

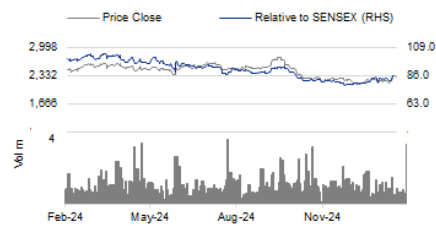
India

HOLD (no change)

Consensus ratings*: Buy 12 Hold 19 Sell 7	
Current price:	Rs2,299
Target price:	Rs2,460
Previous target:	Rs2,540
Up/downside:	7.0%
InCred Research / Consensus:	1.1%
Reuters:	
Bloomberg:	NEST IN
Market cap:	US\$30,531m
	Rs2,217,031m
Average daily turnover:	US\$32.6m
	Rs2369.3m
Current shares o/s:	964.2m
Free float:	37.2%
*Source: Bloomberg	

Key changes in this note

- Lower target price to Rs2,460 from Rs2,540.
- Lower FY25F EPS by 3.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.0	2.4	(7.3)
Relative (%)	3.8	2.6	(15.0)

Major shareholders	% held
Promoters	62.8
LIC	2.8
Vanguard Group	1.5

Nestle India Ltd

Modest growth; outlook remains challenging

- Nestle India's 3Q domestic sales grew by 3.3% yoy (vs. our estimate of 5%). Exports grew by c.21% yoy. Overall revenue missed our estimate by c.1%.
- We expect margin pressure to sustain in the medium term owing to sharp inflation in key raw materials and its margin to remain rangebound.
- Near-term demand headwinds are expected to remain. Retain HOLD rating with a new target price of Rs2,460 (62x Dec 2026F EPS) from Rs2,540 earlier.

Weakness in urban markets persists: rural markets fares better

Nestle India's (Nestle) 3QFY25 revenue at Rs47.8bn was up 3.9% yoy, below our estimate by c.1%. Domestic sales grew by 3% led by high single-digit sales growth in prepared dishes and cooking aids (31% salience) and confectionery (16% salience) segments. Powdered and liquid beverages (14% salience) grew in double digits. Milk products and the nutrition range (39% contribution) declined in high single digits. Exports grew by c.21% yoy. New product sales contribution stood at 6.5% in 9MFY25 vs. 6% in FY24. Rural markets continued to outperform urban markets. While the e-commerce channel has been witnessing strong traction, Nestle India continues to focus on accelerating its rural (rural-urban) presence, with the total villages covered at 208.5k as of 9MFY25-end (vs. 200.5k in FY24) and total 21,915 distribution touchpoints (vs. 16,924 in FY24). Total rural outlets stood at 3.6m as of 9MFY25-end. Nestle India will continue to accelerate its semi-urban and rural market presence, along with tailoring new launches (like noodle varieties launched under the Maggi brand at Rs10 price point) going ahead to drive sustained growth from these markets. The joint venture with Dr. Reddy's Laboratories has been integrated successfully & is witnessing double-digit growth, with more new launches expected soon. The pet-care range has been well received, with good traction on the e-commerce channel.

Margins are expected to remain rangebound in the medium term

Nestle India's gross margin contracted by 220bp yoy and 20bp qoq to 56.4% while the EBITDA margin contracted by 130bp yoy to 22.0%. Employee costs were up 19.5% yoy (11.1% of sales, up 144bp yoy) while other expenses were down 5.2% yoy (23.3% of sales, down 225bp yoy). Prices of cocoa and coffee are expected to remain elevated in the near term. Management pointed towards focusing on premiumization and innovation; however, core portfolios remain under stress. We expect the margin to remain rangebound in the near term owing to continued raw material inflationary pressure and a challenging demand environment. Nestle India's ability to drive up volume growth remains a key monitorable.

Retain HOLD rating with a target price of Rs2,460

Considering the weak sales/EBITDA growth reported in 9MFY25 (+2.8%/flat yoy), we cut our FY25F/26F EPS by 3-5.8% and retain our HOLD rating on Nestle India with a lower target price of Rs2,460 (62x Dec 2026F EPS) as we roll forward, from Rs2,540 earlier. Upside risks: Higher-than-expected volume/sales growth. Downside risks: Sustained weakness in urban markets and muted sales performance in rural markets.

