MOTILAL OSWAL FINANCIAL SERVICES

4 February 2024

Update | Sector: Consumer

Nestlé India

BSE SENSEX	S&P CNX
78,584	23,739

Nestle Good Food, Good Life

CMP: INR2,300 **TP: INR2,400 (+4%)** **Neutral**

Long-term drivers intact; rich valuation limits upside

Nestle India (Nestle) hosted an analyst meet wherein the company highlighted its growth strategy, business moats and competitive positioning across the categories. Here are the key takeaways:

- Nestlé sees strong growth potential in India, as its per capita packaged food consumption remains low. With 60 million people expected to join the middle- and high-income segments by 2030, rising affordability will boost demand.
- Nestlé's growth strategy focuses on efficiency, brand investment, and market share expansion to drive profitability. The company focuses on premiumization, which is outpacing the overall growth. Innovation contributed 6.5% of sales in 9MFY25, which Nestle aims to increase to 10% in the medium term. The company has a strong distribution network of 5.3 million outlets (1.7 million direct reach). It achieved 33% growth in e-commerce (8.5% of total sales).
- In 9MFY25, growth was impacted by a consumption slowdown, commodity inflation, urban-rural disparities (with rural outperforming urban), and geopolitical uncertainties. Domestic volume growth was flat YoY and sales grew 3% YoY, driven by pricing. Barring beverages, Kitkat, Milkmaid, and the toddler range, demand weakness was broad-based, particularly in noodles, due to pricing actions and competitive pressure from local brands. Volatility in coffee and cocoa prices remains a challenge, and further price hikes may be considered if inflation persists. GP margin contracted 60bp YoY to 56.9%, while EBITDA margin declined 160bp YoY to 23.3% in 9MFY25.
- Over the long term, Nestlé intends to focus on volume-led growth. We model a 9% revenue CAGR over FY25-27E, driven by rural expansion, out-of-home consumption, capacity expansion, and premiumization. However, there are near-term risks such as moderating urban consumption and high food inflation. The stock trades at 63x FY26E/56x FY27E EPS, and given its expensive valuation, we maintain a Neutral rating with a TP of INR2,400 (based on 60x P/E Dec'26E).

Valuation view

- The long-term narratives for Nestle's revenue and earnings growth are attractive. India's packaged food market offers strong growth opportunities. Nestle 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. Nestle continues to focus on portfolio enhancement through ongoing innovation and premiumization initiatives.
- However, there are near-term risks such as moderating urban consumption and high food inflation, and it is critical to watch operating margins.
- We estimate a CAGR of 9%/11%/12% in net sales/EBITDA/APAT during FY25-27. The stock trades at 63x FY26E/56x FY27E EPS, and given its expensive valuation, we maintain a Neutral rating with a TP of INR2,400 (based on 60x P/E Dec'26E).

Stock Info

Bloomberg	NEST IN
Equity Shares (m)	964
M.Cap.(INRb)/(USDb)	2217 / 25.5
52-Week Range (INR)	2778 / 2131
1, 6, 12 Rel. Per (%)	4/-4/-16
12M Avg Val (INR M)	2431
Free float (%)	37.2

Financials Snapshot (INR b)

Y/E Dec	FY25E	FY26E	FY27E
Sales	202.7	221.7	242.7
Sales Gr. (%)	3.9	9.4	9.5
EBITDA	47.9	53.7	59.2
Margin (%)	23.6	24.2	24.4
Adj. PAT	31.6	35.4	39.6
Adj. EPS (INR)	32.7	36.7	41.1
EPS Gr. (%)	-20.2	12.2	11.8
BV/Sh.(INR)	42.5	49.9	58.1
Ratios			
RoE (%)	84.9	79.6	76.1
RoCE (%)	86.4	81.6	77.6
Payout (%)	80.0	80.0	80.0
Valuations			
P/E (x)	70.2	62.6	56.0
P/BV (x)	54.2	46.1	39.6
EV/EBITDA (x)	46.1	40.9	36.9
Div. Yield (%)	1.1	1.3	1.4

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	62.8	62.8	62.8
DII	10.8	9.5	9.2
FII	10.3	11.9	12.1
Others	16.2	15.8	16.0

FII Includes depository receipts

Stock Performance (1-year)

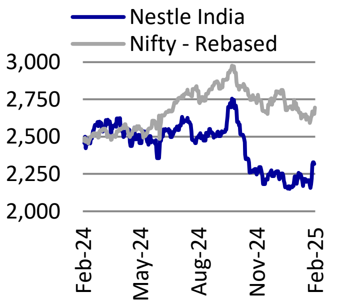

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Exhibit 1: Nestle segmental performance

Revenue (INR bn) - (Dom+Export)	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	FY24E (15m)
Milk and Nutrition	46.7	46.3	48.2	51.9	56.5	61.5	62.7	68.2	98.7
Prepared dishes & Cooking Aids	13.1	23.2	27.1	31.1	35.0	39.1	45.5	53.0	73.9
Beverages	13.4	12.9	13.9	15.2	15.0	14.8	16.9	20.2	30.2
Chocolates	11.1	11.7	12.2	14.0	16.4	17.5	21.2	26.5	39.9
Total	**84.3**	**94.1**	**101.4**	**112.2**	**123.0**	**132.9**	**146.3**	**167.9**	**242.8**
Revenue mix (%)									
Milk and Nutrition	55%	49%	48%	46%	46%	46%	43%	41%	41%
Prepared dishes & Cooking Aids	16%	25%	27%	28%	28%	29%	31%	32%	30%
Beverages	16%	14%	14%	14%	12%	11%	12%	12%	12%
Chocolates	13%	12%	12%	12%	13%	13%	15%	16%	16%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Revenue Growth (%)									
Milk and Nutrition	2%	-1%	6%	8%	9%	9%	2%	9%	16%
Prepared dishes & Cooking Aids	-56%	76%	20%	15%	13%	12%	16%	16%	12%
Beverages	0%	-4%	15%	10%	-1%	-2%	15%	19%	20%
Chocolates	-11%	5%	10%	15%	17%	7%	21%	25%	20%
Total	**-17%**	**12%**	**11%**	**11%**	**10%**	**8%**	**10%**	**15%**	**16%**
Volume Growth (%)									
Milk and Nutrition	-3%	-2%	2%	5%	1%	0%	-3%	0%	0%
Prepared dishes & Cooking Aids	-59%	71%	19%	14%	10%	7%	16%	6%	2%
Beverages	-10%	0%	11%	11%	-2%	-21%	18%	14%	9%
Chocolates	-19%	7%	4%	15%	16%	3%	11%	12%	10%
Total	**-36%**	**25%**	**11%**	**11%**	**7%**	**3%**	**11%**	**6%**	**3%**
Price Growth (%)									
Milk and Nutrition	5%	1%	2%	3%	7%	9%	5%	9%	15%
Prepared dishes & Cooking Aids	10%	3%	-2%	0%	3%	5%	0%	10%	10%
Beverages	11%	-4%	-2%	-1%	1%	25%	-3%	4%	10%
Chocolates	10%	-1%	0%	0%	1%	4%	10%	11%	9%
Total	**20%**	**-14%**	**0%**	**0%**	**3%**	**5%**	**0%**	**9%**	**13%**

