

May 24, 2013

NESTLE INDIA LTD

BSE Code: 500790 NSE Code: NESTLEIND Reuters Code: NEST.NS Bloomberg Code: NEST:IN

Nestle India Limited (NESTLE) is engaged in food business. The food business incorporates product groups through milk products and nutrition, beverages, prepared dishes and cooking aids, chocolates and confectionery. The Company's brands include MAGGI, NESCAFE, NESTLE a+, KIT KAT, MUNCH, POLO, NAN, LACTOGEN, CERELAC, MILKMAID and NESTEA. The Company has seven production factories at Goa, Punjab, Karnataka, Tamil Nadu, Haryana and Uttarakhand. The Company's holding companies are Nestle S.A. and Maggi Enterprises Limited.

## Investor's Rationale

**Topline grew 9.8% YoY on higher realization and product mix** – NESTLE, registered a growth of 9.8% YoY in its topline at ₹22.5 bn in Q1CY13 against ₹20.5 bn in Q1CY12. Net domestic sales increased by 8% to ₹20.9 bn mainly on account of higher net realization and product mix. Moreover, export sales have inclined by 51% to ₹1.5 bn mainly due to export to affiliates which increased by 98% while exports to third parties grew by 9%.

**Bottom-line grew marginally 1.3% YoY, assisted by robust increase in other income** – The company's net profit augmented by 1.3% YoY at ₹2.8 bn primarily on the account of robust increase in other income at ₹0.127 bn due to higher average liquidities. While, interest cost increase by 248% YoY primarily on the account of higher average outstanding loan during the current quarter as well as completion of major capital projects resulting in finance costs. Further, depreciation has increased by 55.8% YoY to ₹0.08 bn due to the significant expansions in production capacities made over the last year. Effective tax rate for the quarter was higher at 32.7% against 30.6% during Q1CY12 due to the revaluation of net deferred tax liabilities consequent to an increase in income tax surcharge from 5% to 10% in the Finance Bill 2013. Thus, NPM contracted by 107bps YoY at 12.3% against 13.4%.

**EBITDA margin expanded 140bps YoY on fall in raw material cost** – The EBITDA of the company grew 16.7% YoY to ₹5.3 bn, primarily on the account of fall in material cost by 519bps at 43.1% against 48.3% (as a % of net sales). Thus OPM expanded by 140bps YoY at 23.4% against 22.0%.

**Investment for expansion and modernization of Moga Plant** – Nestle is set to invest ₹2.5 billion in the expansion and modernization of its milk plant at Moga, Punjab.

## Market Data

Rating	BUY
CMP (₹)	5,250.3
Target Price	5,775
Stop Loss	4,961
Duration	Short-term
52-week High-Low (₹)	5,344.8/4,305.6
Rise from 52WL (%)	21.9
Correction from 52WH (%)	1.8
Beta	0.3
1 year Average Volume ('0000)	2.8
Stock Return (%)	3M- 13.6 6M- 14.4 1Y- 11.8
Market Cap (₹bn)	50.6
Book Value (₹)	186.5

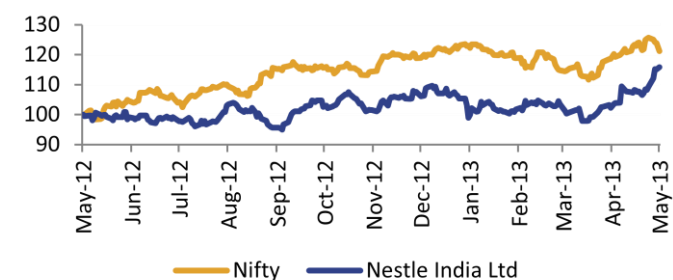
## Shareholding Pattern

	Mar'13	Dec'12	Chg
Promoters (%)	62.76	62.76	0
FII (%)	11.94	11.32	0.62
DII (%)	6.65	7.25	(0.60)
Public & Others (%)	18.65	18.67	(0.02)

## Quarterly Performance

(₹bn)	Q1 CY'13	Q1 CY'12	Q4 CY'12	YoY Change(%)	QoQ Change(%)
Revenue	22.5	20.5	21.5	9.8	4.4
Op. exp	17.3	16.0	16.7	7.7	3.3
EBITDA	5.3	4.5	4.9	16.7	8.0
OPM (%)	23.4	22.0	22.6	140bps	80bps
Net profit	2.8	2.8	2.8	1.3	0.1
NPM (%)	12.3	13.4	12.8	(107bps)	(52bps)
EPS (₹)	29.0	28.6	28.9	1.2	0.1

## One Year Price Chart





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