

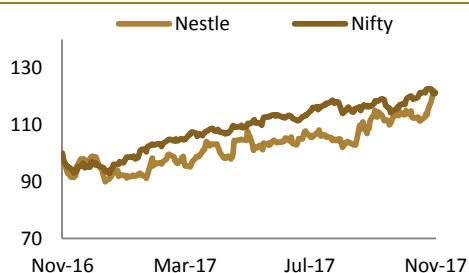
Market statistics

Current stock price (₹)	7,785
Shares O/S (cr.)	9.6
Mcap (₹cr)	75,062
52W H/L (₹)	8,000/5,746
6m avg. volume	53,529
Bloomberg	NEST in

Shareholding pattern (%)

Promoters	62.8
Domestic Institution	7.88
Foreign Institution	11.97
Non-institution	17.39
of which more than 1%	
LIC India	6.11
Arisaig Partners (Asia)	1.37

Nestlé India vs. Nifty



Capital efficiency & valuations

Particulars	CY16	CY17E	CY18E
ROE (%)	35.9	38.2	41.0
ROCE (%)	61.5	62.8	65.5
P/B(x)	19.7	20.2	21.0
P/E (x)	55.0	52.9	51.3
P/CE (x)	41.4	40.8	40.5
EPS (₹)	112.3	129.3	151.9
CEPS (₹)	148.9	167.5	192.1
EV/OCF (x)	38.8	42.5	36.7

Associate
Ritu Chaudhary
+91-22 4224 5183

ritu.chaudhary@trustgroup.in

Nestle has reported healthy 7.3% growth in sales to ₹25,141mn growth during the quarter inline to our expectation of 7.0%. Domestic business on comparable basis grew by 9.1% led by volume growth while on reported basis it showed 3.7% growth. Exports growth was slow at 2.6% to Rs 1,599mn.

Gross margin contracted by 105bps to 56.9% due to price cuts taken to pass GST benefit to consumers and higher RM prices. Employee expenses and other expenses moved by 9.4%(+21bps YoY) and -6.3%(-333bpsYoY). This translated into EBITDA margin expansion of 248bps to 22.8%. EBITDA grew strong by 20% YoY to Rs 5,731mn.

Other income and depreciation moved by 15.2% & -2.19%, respectively. Lower CSR expense & no provisions have supported the bottom-line. Hence, reported PAT grew by 23.3% to ₹3,432mn. Adjusted PAT (adjusting other comprehensive income and exceptional items) increased by 2.4% to ₹3,224mn YoY.

Healthy volume led growth in Domestic: Nestlé's displayed sales growth of 7.3% in Q2CY17 largely led by volumes. Domestic business performed better and showed 9.1% led by new product launches, better sales in Maggi noodles and better realizations. This performance is healthy in our opinion and in-line with other FMCG player's performance. We believe, Maggi issued is behind us and company has been able to restore the earlier growth led by new variants and innovative marketing strategies. 9% growth in domestic also depicts that growth is picking up in other categories as well. Realizations have improved in Maggi but price cut taken in other categories has resulted into Gross Margin expansion reduction during the quarter. From last 5 years, Nestle was garnering high realization growth across categories while volume growth remained weak. Volume pickup from last 3 qtrs is positive and we expect it to maintain in coming qtrs.

Strong EBITDA growth of 21%YoY: Gross margin has contracted by 105bps YoY due to higher RM prices and price cuts taken in products (other than Maggi portfolio) Employee expenses & other expenses reported 9.4% & -6.1% YoY growth. Employee and other expenses as % of sales moved by 21bps & 333bps, hence EBITFDA margin expanded by 248bps to 22.8%. We expect EBITDA Margin to maintain in the coming quarters.

New launches in Maggi leading the growth: Nestle has been continuously expanding its product variants like 1) They launched Maggi with regional flavours like Amritsari Achari, Mumbaiiya Chatak, Bengali Jhaal & Super Chennai 2) Oats and Atta noodles Maggi 3) Maggi hot heads

Outlook & Valuation: The re-launch of Maggi Noodles has happened during Q4CY15 and in 6-7 months it gained 57% market share. This performance was encouraging but growth in other segments remained weak. We expect less challenging time for Nestle in the coming quarters as compared to recent past which can improve operational performance significantly. We do expect Nestlé's focus on new launches would support volumes in coming qtrs but current price of stock captures all the positives. We expect Sales, EBITDA and PAT to show CAGR from CY16-CY18 to 11%, 12% & 21% respectively.