Slight impact of implementation of Goods and Services Tax (GST) on the CY16 financial statements

Note: FY24 growth is adjusted for 12months

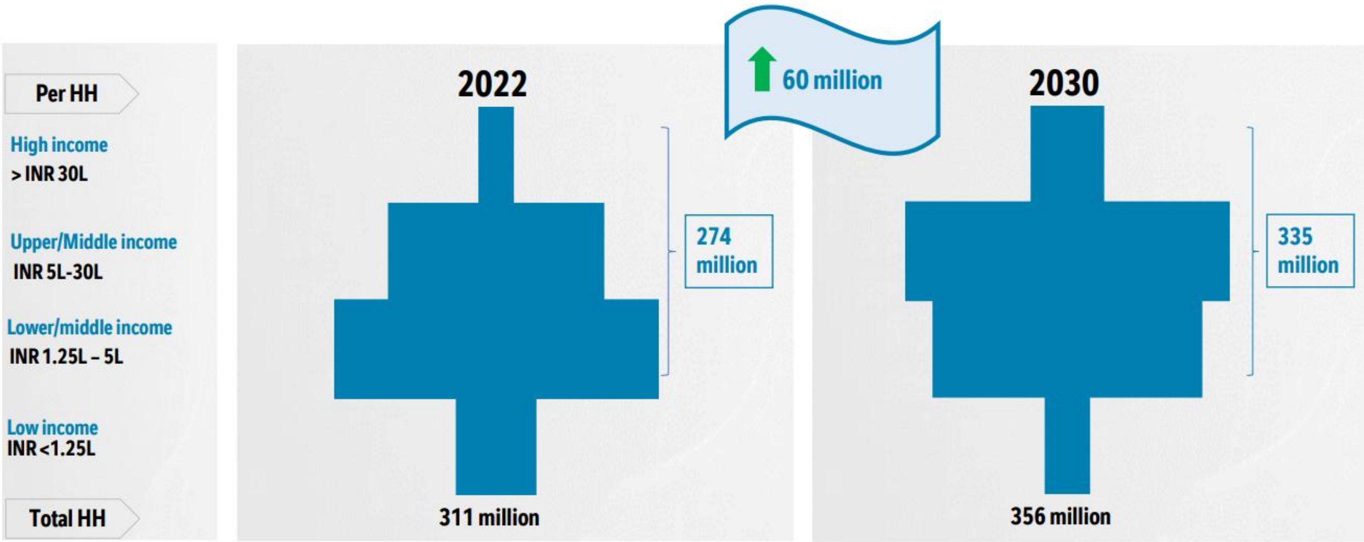
Source: Company, MOFSL

Highlights from the analyst meet

Business outlook and performance

- India offers significant growth opportunities, as its per capita packaged food consumption remains low compared to other countries, leaving ample headroom for expansion.
- The affordable, middle-class, and high-income segments are crucial for driving future growth, with 60 million people expected to enter this category by 2030, boosting demand.

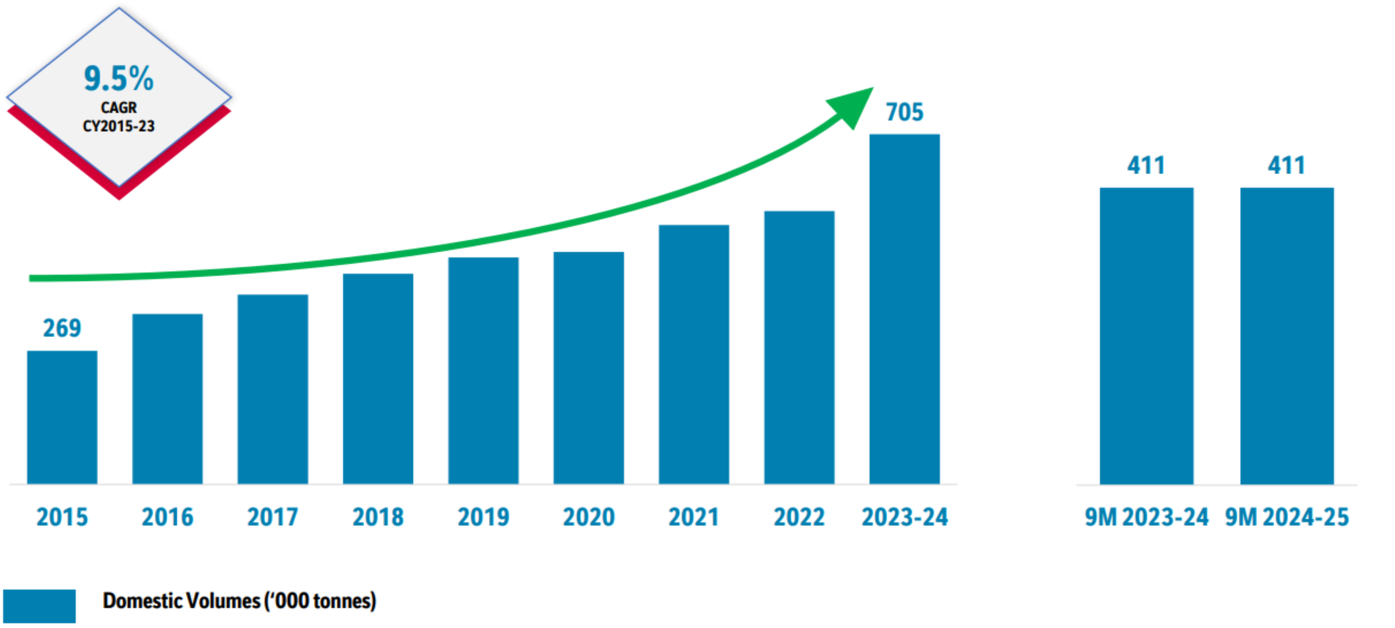
Exhibit 2: India consumer class will improve significantly



