

India

**HOLD** (no change)

Consensus ratings\*: Buy 11 Hold 19 Sell 9

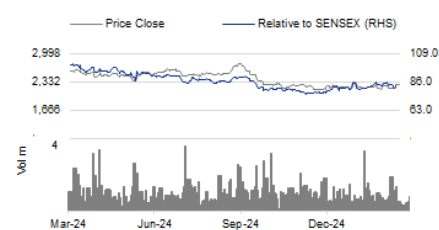
Current price: Rs2,433  
 Target price: ▲ Rs2,485  
 Previous target: Rs2,460  
 Up/downside: 2.1%  
 InCred Research / Consensus: 2.8%

Reuters: NEST.NS  
 Bloomberg: NEST IN  
 Market cap: US\$27,512m  
 Rs2,345,987m  
 Average daily turnover: US\$23.0m  
 Rs1965.1m  
 Current shares o/s: 964.2m  
 Free float: 37.2%

\*Source: Bloomberg

**Key changes in this note**

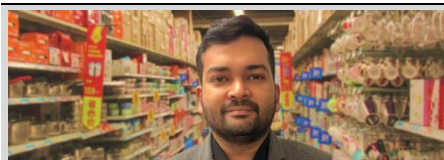
- Raise target price to Rs2,485 from Rs2,460.
- Raise FY26F/27F EPS by 1.3%/1.7%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.5	10.2	(2.7)
Relative (%)	5.1	5.2	(9.3)

Major shareholders	% held
Promoters	62.8
LIC	4.7
Vanguard Group	1.5

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# Nestle India Ltd

## Modest growth; near-term headwinds persist

- Nestle India's 4Q domestic sales grew by 4.2% yoy while exports declined 8.7% yoy. Rural markets continued to grow faster than urban markets.
- We expect margin pressure to sustain in the medium term owing to sharp inflation in key raw materials and expect margin to remain range-bound.
- Near-term demand headwinds are expected to persist. Maintain HOLD rating on the stock with a new target price of Rs2,485 (60x FY27F EPS).

**Urban market weakness persists; rural markets continue to outpace**

Nestle India (Nestle) reported revenue growth of 4.5% yoy to Rs55bn in 4QFY25, in line with our estimate. Domestic sales grew by 4.2% yoy led by improving volume growth and double-digit growth in beverages & confectionery. During the year, powdered and liquid beverages were the largest growth contributors, growing in high double digits. Confectionery grew in high single digits in both value and volume terms, driven by the Kitkat range, and aided by distribution-led gains. Prepared dishes and cooking aids posted mid-single digit growth led by the Maggi range returning to volume growth and consistent growth in masala sachets. The focus on innovations in this segment is supporting growth. The milk products and nutrition segment was backed by new product launches. New variants of Cerelac and Ceregrow (with no refined sugar) launched during the year showed early encouraging response. The pet-care business reported high double-digit growth. Purina, Felix and Friskies cat food brands achieved higher growth. The out-of-home (OOH) business posted strong double-digit growth and is emerging as one of Nestle's fastest growing businesses. The OOH business has also forayed into the cocoa-based spreads category, with the launch of Kitkat professional spread, targeting the Horeca channel. E-commerce channels have been performing well for Nestle, propelled by quick commerce, closing the year with c.8.5% salience to domestic sales in FY25. Rural markets (rural + semi-urban) saw improved route-to-market initiatives, with Nestle's products now present in 208.5k villages. Nestle is investing in a unit in Odisha, with an initial outlay of Rs9bn in the first phase, to make food products under the prepared dishes & cooking aids portfolio.

**Commodity prices remain firm; margin pressure expected to sustain**

Nestle's gross margin contracted 60bp yoy to 56.2% led by input cost pressure and phasing of price hikes. Coffee prices continue to remain firm while cocoa prices corrected from their recent highs (but continue to remain elevated). Edible oil prices are stable; however, milk prices have cyclically firmed up with the onset of the summer season. We expect the EBITDA margins to remain range-bound in the medium term.

**Retain HOLD rating with a target price of Rs2,485**

Nestle's ability to improve volume growth and drive a sustainable recovery in urban markets remains a key monitorable. We retain our HOLD rating on Nestle with a new target price of Rs2,485 (60x FY27F EPS) as we roll forward. Downside/upside risks: Slower/faster than-expected sales growth.

