

Nestle India Ltd (F12/07)

March 05, 2008

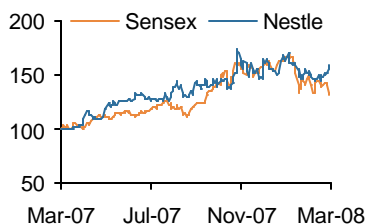
Stock data

Sensex:	16,542
CMP (Rs):	1,531
Target price (Rs):	1,793
Upside (%):	17.1
52 Week h/l (Rs):	1,663/876
Market cap (Rs cr)	14,758
6m Avg vol BSE ('000 nos):	42
No of o/s shares (mn):	96
FV (Rs):	10
Bloomberg code:	NEST IN
Reuters code:	NEST.BO
BSE code:	NEST

Shareholding pattern

December 2007	(%)
Promoters	61.9
FII & institutions	19.8
Non promoter corp hold	1.5
Public & others	16.8

Share price trend



- Strong growth in domestic and export revenues drives net sales by 24% yoy.
- Operating margins expanded by 60bps aided by lower overhead cost. Improved operating efficiency fuels net profit growth.
- Expect revenue and net profit CAGR of 16.6% and 14% respectively over the next two years. Maintain Buy with a target price of Rs1,793, an upside of 17.1%.

Result table

Period to	12/07	12/06	Growth	12/07	12/06	Growth
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(%)
Gross domestic sales	8,416	6,929	21.5	33,174	26,646	24.5
Excise	(390)	(326)	19.5	(1,428)	(1,281)	11.5
Net domestic sales	8,027	6,603	21.6	31,746	25,365	25.2
Exports	930	760	22.3	3,298	2,796	18.0
Net sales	8,957	7,363	21.6	35,044	28,161	24.4
Expenditure	(7,380)	(6,152)	20.0	(28,081)	(22,745)	23.5
Operating profit	1,576	1,211	30.1	6,963	5,415	28.6
Other income	97	73	32.2	254	206	23.4
Interest	(2)	(1)	57.1	(9)	(4)	93.2
Depreciation	(206)	(177)	16.1	(747)	(663)	12.8
Impairment of fixed assets	(6)	(6)	5.1	(12)	(4)	202.6
PBT	1,459	1,100	32.6	6,449	4,950	30.3
Tax	(481)	(303)	58.6	(2,148)	(1,654)	29.8
PAT	978	797	22.7	4,301	3,296	30.5
Provision for contingencies	(42)	(172)	(75.8)	590	(145)	-
Extraordinary items	0	0	-	(754)*	0	-
APAT	936	625	49.9	4,138	3,151	31.3
OPM (%)	17.6	16.5	-	19.9	19.2	-
Equity	964	964		964	964	
Annualized EPS (Rs)	38.8	25.9		42.9	32.7	
P/E, CMP - Rs1,480	38.1	-		34.5	-	

Source: Company, India Infoline Research,
*provisions for pension and gratuity.

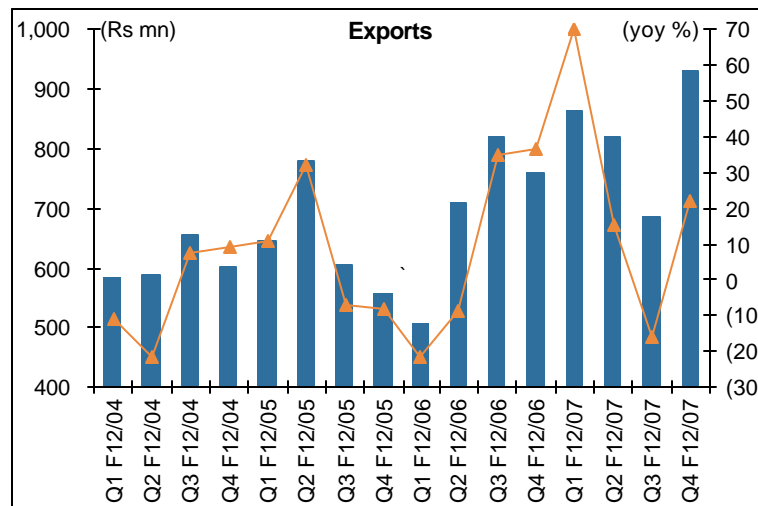
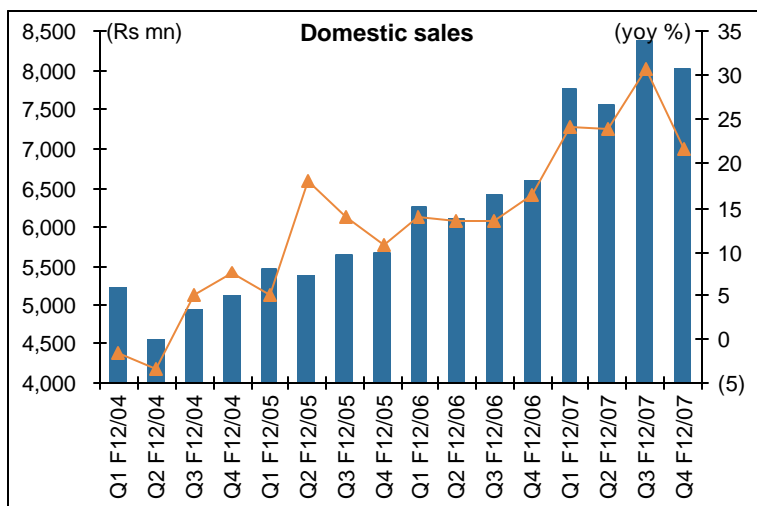
Strong growth in domestic sales and exports drive revenues

