

July 25, 2024

## Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	CY24E	CY25E	CY24E	CY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,746		2,695	
Sales (Rs. m)	2,05,782	2,28,555	2,15,431	2,41,023
% Chng.	(4.5)	(5.2)		
EBITDA (Rs. m)	49,718	55,052	51,480	57,515
% Chng.	(3.4)	(4.3)		
EPS (Rs.)	34.6	37.9	34.9	39.0
% Chng.	(0.9)	(2.8)		

### Key Financials - Standalone

Y/e Dec	CY22	CY23	CY24E	CY25E
Sales (Rs. bn)	169	244	206	229
EBITDA (Rs. bn)	38	81	50	55
Margin (%)	22.2	33.3	24.2	24.1
PAT (Rs. bn)	24	62	33	37
EPS (Rs.)	25.3	64.6	34.6	37.9
Gr. (%)	4.5	155.6	(46.5)	9.5
DPS (Rs.)	21.0	31.2	25.5	30.0
Yield (%)	0.8	1.3	1.0	1.2
RoE (%)	110.6	214.7	89.6	82.5
RoCE (%)	150.1	258.9	120.3	111.6
EV/Sales (x)	14.1	9.8	11.5	10.3
EV/EBITDA (x)	63.3	29.3	47.5	42.7
PE (x)	98.2	38.4	71.7	65.5
P/BV (x)	97.3	71.6	58.3	50.4

### Key Data

### NEST.BO | NEST IN

52-W High / Low	Rs.2,771 / Rs.2,145
Sensex / Nifty	80,040 / 24,406
Market Cap	Rs.2,392bn/ \$ 28,573m
Shares Outstanding	964m
3M Avg. Daily Value	Rs.2244.73m

### Shareholding Pattern (%)

Promoter's	62.76
Foreign	11.94
Domestic Institution	9.22
Public & Others	16.07
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.4)	(0.1)	8.9
Relative	(3.8)	(11.7)	(9.7)

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## Nestle India (NEST IN)

Rating: ACCUMULATE | CMP: Rs2,481 | TP: Rs2,746

### Peaked out margins, expect back ended returns

#### Quick Pointers:

- Realization-led growth while volumes turn tepid (~0.9% growth)
- KitKat, Milkmaid and Nescafe grew in double-digits

**NEST displayed a weak quarter of low-single digit topline amid lower consumption growth, harsh climate, continued food inflation & volatile commodity prices. NEST continues to report growth across segments, markets (Metros, T1-6 cities & rural markets) and channels (MT, OOH and E-commerce). Long term drivers remain intact, led by 1) sustained expansion in rural reach (~20-25% of sales) 2) healthy innovation pipeline 3) huge scope of growth in coffee, RTD & Chocolates and 4) higher growth in channels like E-Com and MT and 5) strong traction in Pet care segment.**

**We cut our estimates by 5-6% given 1) gains from soft RM has been mostly derived as input costs of cereals, grains, coffee & cocoa are moving up and 2) delayed volume recovery due to likely price hikes in coffee and chocolates. We increase our target price to Rs. 2746 (Rs. 2695 earlier) by rollover and value the stock based on DCF. NEST share prices have been consolidating over the past 6 months, we expect back ended returns given near term pressures; retain 'Accumulate' for LT gains.**

**Sales up by 3.3%, PAT up by 4.7%:** Revenues grew by 3.3% YoY to Rs48.1bn (PLe: Rs51.4bn) with domestic up by 4.2% while export sales de-grew ~7% Gross margins expanded by 283bps YoY to 57.6% (PLe: 56.1%) EBITDA grew by 4.1% YoY to Rs11bn (PLe:Rs 12.3bn); Margins expanded by 17bps YoY to 22.9% (PLe:24%) Adjusted PAT grew by 4.7% YoY to Rs7.3bn (PLe:Rs 8.2bn)

**Strong growth continues across key brands:** KITKAT, MILKMAID, NESCAFÉ and Sunrise reported double-digit growth led by 1) media campaigns 2) innovations and 3) increased consumer engagement. NEST will continue to benefit from innovations in Metros & Tier 1 cities and distribution expansion in rural India (~20-25% of sales). We believe Maggi, Infant Nutrition and Munch reported lower growth.

