

India

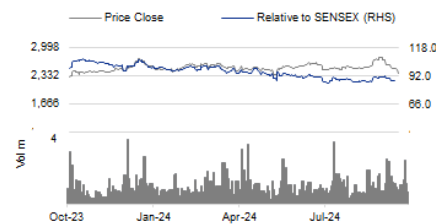
HOLD (no change)

Consensus ratings*: Buy 16 Hold 17 Sell 5

Current price:	Rs2,379
Target price:	Rs2,540
Previous target:	Rs2,610
Up/downside:	6.8%
InCred Research / Consensus:	-2.2%
Reuters:	NEST.NS
Bloomberg:	NEST IN
Market cap:	US\$27,280m
	Rs2,293,441m
Average daily turnover:	US\$30.5m
	Rs2562.8m
Current shares o/s:	964.2m
Free float:	37.2%
*Source: Bloomberg	

Key changes in this note

- Lower target price to Rs2,540 from Rs2,610.
- Lower FY25F/FY26F EPS by 3-6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.6)	(8.8)	2.0
Relative (%)	(4.4)	(8.4)	(17.1)

Major shareholders	% held
Promoters	62.8
LIC	2.8
Vanguard Group	1.5

Nestle India Ltd

Initiatives to revive volume growth in focus

- Nestle India's 2QFY25 domestic sales grew 1.2% yoy (vs. our estimate of 7%). Exports grew by 3.1% yoy. Overall revenue missed our estimate by 5.2%.
- Gross margin expanded by 10bp yoy (down 100bp qoq) to 56.6%. The EBITDA margin contracted 140bp yoy (down 20bp qoq) to 22.2% (our estimate: 23%).
- Initiatives to drive volume growth remain a key monitorable. Lofty valuation limits the upside. Retain HOLD rating on the stock with a lower TP of Rs2,540.

Weak performance; external environment remains challenging

Nestle India's (Nestle) 2QFY25 revenue at Rs51bn was up 1.3% yoy. In the domestic market, some key brands witnessed pressure due to muted consumer demand, leading to domestic sales growth of 1.2% yoy. Exports grew by 3.1% yoy. Nestle expanded its footprint by introducing new SKUs to markets like the US, Canada, Middle East, Maldives & Papua New Guinea. The e-commerce channel has been yielding growth, with 38% growth in 2Q, contributing 8.3% to domestic sales, driven by strong uptick in the quick-commerce channel. In 1HFY25, 5 of Nestle's top 12 brands posted double-digit growth.

Core portfolio remains subdued; premiumization thrust to continue

The beverage business posted high double-digit growth, led by the Nescafe range and premiumization of coffee. Milkmaid reported high double-digit growth and saw new launch with a mini variant. The toddlers range witnessed high double-digit growth. Cerelac has been reformulated with no refined sugar (launched in 14 out of 21 variants). Kitkat posted high single-digit growth. Premiumization will remain a key focus area, with an enhanced play on nutraceuticals and pet care segments expected in the medium term.

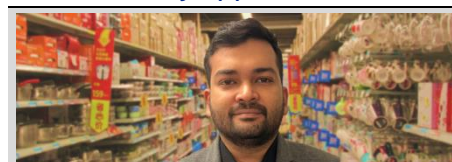
Margins expected to remain under pressure

Nestle's gross margin expanded by only 10bp yoy (down 100bp qoq) to 56.6% while the EBITDA margin contracted by 140bp yoy to 22.2% (vs. our estimate of 23%). Employee costs were down 2.7% yoy (10.5% of sales, down 40bp yoy) while other expenses were up 10.8% yoy (23.9% of sales, up 200bp yoy), largely led by higher advertising expenses. While the prices of packaging materials & milk were relatively stable, prices of coffee, cocoa, cereals & edible oils remain elevated. We expect margins to remain range-bound in the near term owing to continued raw material inflationary pressures and a challenging demand environment. Ability to drive up volumes remains a key monitorable.