Nestle recorded 24.4% yoy growth in revenues at Rs35bn driven by strong 25.2% yoy growth in domestic sales aided by higher volumes and realizations (judicious price hikes were taken during Q3 F12/07). Nestle has registered a double-digit growth in domestic sales for the eleventh consecutive quarter. During F12/07, in all the four quarters, Nestle managed to record strong 20%+ growth, which was earlier a cause of concern. Exports for the quarter grew by 18% yoy however realizations were impacted by appreciation of rupee.

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Domestic sales and exports trend

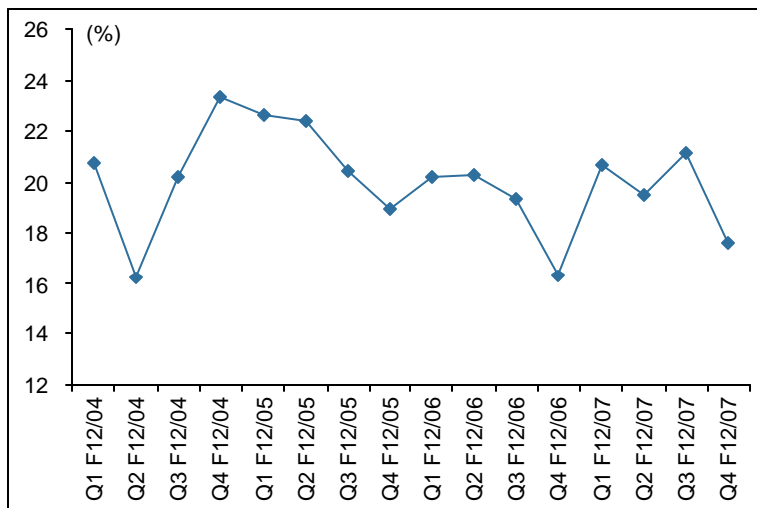


Source: Company, India Infoline Research

Lower overhead cost cushions margins...

Operating margins for the quarter expanded by 60bps to 19.9% aided by 190bps decline in overhead cost. Nestle incurred additional staff cost of Rs754mn on account of provisions for pension and gratuity. Prices of all the key raw materials such as milk (up ~35% yoy), wheat (up 12% yoy) and coffee (except sugar) witnessed an upward trend and are expected to remain firm. We expect, Nestle to pass on the impact of higher input cost by taking judicious price increases.

Trend in operating margins

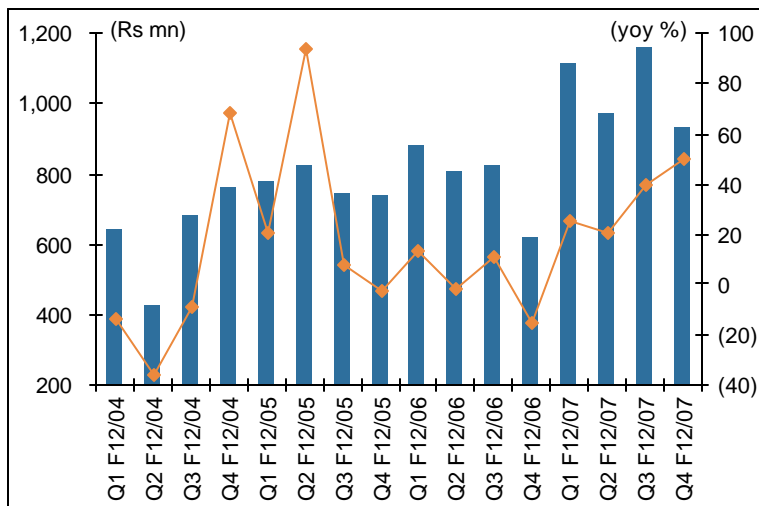


Source: Company, India Infoline Research

Strong revenue growth drives net profit

Nestle recorded strong 30.5% yoy growth during the year at Rs4.3bn led by robust revenue growth and improved operating efficiency. The expected reduction income tax rate (post commencement of manufacturing unit in tax free zone) will drive earnings growth going forward.

Trend in net profit



Source: Company, India Infoline Research

Outlook

We expect Nestle to record revenue and net profit CAGR of 16.6% and 14.4% respectively over the next two years. The management has been making attempts to widen the export basket of products and we expect the company to bring exports growth back on track in the near future. With the increasing share of prepared dishes and cooking aids from the Uttaranchal plant, the excise duty burden has also reduced. We expect firm raw material prices and higher adspend to restrict margin expansion going forward. Strong brand portfolio (like Nestle, Maggi, Nescafe), expansion plans in the food business and new product launches (may also launch products from its global portfolio) will drive growth. At the current market price of Rs1,531, the stock is trading at 23.1x F12/09E EPS of Rs66.4. We maintain our BUY rating on the stock with a price target of Rs1,793, an upside of 17.1%.

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