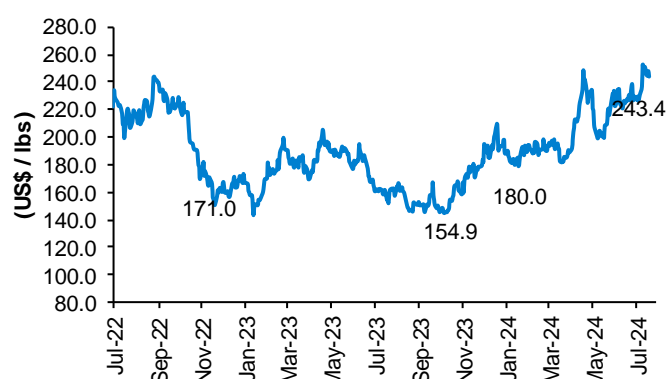
**Strong Distribution network:** E-Com growth continued to accelerate; contributing to 7.5% of domestic sales and growing at double digit along with robust growth in quick commerce aided by new user acquisition & digital communication. Retail continues strong double-digit growth while NEST continues to build its distribution infrastructure as Rurban geographies have been expanding consistently.

**Scope of further GM expansion limited:** NEST's gross margins might be close to a peak level as input costs can turn inflationary. Coffee & Cocoa prices are at an all-time high and upward trajectory continues due to limited availability. Cereals & grains are going through structural increase backed by MSP while there is relative stability in milk prices, packaging and edible oils

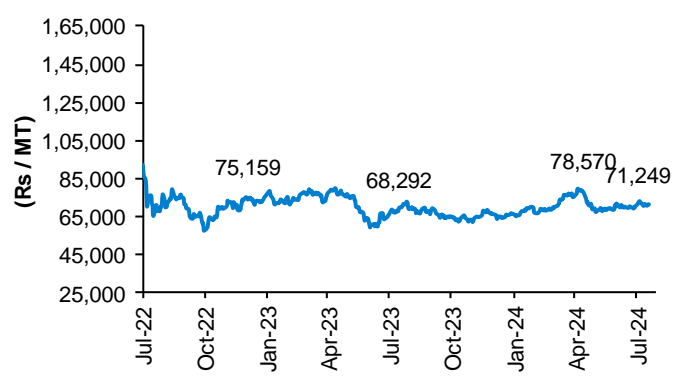
**Exhibit 1: 1QFY25 Results: Revenue up 3.3% YoY; Gross margins expand 85bps YoY & 283bps QoQ**

Y/e Dec (Rs mn)	1QFY25	2QCY23	YoY gr. (%)	1QCY24	QoQ gr. (%)	FY24 (15mos)	CY22 (15 mos)
<b>Net Sales</b>	<b>48,140</b>	<b>46,585</b>	<b>3.3</b>	<b>52,677</b>	<b>(8.6)</b>	<b>243,940</b>	<b>217,275</b>
Gross Profit	27,751	25,535	8.7	29,918	(7.2)	141,569	116,950
% of NS	57.6	54.8	2.8	56.8	0.9	58.0	53.8
Other Expenses	16,728	14,947	11.9	16,532	1.2	83,078	68,779
<b>EBITDA</b>	<b>11,023</b>	<b>10,588</b>	<b>4.1</b>	<b>13,386</b>	<b>(17.7)</b>	<b>58,491</b>	<b>48,172</b>
Margins (%)	22.9	22.7	0.2	25.4	-2.5	24.0	22.2
Depreciation	1,127	1,074	5.0	1,089	3.5	5,378	5,047
Interest	317	328	(3.4)	262	20.9	1,503	1,916
Other Income	391	240	63.3	268	46.2	1,480	1,347
<b>PBT</b>	<b>9,971</b>	<b>9,427</b>	<b>5.8</b>	<b>12,404</b>	<b>(19.6)</b>	<b>53,090</b>	<b>42,556</b>
Tax	2,625	2,410	8.9	3,164	(17.1)	13,560	11,333
Effective tax rate (%)	26.3	25.6	0.8	25.5	0.8	25.5	26.6
<b>Adjusted PAT</b>	<b>7,346</b>	<b>7,017</b>	<b>4.7</b>	<b>9,240</b>	<b>(20.5)</b>	<b>39,529</b>	<b>31,223</b>

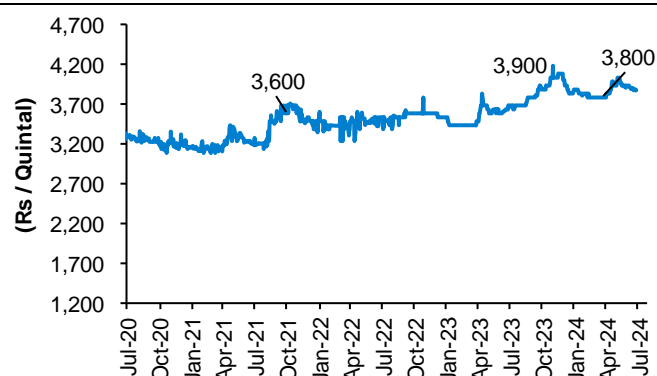
Source: Company, PL, \* NEST changed year ended from Dec to March