Maintain HOLD rating with a lower target price of Rs2540

Considering the weak sales/EBITDA growth reported in 1HFY25 (+2.3%/flat yoy), we cut our FY25F/26F EPS estimates by 3-6% and retain our HOLD rating on Nestle with a lower target price of Rs2,540 (62x Sep 2026F EPS) from Rs2,610 earlier. Upside risk: Higher-than-expected volume/sales growth. Downside risk: Contraction in the EBITDA margin and muted sales performance.

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Financial Summary

	Dec-22A	*Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	168,970	243,939	201,095	220,965	243,286
Operating EBITDA (Rsm)	37,126	58,198	47,590	54,332	60,616
Net Profit (Rsm)	23,905	39,285	32,405	37,363	41,611
Core EPS (Rs)	24.8	40.7	33.6	38.7	43.2
Core EPS Growth	0.3%	64.3%	(17.5%)	15.3%	11.4%
FD Core P/E (x)	95.94	58.38	70.78	61.39	55.12
DPS (Rs)	21.0	31.2	28.5	32.8	36.6
Dividend Yield	0.88%	1.31%	1.20%	1.38%	1.54%
EV/EBITDA (x)	61.54	39.33	48.21	42.19	37.79
P/FCFE (x)	109.86	81.13	103.28	67.84	62.06
Net Gearing	(36.3%)	(14.2%)	1.9%	(3.0%)	(5.8%)
P/BV (x)	93.26	68.65	59.78	52.03	45.46
ROE	108.5%	135.5%	90.3%	90.6%	88.0%
% Change In Core EPS Estimates			(6.28%)	(3.07%)	(2.55%)
InCred Research/Consensus EPS (x)					

NOTE: *MAR 24 CONSISTS OF 15 MONTHS DUE TO SHIFT TO FY REPORTING FROM CY
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Initiatives to revive volume growth in focus

Figure 1: Quarterly results summary – standalone

Y/E Dec (Rs. m)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	Gr (%)
Revenue	50,368	48,140	51,040	1.3	6.0	96,954	99,180	2.3
Expenditure	38,433	37,313	39,685	3.3	6.4	74,791	76,998	3.0
Consumption of RM	21,916	20,388	22,139	1.0	8.6	42,966	42,528	-1.0
as % of sales	43.5	42.4	43.4			44.3	42.9	
Employee costs	5,490	5,371	5,339	-2.7	-0.6	10,390	10,710	3.1
as % of sales	10.9	11.2	10.5			10.7	10.8	
Other expenditure	11,020	11,674	12,207	10.8	4.6	21,394	23,881	11.6
as % of sales	21.9	24.2	23.9			22.1	24.1	
Provision for contingency	8	-120	0	-100.0	-100.0	41	-120	-393.4
as % of sales	0.0	-0.2	0.0			0.0	-0.1	
EBITDA	11,935	10,827	11,355	-4.9	4.9	22,162	22,182	0.1
Depreciation	1,112	1,127	1,216	9.4	7.9	2,185	2,343	7.2
EBIT	10,823	9,699	10,139	-6.3	4.5	19,977	19,839	-0.7
Other Income	333	391	69	-79.4	-82.5	572	460	-19.6
Interest	0	0	0	NA	NA	0	0	NA
PBT	11,156	10,091	10,208	-8.5	1.2	20,549	20,298	-1.2
Total Tax	3,139	2,625	3,252	3.6	23.9	5,549	5,877	5.9
Adjusted PAT	8,017	7,466	6,955	-13.2	-6.8	15,000	14,421	-3.9
Extraordinary items	-1,064	0	-2,908	173.3	NA	-1,064	-2,908	173.3
Reported PAT	9,081	7,466	9,864	8.6	32.1	16,064	17,330	7.9
Adjusted EPS	8.3	7.7	7.2	-13.2	-6.8	15.6	15.0	-3.9
Margins (%)	2QFY24	1QFY25	2QFY25	YoY (bp)	QoQ (bp)	1HFY24	1HFY25	(bp)
Gross margin	56.5	57.6	56.6	10	-100	55.7	57.1	140
EBITDA	23.7	22.5	22.2	-140	-20	22.9	22.4	-50
EBIT	21.5	20.1	19.9	-160	-30	20.6	20.0	-60
EBT	22.1	21.0	20.0	-210	-100	21.2	20.5	-70
PAT	15.9	15.5	13.6	-230	-190	15.5	14.5	-90
Effective tax rate	28.1	26.0	31.9	370	590	27.0	29.0	190

