

Nestlé India

Estimate changes

TP change

Rating change



Bloomberg	NEST IN
Equity Shares (m)	964
M.Cap.(INRb)/(USD\$)	2293.4 / 27.3
52-Week Range (INR)	2778 / 2310
1, 6, 12 Rel. Per (%)	-4/-18/-23
12M Avg Val (INR M)	2458

Financials & Valuations (INR b)

Y/E Dec	FY24*	FY25E	FY26E
Sales	243.9	205.3	227.3
Sales Gr. (%)	15.5	-15.8	10.7
EBITDA	59.1	49.3	55.8
Margin (%)	24.2	24.0	24.6
Adj. PAT	39.6	32.8	37.2
Adj. EPS (INR)	41.0	34.0	38.6
EPS Gr. (%)	62.5	-17.1	13.5
BV/Sh.(INR)	34.6	42.9	50.7

Ratios

RoE (%)	136.5	87.7	82.5
RoCE (%)	140.9	89.4	84.3
Payout (%)	78.4	80.0	80.0

Valuations

P/E (x)	58.0	69.9	61.6
P/BV (x)	68.7	55.4	46.9
EV/EBITDA (x)	38.6	46.3	40.7
Div. Yield (%)	1.4	1.1	1.3

*Note: FY24 is 15-month period as the company changed its accounting year-end from December to March

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	62.8	62.8	62.8
DII	9.2	9.1	9.1
FII	11.9	12.1	12.4
Others	16.1	16.1	15.8

FII Includes depository receipts

CMP: INR2,379
TP: INR2,400 (+1%)
Neutral

Weak revenue growth; miss on all fronts

- Nestle India (Nestle) reported weak revenue growth of 1% YoY (est. 6%) in 2QFY25. Last eight-quarter average revenue growth was 10%. Domestic sales grew 1% YoY, impacted by muted demand and higher commodity prices. Beverage, toddlers' range and milkmaid posted high double-digit growth, while KitKat saw high single-digit growth. Thereby, prepared dishes, parts of the milk products and chocolates would have been the key drag in 2Q. Export revenue increased by 3% YoY.
- GM was flat YoY at 56.6% (est. 57.0%). GP was up only by 2% YoY. Input prices are seeing inflation, with coffee and cocoa prices remaining elevated. Cereals, grains (MSP-led) and edible oil are also seeing inflationary trends. Prices are stable for milk and packaging. Due to a 6% increase in operating costs, EBITDA margin contracted by 150bp YoY. EBITDA declined 5% YoY to INR11.9b (est. INR13.4b). Lower other income (down 79% YoY) and higher depreciation (9% YoY up) further impacted profitability.
- Nestle has been revenue growth outperformer (largely due to price hikes) for the last two years; however, given high base and price hike anniversarization, we have been building in normalized revenue growth. We have been positive on staples companies since the beginning of FY25 (on volume bottoming out and valuation comfort), but we were cautious on Nestle due to rich valuation and normalized earnings growth trajectory. **We reiterate our Neutral rating with a TP of INR2,400 (based on 60x P/E Sep'26E).**

Miss on all fronts

- Slowdown in domestic sales:** Nestle saw a sharp deceleration in revenue growth in 2QFY25 as net revenue was up 1% YoY to INR51.0b (est. INR53.5b). Domestic sales saw 1% YoY growth to INR48.8b, impacted by muted demand and higher commodity prices. Exports rose 3% YoY to INR1.9b.
- Demand pressure in large part of portfolio:** Nestle sustained broad-based growth across segments, though revenue growth was low. Five of the top 12 brands clocked double-digit growth. E-commerce contribution was 8.3% and growing by 38%.
- Commodity pressure on margin:** Gross margin was flat YoY and down 100bp QoQ to 56.6% (est. 57%) after expanding in the last four quarters (~300bp). Prices of coffee and cocoa remain elevated, and the prices of cereals and edible oils have also risen. Milk and packaging costs have remained stable.
- Miss on Profitability:** Employee expenses declined 3% YoY, while other expenses were up 11% YoY. EBITDA margin contracted by 150bp YoY to 23.3% (est. 25.1%). EBITDA declined 5% YoY to INR11.9b (est. INR12.5b). Lower other income (down 79% YoY) and higher depreciation (9% YoY up) further impacted profitability. PBT declined 8% YoY to INR10.4b (est. INR12.3b), and adj. PAT declined by 7% YoY to INR7.5b (est. INR9.0b).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- The company has seen an exceptional gain of INR1.8b on slump sale of business. It sold Nutraceutical Business to Dr. Reddy's and Nestlé Health Science Ltd. The company sold Nestlé Business Services division to Nestlé Business Services India Private Ltd (Formerly known as Purina Pet Care).
- In 1HFY25, net sales grew by 2%, EBITDA remained flat and APAT declined by 1%.

