



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	■	✓	■
Right Valuation (RV)	■	■	✓
+ Positive	= Neutral	- Negative	

What has changed in 3R MATRIX

	Old	↔	New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

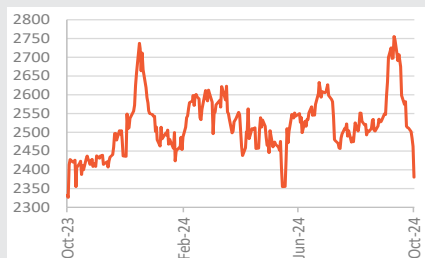
Company details

Market cap:	Rs. 2,29,440 cr
52-week high/low:	Rs. 2,777 / 2,310
NSE volume: (No of shares)	9.7 lakh
BSE code:	500790
NSE code:	NESTLEIND
Free float: (No of shares)	35.9 cr

Shareholding (%)

Promoters	62.8
FII	12.9
DII	9.2
Others	15.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.6	-9.4	-3.4	2.0
Relative to Sensex	-4.1	-9.0	-15.1	-19.9

Sharekhan Research, Bloomberg

Nestle India Ltd
Weak Q2

Consumer Goods	Sharekhan code: NESTLEIND		
Reco/View: Hold	↔	CMP: Rs. 2,380	Price Target: Rs. 2,681
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Nestle India's (Nestle's) Q2FY2025 numbers were weak, missing estimates on all fronts. Muted revenue growth at 1.3% y-o-y along with 144 bps y-o-y decline in OPM and lower other income lead to 9.1% y-o-y decline in adjusted PAT.
- Domestic business performance was muted with a 1% y-o-y revenue growth versus expectation of 5-6% growth (we believe volumes to have declined in low-single digits).
- Commodity prices of coffee and cocoa are on elevated levels, while milk prices have been relatively stable. OPM to be under pressure in the coming quarters.
- Stock continues to trade at premium valuations of 71x/64x/57x its FY25E/FY26E/FY27E EPS, respectively. We maintain a Hold rating with an unchanged price target of Rs. 2,681.

Nestle's Q2FY2025 performance was weak with revenue and OPM lagging our and street expectations. Consolidated revenue grew by 1.3% y-o-y to Rs. 5,104 crore (against expectation of Rs. 5,314 crore) with domestic business growth muted at 1.2% y-o-y, while export business grew by 3.1% y-o-y. In the domestic market, five of Nestle's top 12 brands registered double-digit growth during the quarter. However, some key brands witnessed pressure due to softer consumer demand, dragging the overall domestic performance. Gross margins were flat y-o-y at 56.6%, while OPM fell by 144 bps y-o-y to 22.9% (versus our and the street's expectation of 23.8% and 24.4%, respectively). In line with 4.7% y-o-y decline in operating profit and lower other income, adjusted PAT fell by 9.1% y-o-y to Rs. 754 crore (lower than our and average street expectation of Rs. 856 crore and Rs. 882 crore, respectively). After considering the exceptional items of gain on slump sale of the Nutraceutical business and Nestlé Business Services (NBS) division, reported PAT came in at Rs. 986 crore. For H1FY2025, revenues grew by 2.3% y-o-y, OPM fell by ~50 bps y-o-y and PAT stood almost flat.

Key positives

- E-Commerce channel grew by ~38% y-o-y.

Key negatives

- Domestic business grew by just ~1% against expectation of 5-6% growth.
- OPM fell by 144 bps y-o-y to 22.9%; missing expectation of ~24%.

Management Commentary

- Beverages business posted high double-digit growth backed by strong performance across NESCAFÉ CLASSIC, NESCAFÉ SUNRISE, and NESCAFÉ GOLD driven by category recruitment and premiumization of coffee.
- MILKMAID, Masala-Ae-Magic and toddlers range delivered high double-digit growth, while KITKAT and petcare business delivered high single-digit growth.
- E-commerce delivered ~38% y-o-y growth, which was the highest in the last seven quarters contributing to 8.3% of domestic sales. Growth was primarily driven by Quick Commerce and fuelled by brands such as KITKAT, NESCAFÉ, MAGGI and MILKMAID.
- Nestle introduced new CERELAC variants with no refined sugar. The expanded CERELAC range in India will now consist of 21 variants, of which 14 variants will have no refined sugar. Of these 14, seven will be available by November 2024-end and the balance will be introduced in the coming weeks.
- Company continued to expand its global footprint by introducing new SKUs across categories to Canada, Middle East, Maldives and Papua New Guinea.
- Felix and Friskies cat food continued to receive positive feedback from trade and cat parents. Building on the super-premium pillar, Pro Plan dog food witnessed strong growth.
- Commodity prices specially of coffee and cocoa are at elevated levels, with prices of cereals and edible oils also being accentuated with recent developments. Milk and packaging prices are relatively stable so far.