Source: Company, MOFSL

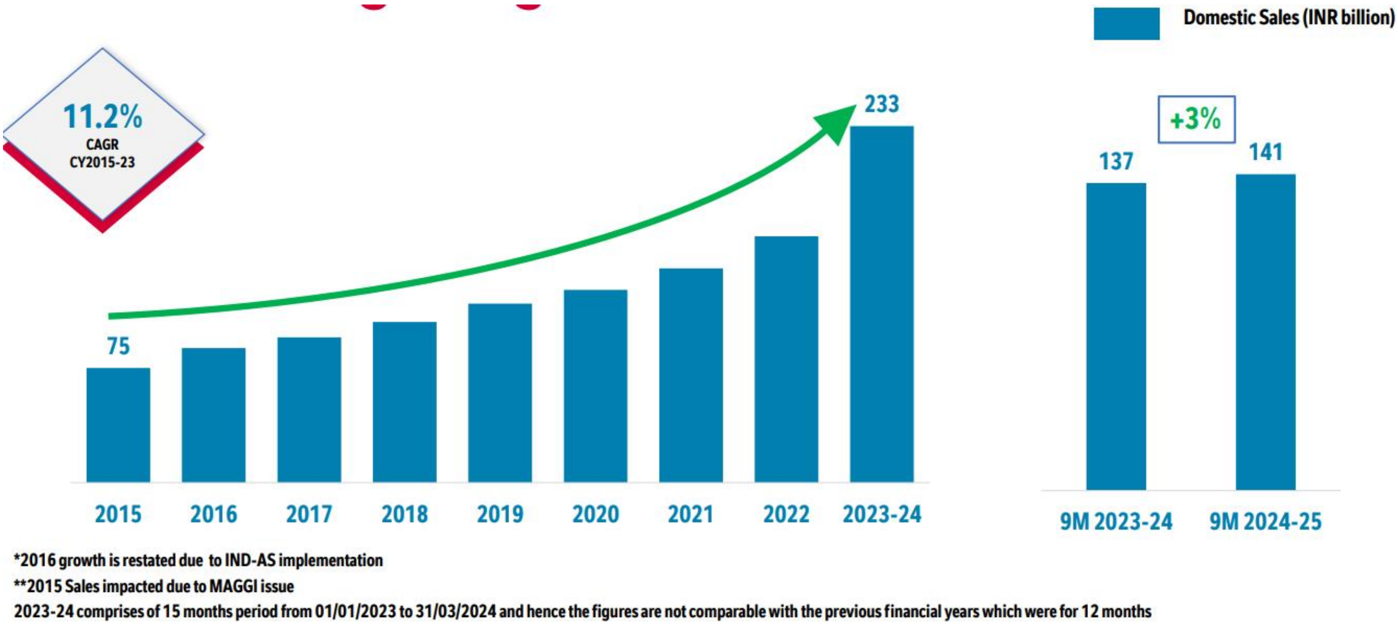
- In FY25, growth was impacted by a consumption slowdown, commodity inflation, urban-rural disparities, and geopolitical uncertainties.
- Rural market growth continues to outpace urban areas.
- In 9MFY25, domestic volume growth remained flat YoY, while net sales increased by 3%, led by price hikes. However, EBITDA and PAT declined by 4% and 9%, respectively, reflecting margin pressures.
- The sharp increase in coffee (+75%) and cocoa prices prompted the company to implement price hikes, which affected volume growth. It is difficult for the company to absorb the prices through cost efficiencies. It can take more pricing actions if the pricing pressure continues.
- However, if raw material costs stabilize, the company aims to shift its focus to volume-led expansion.
- Nestlé is strengthening its presence at Kumbh and expanding its footprint through collaborations with Chai Point.
- The company is rapidly scaling up its e-commerce presence, with the contribution of online sales rising from 1% in 2016 to 8.5% in 2024 (~33% YoY growth in 9MFY25).

Exhibit 3: Domestic volume growth was flat YoY in 9MFY25



Source: Company, MOFSL

Exhibit 4: Domestic sales up 3% YoY in 9MFY5 led by the price hike



Source: Company, MOFSL

Company strategy and innovation

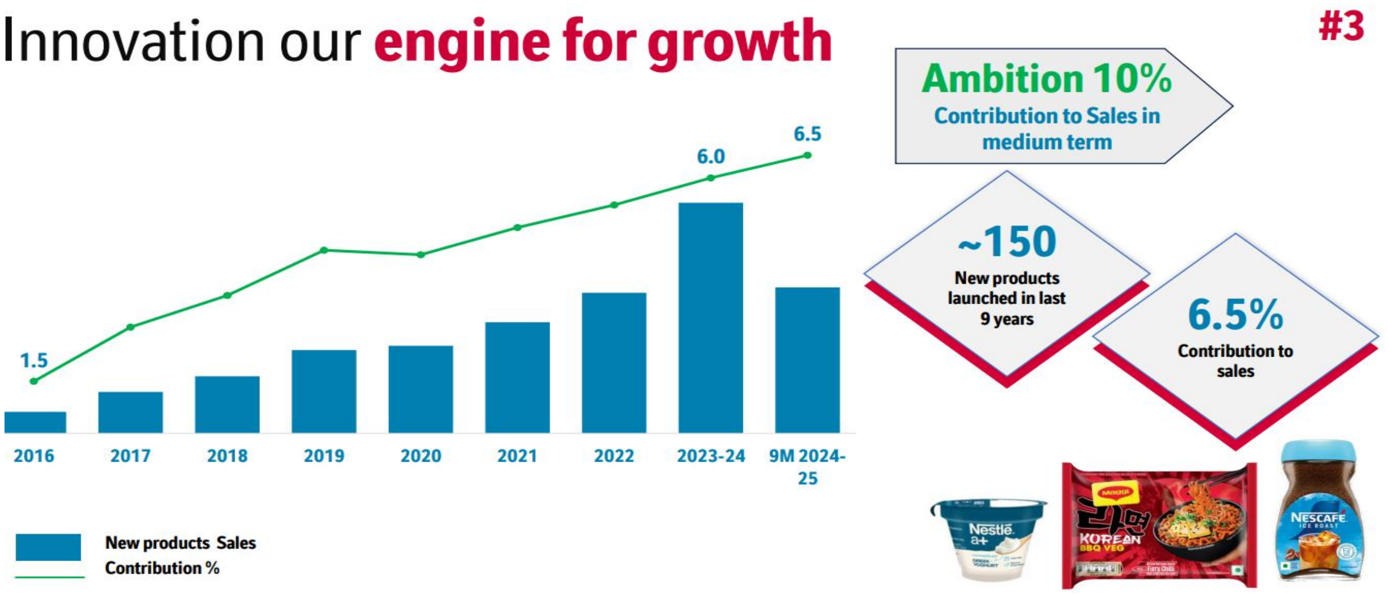
- Nestlé focuses on efficiency, brand investment, and market share expansion to drive profitability.
- The company is aggressively pursuing premiumization to enhance the consumer experience, with its premium portfolio clocking a 16% CAGR since 2015, outpacing category growth.
- The premiumization trend is visible across urban and rural markets, reflecting strong consumer demand.
- Core categories remain a priority, contributing 60% to overall growth.

