NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

Nestle India

"BUY"
4th Mar' 15

"Moving to recovery"

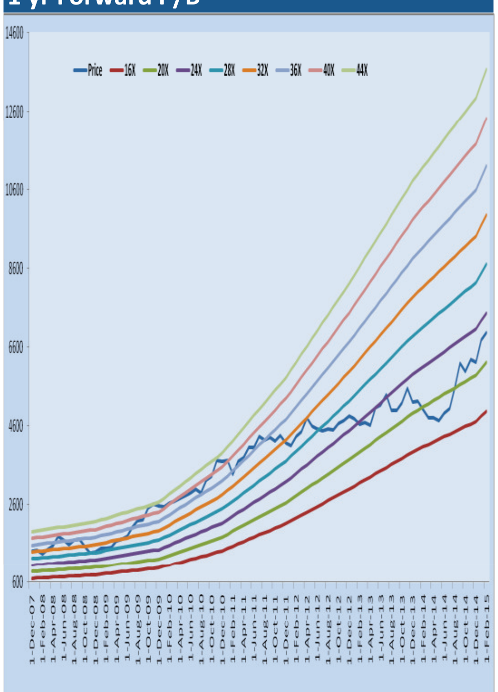
Result update	Buy
CMP	7063
Target Price	8600
Previous Target Price	-
Upside	22%
Change from Previous	-

Market Data	
BSE Code	500790
NSE Symbol	NESTLEIND
52wk Range H/L	7425/4536
Mkt Capital (Rs Cr)	68099
Average Daily Volume	21597
Nifty	8996

Stock Performance			
	1M	1yr	YTD
Absolute	0.2	45.6	-
Rel. to Nifty	-2.1	1.6	-

Share Holding Pattern-%			
	Current	3QCY14	2QCY14
Promoters	62.8	62.8	62.76
FII	13.8	14.3	14.52
DII	4.7	4.8	5.05
Others	18.7	18.1	17.67

1 yr Forward P/B



Better numbers than street expectations:

Nestle Ind witnessed better numbers than street expectations and reported a 10-quarters high domestic sales growth, 12-quarters PAT growth and 7-quarters high margin ramp up on YoY basis. Revenue grew by 11.8%(YoY) led by 2-3%(YoY) volume growth in domestic business as well as low base. During the quarter, PAT grew by 18.3% on YoY basis because of cost effective measures.

For CY14, Nestle Ind reported 8.3% sales growth and PAT growth by 13%.

Expected economic recovery, improving consumer demand, and products development will benefit Nestle Ind to improve volume growth in near term. Considering loss of market share in key categories as a concern, Nestle Industry is much focused on its product expansion strategy and margin expansion strategies. We upgraded our view from "Neutral" to "Buy" on the stock.

Margin ramp up on RM cost benefits: During the quarter, Gross Margin improved by 170bps (YoY) to 55.6% because of lower input cost. Despite higher employee cost and other expenses, EBITDA margin ramped up by 170bps(YoY) to 22.8%. PAT margin improved by 70bps(YoY) due to burden free from paying interest.

Steady domestic growth: Domestic sales grew by 11%(YoY) led by 2-3%(YoY) volume growth and better realization. We believe that, volume growth could improve because of innovation in prepared dishes segments, especially Maggi Oats noodles, Atta noodles, Masala-ae-Magic. Export business reported good traction and grew by 18%(YoY) driven by export of milk and nutrition products to Bangladesh.

Management efforts are in progress: Nestle's new MD Mr. Etienne Benet is implementing its recent action for growth revival strategies with innovation and product development. New product innovations (launched chocolate Kitkat Senses and Extra Smooth) and increased A&P (heightened intensity, particularly in Maggi) are some recent actions, which reflect the company's efforts to revive growth.

Repays its entire ECB; Now debt free balance Sheet: Nestle Inds paid off the last installment of $35 million towards its ECB of $192 million, leading to zero interest costs . Burden free from interest payment would influnce its profitability.

View and Valuation: Recent reported healthy numbers, some uptick in volume growth and aggression on margin expansion indicates a sign of bottomed out. With sturdy product portfolio, new product launch, urban demand recovery, the company could play for its growth potential. Lower input cost and better mix could be a trigger to drive margin and profitability and no capex and tight working capital could ensure sustained and strong free cash flows in coming years. **At a CMP of Rs 7063, stock trades at 18x P/BV of CY15E. We upgraded our view from "Neutral" to "Buy" on the stock with a target price of Rs 8600.**

