

NESTLE INDIA LTD.

BUY

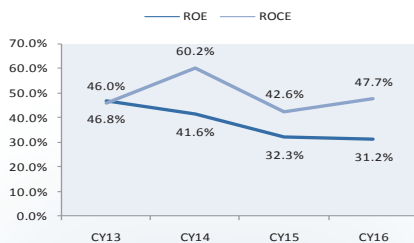
16-May-17

INDUSTRY - Con. Staples
 BSE Code - 500790
 NSE Code - NESTLEIND
 NIFTY - 9445

Company Data

CMP	6611
Target Price	7920
Previous Target Price	7920
Upside	20%
52wk Range H/L	7390/5701
Mkt Capital (Rs Cr)	63,744
Av. Volume (,000)	33

RoE & ROCE

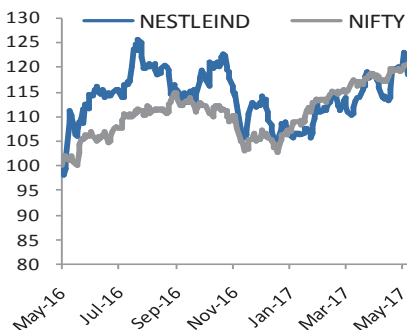


Shareholding patterns %

	1QCY17	4QCY16	3QCY16
Promoters	62.8	62.8	62.8
Public	37.2	37.2	37.2
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	2.6	6.5	15.9
Rel.to Nifty	(0.6)	(0.9)	(3.7)



Key Highlights of the Report:

- ✓ Sales for the quarter grew by 9.5% YoY to Rs 2592cr, second best in our FMCG universe after GODREJCP.
- ✓ Domestic revenue grew by 9.7% led by volume improvement across section. Exports remained flat due to lower sales from Nepal and Bhutan.
- ✓ Gross margin declined by 51 bps YoY to 57.8% led by higher input prices.
- ✓ EBITDA margin declined by 169 bps YoY to 20% from 21.7% led by higher COGS, employee cost and Other expenses.
- ✓ Our buy recommendation on NESTLE is based on Maggi's market share gain, new product launches and expectation of urban demand recovery going forward. We Maintain 'BUY' with target price of Rs 7920.

Financials/Valu

	CY15	CY16	CY17E	CY18E	FY19E
Net Sales	8,175	9,224	10,847	12,038	13,351
EBITDA	1,555	1,807	1,969	1,976	2,236
EBIT	esv	1,535	1,772	1,954	2,131
PAT	1,208	1,453	1,613	1,621	1,883
EPS (Rs)	58	96	121	124	145
EPS growth (%)	-52%	63%	27%	2%	16%
ROE (%)	32%	31%	34%	32%	34%
ROCE (%)	43%	48%	47%	43%	45%
BV	292	313	344	377	415
P/B (X)	16.9	19.8	21.0	19.8	18.1
P/E (x)	99.3	68.6	56.3	54.9	47.2

Recent development and launches:

- ✓ Nestle India has launched new range of Noodles Maggi Masala in India. The new range of MAGGI noodles includes four new flavors - Amritsari Achari, Mumbaiya Chatak, Super Chennai and Bengali Jhaal.
- ✓ In this quarter, Nestle India tied up with Google and Paytm for promotion to create strong bonding with consumers which may boost volumes going forward.
- ✓ The Company has introduced Milo Ready to drink – the sports partner for kids in 1QCY17.
- ✓ NESTLE India extends NESTLE a+ GREKYO range with the launches of Blueberry Greek Yoghurt and Greek Style Curd.

RAJEEV ANAND
 rajeev.anand@narnolia.com

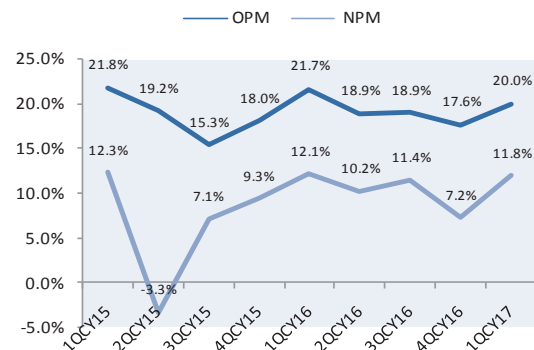
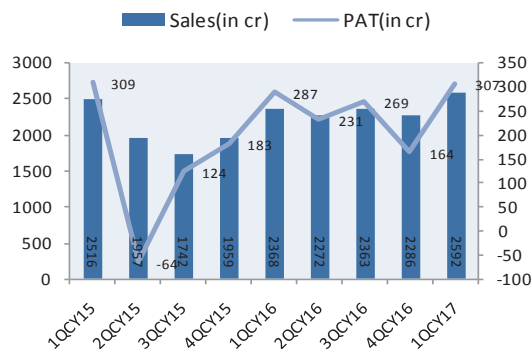
Quarterly Performance

