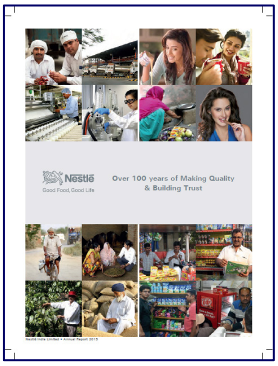
12 April 2016

CY15 Annual Report Update | Sector: Consumer

Nestle India

BSE SENSEX	S&P CNX
25,146	7,709



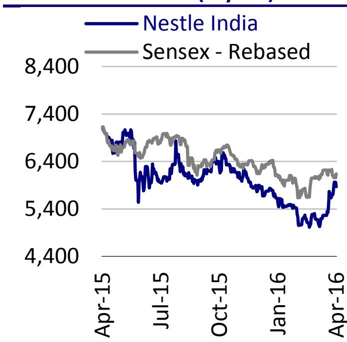
Stock Info

Bloomberg	NEST IN
Equity Shares (m)	96.4
52-Week Range (INR)	7,327/4,990
1, 6, 12 Rel. Per (%)	17/5/-1
M.Cap. (INR b)/(USD b)	591.6/8.9
Avg Val (INR m)	448
Free float (%)	37.2

Financials Snapshot (INR b)

Y/E Dec	2015	2016E	2017E
Net Sales	81.2	94.9	110.1
EBITDA	15.9	17.6	21.0
PAT	11.6	10.3	12.2
EPS (INR)	119.9	107.1	126.8
Gr. (%)	-7.3	-10.7	18.4
BV/Sh (INR)	292.3	324.8	364.4
RoE (%)	40.9	34.7	36.8
RoCE (%)	43.8	46.1	49.4
P/E (x)	51.2	57.3	48.4
P/BV (x)	21.0	18.9	16.8

Stock Performance (1-year)



CMP: INR6,136 TP: INR5,850 (-5%) Neutral

Volume decline presents near term challenges

Key takeaways from Nestle's (NEST) CY15 annual report are as follows:

- **Volumes decline in non-Maggi portfolio disconcerting.**
- **Blended realization growth high given benign RM costs**
- **A&P increase likely to sustain**
- **Medium term challenges remain, new strategy will take time to pay off but growth opportunity is significant. Valuations fair.**

- **Volumes decline in non-Maggi portfolio disconcerting**: Nestle India does not disclose segmental details in quarterly results and these disclosures shared in the annual report feature disappointments particularly on volumes. While prepared dishes and Cooking aids (primarily Maggi noodles) sales declined by 55.6% YoY in CY15 to INR13.1b (15.6% of sales in CY15) due to the Maggi issue, the largest segment, milk and nutrition (55.4% of sales in CY15) grew by only 2.1% YoY in value terms, the lowest level of growth since the turn of the millennium. Even this growth in the segment was mainly led by realization growth of 4.9% with volumes declining 2.7% YoY, the fourth consecutive year of volume decline in what is Nestle India's largest segment. The other two non-Maggi segments, Chocolate and Confectionary as well as beverages also reported disappointing numbers in CY15 with volumes for both segments actually declining in double digits by 19.5% and 10.3% respectively. Volumes for both these segments show a worsening trend in recent years.
- **Blended realization growth high given benign RM costs:** Realization growth in both beverages and Chocolates and confectionary was surprisingly in double digits at 11.2% and 10.1% respectively. In fact Nestle India's weighted average realization growth of 7.3% YoY in CY15 was highly surprising in a benign material cost environment. Even in Prepared dishes and cooking aids despite the Maggi crisis, realization growth was 9.5% (volumes declined by nearly 60% YoY), the second highest in any year since CY06. Overt emphasis on price led growth as well as inordinately high focus on profitability, in our view, has led to slowdown in overall volume growth for Nestle. Blended volumes declined by 36.3% in CY16, the fourth consecutive year of below 2% growth for the company. Even the Non-Maggi portfolio volumes declined by 7% YoY in CY15. Just to give an idea of how much Nestle has slipped on the volume front can be gauged by the fact that Non Maggi volumes in Metric tonnes was the lowest in the past 7 years, only marginally higher than the tonnage sold in CY08.

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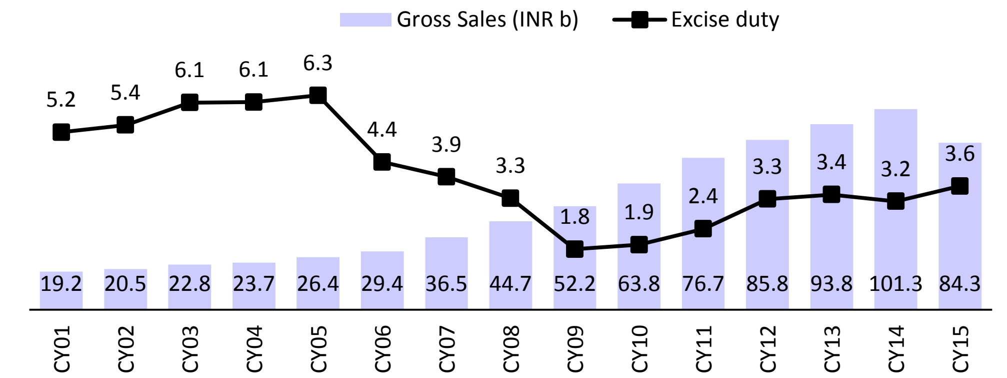
- **A&P increase likely to sustain:** Advertisement and Sales promotion costs were up by 17.9% YoY to INR 5,252 mn. The 17.9% A&P growth in CY15 was the highest in the past six years and A&P to sales at 6.4% in CY15 (compared to the past 5 year range of 4.3% to 4.8% of sales and also aided by decline in absolute sales for the year), while much lower than consumer peers, was still the highest for Nestle India as a percentage of sales since CY02. The absolute increase is encouraging and in our view much required as well. A large part of the reason for the increase in absolute amount of A&P is likely to have been due to both advertising and promotion on the Maggi re-launch but we think that higher A&P to sales compared to the historical average is likely to be a feature going forward given the new CEO's commitment towards product launches.
- **Valuation and View:** We are highly encouraged by new CEO's statements in the past few months regarding (1) Nestle India gradually getting back to double-digit sales growth, mainly led by volumes, (2) Willingness to go for price cuts wherever it is appropriate, and (3) Likely higher spending on advertising and promotion (A&P) expenses, already a feature in CY15. Acknowledging what went wrong in Nestle's strategy and taking the right steps will help make the company a much bigger business over the long term. However it needs to be noted that: (a) Volume and sales growth rates even in non-noodle segments declined by 7% in CY15 and blended average realizations across all segments grew by a disconcertingly high 7% despite benign raw material costs and all time high gross margins which indicate significant non Maggi issues as well on the sales front (b) with gradual ramp up in distribution of Maggi, increased intensity of competition in the segment and loss of market share in the category compared to earlier levels, we expect Prepared Dishes and Cooking aid revenues of CY14 to be matched only in CY17E and (c) Positive earnings impact of strategic initiatives stated above will take time. In fact, with possibly lower price hikes going forward, gradual pace of economic recovery and medium-term high spending on advertisements and innovation/ renovation, EPS growth is likely to be muted for the next 2 years. However the long term opportunity in the packaged food space in India is immense and Nestle has the distribution, the brands, parent support in terms of R&D as well as buy in towards the revised strategy, balance sheet strength and now the right strategy to take advantage of the opportunity despite medium term challenges. Changes to the model have resulted in 13.8%/15.7% reduction in EPS forecasts for CY16E/CY17E respectively due to lower than expected CY15 volumes, near term challenges and slower than anticipated economic recovery. Valuations are fair at 48.4x at CY17 EPS. Maintain **Neutral**.