**Exhibit 2: Coffee prices inch up 19.2%YoY & 16.2% QoQ**


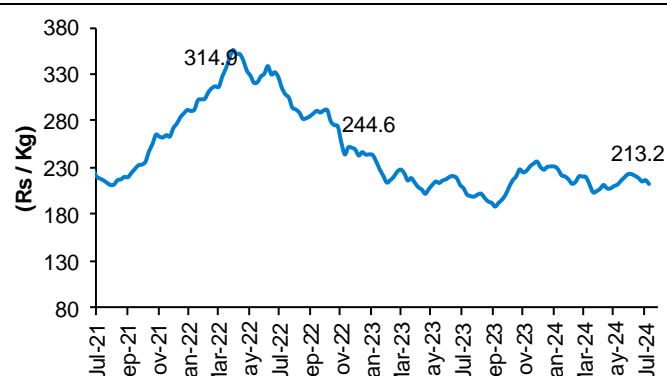
Source: Company, PL

**Exhibit 3: Palmoil up 2% YoY and 1.9% QoQ**


Source: Company, PL

**Exhibit 4: Sugar prices up 2.4% YoY but down 2.2% QoQ**


Source: Company, PL

**Exhibit 5: SMP prices up 0.8% YoY but down 2.3% QoQ**


Source: Bloomberg, PL

## Financials

### Income Statement (Rs m)

Y/e Dec	CY22	CY23	CY24E	CY25E
<b>Net Revenues</b>	<b>1,68,970</b>	<b>2,43,939</b>	<b>2,05,782</b>	<b>2,28,555</b>
YoY gr. (%)	14.6	44.4	(15.6)	11.1
Cost of Goods Sold	77,499	84,327	90,457	1,00,441
Gross Profit	91,471	1,59,612	1,15,324	1,28,114
Margin (%)	54.1	65.4	56.0	56.1
Employee Cost	16,355	23,361	19,339	21,368
Other Expenses	17,821	34,304	23,059	25,488
<b>EBITDA</b>	<b>37,583</b>	<b>81,249</b>	<b>49,718</b>	<b>55,052</b>
YoY gr. (%)	6.1	116.2	(38.8)	10.7
Margin (%)	22.2	33.3	24.2	24.1
Depreciation and Amortization	4,030	5,378	4,566	5,303
<b>EBIT</b>	<b>33,553</b>	<b>75,871</b>	<b>45,153</b>	<b>49,749</b>
Margin (%)	19.9	31.1	21.9	21.8
Net Interest	1,546	1,455	1,310	1,456
Other Income	1,010	1,480	1,337	1,197
<b>Profit Before Tax</b>	<b>33,017</b>	<b>75,839</b>	<b>45,179</b>	<b>49,489</b>
Margin (%)	19.5	31.1	22.0	21.7
Total Tax	8,655	13,560	11,837	12,966
Effective tax rate (%)	26.2	17.9	26.2	26.2
<b>Profit after tax</b>	<b>24,362</b>	<b>62,278</b>	<b>33,342</b>	<b>36,523</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>24,362</b>	<b>62,278</b>	<b>33,342</b>	<b>36,523</b>
YoY gr. (%)	4.5	155.6	(46.5)	9.5
Margin (%)	14.4	25.5	16.2	16.0
Extra Ord. Income / (Exp)	(457)	(292)	(554)	(612)
<b>Reported PAT</b>	<b>23,905</b>	<b>61,986</b>	<b>32,788</b>	<b>35,911</b>
YoY gr. (%)	12.8	159.3	(47.1)	9.5
Margin (%)	14.1	25.4	15.9	15.7
Other Comprehensive Income	1,119	(429)	(500)	(500)
Total Comprehensive Income	25,025	61,557	32,288	35,411
<b>Equity Shares O/s (m)</b>	<b>964</b>	<b>964</b>	<b>964</b>	<b>964</b>
<b>EPS (Rs)</b>	<b>25.3</b>	<b>64.6</b>	<b>34.6</b>	<b>37.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Dec	CY22	CY23	CY24E	CY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>76,972</b>	<b>85,568</b>	<b>71,171</b>	<b>83,516</b>
Tangibles	76,972	85,568	71,171	83,516
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>46,535</b>	<b>50,966</b>	<b>55,302</b>	<b>60,558</b>
Tangibles	46,535	50,966	55,302	60,558
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>30,436</b>	<b>34,602</b>	<b>15,869</b>	<b>22,959</b>
Tangibles	30,436	34,602	15,869	22,959
Intangibles	-	-	-	-
Capital Work In Progress	3,584	17,417	20,000	17,000
Goodwill	-	-	-	-
Non-Current Investments	6,160	4,884	4,955	5,035
Net Deferred tax assets	256	(120)	118	248
Other Non-Current Assets	14,449	13,380	13,714	14,057
