

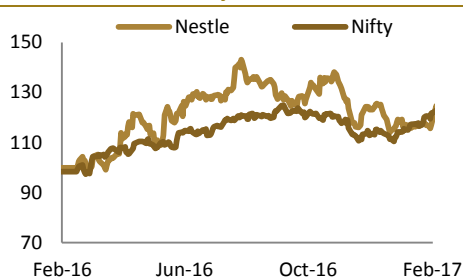
### Market statistics

Current stock price (₹)	6,169
Shares O/S (cr.)	9.6
Mcap (₹cr)	59,482
52W H/L (₹)	7,390/4,981
6m avg. volume	40,865
Bloomberg	NEST IN

### Shareholding pattern (%)

Promoters	62.0
Domestic Institution	6.65
Foreign Institution	13.27
Non-institution	18.08
of which more than 1%	
Life Insurance Corporation of India	3.48
Arisaig Partners (Asia) PTE Ltd A/C Arisaig India Fund Ltd	1.87

### Nestlé India vs. Nifty



### Capital efficiency & valuations

Particulars	CY16P	CY17E	CY18E
ROE (%)	35.9	42.9	47.7
ROCE (%)	62.1	69.0	74.4
P/B(x)	19.7	18.3	16.6
P/E (x)	55.0	42.6	34.8
P/CE (x)	41.4	33.7	28.5
EPS (₹)	112.2	144.8	177.3
CEPS (₹)	148.9	183.1	216.8
EV/OCF (x)	34.1	43.9	26.2

Nestlé has reported healthy 16.7% sales to ₹22,862mn growth during the quarter lower than our expectation of 25%. Domestic business grew healthy by 17% while Exports saw a lower growth of 8% YoY. Gross Margin contracted by 71bps YoY to 58.0%. Employee and other expenses have increased by 14% & 15.8% while declined by 29bps & 20bps (% of sales). Therefore, EBITDA Margin contracted by 14bps YoY to 18.7%. However, EBITDA grew by 18.5%. YoY to ₹4,278mn

Other income and depreciation moved by 48.7% & -2.7%, respectively. Higher CSR expense & higher provisions has impacted the bottom-line. Hence, reported PAT declined by 8.7% to ₹1,673mn. Adjusted PAT increased by 7.2% to ₹2,278mn.

**Sales moderated to 16.7%; Sustains Market leadership in instant noodles:** Nestlé's net sales displayed healthy growth of 16.7%YoY in the quarter. We believe liquidity crunch due to demonetization would have impacted its chocolates & beverages portfolio. Domestic growth of 16.9% signifies consumer trust and strong recall in Maggi brand. Maggi re-gained its market leadership despite increase in competitive intensity in Noodles category. Nestlé's effort of reviving other products in portfolio by launching over 25 innovative products in last couple of months is highly encouraging. Management's focus on gradual recovery can show better uptake in overall sales. We anticipate much better sales growth in the coming quarter owing to base benefits, strengthening distribution channel, introduction of more SKU's & new products.

**Healthy EBITDA growth of 16%:** Gross margin has contracted by 70bps YoY. Employee expenses & other expenses growth rate slightly moderated and reported 14.0% & 15.8% YoY growth but in-line with our expectation as we were expecting higher marketing efforts for brand building initiatives, re-launch of core products & new innovations. However, Employee and other expenses as % of sales declined by 29 & 20bps, hence EBITDA margin contracted by 14bps to 18.7%. With favorable margin base and better expected sales growth, we expect EBITDA Margin can improve in the coming quarters.

**Outlook & Valuation:** The re-launch of Maggi Noodles has happened during Q4CY15 and in 6-7 months it gained 57% market share. We expect less challenging time for Nestlé in the coming quarters as compared to recent past which can improve operational performance significantly. Nestlé has already invested huge money on capacity expansion over the last few years which is under-utilized hence, the company is ready for any uptake in demand. New management can also infuse the required energy in Nestlé's business.

Nestlé's trading at 33.7x 12-month forward Price to Cash EPS (P/CE) as compared to last 5 year average of over ~38x. Improving earnings can further run up the stock in the coming quarters.

