

India

HOLD (no change)

Consensus ratings*: Buy 16 Hold 14 Sell 8

Current price: Rs2,563
 Target price:  Rs2,636
 Previous target: Rs2,636
 Up/downside: 2.8%
 InCred Research / Consensus: 1.4%

Reuters: NEST.NS
 Bloomberg: NEST IN
 Market cap: US\$29,653m
 Rs2,470,797m
 Average daily turnover: US\$29.2m
 Rs2433.9m
 Current shares o/s: 964.2m
 Free float: 37.2%

*Source: Bloomberg

Key changes in this note

- Company changed its financial year-end from Dec to Mar. FY24 data is for 15 months.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.9)	3.2	21.9
Relative (%)	(3.4)	(1.8)	(1.1)

Major shareholders	% held
Promoters	62.8
LIC	2.2
Vanguard Group	1.6

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Nestle India Ltd

Healthy performance; Limited upside

- Nestle India's 4Q revenue grew 9.3% yoy to Rs52.5bn (our est: Rs51.7bn). Domestic sales grew 8.9% yoy. Exports grew 19% yoy led by the Maggi range.
- Nestle India has shifted from calendar year reporting to financial year this year. In 15 months of FY24, all key brands performed well, growing across channels.
- Given the current operating environment & rich valuation, we retain our HOLD rating on Nestle India with an unchanged target price of Rs2,636.

Healthy performance considering the operating environment

Nestle India's revenue at Rs52.2bn was up 9.3% yoy in 4QFY24. Exports moved back into the positive territory after two quarters of decline, growing 19% yoy led by better demand for Maggi sauces, noodles & Nescafe's Sunrise range. The company's focus on its RURBAN strategy continued, with the year ending at a coverage of 200k+ villages. Organized trade and e-commerce channels performed well. Premiumization will remain a key focus area, with enhanced focus on nutraceuticals and pet care in the medium term.

Key categories performed well in FY24

Confectionery delivered healthy growth during the year led by KitKat, making India its second-largest market globally. Beverages posted robust growth led by offerings such as Nescafe. Nestle India launched its Nespresso range of coffee/machines in India and will open its first boutique store in Delhi after which there will be expansion to other markets. Milk products and nutrition witnessed healthy growth, despite inflationary pressure. Prepared dishes and cooking aids registered strong growth led by the Maggi range.

Inks JV with Dr. Reddy's Labs to expand nutraceutical range in India

A joint venture has been formed with Dr. Reddy's Labs where the company/Dr. Reddy's Labs has 49%/51% stake, respectively, but Nestle India has the option to own up to 60% after six years. Nestle India to license its brands like Nature's Bounty, Osteo Bi-Flex, Resource, Optifast, etc, while Dr Reddy's Labs will license its brands Rebalanz, Celevida, Antoxid, etc in nutrition, and the OTC segment to the JV to be operational from 2QFY25F.

Key commodity prices expected to remain firm in the near term

Gross margin expanded by 300bp yoy (down 180bp qoq) to 56.8% owing to moderation of input costs while the EBITDA margin expanded by 320bp yoy to 25.1%. Coffee and cocoa prices are at all-time highs. Cereals and grains are going through a structural cost increase backed by minimum support prices. Milk prices are expected to rise on account of a harsh summer. Higher royalty fees (by 0.15% per year) and higher inflationary pressure in key raw materials may exert some pressure on margins in the near term.

Lofty valuation limits upside; maintain HOLD rating

Given the current operating environment and lofty valuation, we maintain our HOLD rating on Nestle India with an unchanged target price of Rs2,636 (63x FY26F EPS). Upside risk: Higher-than-expected margin recovery. Downside risk: Deceleration in sales growth.