Financial Summary	Dec-22A	*Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	168,970	243,939	202,016	217,826	239,928
Operating EBITDA (Rsm)	37,126	58,198	47,737	52,343	58,608
Net Profit (Rsm)	23,905	39,285	30,237	35,657	39,915
Core EPS (Rs)	24.8	40.7	31.4	37.0	41.4
Core EPS Growth	0.3%	64.3%	(23.0%)	17.9%	11.9%
FD Core P/E (x)	98.14	59.72	77.59	65.80	58.78
DPS (Rs)	21.0	31.2	26.6	31.3	35.1
Dividend Yield	0.86%	1.28%	1.05%	1.29%	1.44%
EV/EBITDA (x)	62.95	40.23	49.37	44.99	40.14
P/FCFE (x)	112.38	82.99	153.89	73.31	64.40
Net Gearing	(36.3%)	(14.2%)	26.0%	19.4%	12.3%
P/BV (x)	95.40	70.22	56.98	50.32	44.49
ROE	108.5%	135.5%	103.0%	105.0%	106.0%
% Change In Core EPS Estimates				1.28%	1.71%
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

## Modest growth; near-term headwinds persist

**Figure 1: Quarterly results summary - standalone**

Y/E Mar (Rs. m)	4QFY24	3QFY25	4QFY25	YoY (%)	QoQ (%)	FY24	FY25	Gr (%)
<b>Revenue</b>	<b>52,676</b>	<b>47,797</b>	<b>55,039</b>	<b>4.5</b>	<b>15.2</b>	<b>1,95,634</b>	<b>2,02,016</b>	<b>3.3</b>
<b>Expenditure</b>	<b>39,437</b>	<b>37,116</b>	<b>41,524</b>	<b>5.3</b>	<b>11.9</b>	<b>1,49,289</b>	<b>1,55,639</b>	<b>4.3</b>
Consumption of raw materials	22,759	20,846	24,124	6.0	15.7	84,770	87,498	3.2
as % of sales	43.2	43.6	43.8			43.3	43.3	
Employee costs	5,131	5,293	5,595	9.0	5.7	19,903	21,597	8.5
as % of sales	9.7	11.1	10.2			10.2	10.7	
Other expenditure	11,548	10,978	11,805	2.2	7.5	44,615	46,543	4.3
as % of sales	21.9	23.0	21.4			22.8	23.0	
<b>EBITDA</b>	<b>13,239</b>	<b>10,681</b>	<b>13,515</b>	<b>2.1</b>	<b>26.5</b>	<b>46,345</b>	<b>46,377</b>	<b>0.1</b>
Depreciation	1,101	1,503	1,553	41.1	3.3	4,547	5,399	18.7
<b>EBIT</b>	<b>12,138</b>	<b>9,178</b>	<b>11,962</b>	<b>-1.4</b>	<b>30.3</b>	<b>41,798</b>	<b>40,978</b>	<b>-2.0</b>
Other income	268	44	84	-68.4	90.1	1,143	589	-48.5
Interest	0	0	0	NA	NA	0	0	NA
<b>PBT</b>	<b>12,405</b>	<b>9,223</b>	<b>12,047</b>	<b>-2.9</b>	<b>30.6</b>	<b>42,940</b>	<b>41,567</b>	<b>-3.2</b>
Total tax	3,164	2,261	3,192	0.9	41.1	11,022	11,330	2.8
<b>Adjusted PAT</b>	<b>9,241</b>	<b>6,961</b>	<b>8,855</b>	<b>-4.2</b>	<b>27.2</b>	<b>31,918</b>	<b>30,237</b>	<b>-5.3</b>
Extraordinary items	-101	0	0	-100.0	NA	-44	-2,908	6554.9
<b>Reported PAT</b>	<b>9,342</b>	<b>6,961</b>	<b>8,855</b>	<b>-5.2</b>	<b>27.2</b>	<b>31,962</b>	<b>33,145</b>	<b>3.7</b>
<b>Adjusted EPS</b>	<b>9.6</b>	<b>7.2</b>	<b>9.2</b>	<b>-4.2</b>	<b>27.2</b>	<b>33.1</b>	<b>31.4</b>	<b>-5.3</b>

Margins (%)	4QFY24	3QFY25	4QFY25	YoY (bp)	QoQ (bp)	FY24	FY25	(bp)
Gross margin	56.8	56.4	56.2	-60	-20	56.7	56.7	0
EBITDA	25.1	22.3	24.6	-60	220	23.7	23.0	-70
EBIT	23.0	19.2	21.7	-130	250	21.4	20.3	-110
EBT	23.5	19.3	21.9	-170	260	21.9	20.6	-140
PAT	17.5	14.6	16.1	-150	150	16.3	15.0	-130
Effective tax rate	25.5	24.5	26.5	100	200	25.7	27.3	160

