

**HOLD**  
 TP: Rs 2,470 | ▲ 7%

**NESTLE INDIA**

Consumer Staples

01 February 2025

**Managing profits amidst inflation**

- **NEST continues to manage profits amidst inflation in cocoa and coffee. Wheat and palm have also turned inflationary**
- **Pricing has come through earlier vs our expectations and is more than offsetting absolute inflation – result is higher profit per unit sold**
- **Profitability is critical as cocoa inflation has continued for two years. However, regaining shelf space will take time when inflation turns. Hold**

**Lokesh Gusain**  
 research@bobcaps.in

**In-line results:** Compared to consensus, Q3FY25 sales were 1% lower (4% below our estimate) while EBITDA was 1% lower (11% higher vs our estimate). The gross margin deterioration of 230bps in 3QFY25 was less than our estimate of 400bps. However, sales were also lower so overall gross profit was in line.

**Sales result:** We estimate Milk and Nutrition segment as 4% drag to the 3QFY25 sales growth. Prepared Dishes and Cooking Aids were up in HSD as Maggi volumes increased. Beverages sales increased in HDD. We estimate negative volumes as coffee inflation impact on pricing was likely ~20%-25%. Confectionery was up in HSD with KitKat growing in double digits. We estimate cocoa inflation impact on Kit Kat pricing at 20+%, again implying negative volumes.

**Inflation and profitability:** We estimate NEST’s COGS basket inflation in 3QFY25 at 16%. With gross margin down only 220bps, we estimate pricing of 11%, which is ahead of the 7% required pricing run rate to offset absolute cost increase. Margins per unit were up for NEST on our estimates. We expect the company is continuing to improve profitability despite inflation.

**Our view and valuation:** The lower-than-expected deterioration in gross margins and lesser-than-expected volume elasticity at a group level has resulted in earnings upgrades. NEST is passing through inflation to retain profits per unit. We value NEST in line with its 5-year historical average P/E on 12M to Dec’26 EPS. Our TP changes to Rs 2,470 from Rs 2,299. Share price return of 5% – HOLD.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	NEST IN/Rs 2,313
Market cap	US\$ 25.7bn
Free float	37%
3M ADV	US\$ 21.9mn
52wk high/low	Rs 2,778/Rs 2,131
Promoter/FPI/DII	63%/12%/25%

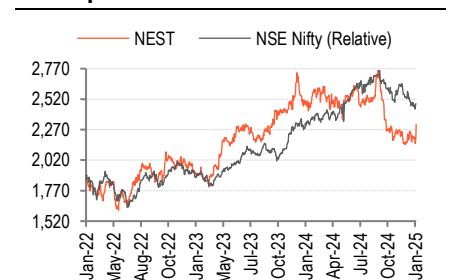
Source: NSE | Price as of 31 Jan 2025

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	243,939	203,981	221,382
EBITDA (Rs mn)	58,198	47,634	51,724
Adj. net profit (Rs mn)	39,285	30,984	33,219
Adj. EPS (Rs)	40.7	32.1	34.5
Consensus EPS (Rs)	0.0	33.2	37.3
Adj. ROAE (%)	95.5	81.6	65.2
Adj. P/E (x)	56.8	72.0	67.1
EV/EBITDA (x)	38.2	47.0	43.1
Adj. EPS growth (%)	25.8	(2.9)	7.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE

**Fig 1 – Nestle India’s Q3FY25 result summary**

(Rs mn)	Actual			Reported vs (%)	
	Q324	Q325	YoY (%)	BoBCaps	Cons.
Sales	46,004	47,797	3.9	(2.9)	(0.8)
Gross Profit	26,959	26,951	0.0	0.3	0.0
EBITDA	10,951	10,849	(0.9)	11.3	(0.7)
EBITDA margin (%)	23.8	22.7	(111bps)	289bps	2bps

Source: Company, Bloomberg, BOBCAPS Research



## Q3FY25 result review

### Earnings revisions

- **Sales** – Our sales forecasts are 1%-2% lower across FY25E, FY26E and FY27E as our higher pricing assumptions are more than offset by lower volumes.
- **Margins** – Our EBITDA margin forecasts are 80bps-200bps higher across the forecast periods. Similar to sales, higher pricing that more than offsets cost inflation is resulting in lower impact on gross margin percentage. Meanwhile, operating expenses are also being controlled with A&P cuts.

