

**HOLD**  
 TP: Rs 2,820 | ▲ 14%

**NESTLE INDIA**

Consumer Staples

25 July 2024

**Weak sales growth profile over the next 12 months**

- Compared to Bloomberg consensus, NEST’s sales were 6% lower and EBITDA 10% lower
- Margins seem to be a priority over volumes. We downgrade our sales and EPS forecasts 5% to 7% across the forecast period
- We assume coverage on Nestle India. We retain Hold and reduce TP to Rs 2,820 from Rs 2,826

**Lokesh Gusain**

research@bobcaps.in

**Sales and EBITDA miss:** Nestle India reported 1QFY25 results with underlying EPS growth of 7% on +3% sales and 50bps EBITDA margin expansion. Compared to consensus, sales were 6% lower while EBITDA was 10% lower as margins came in 100bps lower vs expectations. However, gross margin of 57.6% was 180bps higher vs expectations. We retain Hold and cut TP to Rs 2,820.

**Nestle SA downgrade:** Nestle India’s parent, Nestle SA, downgraded its CY24 guidance – organic sales at +3% (+4% earlier) with operating margins flat (vs “moderate increase” earlier) and constant FX EPS +MSD (6%-10% earlier). Asia was weaker than expected with China highlighted as a major drag.

**1Q25 indicates margin precedence over volumes:** Nestle India’s gross margin gains reduced only 20bps to +280bps despite inflationary pressures. Pricing was +3% with volume/mix contributing ~1% to sales growth. We view this as a missed opportunity to gain shelf space amidst an industry-wide inflationary cost base when Nestle had a product (KitKat) with lower-than-average cocoa proportion. Nestle’s high prices likely restricted shelf space gain in the confectionary aisle.

**Retain Hold:** Nestle SA’s focus appears to be on margins over volumes. Surprisingly, this seems to have trickled down to the Indian operations. We view this as a negative given India is still in a growth phase and far from maturity. We value Nestle India based on P/E relative to the NIFTY 50 index. Given its pricing driven, slower-than-average sales growth profile over the next 12 months, we do not apply any premium on Nestle India’s relative P/E. We use 66x 12M to Jun’26 P/E to derive the TP of Rs 2,820 from Rs 2,826. Retain Hold.

Quarter ended in	Jun-23	Jun-24	YoY (%)
Sales (Rs mn)	46,585	48,140	3
EBITDA (Rs mn)	10,555	11,143	6
EBITDA margin (%)	22.7	23.1	49bps
Adj EPS (Rs)	7.24	7.74	7

Sources: Company reports, BOBCAPS Research

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	NEST IN/Rs 2,481
Market cap	US\$ 28.6bn
Free float	37%
3M ADV	US\$ 25.9mn
52wk high/low	Rs 2,769/Rs 2,145
Promoter/FPI/DII	63%/12%/25%

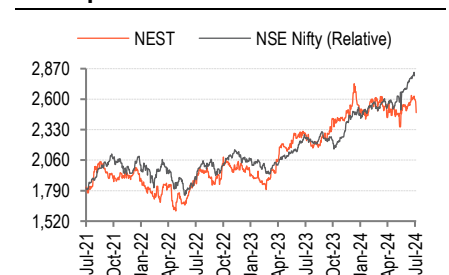
Source: NSE | Price as of 25 Jul 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	243,939	206,626	233,177
EBITDA (Rs mn)	58,198	50,070	60,199
Adj. net profit (Rs mn)	39,236	31,949	39,685
Adj. EPS (Rs)	40.7	33.1	41.2
Consensus EPS (Rs)	40.7	37.7	42.2
Adj. ROAE (%)	117.4	83.4	89.4
Adj. P/E (x)	61.0	74.9	60.3
EV/EBITDA (x)	41.1	47.8	39.7
Adj. EPS growth (%)	(83.6)	(18.6)	24.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## 1QFY25 result review

### Earnings summary

We reduce our sales forecasts across FY25-FY27 by 4%-5%. Our EBITDA forecasts are also lower by 5%-6%. We expect pricing-driven sales growth through FY25E given the trend reported in 1QFY25. While gross margin is higher in FY25E, we reduce operating leverage to derive a much slower rate of EBITDA margin expansion. We expect volumes to pickup with the pricing anniversary in 1QFY26. We forecast 6% sales growth in FY25, a meaningful slowdown vs history.