Domestic Sales decline due to Maggi issue; Exports flattish

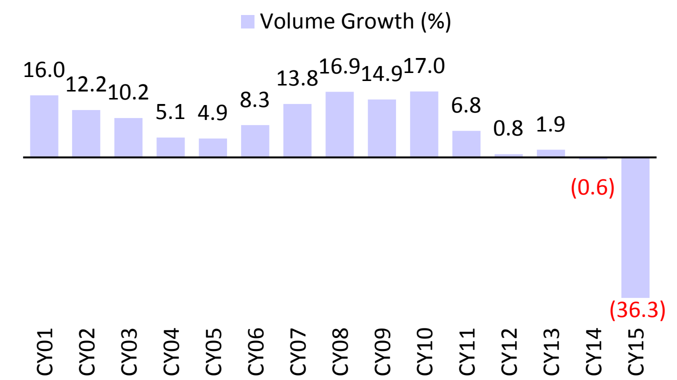
- Net sales stood at INR81.2b in CY15 compared to INR98.1b (decline by 17.2% YoY). Sales of INR3.03b were reversed in CY15 in relation to Maggi noodles stock withdrawn from trade partners and market.
- Exports declined marginally by 1.3% YoY to INR6.36b in CY15. This was the first year of absolute decline in exports since CY09. CY14 had witnessed tepid 2.9% increase in exports. Export proportion of gross sales however increased with domestic sales declining by 17.8% YoY (mainly due to Maggi issue) in CY15 to INR77.9b. Exports were 7.5% of sales in CY15, the highest level since CY08. Exports are carried out to 35 markets with the top 5 being Turkey, Bangladesh, Nepal, Bhutan and Taiwan. Lower coffee as well as Maggi noodles exports were partly offset by higher exports in infant nutrition sales.
- Excise duty to gross sales was 3.6% of sales in CY15 inching up marginally from 3.2% of sales in CY14. Excise to sales has been increasing gradually from 1.8% of sales in CY09.

Exhibit 1: Excise duty as a % of gross sales inched up marginally to 3.6%



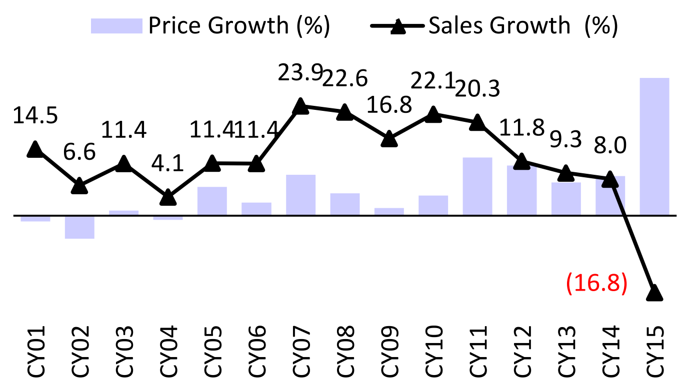
Source: Company, MOSL

Exhibit 2: Overall volumes declined; mainly due to Maggi issue…



Source: Company, MOSL

Exhibit 3: ...leading to gross sales decline of 16.8% YoY

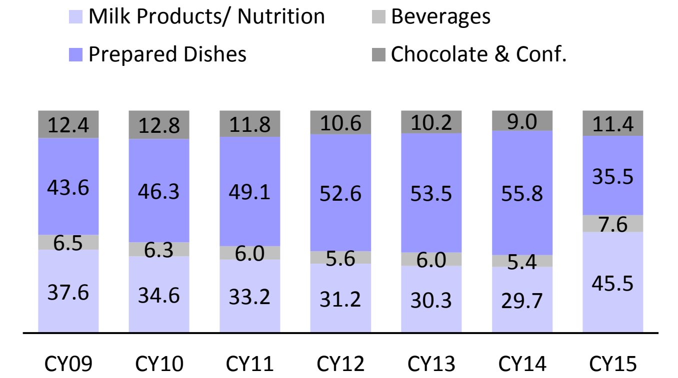


Source: Company, MOSL

Non Maggi sales and volumes disappoint significantly

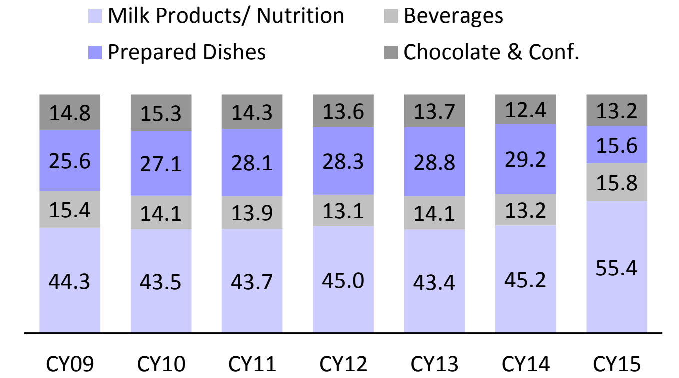
- Company does not share detailed segmental as part of its quarterly result. On a segmental basis the disappointment was the performance of the non-Maggi portfolio. While prepared dishes and Cooking aids (primarily Maggi noodles) sales declined by 55.6% YoY in CY15 to INR13.14b (15.6% of sales in CY15), the largest segment milk and nutrition (55.4% of sales in CY15) grew by only 2.1% YoY in value terms, the lowest level of growth since the turn of the millennium. Even this growth in the segment was mainly led by realization growth of 4.9% with volumes declining 2.7% YoY, the fourth consecutive year of volume decline in Nestle's largest segment.
- The other two non-Maggi segments, Chocolate and Confectionary as well as beverages also reported disappointing numbers in CY15 with volumes for both segments declining in double digits by 19.5% and 10.3% respectively.
- Volumes declined for the 5th consecutive year in case of chocolates and confectionary segment and the trend is worsening year after year. In case of the beverages segment, Nestle reported the second consecutive year of double digit volume decline and volumes declined on an absolute basis for the third time in the past 4 years for this segment. Realization growth in both beverages and Chocolates and confectionary was surprisingly in double digits at 11.2% and 10.1% respectively. In fact the weighted average realization growth of 7.3% YoY in CY15 was highly surprising in a period of benign material cost. Even in Prepared dishes and cooking aids despite the Maggi crisis, realization growth was 9.5% (volumes declined by nearly 60% YoY), the second highest in any year since CY06.