**We maintain our BUY rating and suggest investors to see long term potential of the company.**

Associate

Ritu Chaudhary

+91-22 4224 5183

ritu.chaudhary@trustgroup.in

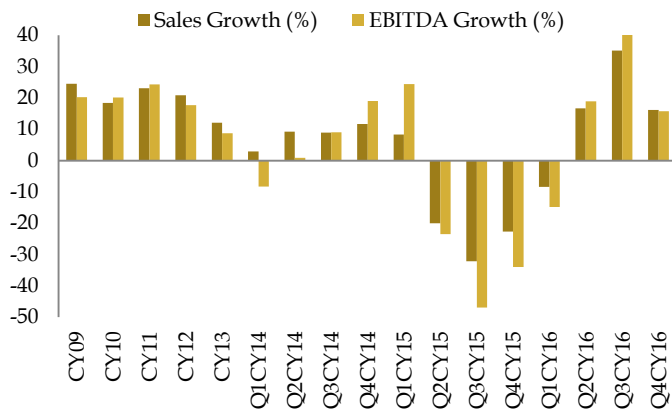


**Exhibit 1: Quarterly Performance**

Particulars (₹mn)	Q4CY14	Q1CY15	Q2CY15	Q3CY15	Q4CY15	Q1CY16	Q2CY16	Q3CY16	Q4CY16
<b>Net Sales</b>	25,161	25,068	19,338	17,362	19,464	22,957	22,561	23,462	22,613
YoY Gr%	11.7	8.4	(20.1)	(32.1)	(22.6)	(8.4)	16.7	35.1	16.2
<b>EBITDA</b>	5,595	6,031	3,756	2,859	3,694	5,135	4,466	4,621	4,278
YoY Growth	19.0	24.4	(23.5)	(46.9)	(34.0)	(14.9)	18.9	61.7	15.8
EBITDA Margin (%)	22.1	24.0	19.2	16.4	18.9	22.3	19.7	19.6	18.7
YoY expansion (bps)	134bps	308bps	-99bps	-453bps	-325bps	-166bps	47bps	315bps	-14bps
<b>PBT before exceptional</b>	4,827	4,866	3,331	2,041	2,907	4,202	3,765	3,967	2,790
YoY Growth	15.9	22.7	(21.8)	(55.8)	(39.8)	(13.6)	13.0	94.4	(4.0)
<b>PBT</b>	<b>4,897</b>	<b>4,866</b>	<b>(1,185)</b>	<b>1,795</b>	<b>2,661</b>	<b>4,204</b>	<b>3,445</b>	<b>3,967</b>	<b>2,800</b>
<b>Reported PAT</b>	3,264	3,203	(644)	1,242	1,832	2,590	2,309	2,694	1,673
YoY Growth	15.9	23.6	(122.4)	(60.1)	(43.9)	(19.1)	(458.7)	116.9	(8.7)
<b>Adjusted PAT</b>	<b>3,282</b>	<b>3,490</b>	<b>4,613</b>	<b>1,555</b>	<b>2,126</b>	<b>2,806</b>	<b>2,656</b>	<b>2,793</b>	<b>2,278</b>
YoY Growth	16.6	26.7	60.3	(50.8)	(35.2)	(19.6)	(42.4)	79.6	7.2