- Innovation accounted for 6.5% of total sales in 9MFY25, which Nestle aims to increase to 10% in the medium term.
- The company has launched ~150 new products over the past nine years and aims to introduce 16-20 new products annually.

Exhibit 5: Nestle is leveraging the premiumization trend

Source: Company, MOFSL

Exhibit 6: Innovation contribution increased to 6.5% of sales



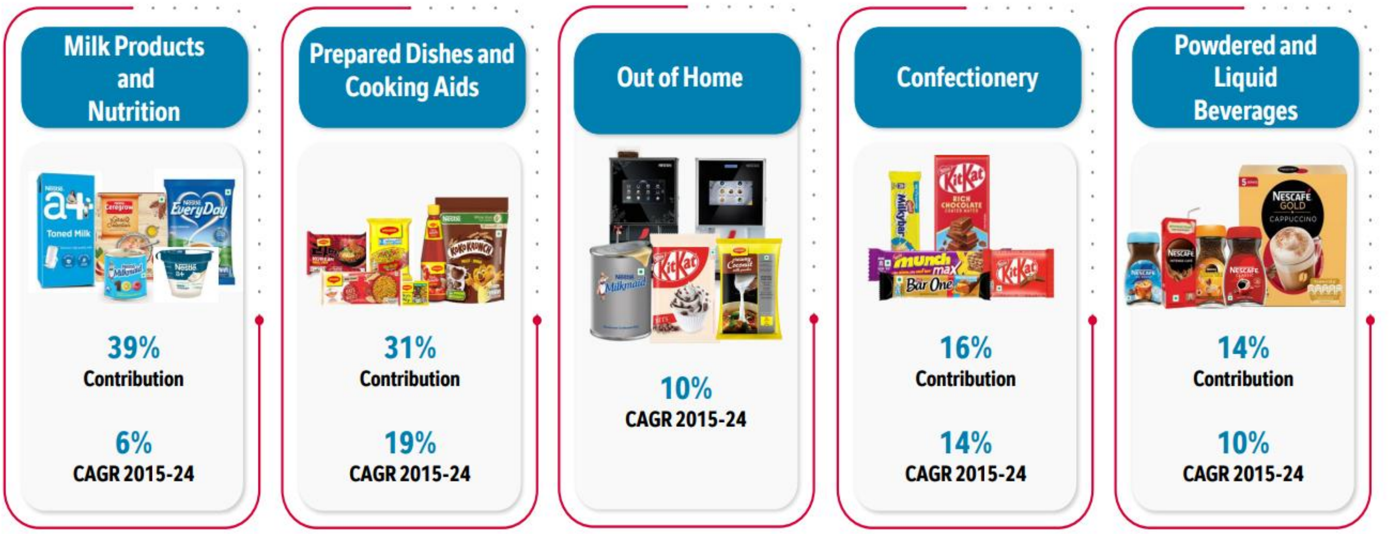
Source: Company, MOFSL

Segmental information

- Maggi has penetrated 52% of households and coffee has reached 30%.
- KitKat, which ranked No. 10 globally a decade ago, is now the second-best-selling chocolate brand worldwide.
- In pet care, Nestlé benefits from deep consumer insights, a diverse portfolio, and world-class R&D, holding the No. 2 global market share. India ranks 5th globally in pet population, providing incremental growth opportunities in the segment.

- Nestlé is enhancing the coffee experience with Nespresso, working with 150,000 coffee farmers across 18 countries, including 2,000 in India.
- A Nespresso Boutique is set to open in Delhi, with plans to expand to other Indian cities.
- The out-of-home market is expected to double by 2030, with food service becoming more organized and cafés fueling the coffee culture. Gen Z and Millennials are driving demand for new food experiences, and Nestlé is preparing for this shift with a diversified portfolio.
- The Milk and Nutrition segment has been impacted by inflation, leading to price hikes that have constrained volume growth. Competitive pressures from peers have further strained both volume and price growth. To address these concerns, Nestle is taking various initiatives, e.g., introducing baby food with no refined sugar.
- As household incomes rise and the number of working women increases, the milk nutrition category is expected to grow. The segment is highly regulated, with mid-price and premium products playing distinct roles. While the mid-premium segment faces challenges, the premium segment is witnessing strong growth as consumers understand the value of high-quality nutrition. The category will continue to grow, but its volume growth will lag behind that of Maggi and chocolates.
- Maggi's growth has been impacted by pricing actions and increased competition in the snacking category, but it remains a strong and relevant brand. To counter these challenges, the company is driving innovation in snacking and expanding its distribution reach.
- The joint venture with Dr. Reddy's has successfully been integrated, achieving double-digit growth, with several new product launches in the pipeline.