Exhibit 4: Volume contribution



Source: Company, MOSL

Exhibit 5: Sales contribution



Source: Company, MOSL

- Overt emphasis on price led growth as well as profitability, in our view, has led to slowdown in volume growth overall for Nestle. Blended volumes declined by 36.3% in CY16, the fourth consecutive year of below 2% growth for the company. Non Maggi portfolio volumes declined by 7% YoY in CY15. Just to give an idea of how much Nestle has slipped on the volume front can be gauged by the fact that Non Maggi volumes in Metric tonnes was the lowest in the past 7 years, only marginally higher than the tonnage sold in CY08. Maggi was partly successful in salvaging overall volumes until the past two years.
- For chocolates and confectionary the performance on volumes and sales has been particularly disappointing given consistently far healthier performance of

both Mondelez (erstwhile Cadbury's) and Perfetti despite the latter two having much higher revenues in the chocolates and confectionary segments respectively. The category has also witnessed strong growth from Ferrero Rocher India which was a third of Nestle's revenues in this segment but has now nearly reached Nestle in terms of comparable sales in this segment.

Exhibit 6: Nestle's segment-wise performance

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Volume (in MT)											
Milk Products	99,371	102,243	107,736	118,651	134,142	144,397	147,984	140,386	138,772	135,591	131,980
Beverages	24,606	22,342	24,107	24,114	23,369	26,458	26,692	25,353	27,717	24,673	22,130
Prepared Dishes & Cooking Aids	65,603	78,706	98,259	127,835	155,555	193,494	219,041	236,554	245,443	254,553	103,138
Chocolate & Confectionery	26,246	30,402	35,752	40,200	44,116	53,483	52,678	47,745	46,718	41,080	33,083
Total	**215,826**	**233,693**	**265,854**	**310,800**	**357,182**	**417,832**	**446,395**	**450,038**	**458,650**	**455,897**	**290,331**
Volume Growth											
Milk Products	2.7%	2.9%	5.4%	10.1%	13.1%	7.6%	2.5%	-5.1%	-1.1%	-2.3%	-2.7%
Beverages	-1.6%	-9.2%	7.9%	0.0%	-3.1%	13.2%	0.9%	-5.0%	9.3%	-11.0%	-10.3%
Prepared Dishes & Cooking Aids	8.5%	20.0%	24.8%	30.1%	21.7%	24.4%	13.2%	8.0%	3.8%	3.7%	-59.5%
Chocolate & Confectionery	11.3%	15.8%	17.6%	12.4%	9.7%	21.2%	-1.5%	-9.4%	-2.2%	-12.1%	-19.5%
Total	**4.9%**	**8.3%**	**13.8%**	**16.9%**	**14.9%**	**17.0%**	**6.8%**	**0.8%**	**1.9%**	**-0.6%**	**-36.3%**
Price (INR '000)											
Milk Products	118	126	146	163	172	192	226	275	293	337	354
Beverages	237	271	299	332	344	340	400	443	478	543	604
Prepared Dishes & Cooking Aids	76	76	79	82	86	89	98	103	110	116	127
Chocolate & Confectionery	147	150	159	169	175	182	209	245	275	305	336
Price Growth											
Milk Products	6.1%	6.3%	16.3%	11.7%	5.4%	11.6%	17.8%	21.4%	6.7%	15.0%	4.9%
Beverages	12.1%	14.4%	10.6%	10.9%	3.6%	-1.2%	17.8%	10.6%	7.9%	13.7%	11.2%
Prepared Dishes & Cooking Aids	9.9%	-0.7%	4.6%	3.5%	4.3%	3.9%	10.3%	4.4%	7.0%	5.8%	9.5%
Chocolate & Confectionery	-0.3%	2.3%	6.1%	6.3%	3.5%	4.3%	14.4%	17.3%	12.4%	10.8%	10.1%
Total	**7.2%**	**5.9%**	**11.1%**	**8.8%**	**4.6%**	**6.6%**	**15.2%**	**14.6%**	**7.7%**	**11.6%**	**7.3%**
Sales (INR m)											
Milk Products	11,752	12,857	15,756	19,388	23,113	27,763	33,510	38,594	40,712	45,752	46,694
Beverages	5,822	6,048	7,219	8,009	8,042	8,994	10,684	11,227	13,241	13,398	13,360
Prepared Dishes & Cooking Aids	5,017	5,980	7,811	10,519	13,350	17,250	21,545	24,302	26,982	29,613	13,141
Chocolate & Confectionery	3,845	4,557	5,686	6,795	7,719	9,759	10,997	11,696	12,864	12,532	11,109
Total	**26,439**	**29,442**	**36,472**	**44,711**	**52,224**	**63,766**	**76,736**	**85,819**	**93,799**	**101,295**	**84,304**
Sales Growth											
Milk Products	9.0%	9.4%	22.6%	23.0%	19.2%	20.1%	20.7%	15.2%	5.5%	12.4%	2.1%
Beverages	10.4%	3.9%	19.4%	10.9%	0.4%	11.8%	18.8%	5.1%	17.9%	1.2%	-0.3%
Prepared Dishes & Cooking Aids	19.3%	19.2%	30.6%	34.7%	26.9%	29.2%	24.9%	12.8%	11.0%	9.7%	-55.6%
Chocolate & Confectionery	11.0%	18.5%	24.8%	19.5%	13.6%	26.4%	12.7%	6.4%	10.0%	-2.6%	-11.4%
Total	**11.4%**	**11.4%**	**23.9%**	**22.6%**	**16.8%**	**22.1%**	**20.3%**	**11.8%**	**9.3%**	**8.0%**	**-16.8%**