**Fig 1 – Nestle India financial forecasts**

12M to	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27
Sales (Rs mn)	150,880	177,257	195,634	206,626	233,177	265,545
...YoY (%)	-	17	10	6	13	14
EBITDA (Rs mn)	35,793	39,081	47,243	50,070	60,199	68,565
...YoY (%)	-	9	21	6	20	14
EBITDA margin	23.7	22.0	24.1	24.2	25.8	25.8
...YoY (%)	-	(168bps)	210bps	8bps	158bps	0bps

Source: BOBCAPS Research, Company

### Valuation methodology

We value Nestle India based on P/E relative to the NIFTY 50 index. For the overall FMCG group, we apply a 10% premium, which reflects the recent improvements in India's economic outlook. However, given its pricing driven, slower-than-average sales growth profile over the next 12 months, we do not apply this premium to Nestle India. We use 66x 12M to Jun'26 P/E to derive the TP of Rs 2,820 from Rs 2,826. Retain Hold.

### Key risks

Key upside risks to our estimates are:

- input cost deflation or stabilisation, and
- strong recovery in rural.

Key downside risks to our estimates are:

- higher food inflation, and
- delayed rural recovery.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24A	FY25E	FY26E
<b>Total revenue</b>	<b>147,406</b>	<b>168,969</b>	<b>243,939</b>	<b>206,626</b>	<b>233,177</b>
EBITDA	35,664	37,125	58,198	50,070	60,199
Depreciation	3,910	4,030	5,378	6,905	6,905
EBIT	31,754	33,095	52,820	43,165	53,294
Net interest inc./(exp.)	(2,017)	(1,546)	(1,503)	(1,331)	(1,353)
Other inc./(exp.)	1,202	1,010	1,480	1,342	1,399
Exceptional items	2,365	0	9	0	0
EBT	28,573	32,560	52,788	43,176	53,340
Income taxes	7,389	8,655	13,560	11,227	13,655
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>21,184</b>	<b>23,905</b>	<b>39,227</b>	<b>31,949</b>	<b>39,685</b>
Adjustments	2,365	0	9	0	0
<b>Adjusted net profit</b>	<b>23,549</b>	<b>23,905</b>	<b>39,236</b>	<b>31,949</b>	<b>39,685</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24A	FY25E	FY26E
Accounts payables	17,482	19,338	22,379	23,711	27,157
Other current liabilities	1,703	2,310	1,769	1,769	1,769
Provisions	34,240	33,659	31,788	41,811	46,847
Debt funds	341	300	311	311	311
Other liabilities	9,112	9,589	15,574	15,632	15,659
Equity capital	964	964	964	964	964
Reserves & surplus	18,500	23,628	32,445	37,333	43,405
Shareholders' fund	19,464	24,592	33,409	38,297	44,370
<b>Total liab. and equities</b>	<b>82,341</b>	<b>89,787</b>	<b>105,231</b>	<b>121,532</b>	<b>136,113</b>
Cash and cash eq.	7,185	9,266	7,589	7,515	7,301
Accounts receivables	1,660	1,919	3,005	2,264	2,555
Inventories	15,927	19,288	20,894	21,539	24,669
Other current assets	1,942	1,963	2,750	2,401	2,709
Investments	7,740	7,775	4,639	4,639	4,639
Net fixed assets	26,530	27,058	30,557	43,651	52,447
CWIP	2,462	3,584	17,417	17,417	17,417
Intangible assets	0	0	0	0	0
Deferred tax assets, net	258	256	0	0	0
Other assets	18,638	18,679	18,381	22,105	24,375
<b>Total assets</b>	<b>82,341</b>	<b>89,787</b>	<b>105,231</b>	<b>121,532</b>	<b>136,112</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24A	FY25E	FY26E
<b>Cash flow from operations</b>	<b>22,360</b>	<b>27,374</b>	<b>41,748</b>	<b>50,643</b>	<b>52,595</b>
Capital expenditures	(7,348)	(5,499)	(18,827)	(20,000)	(17,000)
Change in investments	(13,523)	1,288	1,898	0	0
Other investing cash flows	1,668	294	4,554	(2,325)	(844)
<b>Cash flow from investing</b>	<b>(19,203)</b>	<b>(3,917)</b>	<b>(12,374)</b>	<b>(22,325)</b>	<b>(17,844)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(917)	(980)	(1,267)	(1,331)	(1,353)
Dividends paid	(19,283)	(20,247)	(30,082)	(27,060)	(33,613)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(20,200)</b>	<b>(21,227)</b>	<b>(31,349)</b>	<b>(28,392)</b>	<b>(34,965)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(17,043)</b>	<b>2,229</b>	<b>(1,976)</b>	<b>(74)</b>	<b>(214)</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,102</b>	<b>7,791</b>	<b>7,589</b>	<b>7,515</b>	<b>7,301</b>

