

NESTLE INDIA LTD

13th April, 2017

Company Update

CMP	6518
Target Price	7920
Previous Target Price	7714
Upside	22%
Change from Previous	3%

Market Data

BSE Code	500790
NSE Symbol	NESTLEIND
52wk Range H/L	7930/5490
Mkt Capital (Rs Cr)	62,844
Av. Volume(,000)	31
Nifty	9,203

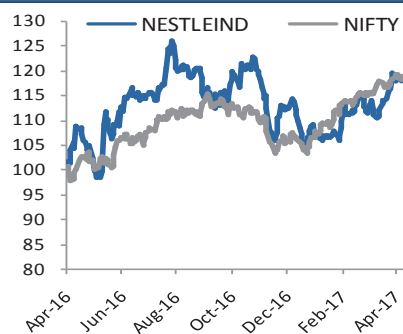
Stock Performance

	1M	3M	12M
Absolute	6.9	11.8	12.0
Rel.to Nifty	3.5	0.4	-10.4

Share Holding Pattern-%

	3QFY17	2QFY17	1QFY17
Promoters	62.8	62.8	62.8
Public	37.2	37.2	37.2
Others	-	-	-
Total	100	100	100

Company Vs NIFTY



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Smart bounce back by Maggie shows strong brand value:

Nestle came out with bang after Maggie fiasco which shook it two years ago. Due to Maggie ban, contribution in Revenue from Prepared dishes and cooking aids went down from 29% in CY14 to 16% in CY15, a decline of 56% YoY. Nestle relaunched Maggie on 9 nov., 2015 and within 53 days of relaunch, 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.

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. According to management, new products are doing well.

Historically NESTLE has strong pricing power:

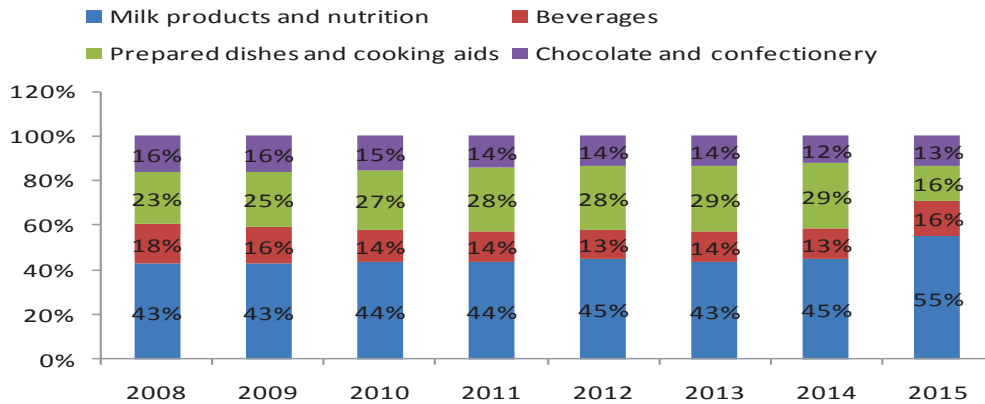
As in most the FMCG categories input prices have bottomed out and have started moving up. Hence going forward we expect growth for FMCG will be pricing led. NESTLE has strong premium product portfolio and strong pricing power. Hence going forward we expect strong growth for NESLE.

Urban demand recovery led growth going forward:

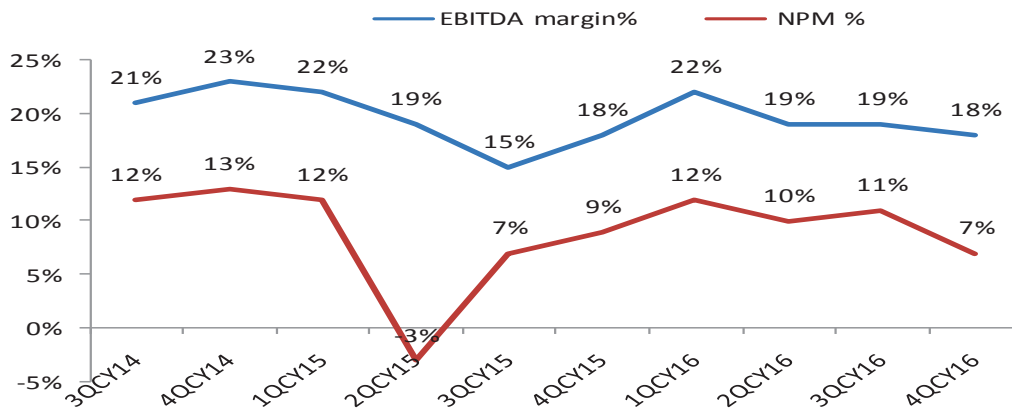
For last four years urban demand is struggling due to higher inflation and lower economic activities which is one of the causes of company's dismal performance. As NESTLE's most of the sales comes from urban areas, approx. 75%, hence any recovery in urban demand will be huge positive for the company. We expect better demand scenario for urban market going ahead led by declining inflation and interest rate scenario.