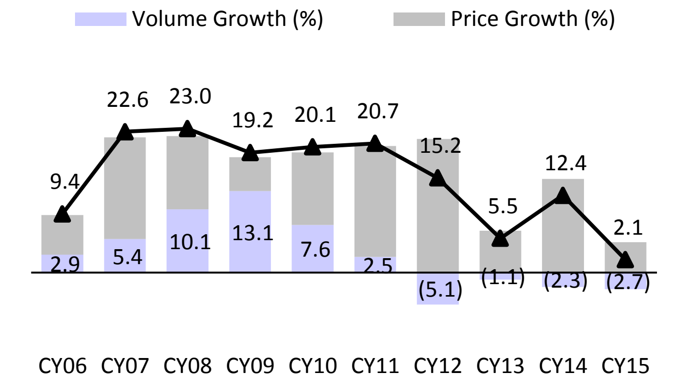
Source: Company, MOSL

Exhibit 7: Financial Overview of Nestle India

	CY10	%	CY11	%	CY12	%	CY13	%	CY14	%	CY15	%
Total Revenues	**62,547**	**100.0**	**74,908**	**100.0**	**83,023**	**100.0**	**90,619**	**100.0**	**98,063**	**100.0**	**81,233**	**100.0**
Raw Material Consumed												
Milk/SMP	10,830	17.3	9,044	12.0	9,215	11.1	8,281	9.1	11,202	11.4	9,309	11.4
Raw coffee/Green Coffee	2,277	3.6	3,091	4.1	3,257	3.9	3,714	4.1	3,783	3.8	3,718	4.5
Sugar	2,062	3.3	1,863	2.5	2,067	2.5	1,961	2.2	1,778	1.8	1,387	1.7
Wheat flour	2,613	4.2	3,106	4.1	3,698	4.4	4,306	4.7	4,468	4.5	1,914	2.3
Vegetable Oils	2,003	3.2	3,235	4.3	3,261	3.9	3,373	3.7	3,509	3.6	1,997	2.4
Packaging Material	4,827	7.7	5,907	7.9	6,300	7.6	7,034	7.7	7,582	7.7	5,483	6.7
Others	5,942	9.5	9,705	12.9	9,964	12.0	12,556	13.8	12,918	13.1	10,882	13.3
Gross Profit	**31,992**	**51.0**	**38,957**	**51.8**	**45,259**	**54.3**	**49,396**	**54.3**	**52,823**	**53.6**	**46,544**	**56.9**
Employee Benefit Expense	4,585	7.3	5,717	7.6	6,877	8.3	7,672	8.4	8,706	8.8	9,516	11.6
Other Expenses												
Power and Fuel	2,192	3.5	2,958	3.9	3,709	4.5	3,854	4.2	3,843	3.9	2,220	2.7
Repairs	712	1.1	754	1.0	930	1.1	962	1.1	1,031	1.0	1,056	1.3
Advertising and Sales Promotion	3,026	4.8	3,226	4.3	3,559	4.3	3,955	4.3	4,455	4.5	5,252	6.4
Freight and Transport	2,996	4.8	3,525	4.7	3,842	4.6	4,374	4.8	4,795	4.9	3,889	4.8
Royalty	2,491	4.0	2,832	3.8	3,173	3.8	3,396	3.7	3,863	3.9	3,342	4.1
Others	3,493	5.6	4,416	5.9	4,912	5.9	5,379	5.9	5,603	5.7	5,323	6.5
EBITDA	**12,497**	**19.9**	**15,528**	**20.7**	**18,257**	**21.9**	**19,804**	**21.8**	**20,527**	**20.8**	**15,946**	**19.5**
Less: Interest Expense	11		51		266		365		142		33	
Less: Depreciation	1,278		1,533		2,772		3,300		3,375		3,473	
Add: Other Income	427		509		633		1,222		1,359		1,621	
Profit before Tax (PBT)	**11,635**	**18.5**	**14,452**	**19.2**	**15,852**	**19.0**	**17,362**	**19.1**	**18,368**	**18.6**	**14,062**	**17.2**
Tax	3,264		4,264		4,847		5,609		5,897		2,504	
Profit after Tax (PAT)	**8,370**	**13.3**	**10,189**	**13.6**	**11,006**	**13.2**	**11,753**	**12.9**	**12,472**	**12.7**	**11,558**	**14.1**