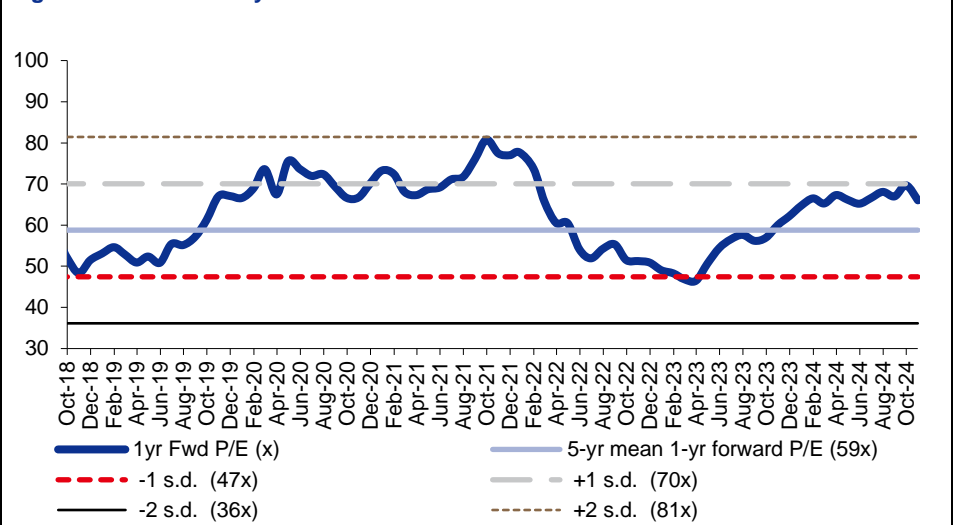
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Dec (Rs. m)	FY25F			FY26F			FY27F		
	Previous	Revised	% Change	Previous	Revised	% Change	Previous	Revised	% Change
Net revenue	2,11,268	2,01,095	(4.8)	2,32,536	2,20,965	(5.0)	2,55,312	2,43,286	(4.7)
EBITDA	50,666	47,590	(6.1)	56,213	54,332	(3.3)	62,554	60,616	(3.1)
EBITDA margin (%)	24.0	23.7	-30bp	24.2	24.6	40bp	24.5	24.9	40bp
Net profit	34,574	32,405	(6.3)	38,548	37,363	(3.1)	42,701	41,611	(2.6)
EPS	35.9	33.6	(6.3)	40.0	38.7	(3.1)	44.3	43.2	(2.6)

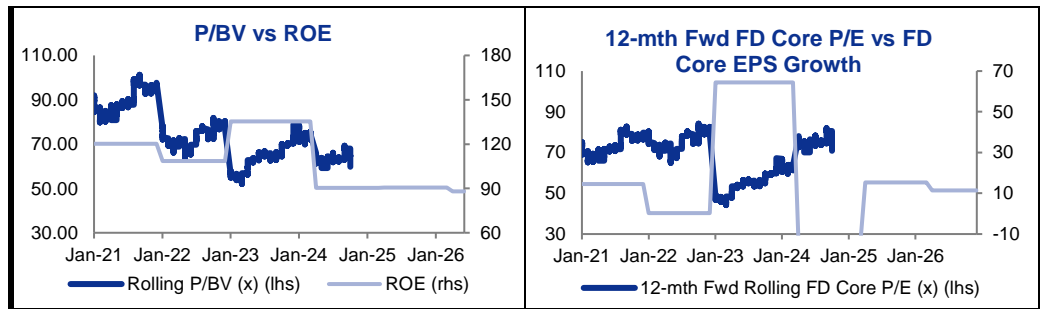
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Nestle's one-year forward P/E trades close to +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	201,095	220,965	243,286
Gross Profit	91,471	136,853	113,820	125,729	138,673
Operating EBITDA	37,126	58,198	47,590	54,332	60,616
Depreciation And Amortisation	(4,030)	(5,378)	(5,997)	(6,407)	(6,971)
Operating EBIT	33,096	52,820	41,593	47,925	53,644
Financial Income/(Expense)	(536)	25	1,729	2,025	1,985
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	32,560	52,845	43,322	49,950	55,630
Exceptional Items					
Pre-tax Profit	32,560	52,845	43,322	49,950	55,630
Taxation	(8,655)	(13,560)	(10,917)	(12,587)	(14,019)
Exceptional Income - post-tax					
Profit After Tax	23,905	39,285	32,405	37,363	41,611
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,905	39,285	32,405	37,363	41,611
Recurring Net Profit	23,905	39,285	32,405	37,363	41,611
Fully Diluted Recurring Net Profit	23,905	39,285	32,405	37,363	41,611

