

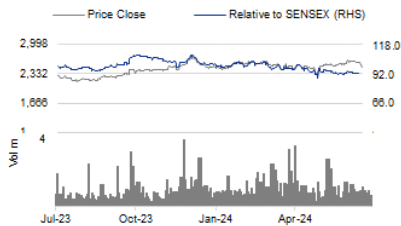
India

HOLD (no change)

Consensus ratings*: Buy 19 Hold 15 Sell 4	
Current price:	Rs2,481
Target price:	Rs2,610
Previous target:	Rs2,636
Up/downside:	5.2%
InCred Research / Consensus:	-2.2%
Reuters:	
Bloomberg:	NEST IN
Market cap:	US\$32,937m Rs2,391,737m
Average daily turnover:	US\$32.7m Rs2371.4m
Current shares o/s:	964.2m
Free float:	37.2%
*Source: Bloomberg	

Key changes in this note

- Lower target price to Rs2,610 from Rs2,636.
- Lower FY25F/26F EPS by 2.5%/4.4%.
- Introduce FY27F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.4)	(3.2)	8.9
Relative (%)	(3.1)	(10.8)	(9.2)

Major shareholders	% held
Promoters	62.8
LIC	2.4
Vanguard Group	1.5

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Nestle India Ltd

Volume uptick remains critical

- Nestle India's 1QFY25 domestic sales grew 4.2% yoy. Exports fell 7.2% yoy. We estimate volume growth of 1%, below our estimate of 5% earlier.
- Gross margin rose by 280bp yoy (up 90bp qoq) to 57.6% led by input cost moderation. The EBITDA margin rose by 50bp yoy to 22.5% (our est. 23.9%).
- Initiatives to drive volume growth remains a key monitorable. Lofty valuation limits the upside. Retain HOLD rating on the stock with a lower TP of Rs2,610.

Weaker delivery than expectations on sales/volume growth fronts

Nestle India's (Nestle) revenue at Rs48.1bn was up 3.3% yoy in 1QFY25. Exports declined by 7.2% yoy. Nestle expanded its footprint by introducing new SKUs to markets like the US, Canada, Middle East and North Africa. It also exported breakfast cereals like Koko Krunch, Nestle Gold Oats and Corn Flakes for the first time ever. The company's focus on its RURBAN strategy continued, adding 5k rural touchpoints, and taking the total to 205k outlets by the end of the quarter. E-commerce channel sustained its double-digit growth momentum, contributing 7.5% to domestic sales, aided by quick commerce channels.

Core portfolio seems to be lagging; recent innovations aid growth

Prepared dishes and cooking aids maintained their growth momentum, with innovations contributing to 30% of sales during the quarter. Recent launches like Maggi Korean Noodles were well received by customers. The beverage business posted strong double-digit growth, with activations on new cold coffee during the heatwave aiding Nestle Classic to post double-digit growth. KitKat delivered double-digit growth while milk products and nutrition portfolios maintained their growth momentum. Premiumization will remain a key focus area, with an enhanced play on nutraceuticals and pet care in the medium term.

Margins expected to remain range-bound in medium term

The company's gross margin expanded by 280bp yoy (up 90bp qoq) to 56.8% while the EBITDA margin expanded by 50bp yoy to 22.5% (vs. our estimate of 23.9%). Employee costs were up 9.6% yoy (11.2% of sales, up 64bp yoy) while other expenses were up 12.5% yoy (24.2% of sales, up 198bp yoy) largely led by higher advertising expenses. Coffee and cocoa prices are at all-time highs and continue to move upwards. Cereals and grains are going through a structural cost increase led by minimum support price or MSP. Prices of milk, packaging materials and edible oils remained stable. We expect the margins to remain range-bound in the medium term.

Weak start to the year; Maintain HOLD with a target price of Rs2,610

Due to a weak start to the year, we cut our FY25F/FY26F EPS by 2-4% and maintain our HOLD rating on Nestle India with a slightly lower target price of Rs2,610 (Rs2,636 earlier) as we roll forward our valuation (62x Sep 2026F EPS). Upside risk: Higher-than-expected volume/sales growth. Downside risk: Contraction in the EBITDA margin and muted sales performance.