Valuation and view

- We cut our EPS estimates by 6% for FY25 and 4% for FY26 on weak revenue growth and moderation in the margins.
- The company has been focusing on its RURBAN strategy; hence, growth was higher in RURBAN markets. Most of Nestle's categories have been reaping the benefits of distribution penetration. Packaged food penetration has improved in the tier-2 and rural markets. The company continues to focus on portfolio enhancement through ongoing innovation and premiumization initiatives.
- The GM trajectory has been volatile over the last three years. It was 57% in CY21, which then dropped to 54% in CY22. Owing to benign raw material inflation, GM expanded in FY24. With the increase in RM prices, we estimate 57% margin in FY25/FY26.
- Nestle's portfolio is relatively safe from local competition, so it does not need much overhead costs to protect market share. We believe Nestle will be able to sustain its EBITDA margin at 24-25% for FY25/FY26.
- The stock trades at an expensive valuation of 70x/62x FY25E/FY26E EPS. **We reiterate our Neutral rating with a TP of INR2,400 (based on 60x P/E Sep'26E).**

Quarterly performance

Quarterly performance													(INR b)
Y/E December	FY24					FY25E				FY24*	FY25E	FY25E	Var.
	1Q	2Q	3Q	4Q	5Q	1Q	2Q	3QE	4QE			2QE	
Net Sales	48.3	46.6	50.4	46.0	52.7	48.1	51.0	48.6	57.5	243.9	205.3	53.5	-4.5%
YoY Change (%)	21.0	15.1	9.5	8.1	9.0	3.3	1.3	5.7	9.1	15.5	-15.8	6.1	
Gross Profit	26.0	25.5	28.5	27.0	29.9	27.8	28.9	27.9	32.4	136.9	117.0	30.5	
Margin (%)	53.8	54.8	56.5	58.6	56.8	57.6	56.6	57.4	56.5	56.1	57.0	57.0	
EBITDA	11.2	10.7	12.5	11.3	13.4	11.2	11.9	11.6	14.6	59.1	49.3	13.4	-11.4%
Margins (%)	23.3	22.9	24.8	24.5	25.5	23.3	23.3	23.8	25.5	24.2	24.0	25.1	
YoY Growth (%)	19.8	24.5	21.6	13.5	19.4	5.1	(4.7)	2.6	9.0	23.9	-16.5	7.6	
Depreciation	1.0	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	5.4	4.8	1.2	
Interest	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	1.5	1.2	0.3	
Other income	0.3	0.2	0.3	0.3	0.3	0.4	0.1	0.3	0.3	1.5	1.1	0.4	
PBT	10.2	9.5	11.4	10.3	12.3	10.2	10.4	10.4	13.5	53.7	44.4	12.3	-15.2%
Tax	2.5	2.4	3.1	2.3	3.2	2.6	3.3	2.5	3.1	13.6	11.5	3.2	
Rate (%)	24.9	25.4	27.6	22.5	25.6	25.8	31.2	23.7	23.3	25.2	25.9	25.8	
Adjusted PAT	7.5	7.0	8.1	7.8	9.1	7.4	7.5	7.8	10.1	39.6	32.8	9.0	-16.8%
YoY Change (%)	25.8	30.0	20.7	23.5	21.7	5.1	(6.9)	0.2	10.6	30.0	-17.1	11.9	