<b>Current Assets</b>				
Investments	10,697	6,523	4,093	11,366
Inventories	19,288	20,894	22,061	23,791
Trade receivables	1,919	3,005	2,243	2,491
Cash & Bank Balance	932	1,665	28,262	27,634
Other Current Assets	1,381	2,288	2,517	2,768
<b>Total Assets</b>	<b>89,787</b>	<b>1,05,230</b>	<b>1,14,505</b>	<b>1,28,090</b>
<b>Equity</b>				
Equity Share Capital	964	964	964	964
Other Equity	23,627	32,445	40,047	46,533
<b>Total Network</b>	<b>24,592</b>	<b>33,409</b>	<b>41,011</b>	<b>47,498</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	267	255	255	255
Provisions	32,052	29,172	31,225	33,494
Other non current liabilities	2,080	2,714	3,042	3,532
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	34	57	57	57
Trade payables	19,338	22,379	23,544	26,142
Other current liabilities	11,426	17,125	15,373	17,114
<b>Total Equity &amp; Liabilities</b>	<b>89,787</b>	<b>1,05,231</b>	<b>1,14,506</b>	<b>1,28,091</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Dec	CY22	CY23	CY24E	CY25E
PBT	33,017	53,181	45,179	49,489
Add. Depreciation	4,030	5,378	4,566	5,303
Add. Interest	1,546	1,455	1,310	1,456
Less Financial Other Income	1,010	1,480	1,337	1,197
Add. Other	(2,634)	(4,316)	(1,790)	(1,338)
Op. profit before WC changes	35,959	55,698	49,265	54,911
Net Changes-WC	(3,743)	9,417	1,076	(5,269)
Direct tax	(8,655)	(13,560)	(11,837)	(12,966)
<b>Net cash from Op. activities</b>	<b>23,561</b>	<b>51,555</b>	<b>38,504</b>	<b>36,676</b>
Capital expenditures	(5,642)	(23,376)	11,584	(9,393)
Interest / Dividend Income	2,084	2,707	2,472	2,433
Others	1,505	1,363	-	-
<b>Net Cash from Invt. activities</b>	<b>(2,052)</b>	<b>(19,306)</b>	<b>14,056</b>	<b>(6,960)</b>
Issue of share cap. / premium	679	0	(100)	-
Debt changes	(40)	11	-	-
Dividend paid	(20,247)	(30,082)	(24,586)	(28,925)
Interest paid	(1,546)	(1,455)	(1,310)	(1,456)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(21,155)</b>	<b>(31,525)</b>	<b>(25,996)</b>	<b>(30,381)</b>
<b>Net change in cash</b>	<b>354</b>	<b>724</b>	<b>26,564</b>	<b>(665)</b>
Free Cash Flow	17,919	28,179	50,089	27,283

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Dec	CY22	CY23	CY24E	CY25E
<b>Per Share(Rs)</b>				
EPS	25.3	64.6	34.6	37.9
CEPS	29.4	70.2	39.3	43.4
BVPS	25.5	34.7	42.5	49.3
FCF	18.6	29.2	52.0	28.3
DPS	21.0	31.2	25.5	30.0
<b>Return Ratio(%)</b>				
RoCE	150.1	258.9	120.3	111.6
ROIC	42.9	78.2	55.0	55.8
RoE	110.6	214.7	89.6	82.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.2)	(0.8)	(0.8)
Net Working Capital (Days)	4	2	1	0
<b>Valuation(x)</b>				
PER	98.2	38.4	71.7	65.5
P/B	97.3	71.6	58.3	50.4
P/CEPS	29.4	70.2	39.3	43.4
EV/EBITDA	63.3	29.3	47.5	42.7
EV/Sales	14.1	9.8	11.5	10.3
Dividend Yield (%)	0.8	1.3	1.0	1.2