Financial Summary

	Dec-22A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	168,970	243,939	211,268	232,536	255,312
Operating EBITDA (Rsm)	37,126	58,198	50,666	56,213	62,554
Net Profit (Rsm)	23,905	39,285	34,574	38,548	42,701
Core EPS (Rs)	24.8	40.7	35.9	40.0	44.3
Core EPS Growth	0.3%	64.3%	(12.0%)	11.5%	10.8%
FD Core P/E (x)	100.05	60.88	69.18	62.05	56.01
DPS (Rs)	21.0	31.2	30.4	33.9	37.5
Dividend Yield	0.85%	1.26%	1.22%	1.37%	1.51%
EV/EBITDA (x)	64.19	41.02	47.17	42.53	38.20
P/FCFE (x)	114.57	84.61	90.67	74.61	64.07
Net Gearing	(36.3%)	(14.2%)	(3.9%)	(2.3%)	(4.0%)
P/BV (x)	97.26	71.59	50.14	44.63	39.78
ROE	108.5%	135.5%	85.3%	76.1%	75.1%
% Change In Core EPS Estimates			(2.50%)	(4.43%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Volume uptick remains critical

Highlights from the press release

- **Prepared dishes and cooking aids:** Strong consumer engagements, media campaigns, innovations and enhanced RURBAN penetration aided in maintaining the growth momentum.
- **Milk products and nutrition:** Growth was driven by Milkmaid and the toddler range.
- **Confectionery:** Munch made regional inroads. Initiatives on the OTT platform was rolled out for KitKat for the first time.
- **Beverages:** Posted robust growth across all products. Nescafe Sunrise gained traction in South India. Nescafe gained market share, along with penetration gains.
- **Pet-care business:** Felix wet cat food continued to receive positive feedback from trade channels and consumers. The focus on e-commerce and quick commerce aided in driving the distribution reach.
- **E-commerce:** Growth was aided by strong growth in quick commerce channels. E-commerce sales now stood at 7.5% of domestic sales. Brands like KitKat, Nescafe, Maggi Masala-ae-Magic, Milkmaid and ready-to-drink offerings performed well.
- **Organized trade:** Retail channels grew in double digits, led by value-added noodles, beverages and premiumization.
- **Out-of-Home (OOH):** Registered strong growth momentum led by portfolio transformation, innovation, penetration and premiumization.

Figure 1: Quarterly results summary - standalone

Y/E Dec (Rs. m)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue	46,585	52,676	48,140	3.3	-8.6
Expenditure	36,358	39,450	37,313	2.6	-5.4
Consumption of raw materials	21,050	22,759	20,388	-3.1	-10.4
as % of sales	45.2	43.2	42.4		
Employee Cost	4,900	5,131	5,371	9.6	4.7
as % of sales	10.5	9.7	11.2		
Other expenditure	10,374	11,675	11,674	12.5	0.0
as % of sales	22.3	22.2	24.2		
Provision for contingency	33	-115	-120	-461.4	4.3
as % of sales	0.1	-0.2	-0.2		
EBITDA	10,227	13,226	10,827	5.9	-18.1
Depreciation	1,074	1,089	1,127	5.0	3.5
EBIT	9,154	12,138	9,699	6.0	-20.1
Other Income	240	268	391	63.3	46.2
Interest	0	0	0	NA	NA
PBT	9,393	12,405	10,091	7.4	-18.7
Total Tax	2,410	3,164	2,625	8.9	-17.1
Adjusted PAT	6,983	9,241	7,466	6.9	-19.2
Extraordinary items	0	-101	0	NA	-100.0
Reported PAT	6,983	9,342	7,466	6.9	-20.1
Adjusted EPS	7.2	9.6	7.7	6.9	-19.2
Margins (%)	1QFY24	4QFY24	1QFY25	YoY (bp)	QoQ (bp)
Gross Margin	54.8	56.8	57.6	280	90
EBITDA	22.0	25.1	22.5	50	-260
EBIT	19.6	23.0	20.1	50	-290
EBT	20.2	23.5	21.0	80	-260
PAT	15.0	17.5	15.5	50	-200
Effective tax rate	25.7	25.5	26.0	40	50