Exhibit 7: Broad-based growth across categories



Source: Company, MOFSL

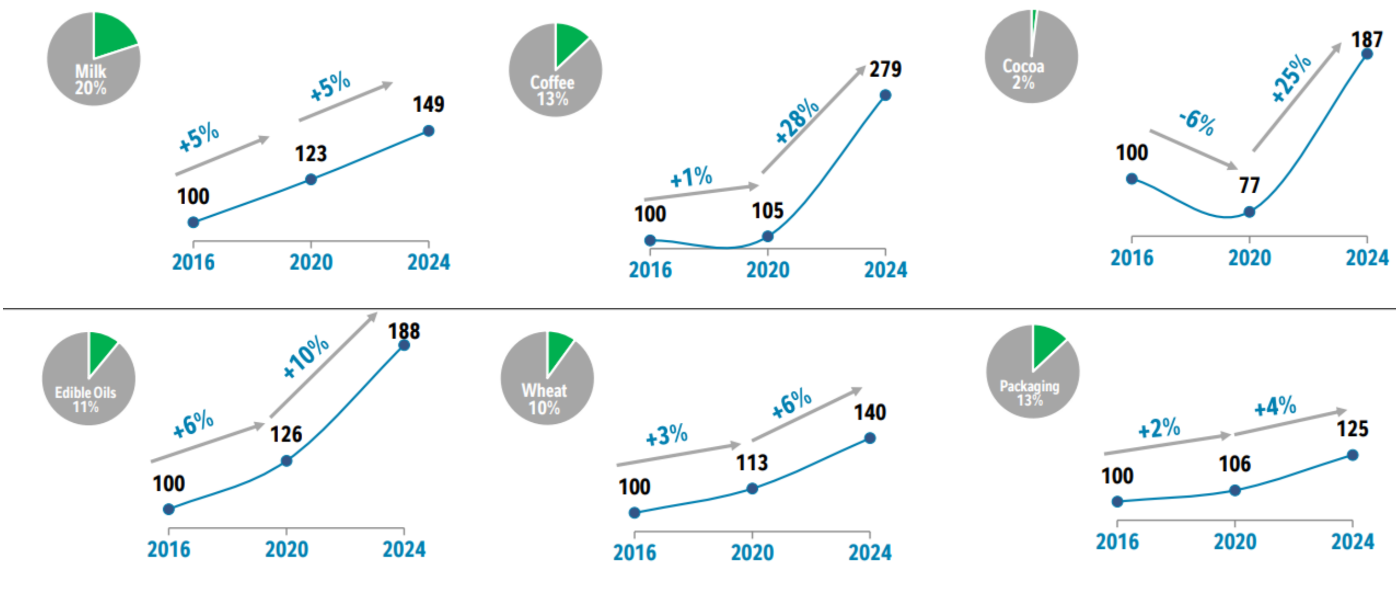
Capex

- Nestlé operates nine factories in India, with the 10th factory set to open in Odisha.
- Capital expenditure has increased from 1.8% of sales in FY15 to 7.7% in FY24.
- Since 2020, the company has expanded the capacity for Maggi, Coffee, and Chocolate by 35% with a capex of INR55b.

Commodity Inflation and Cost Management

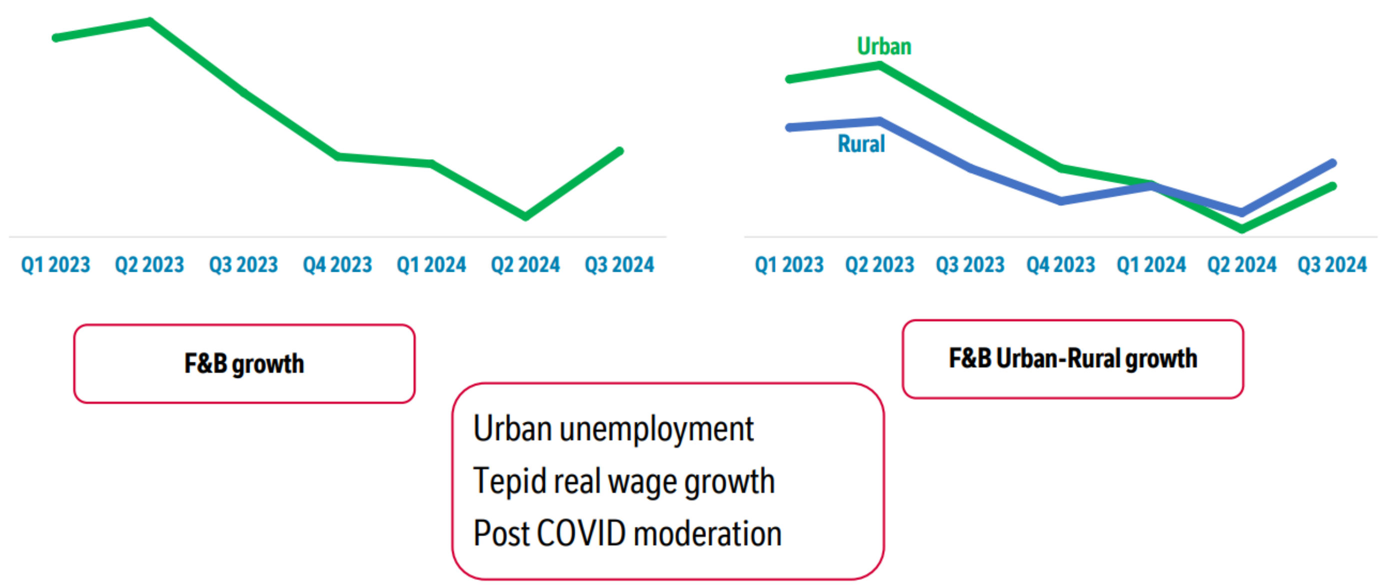
- Food inflation continues to impact consumption and consumer spending. While headline inflation is moderating, certain agri-commodity prices remain elevated.
- Nestlé has driven efficiencies across its value chain through economies of scale and strategic procurement.
- Since 2016, the company has implemented 7,700 cost-reduction projects to enhance efficiency and decision-making.
- Nestle is taking calibrated pricing decisions based on consumer insights across all categories.

