

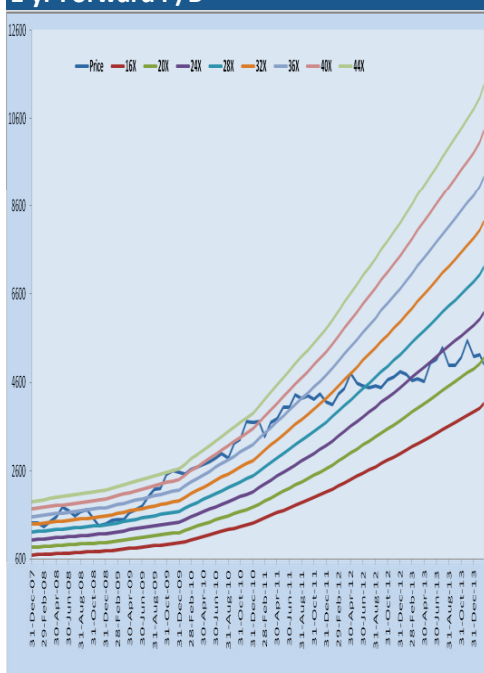
Result update	NEUTRAL
CMP	5043
Target Price	-
Previous Target Price	-
Upside	-
Change from Previous	-

Market Data	
BSE Code	500790
NSE Symbol	NESTLEIND
52wk Range H/L	5865/4410
Mkt Capital (Rs Cr)	48593
Average Daily Volume	21590
Nifty	6091

Stock Performance			
	1M	1yr	YTD
Absolute	-3.7	10.7	3.4
Rel. to Nifty	-1.0	7.4	1.8

Share Holding Pattern-%			
	Current	3QCY13	2QCY13
Promoters	62.8	62.8	62.8
FII	13.1	12.6	12.6
DII	5.9	6.3	6.2
Others	18.2	18.3	18.5

## 1 yr Forward P/B



### Weak numbers and showing up margin as well...

For 4QCY13, Nestle Ind reported below numbers than street expectations in all counts, sales grew by 4.7%(YoY) led by 3.7% domestic growth and 20.9% export growth. Its domestic sales contribute 94% and exports 6% of sales. While, PAT marginally declined by 0.7% on YoY basis. The company does not share volume growth numbers, but its statement did mention that sales rose mainly because of higher prices and product mix.

For CY13, Company posted 9.2% sales growth, hugely impacted by weak consumer demand and high competitive intensity environment, PAT up by 6%.

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.

**Margin dip:** During the quarter, company has been efficient to maintain its mark of margin above than 20%. However, Margin ramp down by 210bps(YOY) to 21.1% because of inflationary pressure on raw material. There was improvement in raw material cost by 110 bps to 46.1% of adjusted net sales. PAT margin inched down by 70bps(YOY) to 12.7%. For CY13, EBITDA Margin and PAT margin were flat at 22.2% and 13%.

**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 and wheat flour have both seen prices increase, while a weak rupee has affected palm oil prices. However, other inputs such as green coffee and 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. Company's cash cow portfolio baby foods becoming weaker because of low ad spend. Now, Mead Jhonson and Danone are dominating in same segment.

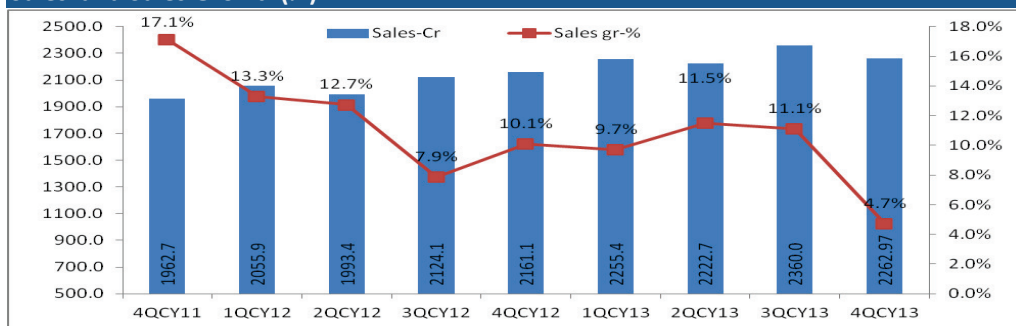
**View and Valuation:** Company's less aggression on volume growth and the excessive focus on Margin expansion make us cautious on the stock. At same time, company believes on expansion of new plant set up by ignoring the dividend payout to investors. Consistently, its RoE is on downward direction. At a CMP of Rs 5043, stock trades at 15.9x P/BV of CY14E. We have a "Neutral" view on stock.

Financials	Rs, Cr				
	4QCY13	3QCY13	(QoQ)-%	4QCY12	(YoY)-%
Revenue	2262.97	2360	-4.1%	2161.1	4.7%
EBITDA	478.3	503.9	-5.1%	504.1	-5.1%
PAT	287.1	289.6	-0.9%	289.2	-0.7%
EBITDA Margin	21.1%	21.4%	(30bps)	23.3%	(210bps)
PAT Margin	12.7%	12.3%	40bps	13.4%	(70bps)

(Source: Company/Eastwind)

