

HOLD
 TP: Rs 2,543 | ▲ 7%

NESTLE INDIA

Consumer Staples

17 October 2024

Margins remain a priority; HOLD

- Sales came in 4% below consensus while EBITDA was 10% lower due to margin being 152bps below expectations
- Rising competition-driven higher A&P spend contracted EBITDA margin by 40bps on a YoY basis
- Gross margins remain a priority. We see risk of permanent loss of shelf space as volume growth continues to be negative. Retain HOLD

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Sales and EBITDA miss: Sales came in 4% below consensus while EBITDA was 10% lower due to margin being 152bps below expectations. On a YoY basis, Standalone sales were +1.3% with domestic +1.2%. The 180bps contraction in EBITDA margin was due to higher A&P and other expenses as gross margins were relatively flat YoY.

Intensifying competition across businesses: Nestle noted rising competition across its businesses. Confectionary remains competitive due to varying levels of price increases based on underlying input composition. We expect the noodles category is also promotional partly due to recent M&A (Tata Consumer and Capital Foods). While high margins have always been an attraction, the recent rise in quick commerce is now enabling new players to do nationwide launches in tier 1/2 cities.

FY25 forecasts: We forecast 3% sales growth as pricing growth gets largely offset by volume losses. Our EBITDA growth forecast is +2% as we assume 10bps margin contraction to 24.0% despite 150bps higher gross margins. Nestle expects more pricing to come through in FY25E and we expect an accelerated level of A&P to manage volume losses.

Our view and valuation: Nestle continues to keep its focus on margins. We view this as a negative given India is still in a growth phase and far from maturity. We value Nestle 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 67x 12M to Sep’26 P/E to derive the TP of Rs 2,543 (previously Rs 2,820). Retain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	NEST IN/Rs 2,379
Market cap	US\$ 27.3bn
Free float	37%
3M ADV	US\$ 31.4mn
52wk high/low	Rs 2,778/Rs 2,310
Promoter/FPI/DII	63%/12%/25%

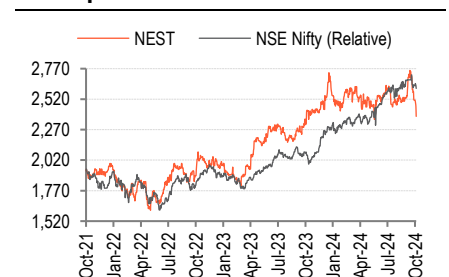
Source: NSE | Price as of 17 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	243,939	201,138	218,861
EBITDA (Rs mn)	58,198	48,168	52,678
Adj. net profit (Rs mn)	39,236	29,997	34,025
Adj. EPS (Rs)	40.7	31.1	35.3
Consensus EPS (Rs)	40.7	37.7	42.2
Adj. ROAE (%)	117.4	83.2	78.2
Adj. P/E (x)	58.5	76.5	67.4
EV/EBITDA (x)	39.4	47.6	43.5
Adj. EPS growth (%)	(83.6)	(23.5)	13.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

(Rs mn)	Q3CY23	Q2FY25	YoY (%)	2QFY25 Actual (%)	
				vs BoB est.	vs Cons est.
Sales	50,368	51,040	1	(3)	(4)
EBITDA	12,249	11,677	(5)	(9)	(10)
EBITDA Margin (%)	24.3	22.9	(144bps)	(145bps)	(152bps)

Source: Company, Bloomberg consensus as on 17 Oct'24, BOBCAPS Research



2QFY25 result review

Earnings summary

We reduce our sales forecasts across FY25-FY27 by 3%-7%. Our EBITDA forecasts revisions are steeper at -3% to -18% due to negative operating leverage along with higher A&P spend. We expect pricing-driven sales growth through FY25E and at least part of FY26E given the trend over the past few quarters and management commentary on likelihood of more pricing. While gross margins are higher in FY25E, we reduce operating leverage to derive a much slower rate of EBITDA growth. We now expect volumes to pickup within 3Q26 (1Q26 prior estimate). We forecast 3% 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	201,138	218,861	247,142
...YoY (%)		17	10	3	9	13
EBITDA (Rs mn)	35,793	39,081	47,243	48,168	52,678	59,506
...YoY (%)		9	21	2	9	13
EBITDA margin (%)	23.7	22.0	24.1	23.9	24.1	24.1
...YoY (%)		(168bps)	210bps	(20bps)	12bps	1bps