### Per Share

Y/E 31 Mar (Rs)	CY21A	CY22A	FY24A	FY25E	FY26E
Reported EPS	222.5	247.9	40.7	33.1	41.2
Adjusted EPS	244.2	247.9	40.7	33.1	41.2
Dividend per share	200.0	210.0	34.5	28.1	34.9
Book value per share	20.2	25.5	34.7	39.7	46.0

### Valuations Ratios

Y/E 31 Mar (x)	CY21A	CY22A	FY24A	FY25E	FY26E
EV/Sales	16.2	14.2	9.8	11.6	10.3
EV/EBITDA	67.1	64.4	41.1	47.8	39.7
Adjusted P/E	10.2	10.0	61.0	74.9	60.3
P/BV	122.9	97.3	71.6	62.5	53.9

### DuPont Analysis

Y/E 31 Mar (%)	CY21A	CY22A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	73.4	74.3	74.0	74.4
Interest burden (PBT/EBIT)	90.0	98.4	99.9	100.0	100.1
EBIT margin (EBIT/Revenue)	21.5	19.6	21.7	20.9	22.9
Asset turnover (Rev./Avg TA)	179.0	188.2	231.8	170.0	171.3
Leverage (Avg TA/Avg Equity)	4.2	3.7	3.1	3.2	3.1
<b>Adjusted ROAE</b>	<b>108.8</b>	<b>97.2</b>	<b>117.4</b>	<b>83.4</b>	<b>89.4</b>

### Ratio Analysis

Y/E 31 Mar	CY21A	CY22A	FY24A	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	10.4	14.6	44.4	(15.3)	12.8
EBITDA	11.4	4.1	56.8	(14.0)	20.2
Adjusted EPS	13.1	1.5	(83.6)	(18.6)	24.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	24.2	22.0	23.9	24.2	25.8
EBIT margin	21.5	19.6	21.7	20.9	22.9
Adjusted profit margin	16.0	14.1	16.1	15.5	17.0
Adjusted ROAE	108.8	97.2	117.4	83.4	89.4
ROCE	160.3	133.0	156.6	111.8	119.3
<b>Working capital days (days)</b>					
Receivables	4	4	4	4	4
Inventory	92	91	71	91	91
Payables	101	91	76	100	100
<b>Ratios (x)</b>					
Gross asset turnover	3.2	3.3	4.1	2.6	2.4
Current ratio	1.0	1.1	0.9	0.8	0.9
Net interest coverage ratio	15.7	21.4	35.1	32.4	39.4
<b>Adjusted debt/equity</b>	<b>1.7</b>	<b>1.2</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

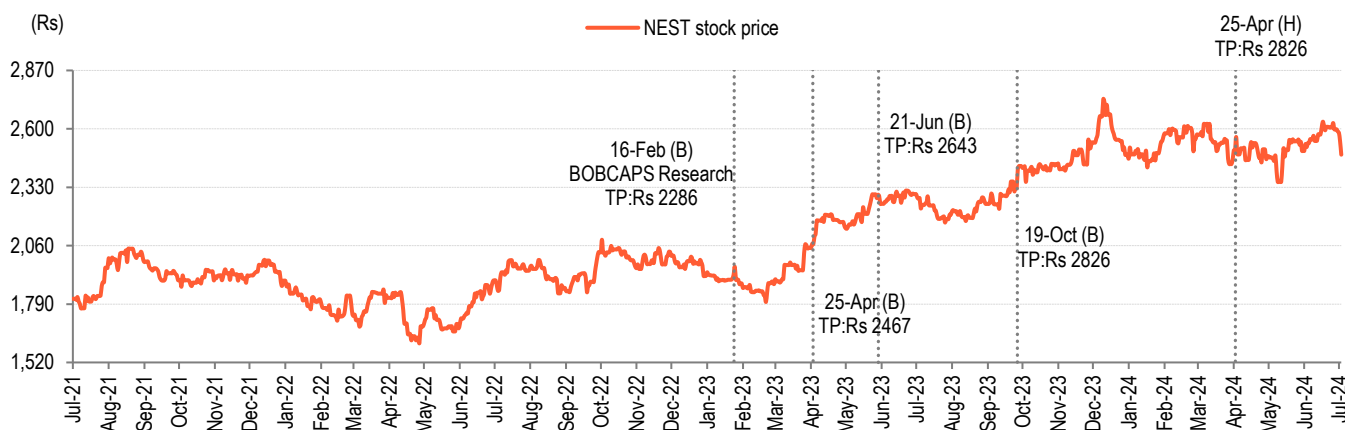
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): NESTLE INDIA (NEST IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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