Exhibit 8: Significant inflation in commodity prices



Source: Company, MOFSL

Exhibit 9: Slowdown in F&B growth; rural growth outpaces urban growth

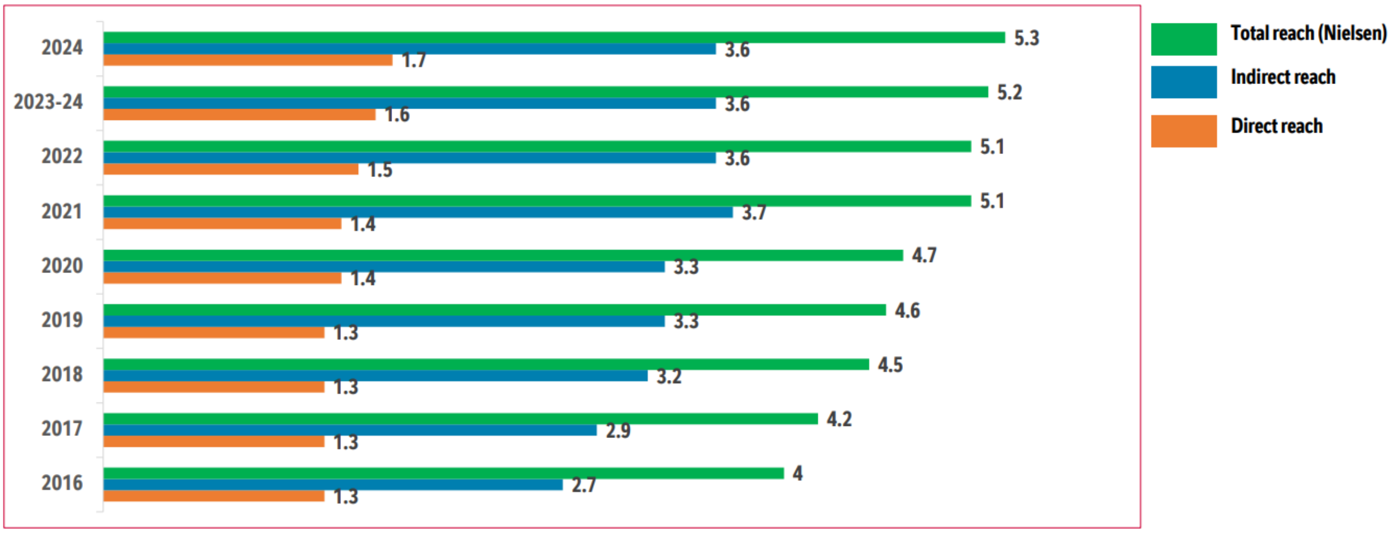


Source: Company, MOFSL

Distribution and expansion

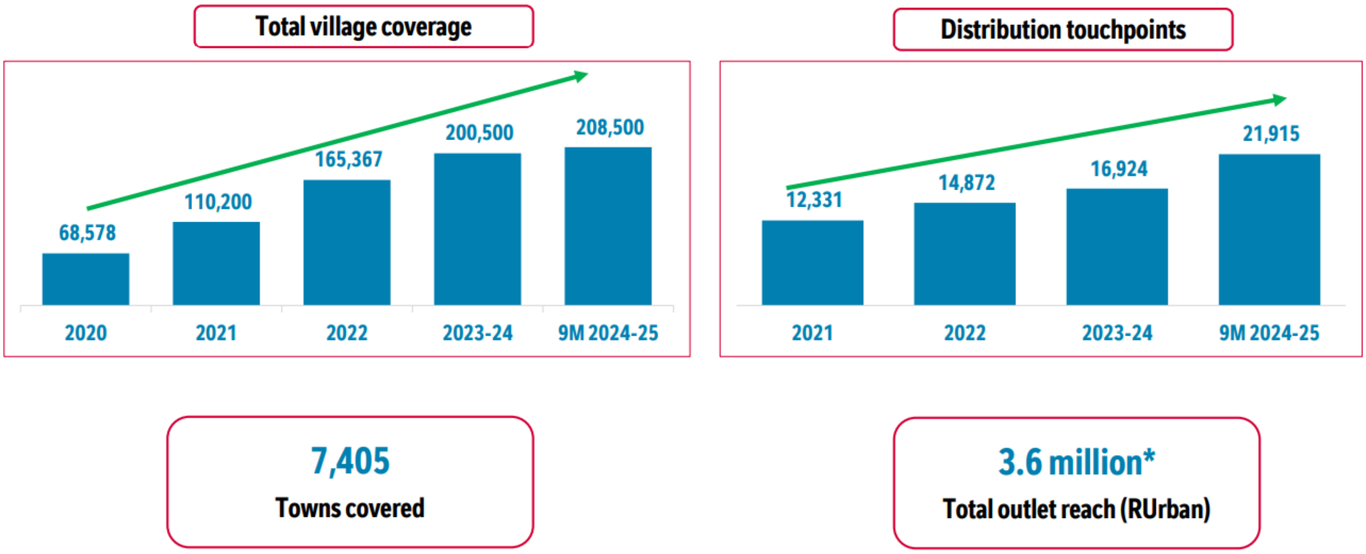
- Nestlé India's total retail reach expanded to 5.3m outlets in 2024. During the Maggi crisis, the company lost access to 1m retail outlets, dropping from 5m to 4m, but has since recovered. Direct reach now stands at 1.7m outlets.
- The company is accelerating its RURBAN expansion, covering over 7,400 towns and reaching 3.6m outlets.
- RURBAN reach has further expanded to 208,500 villages with 21,915 distribution touchpoints. Activation efforts include 17,900 HAAT activations, 3,400 feet-on-street representatives, and 29,000 RURBAN smart stores as of 9MFY25.
- Nestlé is managing competitive intensity in RURBAN areas by building awareness around taste and quality. After adjusting the price of the INR5 pack to INR7, the company has also introduced the INR10 pack to cater to evolving demand while maintaining strong in-store visibility.
- The company is balancing distribution channels, portfolio mix, pricing strategies, curated promotions, and calibrated price adjustments across channels.
- Extra discounting is prevalent in the quick commerce segment, but this is driven by platform players rather than the company itself.
- Nestle is cautious about not allowing quick commerce to erode profitability solely for revenue gains.
- Traditional trade remains dominant, accounting for 75-80% of total sales, though the channel mix varies across metro and Tier-1 cities.

Exhibit 10: Total distribution reach stands at 5.3m outlets, including 1.7m direct outlets



Source: Company, MOFSL

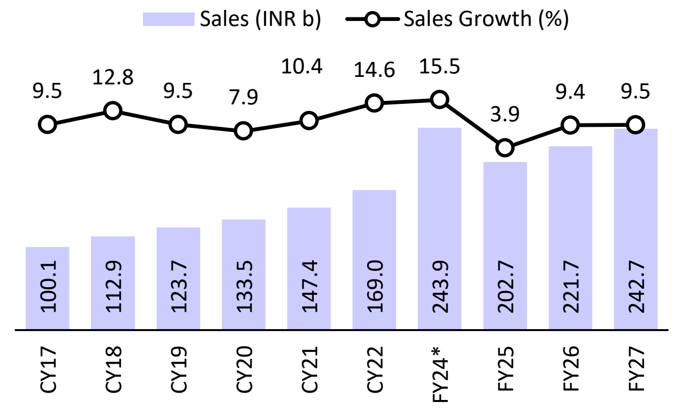
Exhibit 11: Nestle accelerating its RURBAN presence



