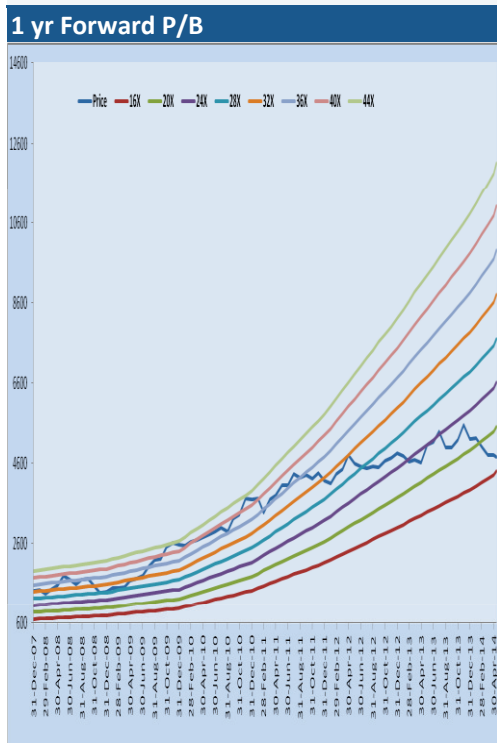


Result update	NEUTRAL
CMP	4581
Target Price	-
Previous Target Price	-
Upside	-
Change from Previous	-

Market Data	
BSE Code	500790
NSE Symbol	NESTLEIND
52wk Range H/L	5865/4565
Mkt Capital (Rs Cr)	44164
Average Daily Volume	21590
Nifty	7264

Stock Performance			
	1M	1yr	YTD
Absolute	-3.8	-7.8	-7.0
Rel. to Nifty	-10.9	-25.2	-25.2

Share Holding Pattern-%			
	Current	4QCY13	3QCY13
Promoters	62.8	62.8	62.8
FII	13.7	13.1	12.6
DII	5.3	5.9	6.3
Others	18.3	18.2	18.3



Nestle reported below numbers than street expectations:

For 1QCY14, Nestle reported 3% (YoY) sales growth led by 3.4% (YoY) domestic sales (contributes 94% of its sales) growth. PAT declined by 2.7%(YoY) because of inflationary pressure on RM cost. This was the first time when company has reported numbers with PAT declining for the first time in 8-10 quarters while sales growth, too, was the slowest in nearly 2 years on a YoY basis.

Management will continue to focus on reinforcing the fundamentals of growth drivers. Further, improve operational efficiencies, and keep rationalizing its SKUs. They are very confident of strategy to deliver long-term sustainable profitable growth, despite the short-term challenges. Demand recovery will be key in driving margins and overall profitability.

Volume growth under pressure: Nestle's volumes have been under pressure for more than 2 years due to weak demand and rising competition. The company's strategy has been more focused to maintain margin than volume growth.

Declining EBITDA Margin: During the quarter, EBITDA margin contracted by 190bps(YoY) to 22%, impacted by inflationary pressure on its key raw material(higher milk prices). The company has been maintaining its EBITDA margin more than 21%.

Mix impact on RM Cost: Its top 3 inputs by value are milk and milk products, flour, and palm oil, which together account for two-thirds of its material cost. Milk, Skimmed Milk Powder (SMP) and Green Coffee have seen prices increase, while a strong rupee has been marginally good for palm oil prices. However, other inputs such as sugar have seen softer price trends

Jerk on Potential Market share: Nestle has been enjoying its leadership position (No.1) in all categories except soups and its positioning in Chocolates, noodles, Coffee has dominantly been unchallenged. Despite all facts, company has been facing many challenges over the past one and half years from Cadbury's and Ferrero Rocher in Chocolate, from HUL and ITC in noodles and from HUL in Coffee (Bru).

Nestlé's more focus on margin stability could sacrifice its volume. Nestle has been hit by slowing demand given that most of its brands (Lactogen, Maggi, Nescafe, KitKat, Milkmaid, etc) are discretionary in nature. This has been impacting its domestic volume growth in most segments.