E: MOFSL Estimates

Key Performance Indicators

Y/E December	FY24				FY25		
	1Q	2Q	3Q	4Q	5Q	1Q	2Q
2Y average growth (%)							
Sales	15.8	15.8	14.0	10.8	15.0	9.2	5.4
EBITDA	10.1	12.7	14.0	14.0	19.6	14.8	8.5
PAT	12.5	16.5	14.0	17.2	23.7	17.5	6.9
% of Sales							
COGS	46.2	45.2	43.5	41.4	43.2	42.4	43.4
Employee Expenses	9.4	9.8	10.3	9.1	9.2	10.5	9.8
Other Expenses	21.1	22.1	21.5	24.9	22.1	23.9	23.5
Depreciation	2.1	2.3	2.2	2.4	2.1	2.3	2.4
YoY change (%)							
COGS	25.0	12.8	0.6	-0.9	2.0	-3.1	1.0
Employee Expenses	14.0	11.5	23.2	3.2	7.2	10.5	-3.1
Other Expenses	17.2	12.7	10.5	22.8	13.9	11.5	11.0
Other Income	57.1	23.6	8.6	2.5	-20.6	63.3	-79.4
EBIT	22.7	27.1	22.4	13.9	20.7	5.1	-6.0



Key highlights from the press release

Category performance

- **Prepared Dishes and Cooking Aids:** Nestle has continued premiumizing its portfolio through innovative launches, including the introduction of MAGGI Chatpata Besan Noodles.
- **Growth across MAGGI and KITKAT:** KITKAT achieved robust high single-digit growth, while Masala-Ae-Magic posted impressive double-digit growth.
- **Milk Products and Nutrition:** The toddlers' product range delivered exceptional performance, with high double-digit growth. MILKMAID also recorded strong double-digit growth, bolstered by the launch of MILKMAID Mini and increased investments in advertising.
- **Confectionery:** Leveraging youth passion-points, a fun partnership with Candy Crush further engaged the audience. MUNCH continued expanding into regional markets by offering exceptional value to consumers.
- **Beverages:** The beverages segment saw strong performance, with NESCAFÉ CLASSIC, NESCAFÉ SUNRISE, and NESCAFÉ GOLD driving high double-digit growth. NESCAFÉ strengthened its leadership in the market, gaining share and achieving notable gains in household penetration. NESCAFÉ GOLD and NESCAFÉ Roastery spearheaded the premium strategy.
- **Petcare Business:** Reported strong single-digit growth, driven by strong e-commerce momentum. Felix and Friskies cat food continued to receive positive feedback from both trade and cat owners. The super-premium dog food, Pro Plan, clocked strong growth.

Other points

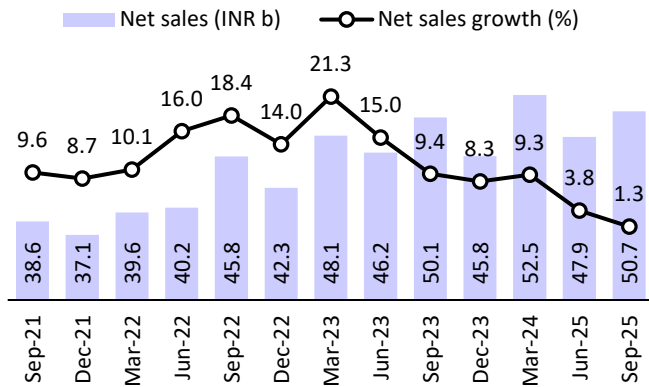
- Over the past nine months, 65% of the top 12 brands, including MAGGI Noodles, have recorded positive volume growth, reflecting strong consumer demand.
- The **Out-of-Home (OOH)** segment delivered robust double-digit growth, driven by portfolio transformation, premiumization, new customer acquisition, and expanded reach beyond metro cities.
- **E-commerce** posted strong growth of 38%, largely fueled by quick commerce and strong performance from brands like KITKAT, NESCAFÉ, MAGGI, and

MILKMAID. It contributes 8.3% of domestic sales. Growth was further supported by premiumization, new user acquisition, festive sales, and targeted digital marketing.

- **Organized trade** saw strong growth, led by demand in the noodles and beverages categories, along with ongoing premiumization efforts.
- **Innovation** remains a key driver, with over 145 new products launched in the last eight years, now contributing to ~7% of total sales. Additionally, eight new projects are in the pipeline to further strengthen the product portfolio.
- **Export** operations continue to expand, with new SKUs introduced across multiple categories in markets such as Canada, the Middle East, Maldives, and Papua New Guinea.
- **Commodity prices** remain elevated, particularly for coffee and cocoa, while cereals and edible oils have also seen price pressures due to recent market developments. However, milk prices and packaging costs have remained relatively stable so far.