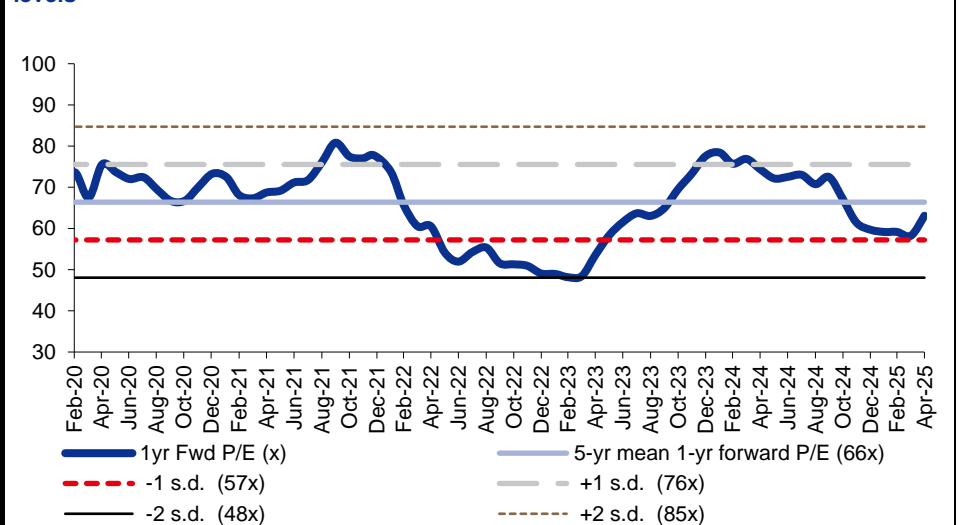
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

Y/E Mar (Rs. m)	FY26F			FY27F		
	Previous	Revised	% Change	Previous	Revised	% Change
Net revenue	2,17,826	2,17,826	-	2,39,928	2,39,928	-
EBITDA	51,451	52,343	1.7	57,452	58,608	2.0
EBITDA margin (%)	23.6	24.0	40bp	23.9	24.4	50bp
Net profit	35,208	35,657	1.3	39,244	39,915	1.7
EPS	36.5	37.0	1.3	40.7	41.4	1.7

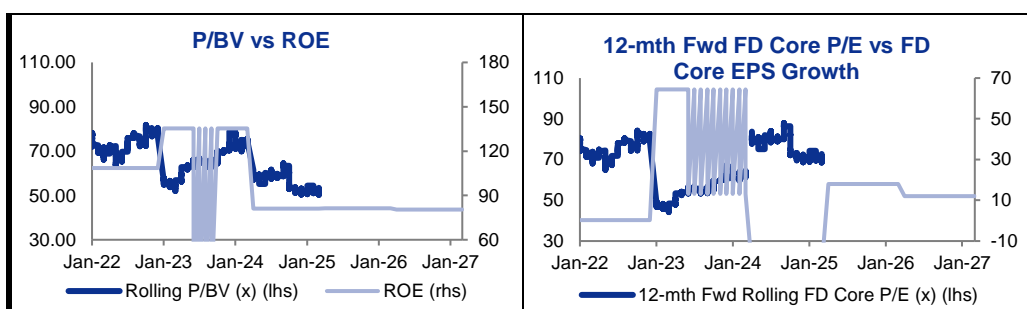
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Dec-22A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>168,970</b>	<b>243,939</b>	<b>202,016</b>	<b>217,826</b>	<b>239,928</b>
<b>Gross Profit</b>	<b>91,471</b>	<b>136,853</b>	<b>114,518</b>	<b>123,943</b>	<b>136,759</b>
<b>Operating EBITDA</b>	<b>37,126</b>	<b>58,198</b>	<b>47,737</b>	<b>52,343</b>	<b>58,608</b>
Depreciation And Amortisation	(4,030)	(5,378)	(5,399)	(6,320)	(6,812)
<b>Operating EBIT</b>	<b>33,096</b>	<b>52,820</b>	<b>42,338</b>	<b>46,023</b>	<b>51,796</b>
Financial Income/(Expense)	(536)	25	(771)	1,647	1,566
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>32,560</b>	<b>52,845</b>	<b>41,567</b>	<b>47,670</b>	<b>53,363</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>32,560</b>	<b>52,845</b>	<b>41,567</b>	<b>47,670</b>	<b>53,363</b>
Taxation	(8,655)	(13,560)	(11,330)	(12,013)	(13,447)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>23,905</b>	<b>39,285</b>	<b>30,237</b>	<b>35,657</b>	<b>39,915</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>23,905</b>	<b>39,285</b>	<b>30,237</b>	<b>35,657</b>	<b>39,915</b>
Recurring Net Profit	23,905	39,285	30,237	35,657	39,915
<b>Fully Diluted Recurring Net Profit</b>	<b>23,905</b>	<b>39,285</b>	<b>30,237</b>	<b>35,657</b>	<b>39,915</b>