Revision in estimates – We have reduced our estimates for FY2025E and FY2026E by 8-10% to factor in lower-than-expected revenue growth and margins. We have introduced FY2027 estimates through this note.

Our Call

View - Retain Hold with an unchanged PT of Rs. 2,681: Nestle delivered second consecutive quarter of muted performance in Q2FY2025. However, the company's strong position in the domestic foods market, innovative product portfolio and improving out-of-home consumption will help to compete and achieve better growth in a stable demand environment. Rising commodity prices are likely to keep a check on the margins in the near term. However, Nestle's strong pricing power might help it to mitigate margin pressure in the stable demand environment. Stock continues to trade at premium valuation of 71x, 64x and 57x its FY2025E, FY2026E and FY2027E earnings, respectively. In view of premium valuations and muted growth visibility, we maintain a Hold rating on the stock with an unchanged PT of Rs. 2,681.

Key Risks

Slowdown in domestic consumption or regulatory hurdles in key food categories or a rise in key input prices would act as a key risk to our earnings estimates.

Valuation (Standalone)

Particulars	CY22	FY24 (15M)#	FY25E	FY26E	FY27E
Revenue	16,897	24,394	20,400	22,621	24,988
OPM (%)	22.0	23.9	23.6	24.2	24.5
Adjusted PAT	2,391	3,928	3,238	3,597	4,062
Adjusted EPS (Rs.)*	24.8	32.6	33.6	37.3	42.1
P/E (x)	96.0	58.4	70.9	63.8	56.5
P/B (x)	93.3	85.8	62.4	61.1	57.9
EV/EBIDTA (x)	61.6	39.4	47.7	41.9	37.5
RoNW (%)*	108.5	108.4	92.3	96.8	105.3
RoCE (%)*	129.2	126.5	106.1	113.5	125.1

Source: Company; Sharekhan Estimates

#FY24 financials are for 15 months due to change in financial year from December 2023 to March 2024; *FY24 figures adjusted for 12 months.

Weak Q2 – Domestic revenues stood flat; OPM declined y-o-y

Nestle's revenues grew by muted 1.3% y-o-y to Rs. 5,104 crore, with 1.2% y-o-y growth in the domestic business while export sales grew by 3.1% y-o-y. Revenues lagged our and average street expectation of Rs. 5,314 crore. We believe domestic volumes to have declined in low-single digit, versus our and street expectation of 2-4% volume growth. Gross margin stood flat y-o-y at 56.6%, while OPM fell by 144 bps y-o-y to 22.9%, much lower than ours and the average street expectation of 23.8% and 24.4%, respectively. Operating profit declined by 4.7% y-o-y to Rs. 1,168 crore. In line with decline in operating profit and lower other income, adjusted PAT fell by 9.1% y-o-y to Rs. 754 crore (lower than our expectation of Rs. 856 crore and average street expectation of Rs. 882 crore). Exceptional items consists of gain on slump sale of the Nutraceutical business and Nestlé Business Services ('NBS') division. Reported PAT came in at Rs. 986 crore. For H1FY2025, revenues growth was muted at 2.3% y-o-y to Rs. 9,918 crore, OPM decreased by ~50 bps y-o-y to 23.0% and PAT stood almost flat y-o-y at Rs. 1,500 crore.

Results (Standalone)