Financials	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	1QCY16	QoQ%	CY15	CY16	YoY %
Net Sales	2,368	2,272	2,363	2,286	2,592	9%	13%	8,175	9,224	13%
Other Income	35	37	37	41	42	18%	3%	110	149	36%
COGS	987	950	986	959	1,094	11%	14%	3,469	3,880	12%
Net Provi. For Contin.	12	22	10	9	10	-17%	7%			
Employee Cost	213	263	270	294	246	16%	-16%	913	1,073	18%
Other Expenses	560	608	650	617	625	12%	1%	2,147	2,410	12%
EBITDA	513	429	447	403	517	1%	28%	1,555	1,807	16%
Depreciation	89	89	88	87	87	-3%	-1%	347	354	2%
Interest	(26)	0	0	0	(23)	-12%	-5158%	3	4	34%
PBT	433	377	397	276	450	4%	63%	814	1,440	77%
Tax	166	114	127	113	143	-14%	27%	250	519	107%
PAT	287	231	269	164	307	7%	87%	563	921	63%

Sales grew by 9.5% YoY second best in our FMCG universe after GODREJCP.

Better revenue growth led by better domestic business performance

- ✓ The company has reported sales Rs 2592 cr (Vs Rs 2561 cr of our expectation), grew by 9.5% YoY, second best in our FMCG universe after GODREJCP.
- ✓ Gross margin declined by 51 bps YoY to 57.8% led by higher input prices (Milk derivatives).
- ✓ Domestic revenue grew by 9.7% led by volume improvement across section. Exports remained flat due to lower sales from Nepal and Bhutan.
- ✓ EBITDA margin declined by 169 bps YoY to 20% from 21.7% led by higher COGS (up 51 bps), employee cost (up by 52 bps) and Other expenses (up by 47 bps).
- ✓ PAT margin declined by 30 bps YoY 11.8% YoY from 12.1%.
- ✓ PAT for this quarter grew by 7% YoY to Rs 307 cr from Rs 287 cr. PAT margin deteriorated by 30 bps YoY to 11.8% from 12.1% in Q1CY17.



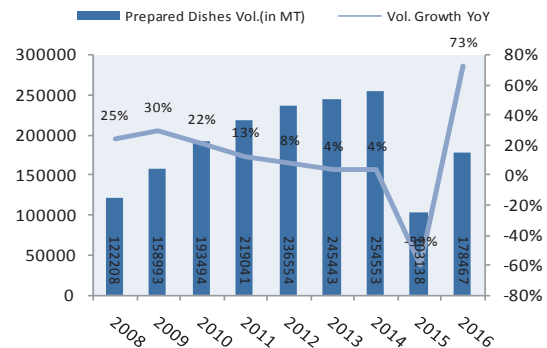
Investment Arguments:

- ✓ **New product launches, the key of future growth:** After Maggie fiasco, company's new management has become more aggressive in launching new products. The company has launched more than 25 products in last few quarters. NESTLE has strong backing of its parent with more than 2000 products globally. Going forward, it has plans to launch more new products from its parent's global product portfolio. New product launches will improve company's volume going forward.
- ✓ **Historically NESTLE has strong pricing power:** As in most the FMCG categories input prices have bottomed out and have started moving up. Hence going forward we expect growth for FMCG will be pricing led. NESTLE has strong premium product portfolio and strong pricing power.
- ✓ **Urban demand recovery led growth going forward:** For last four years urban demand is struggling due to higher inflation and lower economic activities which is one of the causes of company's dismal performance. As NESTLE's most of the sales comes from urban areas, approx. 75%, hence any recovery in urban demand will be huge positive for the company. We expect better demand scenario for urban market going ahead led by declining inflation and interest rate scenario. Hence we have positive view on NESTLE.
- ✓ **Smart bounce back by Maggie shows strong brand value:** Nestle re-launched Maggie on 9 Nov., 2015 and within 53 days of re-launch, it regained market share of 33% which shows strong brand power. Presently, Maggie's market share has reached to 60% versus peak market share of 75% which is commendable. It shows new management's aggression and focus towards NESTLE's future growth. Going forward we expect brand Maggie to consolidate further with more market share gain.