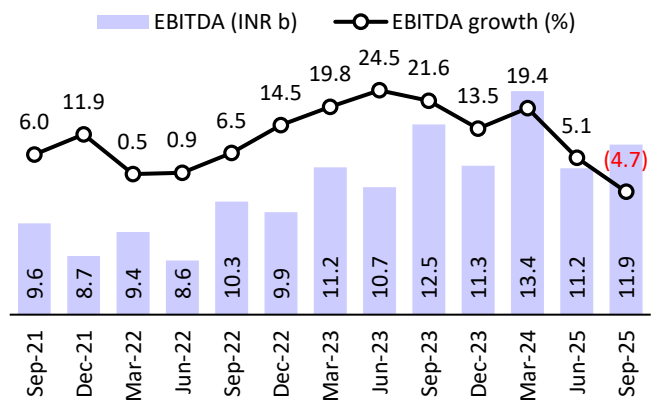
Key Exhibits

Exhibit 1: Net sales up 1% YoY to INR50.7b



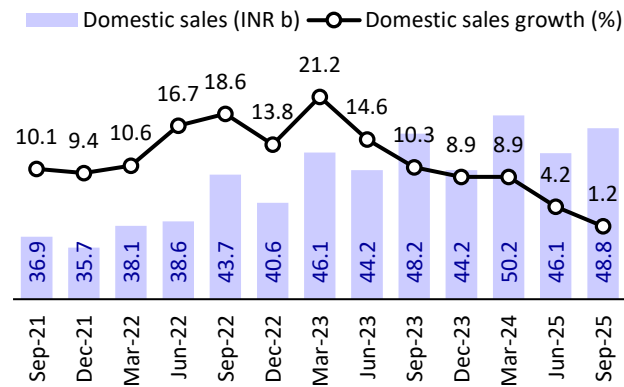
Sources: Company reports, MOFSL

Exhibit 2: EBITDA declined 5% YoY to INR11.9b



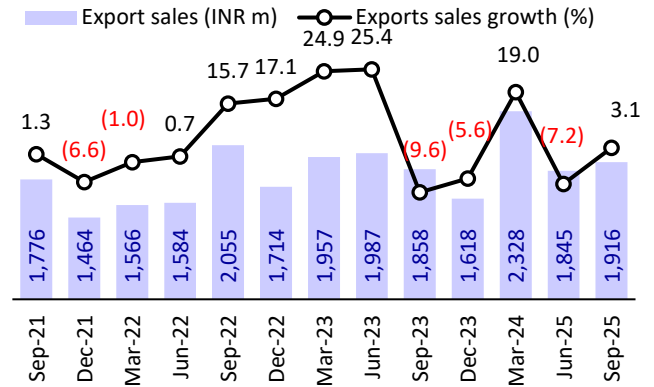
Source: Company reports, MOFSL

Exhibit 3: Domestic sales rose 1% YoY to INR48.8b



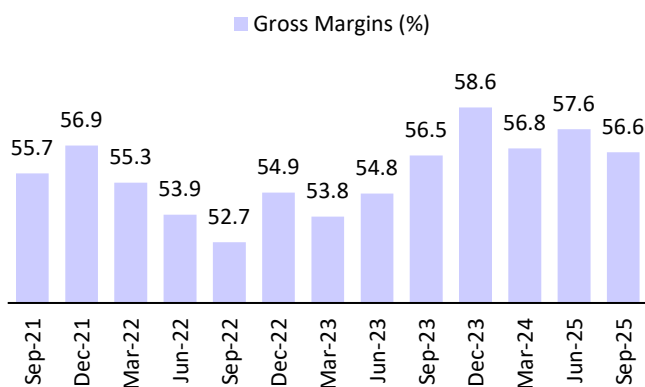
Sources: Company reports, MOFSL

Exhibit 4: Exports up 3% YoY to INR1,916m



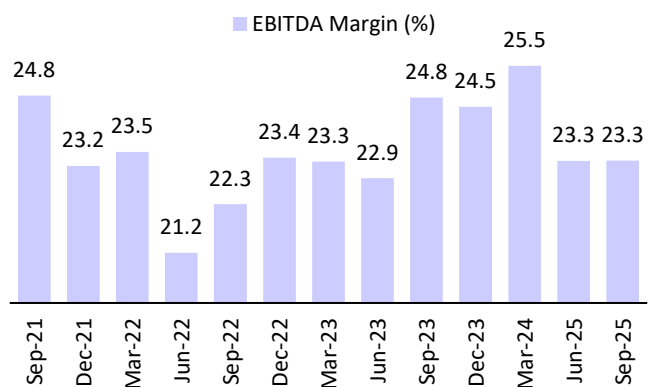
Sources: Company reports, MOFSL

Exhibit 5: Gross margin flat YoY at 56.6%



Sources: Company reports, MOFSL

Exhibit 6: EBITDA margin contracted 150bp YoY to 23.3%



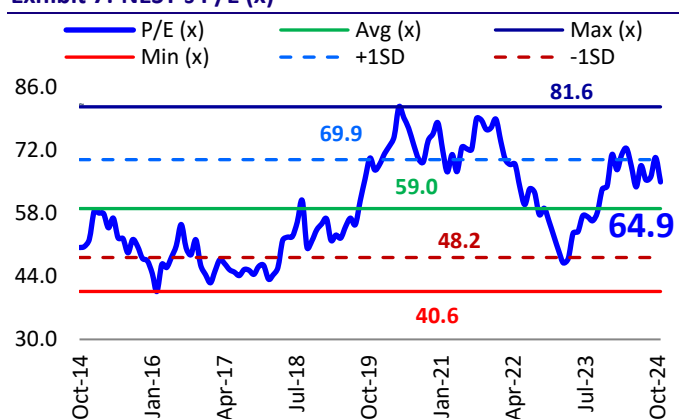
Sources: Company reports, MOFSL

Valuation and view

Reiterate Neutral rating

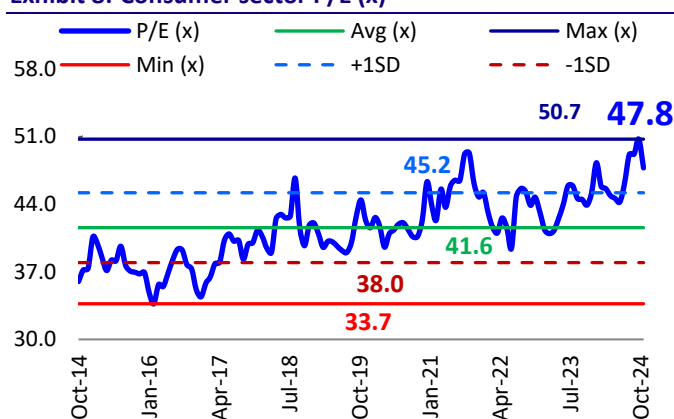
- We cut our EPS estimates by 6% for FY25 and 4% for FY26 on weak revenue growth and moderation in the margins.
- The company has been focusing on its RURBAN strategy; hence, growth was higher in RURBAN markets. Most of Nestlé's categories have been reaping the benefits of distribution penetration. Packaged food penetration has improved in the tier-2 and rural markets. The company continues to focus on portfolio enhancement through ongoing innovation and premiumization initiatives.
- The GM trajectory has been volatile over the last three years. It was 57% in CY21, which then dropped to 54% in CY22. Owing to benign raw material inflation, GM expanded in FY24. With the increase in RM prices, we estimate 57% margin in FY25/FY26.
- Nestlé's portfolio is relatively safe from local competition, so it does not need much overhead costs to protect market share. We believe Nestlé will be able to sustain its EBITDA margin at 24-25% for FY25/FY26.
- The stock trades at an expensive valuation of 70x/62x FY25E/FY26E EPS. **We reiterate our Neutral rating with a TP of INR2,400 (based on 60x P/E Sep'26E).**

Exhibit 7: NEST's P/E (x)



Sources: Company reports, MOFSL

Exhibit 8: Consumer sector P/E (x)