Cash Flow

(Rs mn)	Dec-22A	*Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	37,126	58,198	47,590	54,332	60,616
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,422)	3,107	(6,115)	44	1,352
(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)	(366)	(429)	(535)
Tax Paid	(8,655)	(13,560)	(10,917)	(12,587)	(14,019)
Cashflow From Operations	26,513	47,769	32,286	43,813	49,934
Capex	(5,642)	(23,377)	(6,798)	(6,126)	(9,077)
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)	(13,077)
Debt Raised/(repaid)	41	740	219	120	100
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(20,247)	(30,082)	(27,446)	(31,645)	(35,244)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(20,207)	(29,342)	(27,227)	(31,525)	(35,144)
Total Cash Generated	629	(1,812)	(5,239)	2,162	1,713
Free Cashflow To Equity	20,876	28,269	22,207	33,808	36,957
Free Cashflow To Firm	22,382	28,984	22,354	34,117	37,392

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	2,950	5,112	6,825
Total Debtors	1,919	3,005	2,479	2,422	2,999
Inventories	19,288	20,894	15,426	13,318	17,996
Total Other Current Assets	17,073	16,886	17,232	17,341	17,463
Total Current Assets	49,909	48,972	38,088	38,193	45,285
Fixed Assets	34,021	52,020	52,820	52,539	54,645
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	70,383
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	25,234	22,826	25,023
Total Current Liabilities	48,702	59,323	25,865	23,458	25,655
Total Long-term Debt	2,173	2,814	3,033	3,153	3,253
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	2,173	2,814	3,033	3,153	3,253
Total Provisions	33,403	32,063	31,381	31,775	36,308
Total Liabilities	84,278	94,201	60,279	58,386	65,216
Shareholders Equity	24,592	33,409	38,367	44,085	50,452
Minority Interests					
Total Equity	24,592	33,409	38,367	44,085	50,452

Key Ratios					
	Dec-22A	*Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	14.6%	44.4%	(17.6%)	9.9%	10.1%
Operating EBITDA Growth	7.7%	56.8%	(18.2%)	14.2%	11.6%
Operating EBITDA Margin	22.0%	23.9%	23.7%	24.6%	24.9%
Net Cash Per Share (Rs)	9.26	4.92	(0.74)	1.38	3.05
BVPS (Rs)	25.50	34.65	39.79	45.72	52.33
Gross Interest Cover	21.41	36.31	113.69	111.67	100.32
Effective Tax Rate	26.6%	25.7%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	84.7%	76.6%	84.7%	84.7%	84.7%
Accounts Receivables Days	3.87	3.68	4.98	4.05	4.07
Inventory Days	82.93	68.48	75.95	55.08	54.63
Accounts Payables Days	86.71	71.10	46.80		
ROIC (%)	137.2%	154.8%	66.3%	76.3%	78.8%
ROCE (%)	137.4%	167.6%	120.6%	122.1%	127.8%
Return On Average Assets	28.5%	40.3%	30.1%	35.1%	36.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.