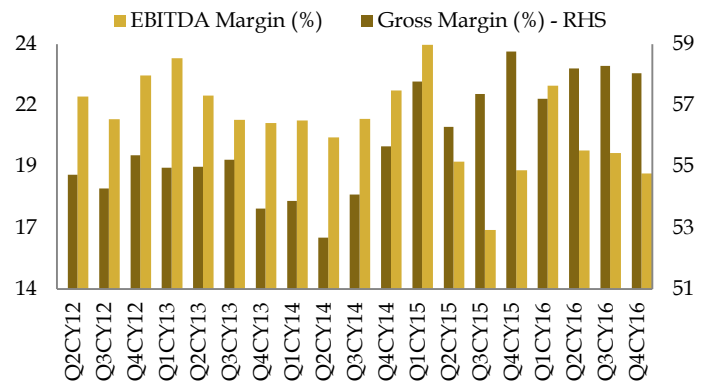
Source: Company, Trust

**Exhibit 2: Sales and EBITDA Growth (%)**



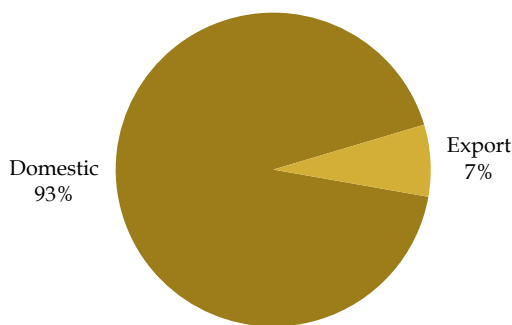
Source: Company, Trust

**Exhibit 3: Gross Margin and EBITDA Margin Trend**



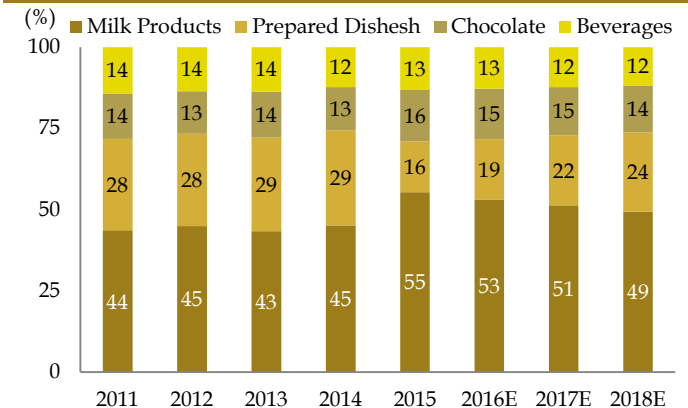
Source: Company, Trust

**Exhibit 4: Domestic/Export Mix**



Source: Company, Trust

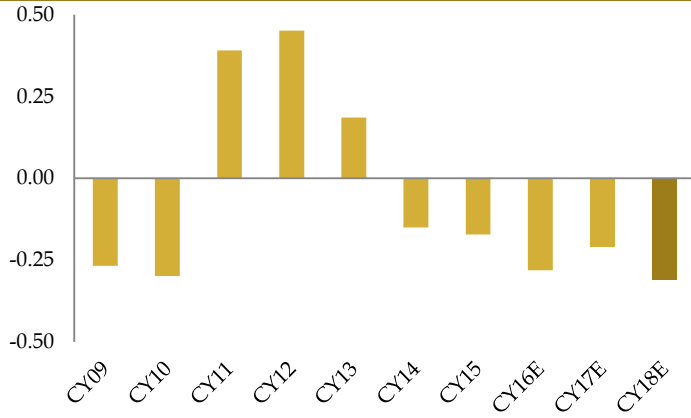
**Exhibit 5: Category Revenue Mix**



Source: Company, Trust

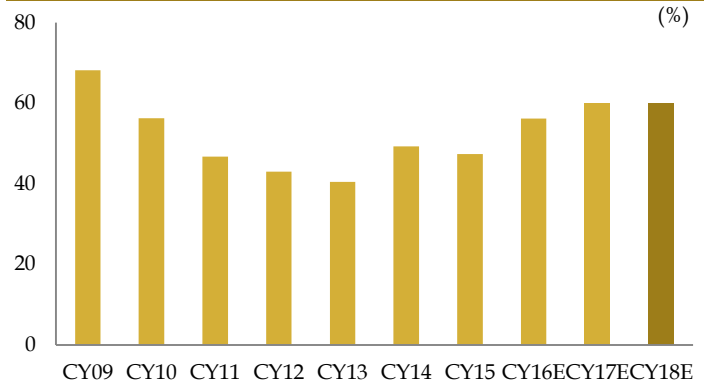


**Exhibit 6: Net Debt/Equity (x)**



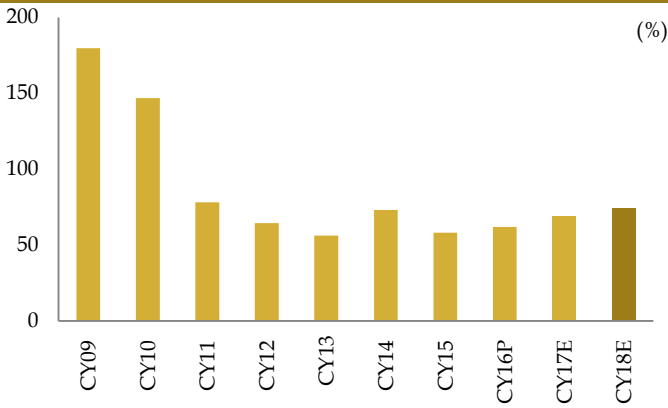
Source: Company, Trust

**Exhibit 7: Dividend Payout Ratio (%)**



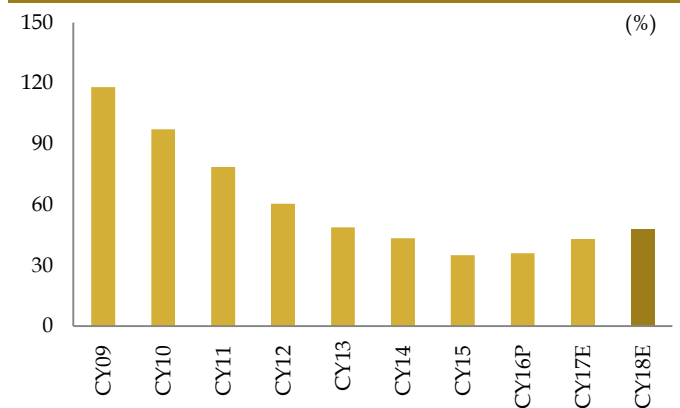
Source: Company, Trust

**Exhibit 8: Stable RoCE (%)**



Source: Company, Trust

**Exhibit 9: Stable RoE (%)**



Source: Company, Trust



## Financials

### P&L Statement

Y/E Dec (₹mn)	CY14	CY15	CY16P	CY17E	CY18E
<b>Net Revenues</b>	<b>98,329</b>	<b>81,609</b>	<b>92,238</b>	<b>105,975</b>	<b>121,770</b>
% Growth	8.3	(17.0)	13.0	14.9	14.9
Raw Material	45,239	34,689	38,796	44,075	50,047
Staff	8,371	9,128	10,733	11,967	13,461
Other Expenses	23,840	21,264	23,790	27,349	31,457
Total Expenditures	77,450	65,081	73,320	83,390	94,964
<b>EBITDA</b>	<b>20,879</b>	<b>16,528</b>	<b>18,917</b>	<b>22,585</b>	<b>26,806</b>
% Growth	4.4	(20.8)	14.5	19.4	18.7