Financial Summary	Dec-21A	Dec-22A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	147,406	168,970	243,939	214,514	238,993
Operating EBITDA (Rsm)	34,464	37,126	58,198	51,862	59,270
Net Profit (Rsm)	23,846	23,905	39,285	35,462	40,336
Core EPS (Rs)	24.7	24.8	40.7	36.8	41.8
Core EPS Growth	14.5%	0.3%	64.3%	(9.7%)	13.7%
FD Core P/E (x)	103.62	103.36	62.90	69.68	61.26
DPS (Rs)	20.0	21.0	31.2	31.2	35.4
Dividend Yield	0.78%	0.82%	1.22%	1.22%	1.38%
EV/EBITDA (x)	71.54	66.31	42.38	47.55	41.67
P/FCFE (x)	171.74	118.36	87.41	82.30	80.16
Net Gearing	(27.3%)	(36.3%)	(14.2%)	(13.0%)	(3.3%)
P/BV (x)	126.95	100.48	73.96	68.00	58.13
ROE	120.3%	108.5%	135.5%	101.7%	102.3%
% Change In Core EPS Estimates				(0.83%)	(0.03%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

*15 MONTHS DATA IN FY24 AS THE FINANCIAL YEAR-END CHANGES FROM DEC TO MAR

Better-than-expected performance

Figure 1: Quarterly summary - standalone

Y/E Dec (Rs. m)	1QCY23	4QCY23	1QCY24	YoY (%)	QoQ (%)	CY22	FY24*	Gr (%)
Revenue	48,305	46,004	52,676	9.0	14.5	1,68,970	2,43,939	44.4
Expenditure	37,721	35,283	39,450	4.6	11.8	1,33,390	1,87,196	40.3
Consumption of RM	22,315	19,046	22,759	2.0	19.5	77,499	1,07,086	38.2
as % of sales	46.2	41.4	43.2			45.9	43.9	
Employee Costs	4,913	4,431	5,131	4.4	15.8	17,900	24,816	38.6
as % of sales	10.2	9.6	9.7			10.6	10.2	
Other Expenditure	10,461	11,772	11,675	11.6	-0.8	37,828	55,302	46.2
as % of sales	21.7	25.6	22.2			22.4	22.7	
Provision for Contingency	32	35	-115	-461.9	-429.8	163	-8	-104.6
as % of sales	0.1	0.1	-0.2			0.1	0.0	
EBITDA	10,585	10,722	13,226	25.0	23.4	35,580	56,743	59.5
Depreciation	1,017	1,087	1,089	7.1	0.2	4,030	5,378	33.4
EBIT	9,568	9,635	12,138	26.9	26.0	31,550	51,365	62.8
Other Income	337	303	268	-20.6	-11.7	1,010	1,480	46.5
Interest	0	0	0	NA	NA	0	0	NA
PBT	9,905	9,938	12,405	25.2	24.8	32,560	52,845	62.3
Total Tax	2,538	2,309	3,164	24.7	37.1	8,655	13,560	56.7
Adjusted PAT	7,366	7,629	9,241	25.4	21.1	23,905	39,285	64.3
Extraordinary Items	0	1,073	-101	NA	NA	0	-44	NA
Reported PAT	7,366	6,556	9,342	26.8	42.5	23,905	39,328	64.5
Adjusted EPS	7.6	7.9	9.6	25.4	21.1	24.8	40.7	64.3
Margins (%)	1QCY23	4QCY23	1QCY24	YoY (bp)	QoQ (bp)	CY22	CY24	(bp)
Gross Margin	53.8	58.6	56.8	300	-180	54.1	56.1	200
EBITDA	21.9	23.3	25.1	320	180	21.1	23.3	220
EBIT	19.8	20.9	23.0	320	210	18.7	21.1	240
EBT	20.5	21.6	23.5	300	190	19.3	21.7	240
PAT	15.2	16.6	17.5	230	100	14.1	16.1	200
Effective Tax Rate	25.6	23.2	25.5	-10	230	26.6	25.7	-90