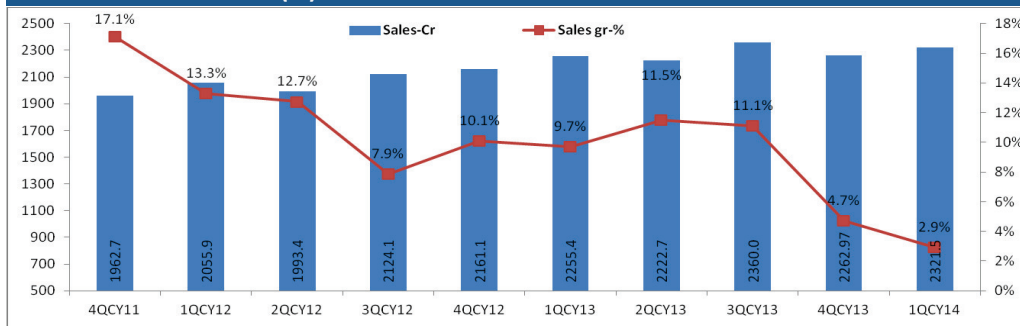
View and Valuation: Reversal of urban sentiment, pick-up in the pace of innovation/new launches could boost Nestle's prospects going forward. However, **the Company's less aggression on volume growth and the excessive focus on Margin expansion make us cautious on the stock.** At same time, company believes on expansion of new plant set up by ignoring the dividend payout to investors. Consistently, its RoE is on downward direction. At a CMP of Rs 4581, stock trades at 14.5x P/BV of CY14E. We have a "Neutral" view on stock.

Financials	Rs, Cr				
	1QCY14	4QCY13	(QoQ)-%	4QCY12	(YoY)-%
Revenue	2321.5	2262.97	2.6%	2255.4	2.9%
EBITDA	510.2	478.3	6.7%	539.9	-5.5%
PAT	292.1	287.1	1.7%	279.1	4.7%
EBITDA Margin	22.0%	21.1%	90bps	23.9%	(190bps)
PAT Margin	12.6%	12.7%	(10bps)	12.4%	20bps

(Source: Company/Eastwind)

Nestle India

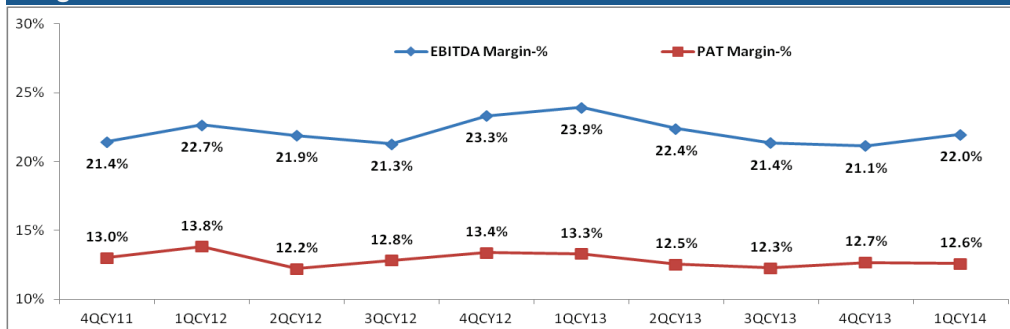
Sales and Sales Growth(%)



(Source: Company/Eastwind)

Sales growth led by 2.9% (YoY) India growth, contributed by net realization and weak volume growth in certain product categories