Sources: Company reports, MOFSL

Exhibit 9: We cut our EPS estimates by 6% in FY25 and 4% in FY26

	Old		New		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	205.3	227.3	210.3	233.1	-2.4	-2.5
EBITDA	49.3	55.8	51.7	57.8	-4.6	-3.5
PAT	32.8	37.2	34.9	38.8	-6.0	-3.9

Source: MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	CY19	CY20	CY21	CY22	FY24*	FY25	FY26E	FY27E
Net Sales	123.7	133.5	147.4	169.0	243.9	205.3	227.3	250.5
Change (%)	9.5	7.9	10.4	14.6	15.5	-15.8	10.7	10.2
Gross Profit	71.4	76.8	83.9	91.5	136.9	117.0	130.2	143.8
Margin (%)	57.8	57.5	56.9	54.1	56.1	57.0	57.3	57.4
EBITDA	29.3	32.6	36.0	38.1	59.1	49.3	55.8	62.1
Change (%)	6.1	11.4	10.2	6.1	23.9	-16.5	13.2	11.3
Margin (%)	23.7	24.4	24.4	22.6	24.2	24.0	24.6	24.8
Depreciation	3.2	3.7	3.9	4.0	5.4	4.8	5.7	6.1
Int. and Fin. Ch.	1.2	1.6	2.0	1.5	1.5	1.2	1.3	1.3
Other Inc.- Rec.	2.5	1.5	1.2	1.0	1.5	1.1	1.4	1.9
PBT	27.4	28.7	31.2	33.6	53.7	44.4	50.2	56.6
Change (%)	6.5	4.9	8.7	7.5	60.0	-17.3	13.1	12.7
Margin (%)	22.1	21.5	21.2	19.9	22.0	21.6	22.1	22.6
Tax	7.1	7.3	7.4	8.7	13.6	11,486	12,506	14,108
Tax Rate (%)	25.8	25.4	23.7	25.8	25.2	25.9	24.9	24.9
Adjusted PAT	19.9	21.0	23.3	24.4	39.6	32.8	37.2	42.0
Change (%)	15.8	5.1	11.2	4.5	30.0	-17.1	13.5	12.8
Margin (%)	16.1	15.7	15.8	14.4	16.2	16.0	16.4	16.8
Reported PAT	19.7	20.8	21.2	23.9	39.3	34.2	37.3	42.1

Balance Sheet								(INR b)
Y/E March	CY19	CY20	CY21	CY22	FY24*	FY25	FY26E	FY27E
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	18.4	19.2	19.9	23.6	32.4	40.4	47.9	56.4
Net Worth	19.3	20.2	20.8	24.6	33.4	41.4	48.9	57.3
Loans	0.5	0.3	0.3	0.3	0.3	0.6	0.9	1.2
Capital Employed	19.9	20.5	21.1	24.9	33.7	42.0	49.8	58.6
Gross Block	36.1	40.0	51.2	54.7	63.3	86.8	92.8	98.8
Less: Accum. Depn.	13.8	18.2	21.2	24.3	28.7	33.5	39.2	45.3
Net Fixed Assets	22.3	21.8	29.9	30.4	34.6	53.2	53.5	53.5
Capital WIP	1.4	6.4	2.5	3.6	17.4	2.0	2.0	2.0
Investments	17.5	14.6	7.7	7.8	4.6	4.6	4.6	4.6
Curr. Assets, L&A	29.4	36.0	41.7	47.7	48.6	43.6	57.3	72.8
Inventory	12.8	14.2	15.8	19.3	20.9	17.5	19.3	21.3
Account Receivables	1.2	1.6	1.7	1.9	3.0	2.5	2.8	3.1
Cash and Bank Balance	13.1	17.7	7.4	9.5	7.8	7.2	18.5	31.4
Others	2.2	2.5	16.9	17.1	16.9	16.3	16.6	17.0
Curr. Liab. and Prov.	50.5	58.5	61.0	64.9	71.4	61.3	67.5	74.2
Account Payables	14.9	15.2	17.3	19.3	22.4	17.8	19.5	21.5
Other Liabilities	5.7	8.5	7.1	9.5	14.1	15.5	17.0	18.7
Provisions	29.9	34.9	36.5	36.1	34.9	28.0	31.0	34.0
Net Curr. Assets	-21.2	-22.5	-19.3	-17.2	-22.8	-17.7	-10.3	-1.4
Def. Tax Liability	-0.2	0.2	0.3	0.3	-0.1	-0.1	-0.1	-0.1
Appl. of Funds	19.9	20.5	21.1	24.9	33.7	42.0	49.8	58.6