SOURCE: INCRED RESEARCH, COMPANY REPORTS

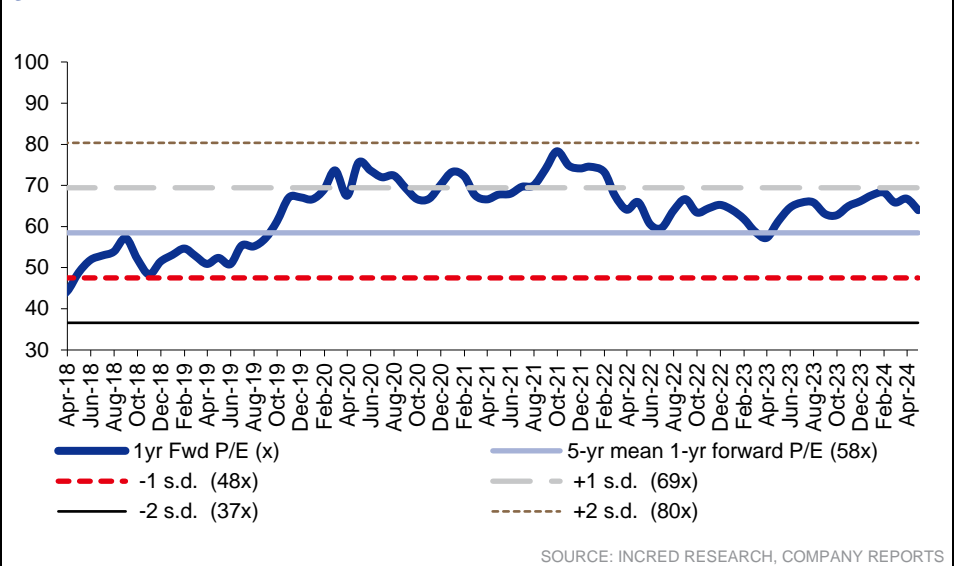
*15 MONTHS DATA IN FY24 AS THE FINANCIAL YEAR-END CHANGES FROM DEC TO MAR

Figure 2: Our revised earnings estimates

Y/E, Mar (Rs. m)	FY25F			FY26F		
	Previous	Revised	% Change	Previous	Revised	% Change
Net revenue	2,13,203	2,14,514	0.6	2,37,445	2,38,993	0.7
EBITDA	51,875	51,862	0.0	58,537	59,270	1.3
EBITDA Margin (%)	24.2	24.2	0 bps	24.7	24.8	10 bps
Net Profit	35,757	35,462	(0.8)	40,346	40,336	0.0
EPS	37.1	36.8	(0.8)	41.8	41.8	0.0

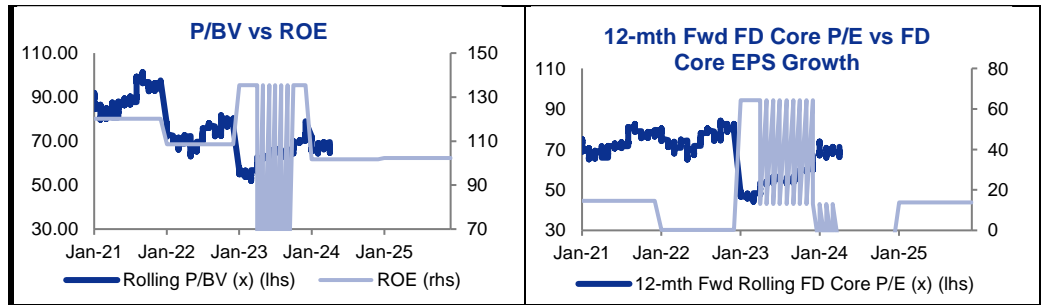
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Nestle India's one-year forward P/E trades between its 5-year average and +1 SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-21A	Dec-22A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	147,406	168,970	243,939	214,514	238,993
Gross Profit	83,924	91,471	136,853	121,630	136,704
Operating EBITDA	34,464	37,126	58,198	51,862	59,270
Depreciation And Amortisation	(3,910)	(4,030)	(5,378)	(6,261)	(7,390)
Operating EBIT	30,554	33,096	52,820	45,601	51,879
Financial Income/(Expense)	681	(536)	25	1,999	2,336
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	31,235	32,560	52,845	47,600	54,215
Exceptional Items					
Pre-tax Profit	31,235	32,560	52,845	47,600	54,215
Taxation	(7,389)	(8,655)	(13,560)	(12,138)	(13,879)
Exceptional Income - post-tax					
Profit After Tax	23,846	23,905	39,285	35,462	40,336
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,846	23,905	39,285	35,462	40,336
Recurring Net Profit	23,846	23,905	39,285	35,462	40,336
Fully Diluted Recurring Net Profit	23,846	23,905	39,285	35,462	40,336

Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Mar-24A	Mar-25F	Mar-26F
EBITDA	34,464	37,126	58,198	51,862	59,270
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,316)	(1,422)	3,107	1,451	7,100
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,202	1,010	1,480	2,309	2,690
Net Interest (Paid)/Received	(521)	(1,546)	(1,455)	(310)	(355)
Tax Paid	(7,389)	(8,655)	(13,560)	(12,138)	(13,879)
Cashflow From Operations	14,439	26,513	47,769	43,174	54,826
Capex	(8,139)	(5,642)	(23,377)	(13,150)	(20,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	6,898	(36)	3,137		(4,000)
Other Investing Cashflow					
Cash Flow From Investing	(1,241)	(5,677)	(20,240)	(13,150)	(24,000)
Debt Raised/(repaid)	1,190	41	740		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,283)	(20,247)	(30,082)	(30,036)	(34,164)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(18,093)	(20,207)	(29,342)	(30,036)	(34,164)
Total Cash Generated	(4,895)	629	(1,812)	(11)	(3,337)
Free Cashflow To Equity	14,388	20,876	28,269	30,024	30,826
Free Cashflow To Firm	13,719	22,382	28,984	30,335	31,181

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Dec-21A	Dec-22A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	7,987	11,629	8,188	8,177	4,839
Total Debtors	1,660	1,919	3,005	2,753	3,132
Inventories	15,927	19,288	20,894	15,316	16,409
Total Other Current Assets	16,993	17,073	16,886	16,753	16,824
Total Current Assets	42,566	49,909	48,972	42,999	41,205
Fixed Assets	32,409	34,021	52,020	58,909	71,518
Total Investments	7,107	5,602	4,239	4,239	8,239
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	39,516	39,623	56,259	63,148	79,757
Short-term Debt	487	532	631	631	631
Current Portion of Long-Term Debt					
Total Creditors	17,482	19,338	22,379		
Other Current Liabilities	25,972	28,832	36,313	30,631	34,831
Total Current Liabilities	43,941	48,702	59,323	31,262	35,462
Total Long-term Debt	2,178	2,173	2,814	2,814	2,814
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	2,178	2,173	2,814	2,814	2,814
Total Provisions	33,982	33,403	32,063	33,235	37,679
Total Liabilities	80,100	84,278	94,201	67,311	75,955
Shareholders Equity	19,464	24,592	33,409	36,336	42,508
Minority Interests					
Total Equity	19,464	24,592	33,409	36,336	42,508

Key Ratios

	Dec-21A	Dec-22A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	10.9%	14.6%	44.4%	(12.1%)	11.4%
Operating EBITDA Growth	14.7%	7.7%	56.8%	(10.9%)	14.3%
Operating EBITDA Margin	23.4%	22.0%	23.9%	24.2%	24.8%
Net Cash Per Share (Rs)	5.52	9.26	4.92	4.91	1.45
BVPS (Rs)	20.19	25.50	34.65	37.69	44.09
Gross Interest Cover	58.66	21.41	36.31	146.98	146.24
Effective Tax Rate	23.7%	26.6%	25.7%	25.5%	25.6%
Net Dividend Payout Ratio	80.9%	84.7%	76.6%	84.7%	84.7%
Accounts Receivables Days	4.10	3.87	3.68	4.90	4.49
Inventory Days	86.51	82.93	68.48	71.15	56.60
Accounts Payables Days	93.86	86.71	71.10	43.97	
ROIC (%)	129.8%	137.2%	154.8%	72.3%	71.0%
ROCE (%)	143.9%	137.4%	166.9%	122.0%	124.4%
Return On Average Assets	28.8%	28.5%	40.3%	31.7%	33.5%

Key Drivers

	Dec-21A	Dec-22A	Mar-24A	Mar-25F	Mar-26F
Volume growth %	10.9%	5.2%	8.9%	8.6%	8.2%
EBITDA margin %	23.4%	22.0%	23.9%	24.2%	24.8%
Prepared dishes growth %	17.1%	15.7%	15.5%	16.0%	14.4%
Milk products & nutrition growth %	1.9%	8.7%	10.0%	6.5%	7.0%
Beverages growth %	14.6%	19.3%	13.0%	13.9%	12.3%
Chocolate & confectionery growth %	21.0%	25.0%	20.0%	18.2%	14.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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