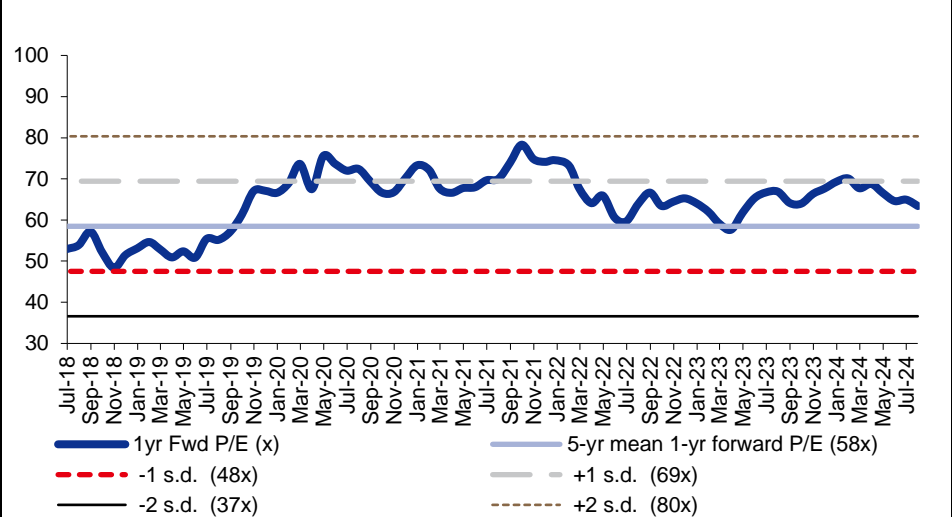
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E, Dec (Rs. m)	FY25F			FY26F			FY27F
	Previous	Revised	% Change	Previous	Revised	% Change	Introduced
Net revenue	2,14,514	2,11,268	(1.5)	2,38,993	2,32,536	(2.7)	2,55,312
EBITDA	51,862	50,666	(2.3)	59,270	56,213	(5.2)	62,554
EBITDA Margin (%)	24.2	24.0	-20 bps	24.8	24.2	-60 bps	24.5
Net Profit	35,462	34,574	(2.5)	40,336	38,548	(4.4)	42,701
EPS	36.8	35.9	(2.5)	41.8	40.0	(4.4)	44.3

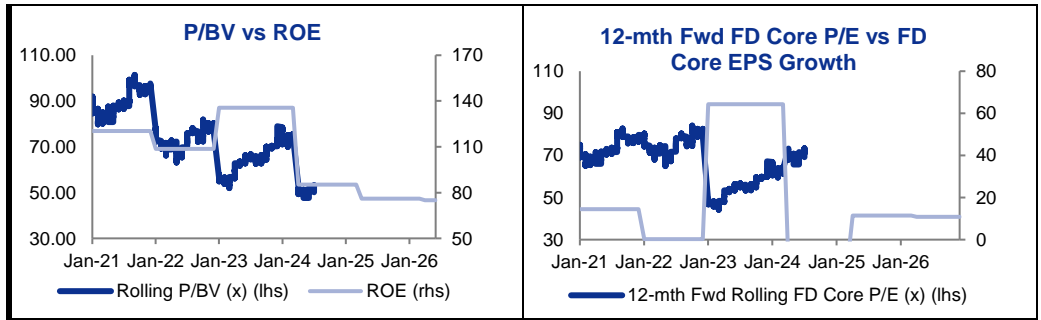
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Nestle India's one-year forward P/E trades between its five-year average and +1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-22A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	168,970	243,939	211,268	232,536	255,312
Gross Profit	91,471	136,853	119,578	132,313	145,528
Operating EBITDA	37,126	58,198	50,666	56,213	62,554
Depreciation And Amortisation	(4,030)	(5,378)	(5,997)	(6,407)	(7,071)
Operating EBIT	33,096	52,820	44,669	49,806	55,483
Financial Income/(Expense)	(536)	25	1,739	2,006	1,988
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	32,560	52,845	46,408	51,811	57,470
Exceptional Items					
Pre-tax Profit	32,560	52,845	46,408	51,811	57,470
Taxation	(8,655)	(13,560)	(11,834)	(13,264)	(14,770)
Exceptional Income - post-tax					
Profit After Tax	23,905	39,285	34,574	38,548	42,701
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,905	39,285	34,574	38,548	42,701
Recurring Net Profit	23,905	39,285	34,574	38,548	42,701
Fully Diluted Recurring Net Profit	23,905	39,285	34,574	38,548	42,701