Nestlé is trading at 53x and 51x on FY17 and FY18 estimated EPS. We maintain HOLD rating.

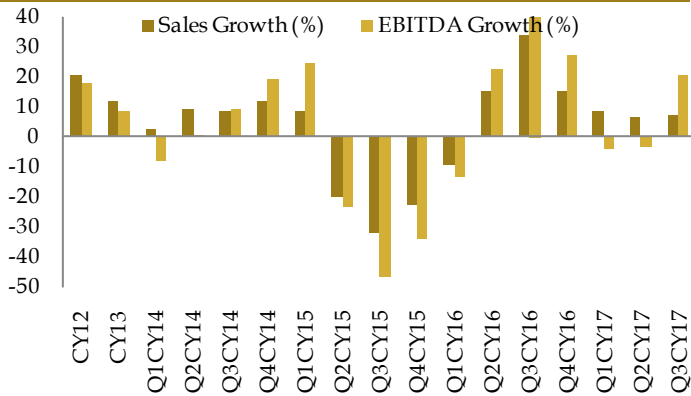


Exhibit 1: Quarterly Performance

Particulars (₹mn)	Q3CY15	Q4CY15	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	Q2CY17	Q3CY17
Net Sales	17,424	19,595	22,837	22,489	23,425	22,664	24,919	24,022	25,141
YoY Gr%	(32.2)	(22.6)	(9.2)	14.9	34.4	15.7	9.1	6.8	7.3
EBITDA	2,859	3,694	5,219	4,607	4,760	4,702	5,024	4,437	5,731
YoY Growth	(46.9)	(34.0)	(13.5)	22.7	66.5	27.3	(3.7)	(3.7)	20.4
EBITDA Margin (%)	16.4	18.9	22.9	20.5	20.3	20.7	20.2	18.5	22.8
YoY expansion (bps)	-453bps	-325bps	-111bps	129bps	391bps	189bps	-269bps	-202bps	248bps
PBT before exceptional	2,041	2,907	4,329	3,909	4,105	3,219	4,496	3,946	5,178
YoY Growth	(55.8)	(39.8)	(11.0)	17.3	101.2	10.7	3.8	0.9	26.2
PBT	1,795	2,661	4,531	3,589	4,105	3,229	4,496	3,946	5,178
Reported PAT	1,242	1,832	2,873	2,402	2,784	1,954	3,068	2,634	3,432
YoY Growth	(60.1)	(43.9)	(10.3)	(473.2)	124.2	6.7	6.8	9.7	23.3
Adjusted PAT	1,555	2,126	2,966	2,654	2,800	2,566	3,032	2,590	3,224
YoY Growth	(50.8)	(35.2)	(15.0)	(42.5)	80.0	20.7	2.2	(2.4)	15.2

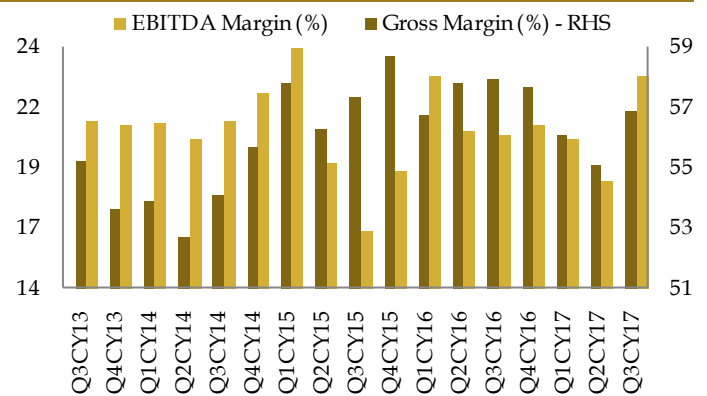
Source: Company, Trust

Exhibit 2: Sales and EBITDA Growth (%)