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Financial Summary

	Dec-22A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	168,970	243,939	198,135	217,826	239,928
Operating EBITDA (Rsm)	37,126	58,198	45,963	51,451	57,452
Net Profit (Rsm)	23,905	39,285	31,188	35,208	39,244
Core EPS (Rs)	24.8	40.7	32.3	36.5	40.7
Core EPS Growth	0.3%	64.3%	(20.6%)	12.9%	11.5%
FD Core P/E (x)	92.75	56.44	71.09	62.97	56.50
DPS (Rs)	21.0	31.2	27.4	30.9	34.5
Dividend Yield	0.91%	1.36%	1.19%	1.35%	1.50%
EV/EBITDA (x)	59.48	38.01	48.26	43.07	38.55
P/FCFE (x)	106.20	78.43	106.69	69.24	63.94
Net Gearing	(36.3%)	(14.2%)	2.9%	(2.2%)	(4.7%)
P/BV (x)	90.16	66.36	58.07	50.89	44.72
ROE	108.5%	135.5%	103.0%	105.0%	106.0%
% Change In Core EPS Estimates			(3.73%)	(5.77%)	(5.69%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

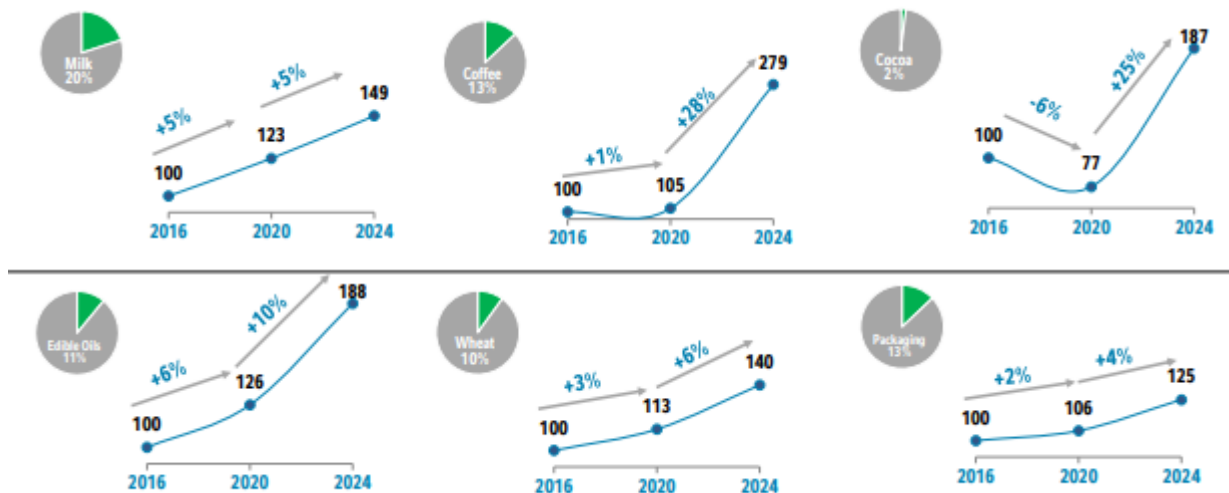
Modest growth; outlook remains challenging

Figure 1: Quarterly results summary – standalone

Y/E Mar (Rs. m)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	Gr. (%)
Revenue	46,004	51,040	47,797	3.9	-6.4	1,42,958	1,46,977	2.8
Expenditure	35,283	39,685	37,294	5.7	-6.0	1,10,025	1,14,292	3.9
Consumption of RM	19,046	22,139	20,846	9.5	-5.8	62,012	63,374	2.2
as % of sales	41.4	43.4	43.6			43.4	43.1	
Employee Costs	4,431	5,339	5,293	19.5	-0.9	14,772	16,002	8.3
as % of sales	9.6	10.5	11.1			10.3	10.9	
Other Expenditure	11,772	12,207	11,155	-5.2	-8.6	33,166	35,036	5.6
as % of sales	25.6	23.9	23.3			23.2	23.8	
Provision for Contingency	35	0	0	NA	NA	76	-120	NA
as % of sales	0.1	0.0	0.0			0.1	-0.1	
EBITDA	10,722	11,355	10,503	-2.0	-7.5	32,932	32,685	-0.8
Depreciation	1,087	1,216	1,325	21.9	9.0	3,272	3,668	12.1
EBIT	9,635	10,139	9,178	-4.7	-9.5	29,660	29,017	-2.2
Other Income	303	69	44	-85.3	-35.3	875	504	-42.4
Interest	0	0	0	NA	NA	0	0	NA
PBT	9,938	10,208	9,223	-7.2	-9.7	30,535	29,521	-3.3
Total Tax	2,309	3,252	2,261	-2.1	-30.5	7,858	8,138	3.6
Adjusted PAT	7,629	6,955	6,961	-8.8	0.1	22,677	21,383	-5.7
Extraordinary Items	1,073	-2,908	0	-100.0	-100.0	57	-2,908	-5193.2
Reported PAT	6,556	9,864	6,961	6.2	-29.4	22,620	24,291	7.4
Adjusted EPS	7.9	7.2	7.2	-8.8	0.1	23.5	22.2	-5.7
Margins (%)	3QFY24	2QFY25	3QFY25	YoY (bp)	QoQ (bp)	9MFY24	9MFY25	(bp)
Gross Margin	58.6	56.6	56.4	-220	-20	56.6	56.9	30
EBITDA	23.3	22.2	22.0	-130	-30	23.0	22.2	-80
EBIT	20.9	19.9	19.2	-170	-70	20.7	19.7	-100
EBT	21.6	20.0	19.3	-230	-70	21.4	20.1	-130
PAT	16.6	13.6	14.6	-200	90	15.9	14.5	-130
Effective Tax Rate	23.2	31.9	24.5	130	-730	25.7	27.6	180