Source: Company, MOFSL

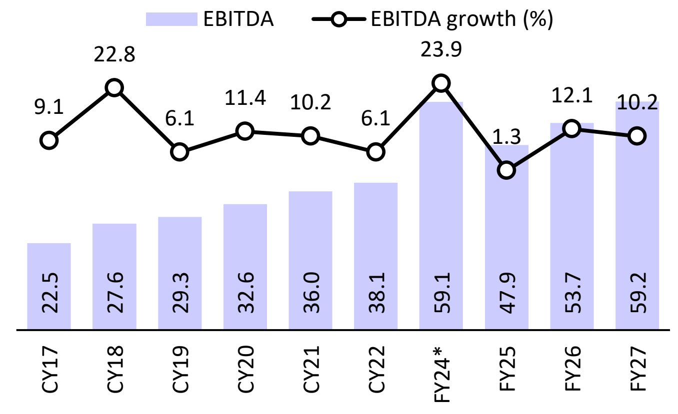
Story in charts

Exhibit 12: Revenue likely to clock 9% CAGR over FY25-27…



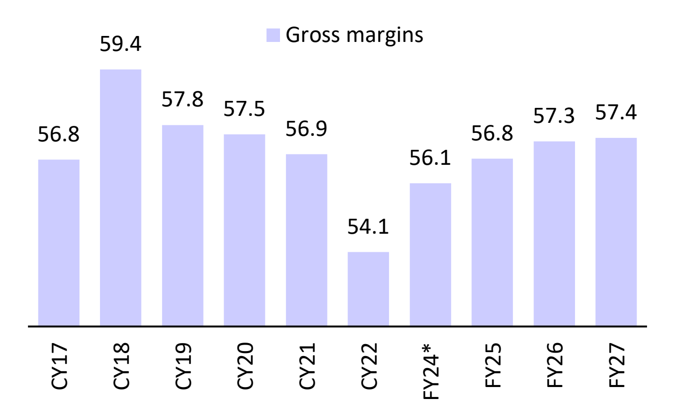
Source: Company, MOFSL

Exhibit 13: …leading to EBITDA CAGR of 11%



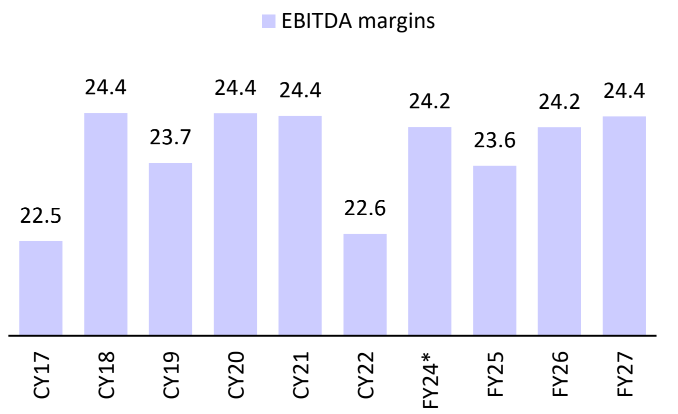
Source: Company, MOFSL

Exhibit 14: GP margin expected to improve gradually…



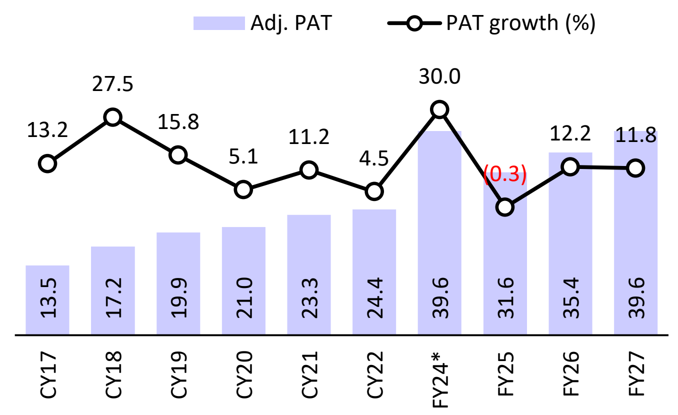
Source: Company, MOFSL

Exhibit 15: …leading to EBITDA margin expansion



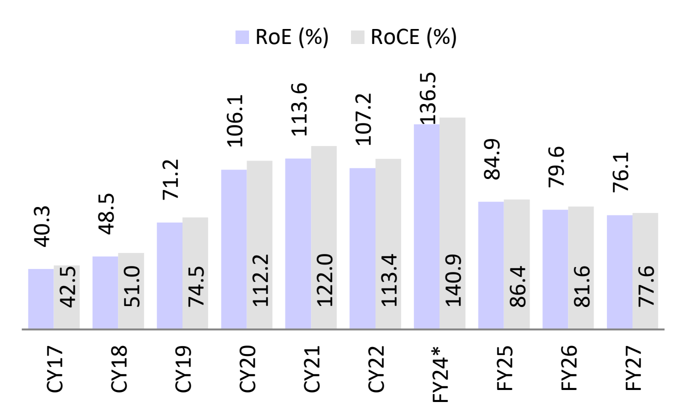
Source: Company, MOFSL

Exhibit 16: APAT to post 12% CAGR over FY25-27



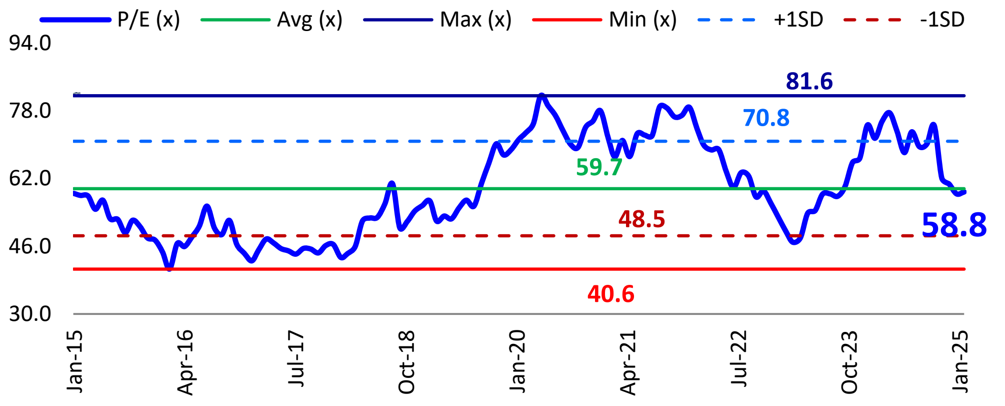
Source: Company, MOFSL

Exhibit 17: RoE and RoCE remain strong



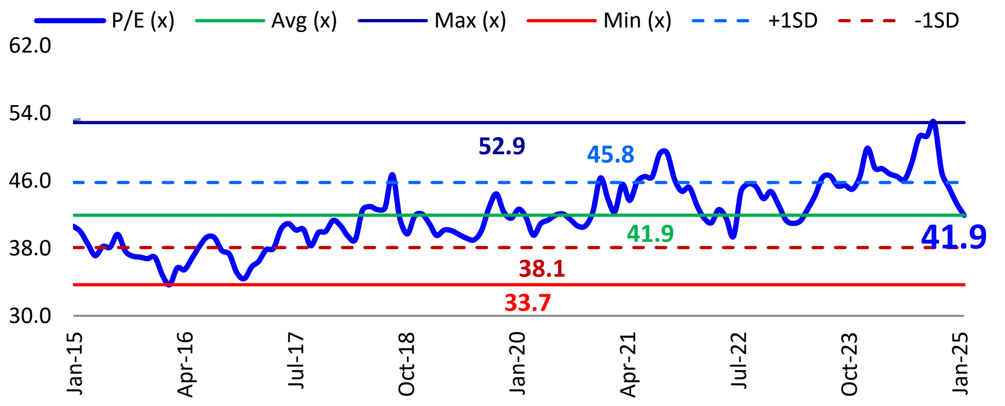
Source: Company, MOFSL

Exhibit 18: NEST's P/E (x)



Sources: Company reports, MOFSL

Exhibit 19: Consumer sector P/E (x)