Particulars	Rs cr				
	Q2FY25	Q3CY23	YoY (%)	Q1FY25	QoQ (%)
Net Sales	5,074.8	5,009.5	1.3	4,793.0	5.9
Other Operating income	29.2	27.3	7.1	21.0	39.4
Total Revenue	5,104.0	5,036.8	1.3	4,814.0	6.0
Raw Material Cost	2,213.9	2,191.6	1.0	2,038.8	8.6
Employee Cost	501.7	517.6	-3.1	505.4	-0.7
Other Expenses	1,220.7	1,102.8	10.7	1,155.4	5.7
Total Operating Cost	3,936.3	3,812.0	3.3	3,699.6	6.4
Operating Profit	1,167.7	1,224.9	-4.7	1,114.3	4.8
Other Income	6.9	33.3	-79.4	39.1	-82.5
Interest & Other Financial Cost	32.2	31.4	2.7	31.7	1.7
Depreciation	121.6	111.2	9.4	112.7	7.9
Profit Before Tax	1,020.8	1,115.6	-8.5	1,009.1	1.2
Tax Expense	267.1	286.8	-6.9	262.5	1.8
Adjusted PAT	753.7	828.8	-9.1	746.6	1.0
Exceptional Items	-232.7	-79.3	-	0.0	-
Reported PAT	986.4	908.1	8.6	746.6	32.1
Adj. EPS (Rs)	7.8	8.6	-9.1	7.7	1.0
			bps		bps
GPM (%)	56.6	56.5	14	57.6	-102
OPM (%)	22.9	24.3	-144	23.1	-27
NPM (%)	19.3	18.0	130	15.5	382
Tax rate (%)	26.2	25.7	45	26.0	15

Source: Company; Sharekhan Research

* Nestle has changed its financial year from December year-end to March year-end.

Outlook and Valuation

■ Sector Outlook – H2FY2025 will be better as compared to H1

Monsoons were above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Management of some consumer goods companies have indicated double-digit revenue growth in H2FY2025 driven by mix of volume and price-led growth. Global uncertainties will lead to volatility in the raw material prices and currency movement. This will put pressure on the margins of consumer goods companies in the quarters ahead. Companies might opt for a gradual price increase to mitigate the impact of higher raw material prices. We expect operating profit growth to be lower as compared to revenue growth in the near term. On the other hand, an increase in commodity prices will reduce competitive intensity from small/regional players in the quarters ahead. Thus, overall growth trends remain positive for most companies under our coverage.

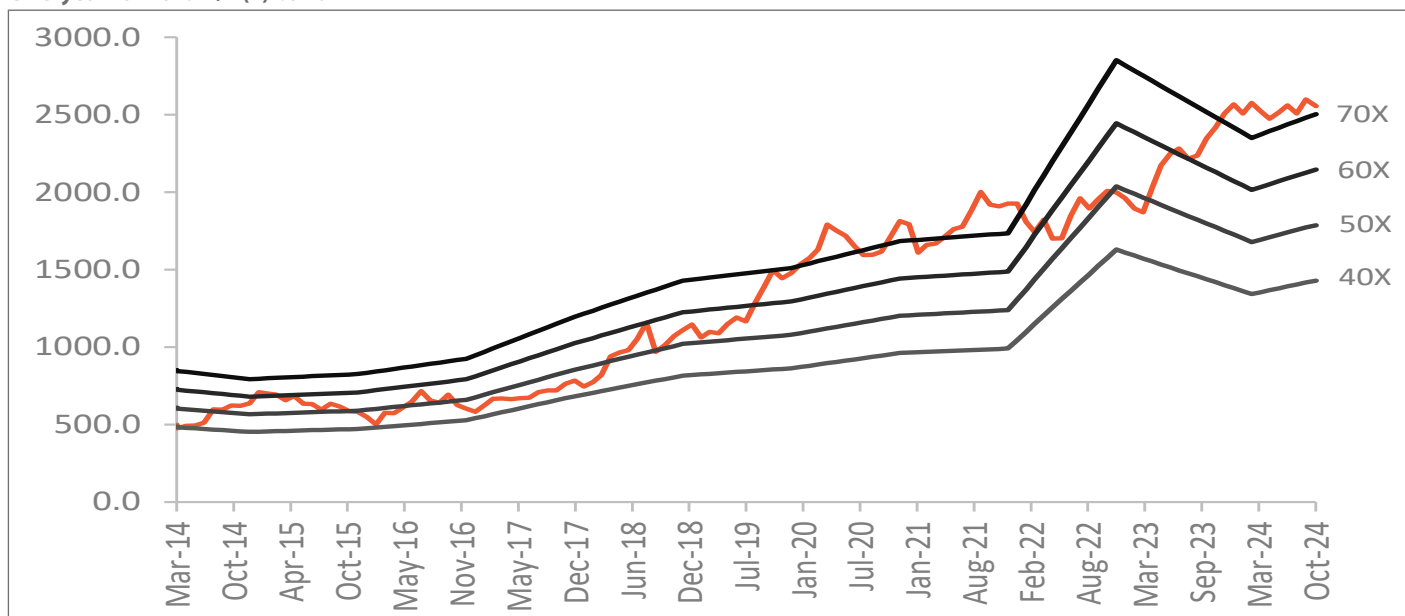
■ Company Outlook – Focus on consistent growth in long run; commodity headwinds in near term