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	CY19	CY20	CY21	CY22	FY24*	FY25	FY26E	FY27E
Basic (INR)								
EPS	20.7	21.7	24.2	25.3	41.0	34.0	38.6	43.6
Cash EPS	24.0	25.6	28.2	29.4	46.6	39.0	44.5	49.9
BV/Share	20.0	20.9	21.6	25.5	34.6	42.9	50.7	59.5
DPS	34.2	20.0	20.0	22.0	32.2	27.2	30.9	34.9
Payout (%)	165.3	92.0	82.7	87.1	78.4	80.0	80.0	80.0
Valuation (x)								
P/E	115.1	109.5	98.4	94.2	58.0	69.9	61.6	54.6
Cash P/E	99.3	93.0	84.3	80.8	51.0	61.0	53.5	47.7
EV/Sales	18.3	16.9	15.5	13.5	9.4	11.1	10.0	9.0
EV/EBITDA	77.4	69.4	63.4	59.7	38.6	46.3	40.7	36.4
P/BV	118.8	113.6	110.1	93.3	68.7	55.4	46.9	40.0
Dividend Yield (%)	1.4	0.8	0.8	0.9	1.4	1.1	1.3	1.5
Return Ratios (%)								
RoE	71.2	106.1	113.6	107.2	136.5	87.7	82.5	79.1
RoCE	74.5	112.2	122.0	113.4	140.9	89.4	84.3	80.3
Working Capital Ratios								
Debtor (Days)	3.7	4.5	4.1	4.1	4.5	4.5	4.5	4.5
Asset Turnover (x)	4.3	6.6	7.1	7.4	8.3	5.4	5.0	4.6
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E March	CY19	CY20	CY21	CY22	FY24*	FY25	FY26E	FY27E
(INR b)								
OP/(loss) before Tax	26.7	28.1	28.8	32.6	52.9	45.7	49.8	56.2
Int./Div. Received	0.0	0.3	0.1	0.2	0.3	1.2	1.3	1.3
Depn. and Amort.	3.2	3.7	3.9	4.0	5.4	4.8	5.7	6.1
Interest Paid	-2.5	-1.5	-1.3	-0.7	-1.3	-1.1	-1.4	-1.9
Direct Taxes Paid	-6.7	-7.0	-7.3	-8.4	-13.0	-11.5	-12.5	-14.1
Incr in WC	1.6	1.0	-1.5	-0.3	-2.5	-0.6	0.9	1.1
CF from Operations	22.3	24.5	22.7	27.4	41.7	38.5	43.8	48.6
Others	11.7	4.4	8.0	0.9	2.0	-4.0	4.3	5.0
Incr in FA	-1.5	-4.7	-7.3	-5.4	-18.8	-8.0	-6.0	-6.0
Free Cash Flow	20.8	19.8	15.4	22.0	23.0	30.5	37.8	42.6
Pur of Investments	-0.2	0.0	-13.5	0.5	4.7	0.0	0.0	0.0
CF from Invest.	10.0	-0.4	-12.9	-4.0	-12.1	-12.0	-1.7	-1.0
Incr in Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	-35.6	-18.9	-19.3	-20.2	-30.1	-26.2	-29.8	-33.6
Others	0.2	-0.7	-0.9	-1.0	-1.3	-0.9	-1.0	-1.0
CF from Fin. Activity	-35.4	-19.6	-20.2	-21.2	-31.3	-27.1	-30.7	-34.6
Incr/Decr of Cash	-3.0	4.6	-10.3	2.1	-1.7	-0.6	11.3	13.0
Add: Opening Balance	16.1	13.1	17.7	7.4	9.5	7.8	7.2	18.5
Closing Balance	13.1	17.7	7.4	9.5	7.8	7.2	18.5	31.4

E: MOFSL Estimates

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UNDER REVIEW	Rating may undergo a change
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