Source: Company, BOBCAPS Research

Valuation methodology

We value Nestle 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 67x 12M to Sep'26 P/E to derive the TP of Rs 2,543. 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)	CY22A	FY24A	FY25E	FY26E	FY27E
Total revenue	168,969	243,939	201,138	218,861	247,142
EBITDA	37,125	58,198	48,168	52,678	59,506
Depreciation	4,030	5,378	6,905	6,905	6,905
EBIT	33,095	52,820	41,262	45,773	52,601
Net interest inc./(exp.)	(1,546)	(1,503)	(1,315)	(1,353)	(1,353)
Other inc./(exp.)	1,010	1,480	1,072	1,313	1,483
Exceptional items	0	9	(1,834)	0	0
EBT	32,560	52,788	42,852	45,733	52,731
Income taxes	8,655	13,560	11,021	11,708	13,499
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	23,905	39,227	31,831	34,025	39,232
Adjustments	0	9	(1,834)	0	0
Adjusted net profit	23,905	39,236	29,997	34,025	39,232

Balance Sheet

Y/E 31 Mar (Rs mn)	CY22A	FY24A	FY25E	FY26E	FY27E
Accounts payables	19,338	22,379	23,075	24,984	28,209
Other current liabilities	2,310	1,769	1,769	1,769	1,769
Provisions	33,659	31,788	40,770	44,132	49,496
Debt funds	300	311	311	311	311
Other liabilities	9,589	15,574	15,626	15,644	15,673
Equity capital	964	964	964	964	964
Reserves & surplus	23,628	32,445	37,315	42,521	48,524
Shareholders' fund	24,592	33,409	38,279	43,486	49,489
Total liab. and equities	89,787	105,231	119,831	130,325	144,947
Cash and cash eq.	9,266	7,589	6,985	5,035	4,875
Accounts receivables	1,919	3,005	2,204	2,398	2,708
Inventories	19,288	20,894	20,962	22,695	25,625
Other current assets	1,963	2,750	2,337	2,543	2,871
Investments	7,775	4,639	4,639	4,639	4,639
Net fixed assets	27,058	30,557	43,651	52,447	59,945
CWIP	3,584	17,417	17,417	17,417	17,417
Intangible assets	0	0	0	0	0
Deferred tax assets, net	256	0	0	0	0
Other assets	18,679	18,381	21,636	23,151	25,570
Total assets	89,787	105,231	119,831	130,325	143,649

Cash Flows

Y/E 31 Mar (Rs mn)	CY22A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	27,374	41,748	49,804	45,406	52,327
Capital expenditures	(5,499)	(18,827)	(20,000)	(17,000)	(17,000)
Change in investments	1,288	1,898	0	0	0
Other investing cash flows	294	4,554	(2,132)	(184)	(906)
Cash flow from investing	(3,917)	(12,374)	(22,132)	(17,184)	(17,906)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(980)	(1,267)	(1,315)	(1,353)	(1,353)
Dividends paid	(20,247)	(30,082)	(26,960)	(28,819)	(33,229)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(21,227)	(31,349)	(28,276)	(30,172)	(34,581)
Chg in cash & cash eq.	2,229	(1,976)	(603)	(1,950)	(161)
Closing cash & cash eq.	7,791	7,589	6,985	5,035	4,875

Per Share

Y/E 31 Mar (Rs)	CY22A	FY24A	FY25E	FY26E	FY27E
Reported EPS	247.9	40.7	33.0	35.3	40.7
Adjusted EPS	247.9	40.7	31.1	35.3	40.7
Dividend per share	210.0	34.5	28.0	29.9	34.5
Book value per share	25.5	34.7	39.7	45.1	51.3