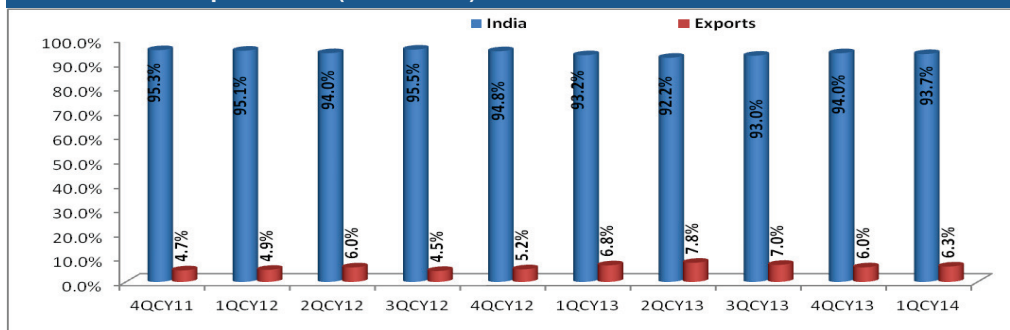
Margin-%



(Source: Company/Eastwind)

RM inflation outlook appears adverse and that could impact margins to hold out.

Domestic and Export sales-(% of Sales)



(Source: Company/Eastwind)

Domestic revenue growth continues to be very weak

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 impact 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

Financials

Rs in Cr,	CY10	CY11	CY12	CY13	CY14E	CY15E
Sales	6284.7	7526.6	8334.5	9101.1	9904.9	10942.2
RM Cost	2560.1	2933.4	3756.9	3907.0	4308.6	4814.6
Purchases of stock-in-trade	578.4	704.2	111.5	110.0	118.86	142.25
WIP	(83)	(48)	(92)	105	99	131
Employee Cost	433.4	546.5	663.4	741.5	792.39	875.38
Ad Spend	302.6	327.6	355.9	0.0	435.8	492.4
Other expenses	1213.0	1474.2	1680.9	2217.6	1931.45	2133.73
Total expenses	5004.7	5937.6	6476.5	7081.5	7686.19	8589.64
EBITDA	1280.1	1589.0	1858.0	2019.6	2218.69	2352.58
Depreciation and Amortisation	127.8	153.3	277.2	330.0	402.0	474.0
Other Income	12.7	15.1	31.0	83.1	49.5	87.5
EBIT	1165.0	1450.8	1611.9	1772.7	1866.23	1966.08
Interest	1.1	5.1	26.6	36.5	59.7	83.7
PBT	1163.9	1445.7	1585.3	1736.2	1806.5	1882.4
Tax Exp	326.5	426.4	484.7	560.9	578.1	611.8
PAT	837.5	1019.3	1100.6	1175.3	1228.45	1270.62
Growth-% (YoY)						
Sales	21.9%	19.8%	10.7%	9.2%	8.8%	10.5%
EBITDA	20.5%	24.1%	16.9%	8.7%	9.9%	6.0%
PAT	27.9%	21.7%	8.0%	6.8%	4.5%	3.4%
Expenses on Sales-%						
RM Cost	40.7%	39.0%	45.1%	42.9%	43.5%	44.0%
Ad Spend	4.8%	4.4%	4.3%	0.0%	4.4%	4.5%
Employee Cost	6.9%	7.3%	8.0%	8.1%	8.0%	8.0%
Other expenses	19.3%	19.6%	20.2%	24.4%	19.5%	19.5%
Tax rate	28.0%	29.5%	30.6%	32.3%	32.0%	32.5%
Margin-%						
EBITDA	20.4%	21.1%	22.3%	22.2%	22.4%	21.5%
EBIT	18.5%	19.3%	19.3%	19.5%	18.8%	18.0%
PAT	13.3%	13.5%	13.2%	12.9%	12.4%	11.6%
Valuation:						
CMP	3795.2	4569.3	4592.0	5189.0	4581.0	4581.0
No of Share	9.6	9.6	9.6	9.6	9.64	9.64
NW	855.4	1274.0	1798.4	2368.8	3050.2	3773.9
EPS	86.9	105.7	114.2	121.9	127.43	131.81
BVPS	88.7	132.2	186.6	245.7	316.4	391.5
RoE-%	97.9%	80.0%	61.2%	49.6%	40.3%	33.7%
P/BV	42.8	34.6	24.6	21.1	14.5	11.7
P/E	43.7	43.2	40.2	42.6	35.95	34.76

(Source: Company/Eastwind)