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Commodity prices are expected to remain elevated in the near term



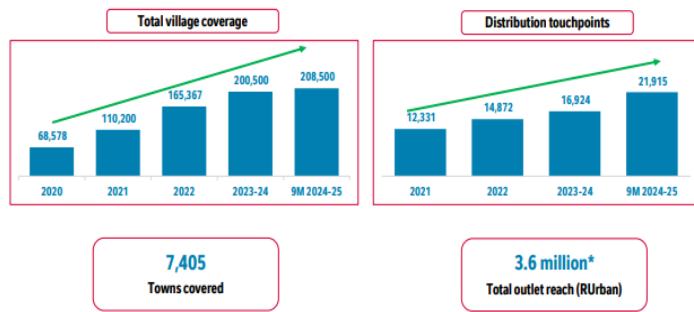
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Total reach stood at 5.3m outlets



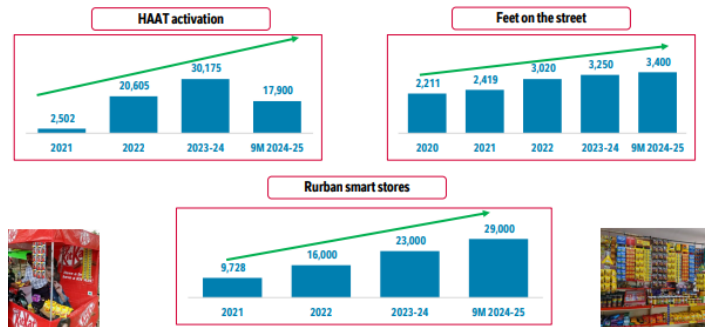
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Rurban acceleration continues...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: ...backed by feet-on-street expansion



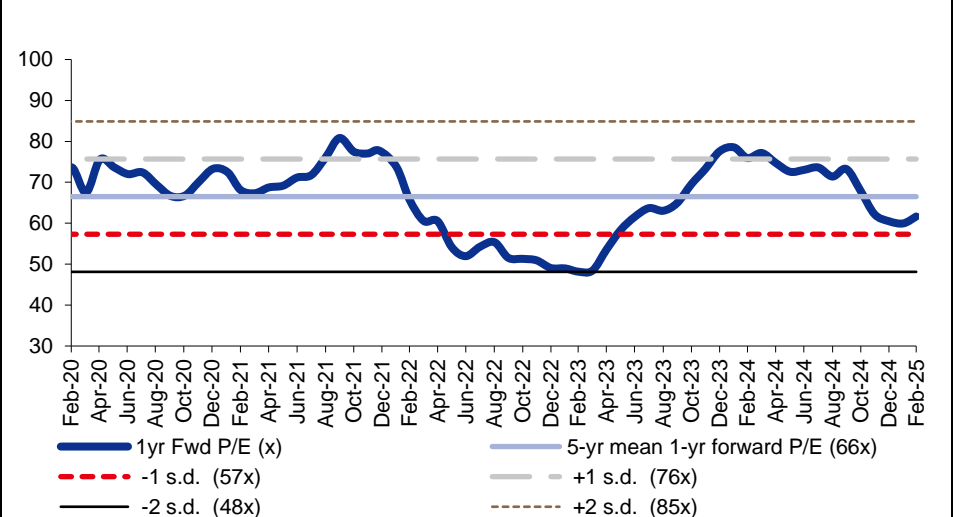
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Our revised earnings estimates

Y/E Mar (Rs. m)	FY25F			FY26F			FY27F		
	Previous	Revised	% Change	Previous	Revised	% Change	Previous	Revised	% Change
Net revenue	2,01,095	1,98,135	(1.5)	2,20,965	2,17,826	(1.4)	2,43,286	2,39,928	(1.4)
EBITDA	47,590	45,963	(3.4)	54,332	51,451	(5.3)	60,616	57,452	(5.2)
EBITDA Margin (%)	23.7	23.2	-50bp	24.6	23.6	-100bp	24.9	23.9	-100bp
Net Profit	32,405	31,188	(3.8)	37,363	35,208	(5.8)	41,611	39,244	(5.7)
EPS	33.6	32.3	(3.8)	38.7	36.5	(5.8)	43.2	40.7	(5.7)