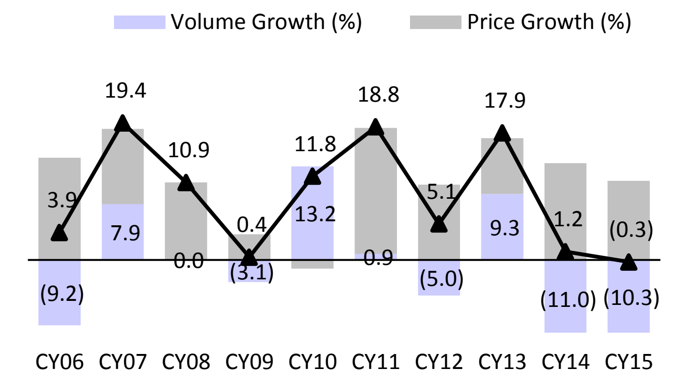
Source: Company, MOSL

Exhibit 8: Milk and Nutrition



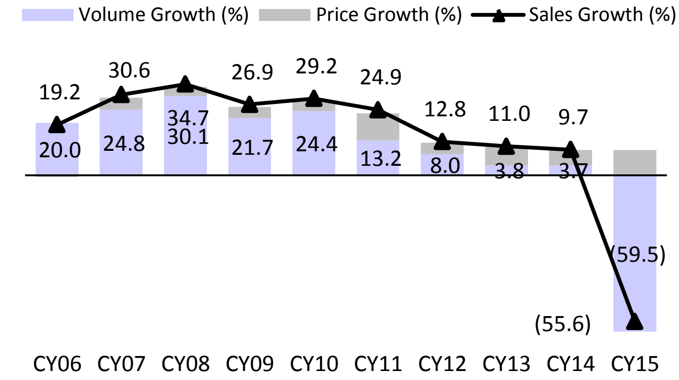
Source: Company, MOSL

Exhibit 9: Beverages



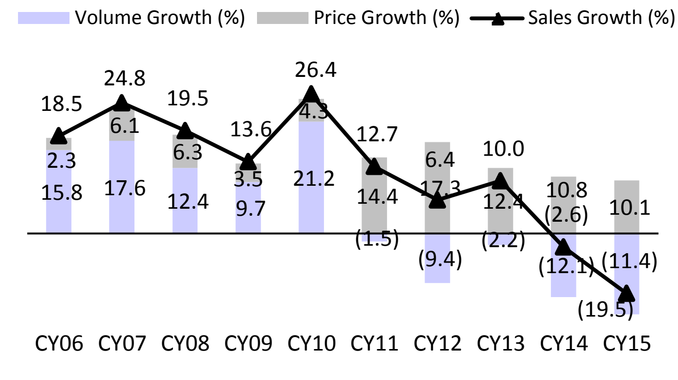
Source: Company, MOSL

Exhibit 10: Prepared Dishes slowing down



Source: Company, MOSL

Exhibit 11: Chocolates & Confectionaries



Source: Company, MOSL

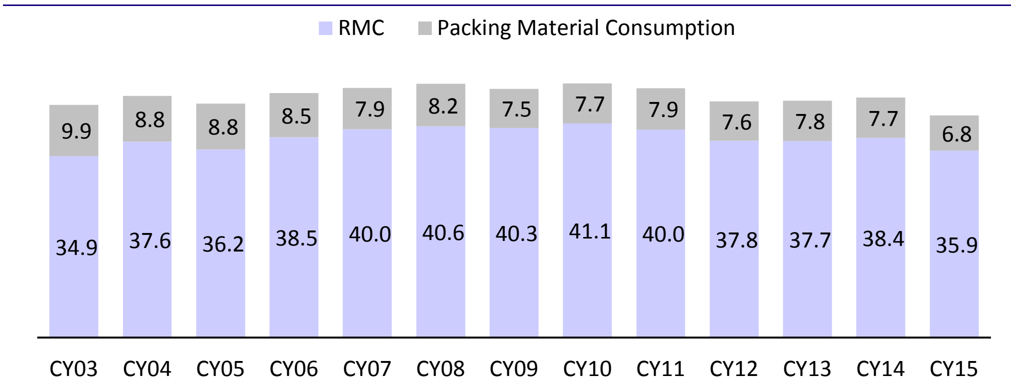
Brand extensions/ product launches

- Chocolates and confectionary- ‘Munch Nuts’ a new extension of ‘Munch’, the chocolate wafer brand, was launched towards the end of the year. The product has crunchy wafer, roasted peanuts and peanut crème.
- Beverages- Revamped packaging of ‘Nescafe Sunrise’ and strengthened its core coffee credentials with ‘slow roasted for richer aroma’ credentials
- Milk and Nutrition- Launched ‘Cerelac Stage 5’ to address the 18-24 month children age group with features including 5 grains and fruits.

Gross and operating margins

- Net sales stood at INR 81.8 b in CY15 compared to INR 98.6bn in the previous year declining by ~17% YoY. Material costs on the other hand declined even more steeply by 23.3% YoY leading to gross margins at the highest level since CY2000 and perhaps even the highest ever. Decline in material costs was witnessed in raw materials (down 24.5% YoY) and well as packing materials (down 27.7% YoY).

Exhibit 12: Material costs were benign

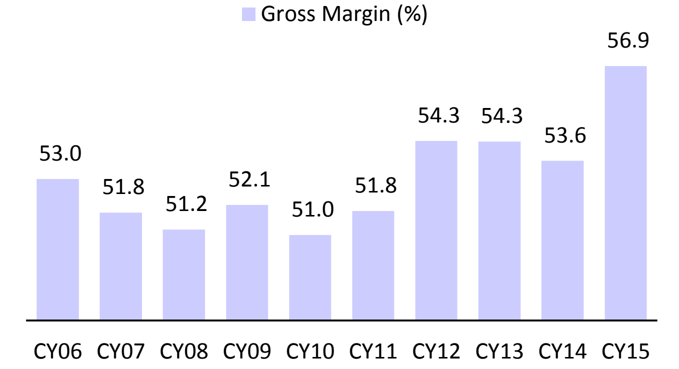


Source: Company, MOSL

- Among the key materials fresh milk costs declined by 17% YoY in line with overall sales decline. Milk derivatives declined by a relatively lower proportion by 15.8% YoY. These products are mainly used in the milk and nutrition segment and to a smaller extent in chocolates. Given that milk and nutrition sales increased by 2.1% in value terms in CY15, the profitability of this segment is likely to have increased as the key material costs indicated above declined between 15.8%-17%. Green coffee material costs declined by 1.7% YoY compared to beverages segmental sales decline of 0.3%. Vegetable oil and wheat flour costs declined by 43.1% YoY and 57.2% YoY respectively, being used largely in Prepared Dishes and Cooking aids, a segment for which sales declined by 55.6% in CY15 due to the Maggi issue. Sugar costs declined by 22% YoY in CY15. Sugar is mostly used in chocolates and confectionary segment where sales declined by 11.4% YoY in CY15.

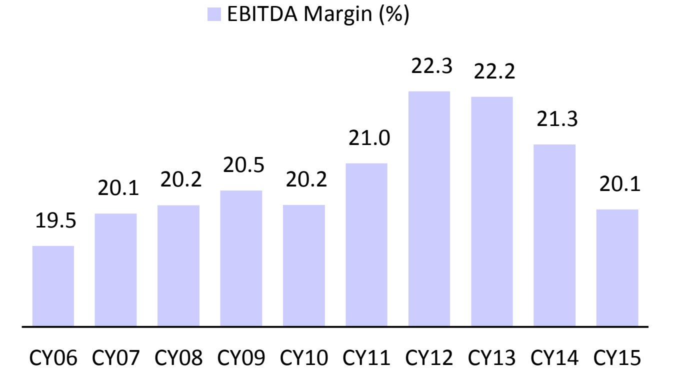
- Staff costs (including employee benefit expense due to passage of time) increased by 9.3% YoY to INR9.5b (up 270bp to 11.3% of sales) in CY15 mainly due to 17% Net sales decline YoY.
- Advertisement and Sales promotion costs were up by 17.9% YoY to INR5.3b. The 17.9% A&P growth in CY15 was the highest in the past 6 years and A&P to sales at 6.7% in CY15 (compared to the past 5 year range of 4.4% to 5% of sales and also aided by decline in absolute sales for the year), while much lower than consumer peers, was still the highest by Nestle India as a percentage of sales since CY02. The absolute increase is encouraging and in our view much required as well. A large part of the reason for the increase in absolute amount of A&P is likely to have been due to both advertising and promotion on the Maggi re-launch but we think that higher A&P to sales compared to the historical average is likely to be a feature going forward given the new CEO's commitment towards product launches.
- As was indicated by the company earlier Royalty or general license fees (including withholding tax on general license fees) increased by 20 bps to sales in CY15 as well, a process that is likely to continue every year until CY18. For CY15, royalty increased to 4% of sales but reduced by 13.5% in absolute terms due to sales decline of 17%.
- The company did well to control other expenses (excluding A&P and royalty). In absolute amount these costs declined by 18.4% YoY which is creditable in a year where sales declined. Key costs where there were substantial savings both on absolute basis as well as on a percentage to sales were power and fuel, contract manufacturing charges.
- EBITDA margin was down 130 bp YoY to 19.6% in CY15 with absolute EBITDA at INR 15.9b declining by 22.3%. Absolute EBITDA was at the lowest level since CY11.
- Due to 15.1% in decline in raw/ packing material imported compared to only 1.4% decline in exports net forex expenses to sale declined from 4.2% of sales in CY14 to 3.5% in CY15. Indigenous RM and spare parts to total RM and spare parts remained high at 86-87%.
- The exceptional items charge of INR 5bn was due to loss on Maggi noodles stocks withdrawn and incidental expenses thereto.