Cash Flow

(Rs mn)	Dec-22A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	37,126	58,198	50,666	56,213	62,554
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,422)	3,107	(3,894)	(2,773)	717
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,010	1,480	2,095	2,455	2,520
Net Interest (Paid)/Received	(1,546)	(1,455)	(356)	(449)	(532)
Tax Paid	(8,655)	(13,560)	(11,834)	(13,264)	(14,770)
Cashflow From Operations	26,513	47,769	36,677	42,182	50,489
Capex	(5,642)	(23,377)	(6,798)	(6,126)	(9,157)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(36)	3,137	(3,500)	(4,000)	(4,000)
Other Investing Cashflow					
Cash Flow From Investing	(5,677)	(20,240)	(10,298)	(10,126)	(13,157)
Debt Raised/(repaid)	41	740			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(20,247)	(30,082)	(29,284)	(32,649)	(36,166)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(20,207)	(29,342)	(29,284)	(32,649)	(36,166)
Total Cash Generated	629	(1,812)	(2,904)	(593)	1,166
Free Cashflow To Equity	20,876	28,269	26,380	32,056	37,332
Free Cashflow To Firm	22,382	28,984	26,736	32,505	37,864

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Dec-22A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	11,629	8,188	5,284	4,691	5,857
Total Debtors	1,919	3,005	2,605	2,867	3,148
Inventories	19,288	20,894	15,628	15,927	21,684
Total Other Current Assets	17,073	16,886	17,288	18,042	18,229
Total Current Assets	49,909	48,972	40,805	41,527	48,918
Fixed Assets	34,021	52,020	52,820	52,539	54,625
Total Investments	5,602	4,239	7,739	11,739	15,739
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	39,623	56,259	60,559	64,278	70,363
Short-term Debt	532	631	631	631	631
Current Portion of Long-Term Debt					
Total Creditors	19,338	22,379			
Other Current Liabilities	28,832	36,313	26,400	24,154	26,405
Total Current Liabilities	48,702	59,323	27,032	24,785	27,036
Total Long-term Debt	2,173	2,814	2,814	2,814	2,814
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	2,173	2,814	2,814	2,814	2,814
Total Provisions	33,403	32,063	32,819	33,607	38,298
Total Liabilities	84,278	94,201	62,665	61,207	68,149
Shareholders Equity	24,592	33,409	47,699	53,598	60,132
Minority Interests					
Total Equity	24,592	33,409	47,699	53,598	60,132

Key Ratios

	Dec-22A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	14.6%	44.4%	(13.4%)	10.1%	9.8%
Operating EBITDA Growth	7.7%	56.8%	(12.9%)	10.9%	11.3%
Operating EBITDA Margin	22.0%	23.9%	24.0%	24.2%	24.5%
Net Cash Per Share (Rs)	9.26	4.92	1.91	1.29	2.50
BVPS (Rs)	25.50	34.65	49.47	55.59	62.36
Gross Interest Cover	21.41	36.31	125.44	110.95	104.22
Effective Tax Rate	26.6%	25.7%	25.5%	25.6%	25.7%
Net Dividend Payout Ratio	84.7%	76.6%	84.7%	84.7%	84.7%
Accounts Receivables Days	3.87	3.68	4.85	4.29	4.30
Inventory Days	82.93	68.48	72.69	57.46	62.52
Accounts Payables Days	86.71	71.10	44.54		
ROIC (%)	137.2%	154.8%	72.1%	76.4%	77.8%
ROCE (%)	137.4%	167.6%	104.3%	94.9%	94.5%
Return On Average Assets	28.5%	40.3%	31.8%	35.3%	36.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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