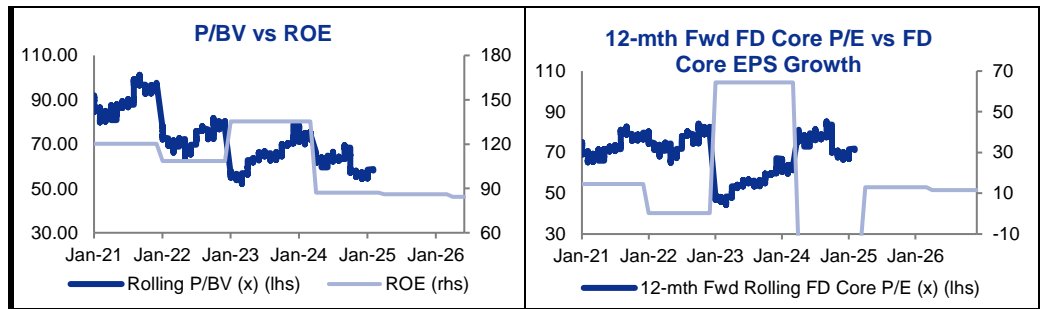
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Nestle's one year forward P/E trades between its 5-year average P/E and -1SD P/E



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	198,135	217,826	239,928
Gross Profit	91,471	136,853	112,144	123,943	136,759
Operating EBITDA	37,126	58,198	45,963	51,451	57,452
Depreciation And Amortisation	(4,030)	(5,378)	(5,997)	(6,407)	(6,971)
Operating EBIT	33,096	52,820	39,966	45,044	50,481
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	41,695	47,070	52,466
Exceptional Items					
Pre-tax Profit	32,560	52,845	41,695	47,070	52,466
Taxation	(8,655)	(13,560)	(10,507)	(11,862)	(13,221)
Exceptional Income - post-tax					
Profit After Tax	23,905	39,285	31,188	35,208	39,244
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,905	39,285	31,188	35,208	39,244
Recurring Net Profit	23,905	39,285	31,188	35,208	39,244
Fully Diluted Recurring Net Profit	23,905	39,285	31,188	35,208	39,244

Cash Flow

(Rs mn)	Dec-22A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	37,126	58,198	45,963	51,451	57,452
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,422)	3,107	(6,325)	410	1,438
(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)	(10,507)	(11,862)	(13,221)
Cashflow From Operations	26,513	47,769	30,860	42,025	47,654
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)	(26,416)	(29,821)	(33,239)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(20,207)	(29,342)	(26,197)	(29,700)	(33,139)
Total Cash Generated	629	(1,812)	(5,635)	2,199	1,438
Free Cashflow To Equity	20,876	28,269	20,781	32,020	34,677
Free Cashflow To Firm	22,382	28,984	20,928	32,329	35,112

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	2,554	4,753	6,191
Total Debtors	1,919	3,005	2,443	2,387	2,958
Inventories	19,288	20,894	15,199	13,129	17,748
Total Other Current Assets	17,073	16,886	17,216	17,324	17,445
Total Current Assets	49,909	48,972	37,412	37,593	44,342
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	25,015	22,791	24,997
Total Current Liabilities	48,702	59,323	25,646	23,422	25,628
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	31,111	31,727	36,270
Total Liabilities	84,278	94,201	59,790	58,302	65,151
Shareholders Equity	24,592	33,409	38,181	43,569	49,574
Minority Interests					
Total Equity	24,592	33,409	38,181	43,569	49,574

Key Ratios					
	Dec-22A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	14.6%	44.4%	(18.8%)	9.9%	10.1%
Operating EBITDA Growth	7.7%	56.8%	(21.0%)	11.9%	11.7%
Operating EBITDA Margin	22.0%	23.9%	23.2%	23.6%	23.9%
Net Cash Per Share (Rs)	9.26	4.92	(1.15)	1.00	2.39
BVPS (Rs)	25.50	34.65	39.60	45.19	51.41
Gross Interest Cover	21.41	36.31	109.24	104.96	94.40
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	5.02	4.05	4.07
Inventory Days	82.93	68.48	76.60	55.07	54.62
Accounts Payables Days	86.71	71.10	47.50		
ROIC (%)	137.2%	154.8%	63.8%	72.0%	74.5%
ROCE (%)	137.4%	167.6%	116.4%	116.0%	122.5%
Return On Average Assets	28.5%	40.3%	29.0%	33.2%	34.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

Definition:

- 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.

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.

Sector Ratings

Definition:

- 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.