NESTLE didn't take price hike in CY16, so expect hike in CY17



Prepared Dishes (includes Maggie) Volume and growth



View & Valuation

After Maggie fiasco, company's new management has become more aggressive in launching new products. The company has launched more than 25 products in last few quarters. Going forward, it has plans to launch more new products from its parent's global product portfolio. New product launches will improve company's volume going ahead. Secondly, NESTLE has strong pricing power so we expect strong pricing led growth for NESTLE going ahead. As company's most of the sales come from urban areas, approx. 75%, hence any recovery in urban demand will be huge positive for the company. Presently, Maggie's market share has reached to 60% versus peak market share of 75% which is commendable. Our buy recommendation on NESTLE is based on Maggie's market share gain, new product launches and expectation of urban demand recovery going forward. We have positive view on this stock and maintain 'BUY' with a target price of Rs 7920.

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	CY16	CY17E	CY18E	CY19E
Revenue from Operation	9,224	10,847	12,038	13,351
Change (%)	13%	18%	11%	11%
<i>Other Operating Income</i>				
EBITDA	1,807	1,969	1,976	2,236
Change (%)	16%	9%	0%	13%
Margin (%)	20%	18%	16%	17%
Dep & Amortization	354	356	354	353
EBIT	1,453	1,613	1,621	1,883
Interest & other finance cost	4	4	4	4
Other Income	149	190	226	265
EBT	1,440	1,798	1,843	2,144
Exceptional Item	(31)	-	-	-
Tax	519	629	645	750
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	921	1,169	1,198	1,393
Adjusted PAT	941	1,169	1,198	1,393
Change (%)	3%	24%	2%	16%
Margin(%)	10%	11%	10%	10%

Key Ratios				
Y/E March	CY16	CY17E	CY18E	CY19E
ROE	31%	34%	32%	34%
ROCE	48%	47%	43%	45%
Asset Turnover	1.4	1.4	1.4	1.4
Debtor Days	4	4	4	4
Inventory Days	37	37	37	37
Payable Days	32	32	32	32
Interest Coverage	330	366	368	427
P/E	69	56	55	47
Price / Book Value	20	21	20	18
EV/EBITDA	35	33	33	29
FCF per Share	105	125	127	147
Dividend Yield	0.9%	1.1%	1.1%	1.3%

Assumptions

Y/E March	CY16	CY17E	CY18E	FY19E
Volume Growth(domestic)	36%	9%	6%	5%
Capex	416	300	300	300

Balance Sheet				
	Rs in Crores			
Y/E March	CY16	CY17E	CY18E	CY19E
Share Capital	96	96	96	96
Reserves	2,917	3,323	3,641	4,010
Networth	3,014	3,420	3,737	4,107
Debt	33	33	33	33
Other Non Current Liab	-	-	-	-
Total Capital Employed	3,047	3,453	3,770	4,140
Net Fixed Assets (incl CWIP)	2,918	2,904	2,892	2,881
Non Current Investments	474	607	757	907
Other Non Current Assets	135	135	135	135
Non Current Assets	3,527	3,646	3,784	3,924
Inventory	943	1,109	1,231	1,365
Debtors	98	115	128	142
Cash & Bank	880	1,207	1,401	1,654
Other Current Assets	26	30	34	37
Current Assets	3,279	4,103	4,743	5,456
Creditors	799	940	1,043	1,157
Provisions	321	377	419	464
Other Current Liabilities	513	603	669	742
Curr Liabilities	1,633	1,920	2,131	2,363
Net Current Assets	1,646	2,183	2,612	3,092
Total Assets	6,806	7,750	8,527	9,379

Cash Flow Statement				
	Rs in Crores			
Y/E March	CY16	CY17E	CY18E	CY19E
PBT	1,409	1,798	1,843	2,144
(inc)/Dec in Working Capital	(29)	90	66	72
Non Cash Op Exp	354	356	354	353
Interest Paid (+)	4	4	4	4
Tax Paid	(519)	(629)	(645)	(750)
others	-	-	-	-
CF from Op. Activities	1,157	1,543	1,567	1,762
(inc)/Dec in FA & CWIP	(143)	(342)	(342)	(342)
Free Cashflow	1,014	1,201	1,225	1,420
(Pur)/Sale of Investment	(424)	(433)	(450)	(450)
others	(19)	-	-	-
CF from Inv. Activities	(586)	(775)	(792)	(792)
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	(0)	-	-	-
Interest Paid	(4)	(4)	(4)	(4)
Dividend Paid (inc tax)	(677)	(758)	(780)	(923)
others	430	250	250	250
CF from Fin. Activities	(235)	(513)	(534)	(678)
Inc/Dec in Cash	336	255	240	292
Add: Opening Balance	500	880	1,207	1,401
Closing Balance	835	1,135	1,447	1,693