Fig 2 – Nestle India's earnings revisions

(Rs mn)	Actual	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY24	FY25	FY25	Change	FY26	FY26	Change	FY27	FY27	Change
Sales	195,634	203,981	206,123	(1.0)	221,382	222,897	(0.7)	243,201	246,847	(1.5)
EBITDA	47,243	47,634	44,195	7.8	51,724	47,457	9.0	57,458	56,383	1.9
EBITDA Margin (%)	24.1	23.4	21.4	191bps	23.4	21.3	207bps	23.6	22.8	78bps
Adj. PAT	31,918	30,984	27,773	11.6	33,219	29,488	12.7	36,687	35,224	4.2
Adj. EPS	33.10	32.13	28.80	11.6	34.45	30.58	12.7	38.05	36.53	4.2

Source: Company, Bloomberg, BOBCAPS Research

### Valuation

NEST is currently trading at 66x FY26E EPS. The stock has traded at a five-year average P/E of 66x on a one-year forward EPS. We value NEST in line with its five-year historical average P/E on 12M to Dec'26 EPS. Our TP changes to Rs 2,470 from Rs 2,299. Share price return of 7% – HOLD.

Recovery has started earlier than expected. The lower-than-expected deterioration in gross margins and lesser-than-expected volume elasticity at a group level has resulted in earnings upgrades near term. NEST is passing through inflation to retain profit per unit. Until the current high inflationary phase in cocoa gets over the company needs to restore profits as the cost increases have been ongoing for close to two years now. Coffee inflation for NEST is more recent since Sep'24.

### Risks

Key upside/downside risks to our estimates are:

- Input cost deflation / inflation
- Strong / weak recovery in rural
- Strong / weak recovery in urban

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	CY22A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>168,970</b>	<b>243,939</b>	<b>203,981</b>	<b>221,382</b>	<b>243,201</b>
EBITDA	37,126	58,198	47,634	51,724	57,458
Depreciation	4,030	5,378	5,114	7,130	8,420
EBIT	33,095	52,820	42,520	44,594	49,038
Net interest inc./(exp.)	1,546	(1,455)	(1,031)	(535)	(535)
Other inc./(exp.)	1,010	1,480	668	234	420
Exceptional items	0	(44)	(1,834)	0	0
EBT	32,560	52,845	42,157	44,292	48,923
Income taxes	8,655	13,560	11,057	11,073	12,231
Extraordinary items	(5)	0	0	0	0
Min. int./Inc. from assoc.	0	0	(115)	0	0
<b>Reported net profit</b>	<b>23,905</b>	<b>39,328</b>	<b>32,818</b>	<b>33,219</b>	<b>36,692</b>
Adjustments	0	(44)	(1,834)	0	0
<b>Adjusted net profit</b>	<b>23,905</b>	<b>39,285</b>	<b>30,984</b>	<b>33,219</b>	<b>36,692</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	CY22A	FY24A	FY25E	FY26E	FY27E
Accounts payables	19,338	22,379	22,397	24,371	26,701
Other current liabilities	11,426	17,125	17,195	17,195	17,195
Provisions	32,052	29,292	30,136	30,136	30,136
Debt funds	300	311	7,304	7,304	7,304
Other liabilities	2,080	2,714	2,923	2,923	2,923
Equity capital	964	964	964	964	964
Reserves & surplus	23,628	32,445	41,556	58,449	72,049
Shareholders' fund	24,592	33,409	42,520	59,413	73,013
<b>Total liab. and equities</b>	<b>89,787</b>	<b>105,231</b>	<b>122,476</b>	<b>141,343</b>	<b>157,273</b>
Cash and cash eq.	9,266	7,589	405	3,364	7,151
Accounts receivables	1,919	3,005	3,144	3,435	3,753
Inventories	19,288	20,894	21,283	23,037	25,077
Other current assets	4,429	3,460	5,341	5,341	5,341
Investments	0	0	0	0	0
Net fixed assets	30,642	47,974	67,647	81,511	91,296
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	24,244	22,310	24,655	24,655	24,655
<b>Total assets</b>	<b>89,787</b>	<b>105,231</b>	<b>122,476</b>	<b>141,343</b>	<b>157,273</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	CY22A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>27,374</b>	<b>41,748</b>	<b>35,541</b>	<b>40,620</b>	<b>45,274</b>
Capital expenditures	(5,499)	(18,827)	(25,399)	(20,993)	(18,205)
Change in investments	255	2,838	3,439	0	0
Other investing cash flows	1,327	3,615	(2,678)	193	346
<b>Cash flow from investing</b>	<b>(3,917)</b>	<b>(12,374)</b>	<b>(24,639)</b>	<b>(20,800)</b>	<b>(17,859)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	7,000	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(20,247)	(30,082)	(24,587)	(16,327)	(23,092)
Other financing cash flows	(980)	(1,267)	(900)	(535)	(535)
<b>Cash flow from financing</b>	<b>(21,227)</b>	<b>(31,349)</b>	<b>(18,486)</b>	<b>(16,861)</b>	<b>(23,627)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,379</b>	<b>(2,274)</b>	<b>(7,983)</b>	<b>2,959</b>	<b>3,788</b>
<b>Closing cash &amp; cash eq.</b>	<b>9,266</b>	<b>7,589</b>	<b>405</b>	<b>3,364</b>	<b>7,151</b>