Sources: Company reports, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	CY19	CY20	CY21	CY22	FY24*	FY25E	FY26E	FY27E
Net Sales	**123.7**	**133.5**	**147.4**	**169.0**	**243.9**	**202.7**	**221.7**	**242.7**
Change (%)	9.5	7.9	10.4	14.6	15.5	3.9	9.4	9.5
Gross Profit	**71.4**	**76.8**	**83.9**	**91.5**	**136.9**	**115.2**	**127.0**	**139.3**
Margin (%)	57.8	57.5	56.9	54.1	56.1	56.8	57.3	57.4
EBITDA	**29.3**	**32.6**	**36.0**	**38.1**	**59.1**	**47.9**	**53.7**	**59.2**
Change (%)	6.1	11.4	10.2	6.1	23.9	1.3	12.1	10.2
Margin (%)	23.7	24.4	24.4	22.6	24.2	23.6	24.2	24.4
Depreciation	3.2	3.7	3.9	4.0	5.4	5.0	5.7	6.1
Int. and Fin. Ch.	1.2	1.6	2.0	1.5	1.5	1.3	1.4	1.4
Other Inc.- Rec.	2.5	1.5	1.2	1.0	1.5	0.9	1.1	1.7
PBT	**27.4**	**28.7**	**31.2**	**33.6**	**53.7**	**42.5**	**47.7**	**53.3**
Change (%)	6.5	4.9	8.7	7.5	60.0	-1.2	12.4	11.7
Margin (%)	22.1	21.5	21.2	19.9	22.0	21.0	21.5	22.0
Tax	7.1	7.3	7.4	8.7	13.6	10,927	11,824	13,219
Tax Rate (%)	25.8	25.4	23.7	25.8	25.2	25.7	24.8	24.8
Adjusted PAT	**19.9**	**21.0**	**23.3**	**24.4**	**39.6**	**31.6**	**35.4**	**39.6**
Change (%)	15.8	5.1	11.2	4.5	30.0	-0.3	12.2	11.8
Margin (%)	16.1	15.7	15.8	14.4	16.2	15.6	16.0	16.3
Reported PAT	**19.7**	**20.8**	**21.2**	**23.9**	**39.3**	**32.8**	**35.5**	**39.7**

Balance Sheet								(INR b)
Y/E March	CY19	CY20	CY21	CY22	FY24*	FY25E	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	40.0	47.1	55.1
Net Worth	**19.3**	**20.2**	**20.8**	**24.6**	**33.4**	**40.9**	**48.1**	**56.0**
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**	**41.5**	**49.0**	**57.3**
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	33.7	39.4	45.5
Net Fixed Assets	**22.3**	**21.8**	**29.9**	**30.4**	**34.6**	**53.0**	**53.3**	**53.3**
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**	**42.7**	**55.0**	**69.4**
Inventory	12.8	14.2	15.8	19.3	20.9	17.4	18.9	20.6
Account Receivables	1.2	1.6	1.7	1.9	3.0	2.5	2.7	3.0
Cash and Bank Balance	13.1	17.7	7.4	9.5	7.8	6.5	16.9	28.9
Others	2.2	2.5	16.9	17.1	16.9	16.3	16.6	16.9
Curr. Liab. and Prov.	**50.5**	**58.5**	**61.0**	**64.9**	**71.4**	**60.7**	**65.9**	**71.9**
Account Payables	14.9	15.2	17.3	19.3	22.4	17.5	18.6	20.2
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	27.7	30.2	33.0
Net Curr. Assets	**-21.2**	**-22.5**	**-19.3**	**-17.2**	**-22.8**	**-18.0**	**-10.9**	**-2.5**
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**	**41.5**	**49.0**	**57.3**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	CY19	CY20	CY21	CY22	FY24*	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**20.7**	**21.7**	**24.2**	**25.3**	**41.0**	**32.7**	**36.7**	**41.1**
Cash EPS	24.0	25.6	28.2	29.4	46.6	37.9	42.6	47.4
BV/Share	20.0	20.9	21.6	25.5	34.6	42.5	49.9	58.1
DPS	34.2	20.0	20.0	22.0	32.2	26.2	29.4	32.9
Payout (%)	165.3	92.0	82.7	87.1	78.4	80.0	80.0	80.0
Valuation (x)								
P/E	111.2	105.8	95.1	91.0	56.0	70.2	62.6	56.0
Cash P/E	96.0	89.9	81.5	78.1	49.3	60.6	54.0	48.6
EV/Sales	17.7	16.4	14.9	13.0	9.0	10.9	9.9	9.0
EV/EBITDA	74.7	67.0	61.3	57.7	37.3	46.1	40.9	36.9
P/BV	114.8	109.8	106.4	90.2	66.4	54.2	46.1	39.6
Dividend Yield (%)	1.5	0.9	0.9	1.0	1.4	1.1	1.3	1.4
Return Ratios (%)								
RoE	71.2	106.1	113.6	107.2	136.5	84.9	79.6	76.1
RoCE	74.5	112.2	122.0	113.4	140.9	86.4	81.6	77.6
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	4.9	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 **(INR b)**

Y/E March	CY19	CY20	CY21	CY22	FY24*	FY25E	FY26E	FY26E
OP/(loss) before Tax	26.7	28.1	28.8	32.6	52.9	43.7	47.3	52.9
Int./Div. Received	0.0	0.3	0.1	0.2	0.3	1.3	1.4	1.4
Depn. and Amort.	3.2	3.7	3.9	4.0	5.4	5.0	5.7	6.1
Interest Paid	-2.5	-1.5	-1.3	-0.7	-1.3	-0.9	-1.1	-1.7
Direct Taxes Paid	-6.7	-7.0	-7.3	-8.4	-13.0	-10.9	-11.8	-13.2
Incr in WC	1.6	1.0	-1.5	-0.3	-2.5	-0.6	0.7	1.0
CF from Operations	**22.3**	**24.5**	**22.7**	**27.4**	**41.7**	**37.6**	**42.1**	**46.4**
Others	11.7	4.4	8.0	0.9	2.0	-4.6	3.6	4.4
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**	**29.6**	**36.1**	**40.4**
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**	**-12.6**	**-2.4**	**-1.6**
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	-25.3	-28.3	-31.7
Others	0.2	-0.7	-0.9	-1.0	-1.3	-1.0	-1.1	-1.1
CF from Fin. Activity	**-35.4**	**-19.6**	**-20.2**	**-21.2**	**-31.3**	**-26.3**	**-29.4**	**-32.8**
Incr/Decr of Cash	**-3.0**	**4.6**	**-10.3**	**2.1**	**-1.7**	**-1.2**	**10.3**	**12.1**
Add: Opening Balance	16.1	13.1	17.7	7.4	9.5	7.8	6.5	16.9
Closing Balance	**13.1**	**17.7**	**7.4**	**9.5**	**7.8**	**6.5**	**16.9**	**28.9**

E: MOSL Estimates

NOTES

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BUY	>=15%
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