933	1,103
Current liabilities	1,185	1,422	1,670	2,114	2,165	2,423
Net Current Assets	(387)	(566)	(624)	(840)	(689)	(252)
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	510	613	889	2,288	3,031	3,363

Cash Flow Statement

Y/E Dec. (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Profit before tax	773	917	1,145	1,388	1,557	1,898
Depreciation	92	111	128	153	230	271
Change in Working Capital	84	131	140	125	(23)	43
Interest / Dividend (Net)	(19)	(16)	(23)	(22)	3	(47)
Direct taxes paid	239	262	326	426	467	569
Others	21	(14)	(11)	55	(60)	-
Cash Flow from Operations	713	868	1,052	1,273	1,240	1,596
(Inc.)/ Dec. in Fixed Assets	(261)	(206)	(483)	(1,767)	(622)	134
(Inc.)/ Dec. in Investments	60	(168)	53	16	(200)	(300)
Cash Flow from Investing	(201)	(375)	(431)	(1,751)	(822)	(166)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(3)	-	-	971	200	(450)
Dividend Paid (Incl. Tax)	372	547	545	543	547	547
Interest / Dividend (Net)	(19)	(16)	(23)	(22)	3	(47)
Cash Flow from Financing	(356)	(531)	(522)	450	(350)	(950)
Inc./(Dec.) in Cash	156	(38)	100	(28)	68	480
Opening Cash balances	38	194	156	255	227	295
Closing Cash balances	194	156	255	227	295	775

Key Ratios

Y/E Dec. (₹ cr)	CY08	CY09	CY10	CY11	CY12E	CY13E
Valuation Ratio (x)						
P/E (on FDEPS)	85.0	69.3	55.5	47.2	41.6	34.2
P/CEPS	72.5	59.3	48.0	40.7	34.4	28.4
P/BV	95.9	78.1	53.1	35.6	25.0	17.5
Dividend yield (%)	0.9	1.0	1.0	1.0	1.0	1.0
EV/Sales	10.4	8.8	7.2	6.0	5.3	4.5
EV/EBITDA	52.3	43.7	36.1	29.7	26.1	21.3
EV / Total Assets	88.6	73.8	50.8	20.2	15.3	13.5
Per Share Data (₹)						
EPS (Basic)	55.4	67.9	84.9	99.7	113.1	137.8
EPS (fully diluted)	55.4	67.9	84.9	99.7	113.1	137.8
Cash EPS	65.0	79.5	98.2	115.6	136.9	165.9
DPS	42.5	48.5	48.5	48.5	48.5	48.5
Book Value	49.1	60.3	88.7	132.1	188.5	269.5
Returns (%)						
ROCE (Pre-tax)	160.7	164.3	149.4	88.1	57.9	58.0
Angel ROIC (Pre-tax)	180.9	250.4	219.0	81.9	49.8	59.7
ROE	119.8	124.2	114.0	90.3	70.5	60.2
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%)