EBITDA Margins (%)	21.2	20.3	20.5	21.3	22.0
Other Income	1,093	1,245	1,493	1,983	2,540
Interest	142	33	35	33	20
Depreciation	3,375	3,473	3,536	3,692	3,804
Profit Before Tax	17,745	8,136	14,414	18,711	23,373
Provision for tax	5,897	2,504	5,150	6,175	7,713
Effective tax rate (%)	33.2	30.8	35.7	33.0	33.0
<b>Reported PAT</b>	<b>11,848</b>	<b>5,633</b>	<b>9,264</b>	<b>12,536</b>	<b>15,660</b>
% Growth	6.1	(52.5)	64.5	35.3	24.9
<b>Adjusted Net Profit</b>	<b>12,322</b>	<b>9,877</b>	<b>10,823</b>	<b>13,965</b>	<b>17,100</b>
% Growth	6.6	(19.8)	9.6	29.0	22.4

### Balance Sheet

Y/E Dec	CY14	CY15	CY16P	CY17E	CY18E
Equity Share Capital	964	964	964	964	964
Reserves & surplus	27,408	27,214	29,173	31,617	34,919
<b>Shareholders' funds</b>	<b>28,372</b>	<b>28,178</b>	<b>30,137</b>	<b>32,581</b>	<b>35,883</b>
Total Debt	196	177	332	148	138
<b>Capital Employed</b>	<b>28,568</b>	<b>28,356</b>	<b>30,469</b>	<b>32,729</b>	<b>36,021</b>
Net fixed assets	34,214	31,286	29,176	27,010	24,806
Cash & Cash Eq.	4,458	4,996	8,800	6,905	11,270
Net Other current assets	(16,148)	(19,447)	(23,460)	(20,139)	(22,007)
Investments	8,270	13,248	17,494	20,494	23,494
MiscExp not written off	-	-	-	-	-
Net Deferred tax Assets	(2,227)	(1,729)	(1,542)	(1,542)	(1,542)
<b>Total Assets</b>	<b>28,568</b>	<b>28,356</b>	<b>30,469</b>	<b>32,729</b>	<b>36,021</b>