# Nestle India

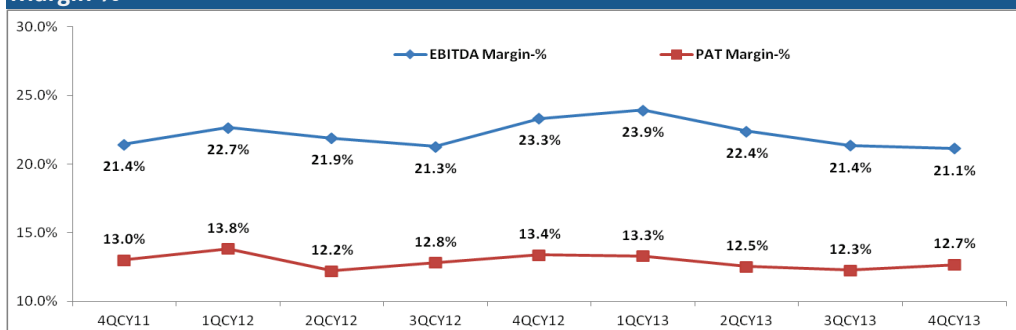
## Sales and Sales Growth(%)



(Source: Company/Eastwind)

Sales growth led by 4.7% (YoY) India growth, contributed by net realization and volume growth in certain product categories

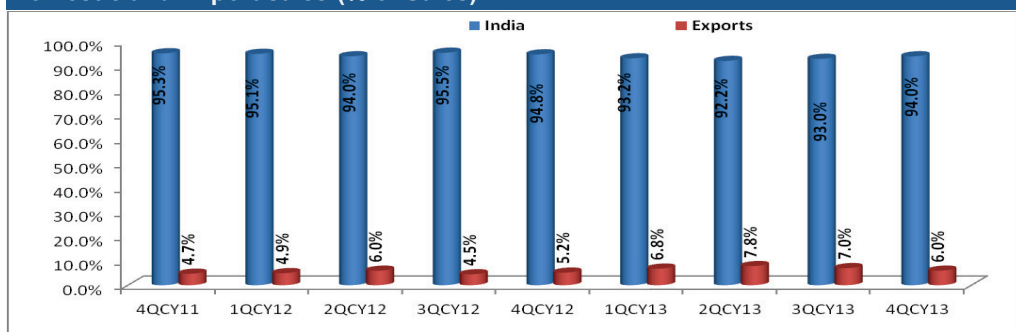
## Margin-%



(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 stagnant. 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

## Financials

Rs in Cr,	CY10	CY11	CY12	CY13	CY13E	CY14E	CY15E
Sales	6284.7	7526.6	8334.5	9101.1	9218.0	9904.9	10942.2
RM Cost	2560.1	2933.4	3756.9	3907.0	3871.6	4308.6	4814.6
Purchases of stock-in-trade	578.4	704.2	111.5	110.0	110.62	118.86	142.25
WIP	(83)	(48)	(92)	105	175	99	131
Employee Cost	433.4	546.5	663.4	741.5	760	792.39	875.38
Ad Spend	302.6	327.6	355.9	391.3	488.6	435.8	492.4
Other expenses	1213.0	1474.2	1680.9	1826.3	1797.51	1931.45	2133.73
Total expenses	5004.7	5937.6	6476.5	7081.5	7203.9	7686.19	8589.64
EBITDA	1280.1	1589.0	1858.0	2019.6	2014.1	2218.69	2352.58
Depreciation and Amortisation	127.8	153.3	277.2	330.0	342.9	402.0	474.0
Other Income	12.7	15.1	31.0	83.1	73.7	49.5	87.5
EBIT	1165.0	1450.8	1611.9	1772.7	1744.9	1866.23	1966.08
Interest	1.1	5.1	26.6	36.5	36.0	59.7	83.7
PBT	1163.9	1445.7	1585.3	1736.2	1708.9	1806.5	1882.4
Tax Exp	326.5	426.4	484.7	560.9	564.0	578.1	611.8
PAT	837.5	1019.3	1100.6	1175.3	1145.0	1228.45	1270.62
<b>Growth-% (YoY)</b>							
Sales	21.9%	19.8%	10.7%	9.2%	10.6%	8.8%	10.5%
EBITDA	20.5%	24.1%	16.9%	8.7%	8.4%	9.9%	6.0%
PAT	27.9%	21.7%	8.0%	6.8%	4.0%	4.5%	3.4%
<b>Expenses on Sales-%</b>							
RM Cost	40.7%	39.0%	45.1%	42.9%	42.0%	43.5%	44.0%
Ad Spend	4.8%	4.4%	4.3%	4.3%	5.3%	4.4%	4.5%
Employee Cost	6.9%	7.3%	8.0%	8.1%	8.3%	8.0%	8.0%
Other expenses	19.3%	19.6%	20.2%	24.4%	19.5%	19.5%	19.5%
Tax rate	28.0%	29.5%	30.6%	32.3%	33.0%	32.0%	32.5%
<b>Margin-%</b>							
EBITDA	20.4%	21.1%	22.3%	22.2%	21.9%	22.4%	21.5%
EBIT	18.5%	19.3%	19.3%	19.5%	18.9%	18.8%	18.0%
PAT	13.3%	13.5%	13.2%	12.9%	12.4%	12.4%	11.6%
<b>Valuation:</b>							
CMP	3795.2	4569.3	4592.0	5189.0	5189.0	5043.0	5043.0
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	2369.6	3050.2	3773.9
EPS	86.9	105.7	114.2	121.9	119.3	127.43	131.81
BVPS	88.7	132.2	186.6	245.7	246.8	316.4	391.5
RoE-%	97.9%	80.0%	61.2%	49.6%	48.3%	40.3%	33.7%
P/BV	42.8	34.6	24.6	21.1	21.0	15.9	12.9
P/E	43.7	43.2	40.2	42.6	43.5	39.57	38.26

(Source: Company/Eastwind)