Valuations Ratios

Y/E 31 Mar (x)	CY22A	FY24A	FY25E	FY26E	FY27E
EV/Sales	13.6	9.4	11.4	10.5	9.3
EV/EBITDA	61.8	39.4	47.6	43.5	38.5
Adjusted P/E	9.6	58.5	76.5	67.4	58.5
P/BV	93.3	68.6	59.9	52.7	46.3

DuPont Analysis

Y/E 31 Mar (%)	CY22A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.4	74.3	74.3	74.4	74.4
Interest burden (PBT/EBIT)	98.4	99.9	103.9	99.9	100.2
EBIT margin (EBIT/Revenue)	19.6	21.7	20.5	20.9	21.3
Asset turnover (Rev./Avg TA)	188.2	231.8	167.9	167.9	172.0
Leverage (Avg TA/Avg Equity)	3.7	3.1	3.1	3.0	2.9
Adjusted ROAE	97.2	117.4	83.2	78.2	79.3

Ratio Analysis

Y/E 31 Mar	CY22A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	14.6	44.4	(17.5)	8.8	12.9
EBITDA	4.1	56.8	(17.2)	9.4	13.0
Adjusted EPS	1.5	(83.6)	(23.5)	13.4	15.3
Profitability & Return ratios (%)					
EBITDA margin	22.0	23.9	23.9	24.1	24.1
EBIT margin	19.6	21.7	20.5	20.9	21.3
Adjusted profit margin	14.1	16.1	14.9	15.5	15.9
Adjusted ROAE	97.2	117.4	83.2	78.2	79.3
ROCE	133.0	156.6	106.9	104.5	105.6
Working capital days (days)					
Receivables	4	4	4	4	4
Inventory	91	71	91	91	91
Payables	91	76	100	100	100
Ratios (x)					
Gross asset turnover	3.3	4.1	2.5	2.3	2.3
Current ratio	1.1	0.9	0.8	0.8	0.8
Net interest coverage ratio	21.4	35.1	31.4	33.8	38.9
Adjusted debt/equity	1.2	0.9	0.8	0.7	0.6

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

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BUY – Expected return >+15%

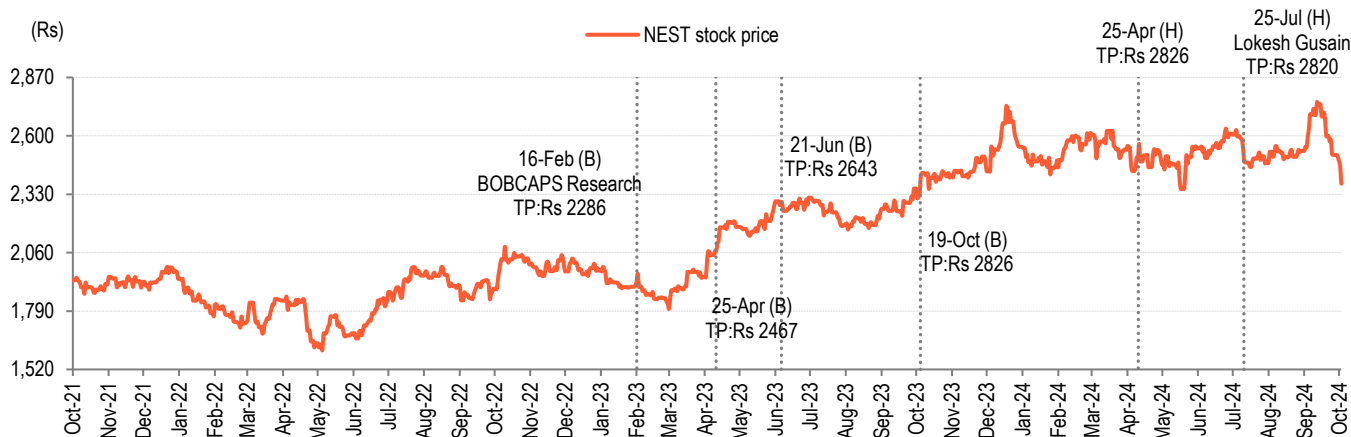
HOLD – Expected return from -6% to +15%

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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