Exhibit 13: Gross margin for CY15 were at an all time high



Source: Company, MOSL

Exhibit 14: However sales decline, A&P to sales and staff costs affected EBITDA margins for the year



Source: Company, MOSL

Capex, fixed assets, working capital and cash flows

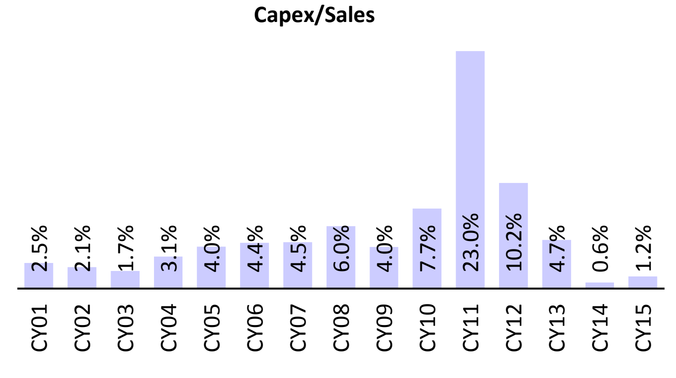
- Capex was INR 1.5b in CY15, the lowest in absolute terms for any year since CY06. Yet fixed asset turns on net block declined from 2.9x in CY14 to 2.6x in CY15 due to the sales decline. Fixed asset turns on gross block declined from 1.9x to 1.5x respectively for these years.
- While debtor days remained at the historical average of 3-4 days, inventory days increased by 8 days YoY to 37 days in CY15. Finished good days increased by 4 days YoY, raw material days by 3 days YoY and WIP days by 1 day YoY. Finished goods were close to half of total inventory and raw materials around 33%. However Creditor days also increased by 8 days YoY to 33 days which meant that positive net working capital of ~8 days was maintained. Nestle India's NWC days remain inferior to FMCG peers, particularly MNC peers like HUL, Colgate and GSK Consumer.
- Other assets were under control increasing by 15.7% YoY. These assets are only 3.8% of total assets.
- Operating cash flow was INR 11b in CY15, down from INR 16.44 b. Free cash flow was INR 9.5b compared to INR 14.5 b in the preceding two years

Exhibit 15: Cash Conversion Cycle stable

Particulars	CY09	CY10	CY11	CY12	CY13	CY14	CY15
Inventory	4,987	5,760	7,340	7,456	7,359	8,441	8,208
Account Receivables	642	633	1,154	876	843	991	784
Account Payables	5,817	7,454	4,808	5,394	6,330	7,287	7,435
Days							
Inventory days	33	31	32	33	30	29	37
Debtor days	4	4	4	4	3	3	4
Creditor days	39	39	30	22	24	25	33
Cash conversion cycle	**-1**	**-4**	**6**	**15**	**10**	**7**	**8**

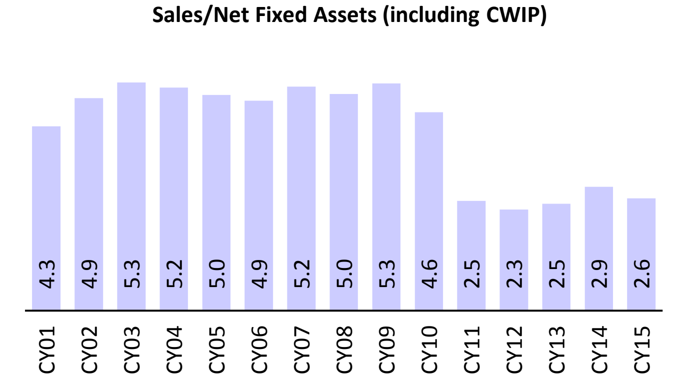
Source: Company, MOSL

Exhibit 16: Capex spends likely to increase in next two years



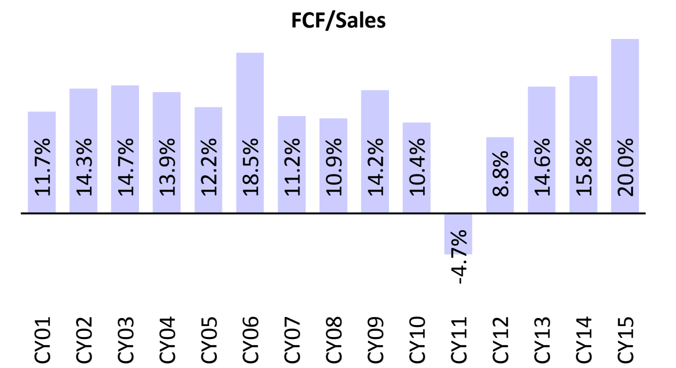
Source: Company, MOSL

Exhibit 17: Asset turnover declined YoY



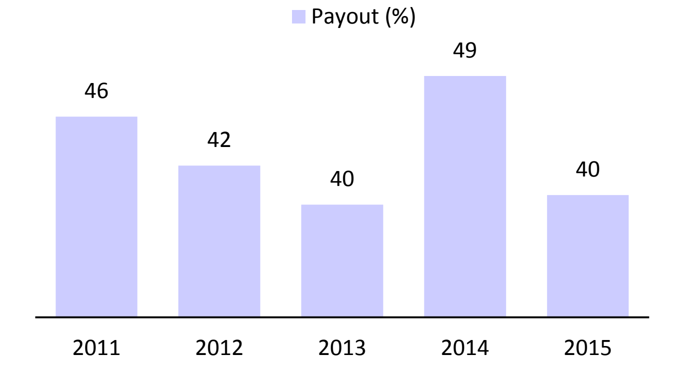
Source: Company, MOSL

Exhibit 18: FCF to sales up YoY



Source: Company, MOSL

Exhibit 19: Payout ratio



Source: Company, MOSL

Encouraging comments by the management statements over the past few months

- Anywhere between 20-25 projects are on in the company, looking at new products, restaging, re-launching and getting into new categories. These products are likely to be launched in the next 12-18 months in a phased manner. So, there is a level of energy and enthusiasm getting built up in the organization. All of it of course started with the comeback of Maggi.
- There will be 30% to 40% higher investments in sharper channel strategies, geography strategies and therefore greater activation and investment.
- Nestle India is targeting to gradually get back to double-digit sales growth, mainly led by volume growth. There is unprecedented willingness to go for price cuts wherever it is appropriate.
- Likely higher spending on advertising and promotion (A&P) as well as on innovation/renovation.
- Desire to become more proactive in dealing with stakeholders, a process off to a good start in recent months.
- Reiteration of the belief in India opportunity,
- Parent company as well as Nestle India board's support to strategies which pave the way to double-digit sales growth led by volumes.
- The management has stated earlier and in the annual report that there has been hardly any attrition at the channel partner level or employee level due to the recent crisis and there seems to have been a considerable buy in towards the recent change in strategy, all of which is encouraging.