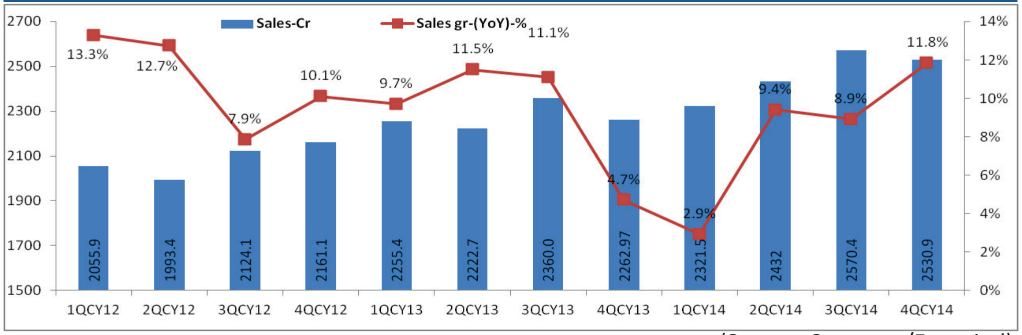
Financials Rs, Cr

	4QCY14	3QCY14	(QoQ)-%	4QCY13	(YoY)-%
Revenue	2530.9	**2570.4**	-1.5%	2262.97	11.8%
EBITDA	575.9	**563.5**	2.2%	478.3	20.4%
PAT	339.7	**338.6**	0.3%	287.1	18.3%
EBITDA Margin	22.8%	21.9%	90bps	21.1%	170bps
PAT Margin	13.4%	13.2%	20bps	12.7%	70bps

(Source: Company/Eastwind)

Nestle India

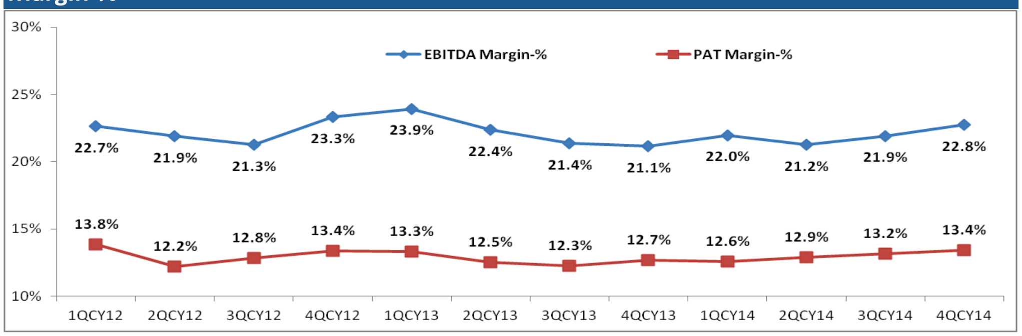
Sales and Sales Growth(%)



(Source: Company/Eastwind)

Sales growth led by 11.3% (YoY) India growth, contributed by net realization and marginally better volume growth.

Margin-%



(Source: Company/Eastwind)

RM cost outlook looking soft and that could be a positive for margins.

Domestic and Export sales-(% of Sales)

% of Sales	1QCY12	2QCY12	3QCY12	4QCY12	1QCY13	2QCY13	3QCY13	4QCY13	1QCY14	2QCY14	3QCY14	4QCY14
India	**13.7%**	**13.7%**	**7.6%**	**9.6%**	**7.7%**	**9.2%**	**8.0%**	**3.7%**	**3.4%**	**9.7%**	**9.9%**	**11.3%**
Sales Contribution-%	95.1%	94.0%	95.5%	94.8%	93.2%	92.2%	93.0%	94.0%	93.7%	92.5%	93.8%	93.7%
Exports	**3.3%**	**-1.1%**	**10.5%**	**20.6%**	**50.9%**	**46.9%**	**74.1%**	**20.9%**	**-4.4%**	**4.1%**	**-4.0%**	**17.9%**
Sales Contribution-%	3.3%	-1.1%	10.5%	20.6%	50.9%	46.9%	74.1%	20.9%	-4.4%	4.1%	-4.0%	17.9%
Overall Growth	**22.2%**	**20.2%**	**20.0%**	**17.1%**	**13.3%**	**12.7%**	**7.9%**	**10.1%**	**9.7%**	**11.5%**	**11.1%**	**4.7%**

(Source: Company/Eastwind)

Domestic revenue growth looking strong for next couple of quarters.

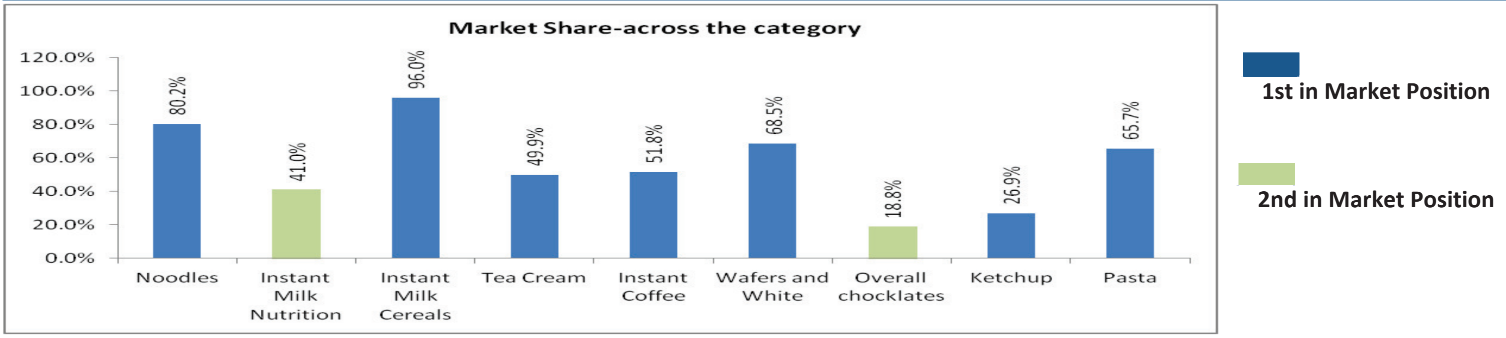
Catalysts and Concerns;