Nestle's Q2FY2025 performance was weak with revenues growing by ~1% y-o-y, OPM declining by 144 bps and PAT lower by ~9% y-o-y. We expect revenue growth to be at mid-single digits with muted performance in H1. The company is focusing on consistent growth through innovations, expansion in rural/tier-2 markets, and accelerating footprints through new channels. The company's recent launch of premium coffee and partnership with a pharma company to scale up its science-based product portfolio augurs well for the long term. The company saw a strong improvement in the OPM in FY2024 due to stable input prices. However, a recent spike in key commodity prices and increase in the royalty charges will put stress on the margins in the near term.

■ Valuation – Retain Hold with an unchanged PT of Rs. 2,681

Nestle delivered second consecutive quarter of muted performance in Q2FY2025. However, the company's strong position in the domestic foods market, innovative product portfolio and improving out-of-home consumption will help to compete and achieve better growth in a stable demand environment. Rising commodity prices are likely to keep a check on the margins in the near term. However, Nestle's strong pricing power might help it to mitigate margin pressure in the stable demand environment. Stock continues to trade at premium valuation of 71x, 64x and 57x its FY2025E, FY2026E and FY2027E earnings, respectively. In view of premium valuations and muted growth visibility, we maintain a Hold rating on the stock with an unchanged PT of Rs. 2,681.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
HUL	65.0	59.3	52.9	45.6	42.8	37.8	25.9	27.6	30.2
Britannia Industries	67.5	60.0	52.9	45.7	41.4	37.1	33.0	36.4	35.5
Nestle India	58.4	70.9	63.8	39.4	47.7	41.9	126.5	106.1	113.5

Source: Company; Sharekhan estimates; *Nestle has changed its financial year from December year-end to March year-end hence FY24 is not comparable.

About the company

Nestlé is the largest food company in India with a turnover of ~Rs. 17,000 crore. The company is present across India with nine manufacturing facilities, four branch offices, one R&D centre, and approximately 8,000 employees. The company manufactures products under internationally famous brand names such as *Nescafé*, *Maggi*, *Milkybar*, *KitKat*, *Bar-One*, *Milkmaid*, and *Nestea*; and in recent years, the company has introduced products of daily consumption and use such as *Nestlé Milk* and *Nestlé Slim Milk*. Nestlé has a diversified portfolio of brands divided into four segments: *Milk Products* and *Nutrition*, *Prepared Dishes and Cooking Aids*, *Confectionery*, and *Beverages*. The brands are broadly segregated on the basis of nutrition, health, comfort, variety, indulgence, and taste. Nestlé is the market leader in the categories of 'Instant Noodles' and 'Infant Cereals & Infant Formula'.

Investment theme

Nestlé has maintained its leadership position across key categories over the years. The company had faced a setback in CY2015 post the Maggi debacle; however, it bounced back within a short span of time by re-launching the product with the help of innovative media campaigns. Sustained innovation, premiumisation, enhancing of distribution reach, and adoption of the cluster-based distribution approach would be the key growth drivers for the company in the near to medium term.

Key Risks

- ◆ **Slowdown in the demand environment:** Any slowdown in demand, especially in international markets, would affect sales of key categories, resulting in moderation of sales volume growth.
- ◆ **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as instant noodles, instant coffee, and infant cereals would act as a threat to revenue growth.
- ◆ **Higher input prices:** Any significant increase in the prices of some key raw materials such as milk would affect profitability and earnings growth.

Additional Data

Key management personnel

Suresh Narayanan	Chairman-Managing Director
Svetlana Boldina	Executive Director – Finance and Control and CFO
Pramod Kumar Rai	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	2.79
2	Vanguard Group Inc	1.51
3	BlackRock Inc	1.43
4	SBI Funds Management Ltd	1.41
5	UTI AMC Ltd	0.71
6	ICICI Prudential AMC Ltd	0.53
7	Axis AMC Ltd	0.47
8	Norges Bank	0.40
9	FIL Ltd	0.30
10	Nippon India Asset Management Ltd	0.25

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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