Financials and valuations

Income Statement							(INR Million)
Y/E December	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
Net Sales	**74,908**	**83,023**	**90,619**	**98,063**	**81,233**	**94,929**	**110,074**
Change (%)	19.8	10.8	9.1	8.2	-17.2	16.9	16.0
Total Expenditure	59,381	64,766	70,815	77,536	65,287	77,341	89,077
EBITDA	**15,528**	**18,257**	**19,804**	**20,527**	**15,946**	**17,588**	**20,997**
Change (%)	24.3	17.6	8.5	3.7	-22.3	10.3	19.4
Margin (%)	20.7	22.0	21.9	20.9	19.6	18.5	19.1
Depreciation	1,533	2,772	3,300	3,375	3,473	3,813	4,517
Int. and Fin. Ch.	51	266	365	142	33	18	17
Other Inc.- Rec.	509	633	1,222	1,359	1,621	1,769	1,917
PBT	**14,452**	**15,852**	**17,362**	**18,368**	**14,062**	**15,526**	**18,381**
Change (%)	24.2	9.7	9.5	5.8	-23.4	10.4	18.4
Margin (%)	19.3	19.1	19.2	18.7	17.3	16.4	16.7
Tax	4,264	4,847	5,609	5,897	2,504	5,201	6,158
Tax Rate (%)	29.5	30.6	32.3	32.1	17.8	33.5	33.5
Adjusted PAT	**10,189**	**11,006**	**11,753**	**12,472**	**11,558**	**10,325**	**12,223**
Change (%)	21.7	8.0	6.8	6.1	-7.3	-10.7	18.4
Margin (%)	13.6	13.3	13.0	12.7	14.2	10.9	11.1
Non-rec. (Exp)/Inc.	573	327	582	625	5,925	1,008	1,109
Reported PAT	**9,616**	**10,679**	**11,171**	**11,847**	**5,633**	**9,316**	**11,114**

Balance Sheet							(INR Million)
Y/E December	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
Share Capital	964	964	964	964	964	964	964
Reserves	11,775	17,020	22,723	27,408	27,214	30,353	34,165
Net Worth	**12,740**	**17,984**	**23,687**	**28,372**	**28,178**	**31,317**	**35,130**
Loans	9,709	10,502	11,872	196	177	150	150
Capital Employed	**22,448**	**28,486**	**35,559**	**28,568**	**28,356**	**31,467**	**35,280**
Gross Block	25,522	44,276	49,032	50,090	51,174	57,781	67,692
Less: Accum. Depn.	9,765	12,233	15,339	18,323	22,195	26,009	30,526
Net Fixed Assets	**15,758**	**32,043**	**33,693**	**31,766**	**28,979**	**31,772**	**37,166**
Capital WIP	13,718	3,441	2,947	2,448	2,308	2,308	2,308
Investments	1,344	3,649	8,511	8,118	13,249	13,249	13,249
Current	1,344	3,649	6,270	5,074	9,831	9,831	9,831
Non-current	0	0	2,241	3,045	3,418	3,418	3,418
Curr. Assets, L&A	**13,199**	**12,507**	**17,992**	**15,863**	**16,269**	**20,089**	**25,235**
Inventory	7,340	7,456	7,359	8,441	8,208	10,392	12,090
Account Receivables	1,154	876	843	991	784	1,352	1,567
Cash and Bank Balance	2,272	2,370	7,494	4,458	4,996	6,196	9,306
Others	2,432	1,806	2,296	1,972	2,281	2,150	2,272
Curr. Liab. and Prov.	**21,067**	**21,532**	**25,429**	**27,400**	**30,720**	**34,067**	**40,609**
Account Payables	4,808	5,394	6,330	7,287	7,435	9,236	11,466
Other Liabilities	5,287	5,580	5,026	4,096	4,659	4,934	5,721
Provisions	10,972	10,558	14,073	16,017	18,625	19,897	23,422
Net Curr. Assets	**-7,869**	**-9,025**	**-7,437**	**-11,537**	**-14,451**	**-13,978**	**-15,374**
Def. Tax Liability	-502	-1,621	-2,155	-2,227	-1,729	-1,885	-2,070
Appl. of Funds	**22,448**	**28,486**	**35,559**	**28,568**	**28,356**	**31,466**	**35,280**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E December	2011	2012	2013	2014	2015	2016E	2017E
Basic (INR)							
EPS	**105.7**	**114.1**	**121.9**	**129.4**	**119.9**	**107.1**	**126.8**
Cash EPS	121.6	142.9	156.1	164.4	155.9	146.6	173.6
BV/Share	132.1	186.5	245.7	294.3	292.3	324.8	364.4
DPS	48.5	48.5	48.5	63.0	48.5	55.0	65.0
Payout (%)	45.9	42.5	39.8	48.7	40.5	51.4	51.3
Valuation (x)							
P/E			50.3	47.4	51.2	57.3	48.4
Cash P/E			39.3	37.3	39.4	41.8	35.3
EV/Sales			6.5	5.9	7.1	6.0	5.2
EV/EBITDA			29.7	28.2	36.0	32.5	27.1
P/BV			25.0	20.9	21.0	18.9	16.8
Dividend Yield (%)			0.8	1.0	0.8	0.9	1.1
Return Ratios (%)							
RoE	95.7	71.6	56.4	47.9	40.9	34.7	36.8
RoCE	90.3	60.8	51.5	53.5	43.8	46.1	49.4
Working Capital Ratios							
Debtor (Days)	5.5	3.7	3.3	3.6	3.4	5.0	5.0
Asset Turnover (x)	4.7	3.1	2.7	2.9	2.7	3.0	3.1
Leverage Ratio							
Debt/Equity (x)	0.8	0.6	0.5	0.0	0.0	0.0	0.0