Source: Company Data, PL Research

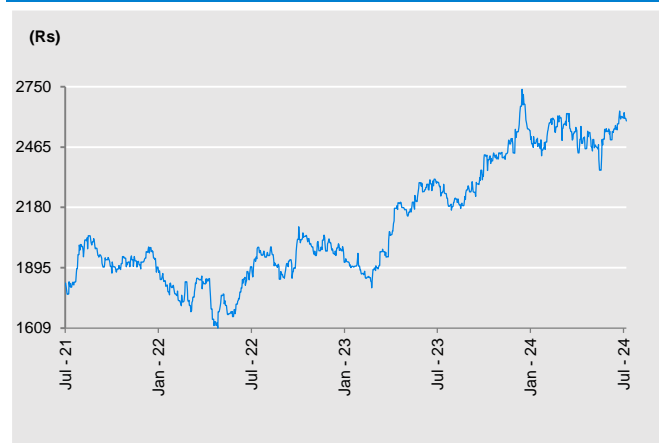
## Quarterly Financials (Rs m)

Y/e Dec	Q3CY23	Q4CY23	Q1CY24	Q2CY24
<b>Net Revenue</b>	<b>50,368</b>	<b>46,004</b>	<b>52,677</b>	<b>48,140</b>
YoY gr. (%)	9.5	8.1	9.0	3.3
Raw Material Expenses	21,916	19,046	22,759	22,598
Gross Profit	28,452	26,959	29,918	25,541
Margin (%)	56.5	58.6	56.8	53.1
<b>EBITDA</b>	<b>12,287</b>	<b>11,130</b>	<b>13,386</b>	<b>8,813</b>
YoY gr. (%)	21.6	13.9	20.6	(16.8)
Margin (%)	24.4	24.2	25.4	18.3
Depreciation / Depletion	1,112	1,087	1,089	1,127
<b>EBIT</b>	<b>11,176</b>	<b>10,043</b>	<b>12,297</b>	<b>7,686</b>
Margin (%)	22.2	21.8	23.3	16.0
Net Interest	314	230	262	317
Other Income	333	303	268	391
<b>Profit before Tax</b>	<b>11,195</b>	<b>10,116</b>	<b>12,303</b>	<b>7,761</b>
Margin (%)	22.2	22.0	23.4	16.1
Total Tax	3,139	2,309	3,164	2,625
Effective tax rate (%)	28.0	22.8	25.7	33.8
<b>Profit after Tax</b>	<b>8,055</b>	<b>7,808</b>	<b>9,139</b>	<b>5,136</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>8,055</b>	<b>7,808</b>	<b>9,139</b>	<b>5,136</b>
YoY gr. (%)	20.7	23.5	21.7	(26.8)
Margin (%)	16.0	17.0	17.3	10.7
Extra Ord. Income / (Exp)	1,026	(1,252)	204	-
<b>Reported PAT</b>	<b>9,081</b>	<b>6,556</b>	<b>9,342</b>	<b>5,136</b>
YoY gr. (%)	37.3	4.4	26.8	(26.5)
Margin (%)	18.0	14.3	17.7	10.7
Other Comprehensive Income	(27)	248	(111)	-
<b>Total Comprehensive Income</b>	<b>9,054</b>	<b>6,804</b>	<b>9,231</b>	<b>5,136</b>
Avg. Shares O/s (m)	964	964	964	964
<b>EPS (Rs)</b>	<b>8.4</b>	<b>8.1</b>	<b>9.5</b>	<b>5.3</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jul-24	Accumulate	2,695	2,574
2	25-Apr-24	Accumulate	2,695	2,563
3	09-Apr-24	Accumulate	2,695	2,507
4	08-Feb-24	Accumulate	2,699	2,500
5	08-Jan-24	Accumulate	2,679	2,619
6	25-Oct-23	Accumulate	2,547	2,425
7	19-Oct-23	Accumulate	2,547	2,326
8	07-Oct-23	Accumulate	2,359	2,291
9	27-Jul-23	Accumulate	2,359	2,233

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Reduce	2,605	2,974
2	Avenue Supermarts	Accumulate	5,104	4,944
3	Britannia Industries	Hold	5,315	5,547
4	Colgate Palmolive	Reduce	2,414	2,910
5	Dabur India	UR	-	606
6	Emami	UR	-	725
7	Hindustan Unilever	Hold	2,698	2,766
8	ITC	Accumulate	491	434
9	Jubilant FoodWorks	UR	-	570
10	Kansai Nerolac Paints	Reduce	266	267
11	Marico	Accumulate	621	615
12	Metro Brands	Hold	1,190	1,218
13	Mold-tek Packaging	Accumulate	843	796
14	Nestle India	Accumulate	2,695	2,574
15	Pidilite Industries	Accumulate	3,141	3,100
16	Restaurant Brands Asia	Accumulate	134	114
17	Titan Company	Accumulate	3,545	3,269
18	Westlife Foodworld	Hold	815	854

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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