**Cash Flow**

Cash Flow Statement	CY14	CY15	CY16P	CY17E	CY18E
Pre-tax profit	17,744	8,136	14,414	18,711	23,373
Depreciation	3,375	3,473	3,536	3,692	3,804
Total Tax Paid	(5,891)	(2,899)	(5,150)	(6,175)	(7,713)
Chg in working capital	1,818	2,801	3,826	(3,322)	1,869
Other operating activities	(606)	33	35	33	20
<b>Cash flow from oper (a)</b>	<b>16,440</b>	<b>11,544</b>	<b>16,662</b>	<b>12,940</b>	<b>21,353</b>
Capital Expenditure	(4,044)	(944)	(1,426)	(1,526)	(1,600)
Chg in investments	(1,091)	(4,978)	(4,246)	(3,000)	(3,000)
Other investing activities	818	-	-	-	-
<b>Cash flow from inv.(b)</b>	<b>(4,317)</b>	<b>(5,922)</b>	<b>(5,671)</b>	<b>(4,526)</b>	<b>(4,600)</b>
<b>Free cash flow (a+b)</b>	<b>12,123</b>	<b>5,622</b>	<b>10,991</b>	<b>8,414</b>	<b>16,753</b>
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	41	(18)	154	(184)	(10)
Interest paid	(1,055)	(33)	(35)	(33)	(20)
Dividend (incl. Tax)	(6,074)	(4,676)	(6,074)	(8,379)	(10,260)
Other financing activities	(9,264)	(956)	(1,242)	(1,714)	(2,098)
<b>Cash flow from fin. (c)</b>	<b>(16,353)</b>	<b>(5,684)</b>	<b>(7,198)</b>	<b>(10,309)</b>	<b>(12,388)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(4,229)</b>	<b>(62)</b>	<b>3,793</b>	<b>(1,895)</b>	<b>4,365</b>

**Key Ratios**

Y/E Mar	CY14	CY15	CY16P	CY17E	CY18E
Raw Material Cost/Sales (%)	46.0	42.5	42.1	41.6	41.1
Manpower Cost/Sales (%)	8.5	11.2	11.6	11.3	11.1
Operating & Other Cost/Sales (%)	24.2	26.1	25.8	25.8	25.8
Revenue Growth (%)	8.3	(17.0)	13.0	14.9	14.9
EBITDA Margins (%)	21.2	20.3	20.5	21.3	22.0
Net Income Margins (%)	12.5	12.1	11.7	13.2	14.0
ROCE (%)	73.1	58.3	62.1	69.0	74.4
ROE (%)	43.4	35.1	35.9	42.9	47.7

**Valuation Parameters**

Y/E Mar	CY14	CY15	CY16P	CY17E	CY18E
EPS (₹.)	127.8	102.4	112.2	144.8	177.3
P/E (x)	47.7	56.9	55.0	42.6	34.8
BV (₹)	294.3	292.2	312.6	337.9	372.2
P/BV (x)	20.7	19.9	19.7	18.3	16.6
EV/EBITDA (x)	27.6	32.9	30.1	25.1	20.9
Fixed assets turnover ratio (x)	2.9	2.6	3.2	3.9	4.9
Net Debt/Equity (x)	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)
EV/Sales (x)	5.9	6.7	6.2	5.4	4.6



Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
<b>Institutional Sales</b>				
Sriram Rangarajan	Sales		sriram.rangarajan@trustgroup.in	+91-22-4224-5216
Vivek Kumar	Sales		vivek.kumar@trustgroup.in	+91-22-4224-5197
<b>Sales Trading &amp; Dealing</b>				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Nikhil Shah	Dealer		nikhil.shah@trustgroup.in	+91-22-4084-5089
Bhavin Sanghavi	Dealer		bhavin.sanghavi@trustgroup.in	+91-22-4224-5055
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Research Team</b>				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

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