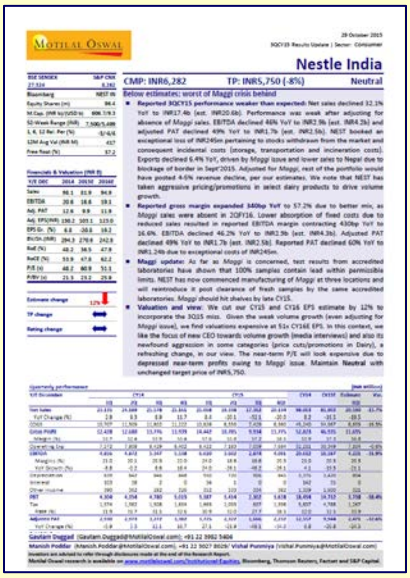
Cash Flow Statement **(INR Million)**

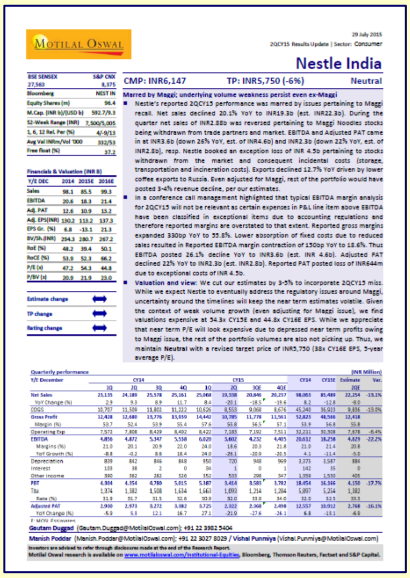
Y/E December	2011	2012	2013	2014	2015	2016E	2017E
OP/(loss) before Tax	13,994	15,485	16,505	17,152	12,473	13,775	16,480
Int./Div. Received	509	633	1,222	1,359	1,621	1,769	1,917
Depn. and Amort.	1,345	2,468	3,106	2,985	3,872	3,813	4,517
Interest Paid	51	266	365	142	33	18	17
Direct Taxes Paid	4,161	3,728	5,075	5,824	2,899	5,045	5,973
Incr in WC	1,351	1,254	3,536	1,065	3,451	727	4,507
CF from Operations	**12,071**	**15,113**	**17,214**	**14,161**	**15,308**	**11,519**	**17,630**
Extraordinary Items	0	0	0	0	0	0	0
Incr in FA	17,204	8,476	4,262	559	944	6,607	9,911
Free Cash Flow	**-5,132**	**6,636**	**12,952**	**13,602**	**14,364**	**4,912**	**7,719**
Pur of Investments	-163	2,305	4,862	-393	5,131	0	0
CF from Invest.	**-17,041**	**-10,781**	**-9,125**	**-166**	**-6,075**	**-6,607**	**-9,911**
Issue of Shares	0	0	0	0	0	0	0
Incr in Debt	9,709	793	1,370	-11,676	-18	-27	0
Dividend Paid	5,435	5,435	5,471	7,166	5,633	6,178	7,301
Others	415	408	1,136	1,812	-3,045	2,494	2,692
CF from Fin. Activity	**4,689**	**-4,234**	**-2,965**	**-17,030**	**-8,696**	**-3,711**	**-4,609**
Incr/Decr of Cash	**-281**	**98**	**5,124**	**-3,035**	**537**	**1,201**	**3,110**
Add: Opening Balance	2,553	2,272	2,370	7,494	4,458	4,996	6,196
Closing Balance	**2,272**	**2,370**	**7,494**	**4,458**	**4,995**	**6,196**	**9,306**

E: MOSL Estimates

NESTLE GALLERY

NEST


29 October 2015
Nestle India
CMP: INR6,282 TP: INR5,750 (-8%) Neutral


29 July 2015
Nestle India
CMP: INR6,147 TP: INR5,750 (-6%) Neutral


NESTLE CY14
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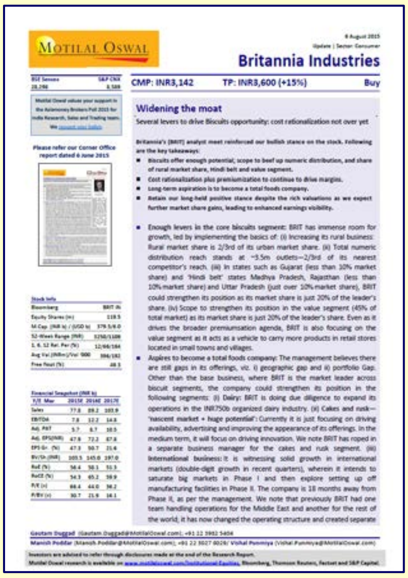
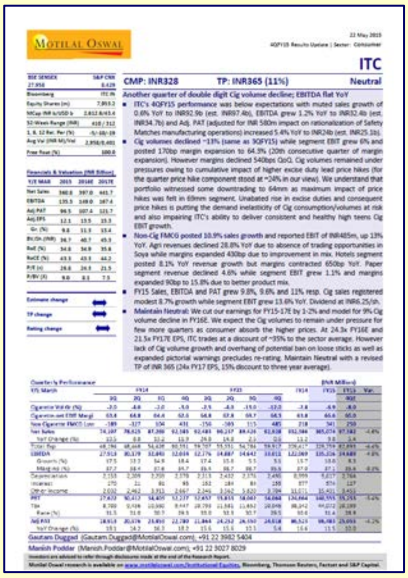
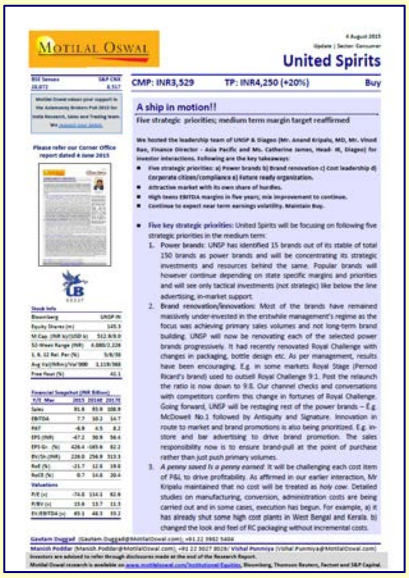
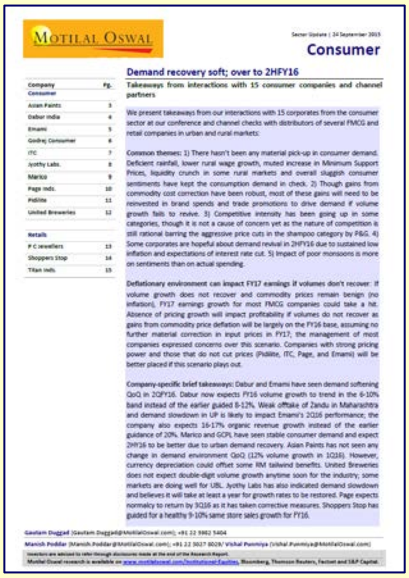
COMPANIES


Britannia Industries
CMP: INR3,142 TP: INR3,600 (+15%) Buy
Widening the moat


ITC
CMP: INR328 TP: INR365 (11%) Neutral


United Spirits
CMP: INR3,529 TP: INR4,250 (+20%) Buy
A ship in motion!!

SECTOR UPDATES


Consumer
Demand recovery soft; over to 2HFY16


Expert Speak
Rural consumption patterns changing


TAXATION ACROSS CONSUMER COMPANIES
Annual Report Threadbare

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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested to SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.

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