Catalysts: Nestle plays on "Urban consumption theme" and now urban consumption and demand are improving rather than rural demand. Thus, we see steady growth in near term, while we maintain that Nestle is a great long-term story with excellent quality management, strong leadership across several categories in the food segment and with brand portfolio, there are several headwinds, which will keep volume growth muted.

Concerns: (1)Continued input cost pressure could impacts its margin, (2) Competitive intensity impacting its market share adversely, (3) Any adverse impact of inflation on consumer demand would significantly impact sales and earnings growth assumptions.

Nestle India

Market Share-Across the category



Financials

Rs in Cr,	CY10	CY11	CY12	CY13	CY14	CY15E	CY16E
Sales	6284.7	7526.6	8334.5	9101.1	9854.8	10878.9	12345.6
RM Cost	2560.1	2933.4	3756.9	3907.0	4482.5	4732.3	5432.1
Purchases of stock-in-trade	578.4	704.2	111.5	110.0	108.8	130.55	160.49
WIP	(83)	(48)	(92)	105	(67)	(54)	(31)
Employee Cost	433.4	546.5	663.4	741.5	754.9	848.55	987.65
Ad Spend	302.6	327.6	355.9	395.5	428.2	478.7	555.6
Other expenses	1213.0	1474.2	1680.9	1822.2	1921.69	2121.38	2376.53
Total expenses	5004.7	5937.6	6476.5	7081.5	7628.7	8257.07	9481.44
EBITDA	1280.1	1589.0	1858.0	2019.6	2226.1	2621.81	2864.18
Depreciation and Amortisation	127.8	153.3	277.2	330.0	337.5	327.7	337.5
Other Income	12.7	15.1	31.0	83.1	87.3	87.0	111.1
EBIT	1165.0	1450.8	1611.9	1772.7	1975.9	2381.17	2637.76
Interest	1.1	5.1	26.6	36.5	14.0	3.9	4.9
PBT	1163.9	1445.7	1585.3	1736.2	1961.9	2377.3	2632.9
Tax Exp	326.5	426.4	484.7	560.9	589.7	736.9	816.2
PAT	837.5	1019.3	1100.6	1175.3	1372.2	1640.30	1816.68
Growth-% (YoY)							
Sales	21.9%	19.8%	10.7%	9.2%	8.3%	10.4%	13.5%
EBITDA	20.5%	24.1%	16.9%	8.7%	10.2%	17.8%	9.2%
PAT	27.9%	21.7%	8.0%	6.8%	16.8%	19.5%	10.8%
Expenses on Sales-%							
RM Cost	40.7%	39.0%	45.1%	42.9%	45.5%	43.5%	44.0%
Ad Spend	4.8%	4.4%	4.3%	4.3%	4.3%	4.4%	4.5%
Employee Cost	6.9%	7.3%	8.0%	8.1%	7.7%	7.8%	8.0%
Other expenses	19.3%	19.6%	20.2%	20.0%	19.5%	19.5%	19.3%
Tax rate	28.0%	29.5%	30.6%	32.3%	30.1%	31.0%	31.0%
Margin-%							
EBITDA	20.4%	21.1%	22.3%	22.2%	22.6%	24.1%	23.2%
EBIT	18.5%	19.3%	19.3%	19.5%	20.0%	21.9%	21.4%
PAT	13.3%	13.5%	13.2%	12.9%	13.9%	15.1%	14.7%
Valuation:							
CMP	3795.2	4569.3	4592.0	5189.0	6379.8	7063	7063
No of Share	9.6	9.6	9.6	9.6	9.6	9.64	9.64
NW	855.4	1274.0	1798.4	2368.8	2837.2	3789.6	4895.7
EPS	86.9	105.7	114.2	121.9	142.3	170.16	188.45
BVPS	88.7	132.2	186.6	245.7	294.3	393.1	507.9
RoE-%	97.9%	80.0%	61.2%	49.6%	48.4%	43.3%	37.1%
P/BV	42.8	34.6	24.6	21.1	21.7	18.0	13.9
P/E	43.7	43.2	40.2	42.6	44.8	41.51	37.48

(Source: Company/Eastwind)