	Rs,Cr				
Financials	4QCY16	3QCY16	(QoQ)-%	4QCY15	(YoY)-%
Sales	2286	2363	-3%	1959	17%
EBITDA	403	447	-10%	353	14%
Net Profit	164	269	-39%	183	-10%
EBITDA%	18%	19%	(129 Bps)	18%	(37 Bps)
PAT%	7%	11%	(421 Bps)	9%	(216 Bps)

Segmental Revenue (%):



EBITDA Margin and NPM:



KEY RISKS:

Any sharp increase in milk and other key input prices will be margin dilutive for the company. Delay in urban demand recovery will be another risk to our recommendation.

View and Valuation

Our buy recommendation on NESTLE is based on Maggie's market share gain, new product launches and expectation of urban demand recovery going forward. The company's ROE improved to 31% in CY16 from 20% year ago. We expect ROE to improve further going ahead. Presently we have positive view on this stock and recommend to 'BUY' this stock with target price of Rs 7920.

Financials Snap Shot

	INCOME STATEMENT					RATIOS			
	CY13	CY14	CY15	CY16		CY13	CY14	CY15	CY16
Revenue	9062	9806	8123	9159	EPS	116	123	58	96
Other Income	83	87	110	149	Book Value	246	294	292	313
Total Revenue	9145	9894	8233	9309	DPS	57	74	50	51
COGS	4122	4524	3469	3880	Payout (incl. Div. Tax.)	49%	60%	85%	53%
GPM%	54.5%	53.9%	57.3%	57.6%	Valuation(x)				
Other Expenses	2218	2410	2147	2410	P/E	46	41	99	68
EBITDA	1968	2057	1555	1807	Price / Book Value	22	17	20	21
EBITDA Margin (%)	21.6%	20.9%	19.0%	19.6%	Dividend Yield (%)	1.1%	1.5%	0.9%	0.8%
Depreciation	330	338	347	354	Profitability Ratios				
EBIT	1638	1719	1208	1453	RoE	47%	42%	20%	31%
Interest	37	14	3	4	RoCE	46%	60%	43%	48%
PBT	1678	1774	814	1440	Turnover Ratios				
Tax	561	590	250	515	Asset Turnover (x)	1.4	1.7	1.3	1.3
Tax Rate (%)	33.4%	33.2%	30.8%	35.8%	Debtors (No. of Days)	6	4	3	4
Reported PAT	1117	1185	563	925	Inventory (No. of Days)	36	33	30	31
Dividend Paid	546	713	479	492	Creditors (No. of Days)	23	24	25	27
No. of Shares	10	10	10	10	Net Debt/Equity (x)	0.5	0.0	0.0	0.0

	BALANCE SHEET					CASH FLOW STATEMENT			
	CY13	CY14	CY15	CY16		CY13	CY14	CY15	CY16
Share Capital	96	96	96	96	OP/(Loss) before Tax	1,678	1,774	814	1,409
Reserves	2272	2741	2721	2917	Depreciation	330	338	367	354
Net Worth	2369	2837	2818	3014	Direct Taxes Paid	(486)	(589)	(342)	(515)
Long term Debt	1189	15	17	33	(Inc)/Dec in Wkg Cap	92	(202)	179	(361)
Short term Debt	0	4	1	0	CF from Op. Activity	1,796	1,644	1,098	1,161
Deferred Tax	53	7	0	0	Non Current investments	(224)	(4)	-	(133)
Capital Employed	3558	2853	2835	3047	Capital expenditure	(345)	(189)	(151)	(143)
Net Fixed Assets	3664	3421	3129	2918	CF from Inv. Activity	(470)	(432)	(70)	(586)
Capital WIP	295	245	0	0	Interest Paid	(36)	(15)	(3)	(4)
Debtors	84	99	78	98	Divd Paid (incl Tax)	(546)	(713)	(493)	(492)
Cash & Bank Balances	749	446	500	880	CF from Fin. Activity	(580)	(1,635)	(498)	(50)
Trade payables	633	729	744	799	Inc/(Dec) in Cash	775	(423)	529	525
Provisions	1407	1602	1862	2293	Add: Opening Balance	591	1,366	943	500
Net Current Assets	955	608	1004	1646	Closing Balance	1,366	446	1,472	1,025
Total Assets	6314	5820	6080	6806					