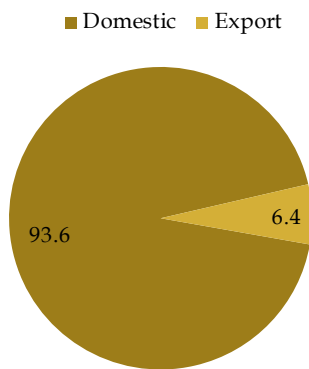
Source: Company, Trust

Exhibit 3: Gross Margin and EBITDA Margin Trend



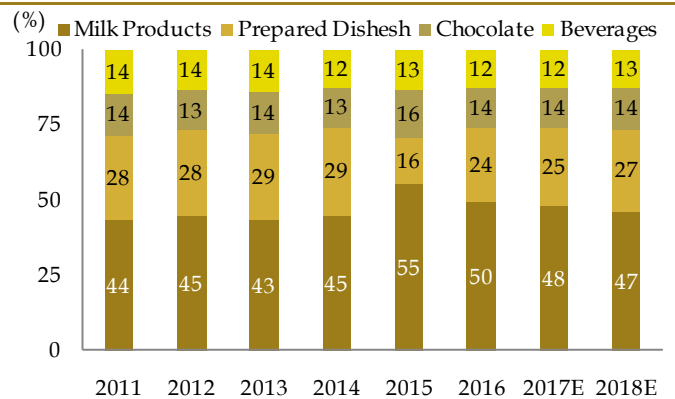
Source: Company, Trust

Exhibit 4: Domestic/Export Mix(Q3CY17)



Source: Company, Trust

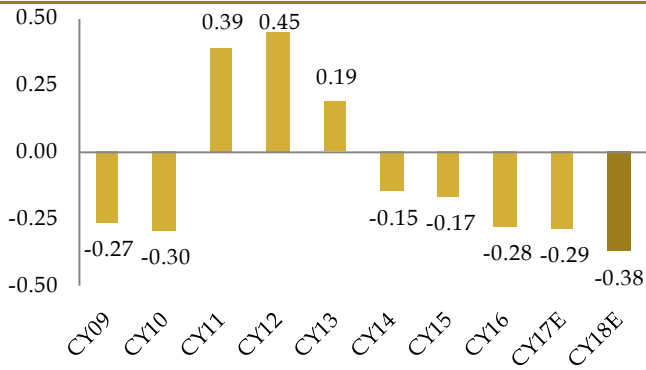
Exhibit 5: Category Revenue Mix



Source: Company, Trust

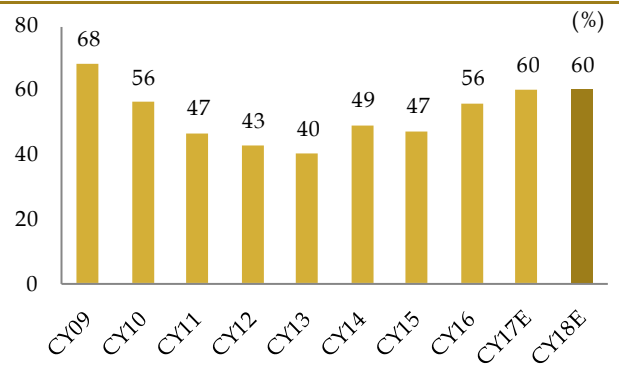


Exhibit 6: Net Debt/Equity (x)



Source: Company, Trust

Exhibit 7: Dividend Payout Ratio (%)



Source: Company, Trust



Financials

P&L Statement

Y/E Dec (₹mn)	CY14	CY15	CY16	CY17E	CY18E
Net Revenues	98,329	81,609	92,058	99,770	1,12,628
% Growth	8.3	(17.0)	12.8	8.4	12.9
Raw Material	45,239	34,689	38,798	42,927	47,854
Staff	8,371	9,128	10,734	11,003	12,377
Other Expenses	23,840	21,264	23,790	25,104	28,741
Total Expenditures	77,450	65,081	73,322	79,034	88,972
EBITDA	20,879	16,528	18,736	20,736	23,656
% Growth	4.4	(20.8)	13.4	10.7	14.1
EBITDA Margins (%)	21.2	20.3	20.4	20.8	21.0
Other Income	1,093	1,245	1,674	1,908	2,441
Interest	142	33	35	49	56
Depreciation	3,375	3,473	3,536	3,680	3,873
Profit Before Tax	17,745	8,136	14,415	17,149	20,385
Provision for tax	5,897	2,504	5,150	5,659	6,727
Effective tax rate (%)	33.2	30.8	35.7	33.0	33.0
Reported PAT	11,848	5,633	9,265	11,490	13,658
% Growth	6.1	(52.5)	64.5	24.0	18.9
Adjusted Net Profit	12,322	9,877	10,823	12,467	14,646
% Growth	6.6	(19.8)	9.6	15.2	17.5