### Cash Flow

(Rs mn)	Dec-22A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>37,126</b>	<b>58,198</b>	<b>47,737</b>	<b>52,343</b>	<b>58,608</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,422)	3,107	(3,664)	(38)	2,553
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,010	1,480	589	2,037	2,060
Net Interest (Paid)/Received	(1,546)	(1,455)	(1,360)	(389)	(494)
Tax Paid	(8,655)	(13,560)	(11,330)	(12,013)	(13,447)
<b>Cashflow From Operations</b>	<b>26,513</b>	<b>47,769</b>	<b>31,972</b>	<b>41,939</b>	<b>49,280</b>
Capex	(5,642)	(23,377)	(22,533)	(6,056)	(8,949)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(36)	3,137	(2,417)	(4,000)	(4,000)
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(5,677)</b>	<b>(20,240)</b>	<b>(24,950)</b>	<b>(10,056)</b>	<b>(12,949)</b>
Debt Raised/(repaid)	41	740	8,223	120	100
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(20,247)	(30,082)	(24,586)	(30,201)	(33,807)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(20,207)</b>	<b>(29,342)</b>	<b>(16,363)</b>	<b>(30,081)</b>	<b>(33,707)</b>
Total Cash Generated	629	(1,812)	(9,341)	1,802	2,623
<b>Free Cashflow To Equity</b>	<b>20,876</b>	<b>28,269</b>	<b>15,245</b>	<b>32,003</b>	<b>36,430</b>
<b>Free Cashflow To Firm</b>	<b>22,382</b>	<b>28,984</b>	<b>8,382</b>	<b>32,273</b>	<b>36,825</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Dec-22A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	11,629	8,188	957	2,759	5,382
Total Debtors	1,919	3,005	3,632	2,387	2,958
Inventories	19,288	20,894	28,501	13,129	17,748
Total Other Current Assets	17,073	16,886	16,632	17,087	17,208
<b>Total Current Assets</b>	<b>49,909</b>	<b>48,972</b>	<b>49,721</b>	<b>35,363</b>	<b>43,296</b>
Fixed Assets	34,021	52,020	69,153	68,889	71,027
Total Investments	5,602	4,239	7,056	11,056	15,056
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>39,623</b>	<b>56,259</b>	<b>76,209</b>	<b>79,945</b>	<b>86,083</b>
Short-term Debt	532	631	8,028	8,028	8,028
Current Portion of Long-Term Debt					
Total Creditors	19,338	22,379	23,735		
Other Current Liabilities	28,832	36,313	39,094	24,936	28,316
<b>Total Current Liabilities</b>	<b>48,702</b>	<b>59,323</b>	<b>70,858</b>	<b>32,964</b>	<b>36,344</b>
Total Long-term Debt	2,173	2,814	3,640	3,760	3,860
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>2,173</b>	<b>2,814</b>	<b>3,640</b>	<b>3,760</b>	<b>3,860</b>
Total Provisions	33,403	32,063	33,997	31,956	36,439
<b>Total Liabilities</b>	<b>84,278</b>	<b>94,201</b>	<b>108,494</b>	<b>68,680</b>	<b>76,644</b>
Shareholders Equity	24,592	33,409	41,172	46,628	52,736
Minority Interests					
<b>Total Equity</b>	<b>24,592</b>	<b>33,409</b>	<b>41,172</b>	<b>46,628</b>	<b>52,736</b>

### Key Ratios

	Dec-22A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	14.6%	44.4%	(17.2%)	7.8%	10.1%
Operating EBITDA Growth	7.7%	56.8%	(18.0%)	9.6%	12.0%
Operating EBITDA Margin	22.0%	23.9%	23.6%	24.0%	24.4%
Net Cash Per Share (Rs)	9.26	4.92	(11.11)	(9.37)	(6.75)
BVPS (Rs)	25.50	34.65	42.70	48.36	54.69
Gross Interest Cover	21.41	36.31	31.13	118.19	104.81
Effective Tax Rate	26.6%	25.7%	27.3%	25.2%	25.2%
Net Dividend Payout Ratio	84.7%	76.6%	81.3%	84.7%	84.7%
Accounts Receivables Days	3.87	3.68	6.00	5.04	4.07
Inventory Days	82.93	68.48	103.03	80.93	54.62
Accounts Payables Days	86.71	71.10	96.18	46.14	
ROIC (%)	137.2%	154.8%	76.9%	60.1%	64.2%
ROCE (%)	137.4%	167.6%	103.4%	92.3%	98.9%
Return On Average Assets	28.5%	40.3%	26.8%	28.2%	31.3%

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.