Balance Sheet

Y/E Dec	CY14	CY15	CY16	CY17E	CY18E
Equity Share Capital	964	964	964	964	964
Reserves & surplus	27,408	27,214	29,173	31,660	34,741
Shareholders' funds	28,372	28,178	30,137	32,624	35,705
Total Debt	196	177	332	382	432
Capital Employed	28,568	28,356	30,469	33,005	36,137
Net fixed assets	34,214	31,286	29,176	28,278	27,287
Cash & Cash Eq.	4,458	4,996	8,800	9,852	13,890
Net Other current assets	(16,148)	(19,447)	(23,460)	(23,077)	(24,992)
Investments	8,270	13,248	17,494	19,494	21,494
MiscExp not written off	-	-	-	-	-
Net Deferred tax Assets	(2,227)	(1,729)	(1,542)	(1,542)	(1,542)
Total Assets	28,568	28,356	30,469	33,005	36,137

**Cash Flow**

Cash Flow Statement	CY14	CY15	CY16	CY17E	CY18E
Pre-tax profit	17,744	8,136	14,415	17,149	20,385
Depreciation	3,375	3,673	3,536	3,680	3,873
Total Tax Paid	(5,891)	(3,422)	(5,029)	(5,659)	(6,727)
Chg in working capital	1,818	3,316	2,853	(382)	1,915
Other operating activities	(606)	(723)	(1,117)	49	56
Cash flow from oper (a)	16,440	10,981	14,658	14,836	19,502
Capital Expenditure	(4,044)	(1,493)	(1,133)	(2,782)	(2,882)
Chg in investments	(1,091)	(373)	(1,528)	(2,000)	(2,000)
Other investing activities	818	1,162	1,387	-	-
Cash flow from inv.(b)	(4,317)	(705)	(1,274)	(4,782)	(4,882)
Free cash flow (a+b)	12,123	10,276	13,384	10,054	14,620
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	41	(32)	(9)	50	50
Interest paid	(1,055)	(33)	(35)	(49)	(56)
Dividend (incl. Tax)	(6,074)	(4,932)	(6,789)	(7,480)	(8,788)
Other financing activities	(9,264)	13	168	(1,523)	(1,789)
Cash flow from fin. (c)	(16,353)	(4,983)	(6,666)	(9,002)	(10,583)
Net chg in cash (a+b+c)	(4,229)	5,293	6,719	1,052	4,038

Key Ratios

Y/E Mar	CY14	CY15	CY16	CY17E	CY18E
Raw Material Cost/Sales (%)	46.0	42.5	42.1	43.0	42.5
Manpower Cost/Sales (%)	8.5	11.2	11.7	11.0	11.0
Operating & Other Cost/Sales (%)	24.2	26.1	25.8	25.2	25.5
Revenue Growth (%)	8.3	(17.0)	12.8	8.4	12.9
EBITDA Margins (%)	21.2	20.3	20.4	20.8	21.0
Net Income Margins (%)	12.5	12.1	11.8	12.5	13.0
ROCE (%)	73.1	58.3	61.5	62.8	65.5
ROE (%)	43.4	35.1	35.9	38.2	41.0

Valuation Parameters

Y/E Mar	CY14	CY15	CY16	CY17E	CY18E
EPS (₹.)	127.8	102.4	112.3	129.3	151.9
P/E (x)	47.7	56.9	55.0	52.9	51.3
BV (₹)	294.3	292.2	312.6	338.4	370.3
P/BV (x)	20.7	19.9	19.7	20.2	21.0
EV/EBITDA (x)	27.6	32.9	30.4	30.4	30.3
Fixed assets turnover ratio (x)	2.9	2.6	3.2	3.5	4.1
Net Debt/Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
EV/Sales (x)	5.9	6.7	6.2	6.3	6.4



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
Research Team				
BinyamTaddese	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
TusharChaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

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