### Per Share

Y/E 31 Mar (Rs)	CY22A	FY24A	FY25E	FY26E	FY27E
Reported EPS	7.6	40.8	34.0	34.5	38.1
Adjusted EPS	7.6	40.7	32.1	34.5	38.1
Dividend per share	27.0	182.0	23.9	22.6	24.4
Book value per share	25.5	34.6	44.1	61.6	75.7

### Valuations Ratios

Y/E 31 Mar (x)	CY22A	FY24A	FY25E	FY26E	FY27E
EV/Sales	13.1	9.1	11.0	10.1	9.2
EV/EBITDA	59.7	38.2	47.0	43.1	38.9
Adjusted P/E	302.8	56.8	72.0	67.1	60.8
P/BV	90.7	66.8	52.5	37.5	30.5

### DuPont Analysis

Y/E 31 Mar (%)	CY22A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.4	74.3	73.5	75.0	75.0
Interest burden (PBT/EBIT)	98.4	100.1	99.1	99.3	99.8
EBIT margin (EBIT/Revenue)	19.6	21.9	20.8	20.1	20.2
Asset turnover (Rev./Avg TA)	196.6	200.6	179.2	167.8	162.9
Leverage (Avg TA/Avg Equity)	3.8	3.4	3.0	2.6	2.3
Adjusted ROAE	105.2	110.1	81.6	65.2	55.4

### Ratio Analysis

Y/E 31 Mar	CY22A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	14.9	10.3	4.3	8.5	9.9
EBITDA	3.4	21.5	0.8	8.6	11.1
Adjusted EPS	0.4	25.8	(2.9)	7.2	10.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.0	24.1	23.4	23.4	23.6
EBIT margin	19.6	21.9	20.8	20.1	20.2
Adjusted profit margin	14.1	16.3	15.2	15.0	15.1
Adjusted ROAE	105.2	95.5	81.6	65.2	55.4
ROCE	56.1	65.3	56.1	48.1	46.1
<b>Working capital days (days)</b>					
Receivables	4	5	6	5	5
Inventory	287	87	87	84	83
Payables	300	90	92	88	88
<b>Ratios (x)</b>					
Gross asset turnover	3.2	2.6	2.1	1.8	1.8
Current ratio	1.1	0.9	0.6	0.7	0.8
Net interest coverage ratio	26.9	39.5	41.2	83.4	91.7
Adjusted debt/equity	0.0	0.0	0.2	0.1	0.1

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

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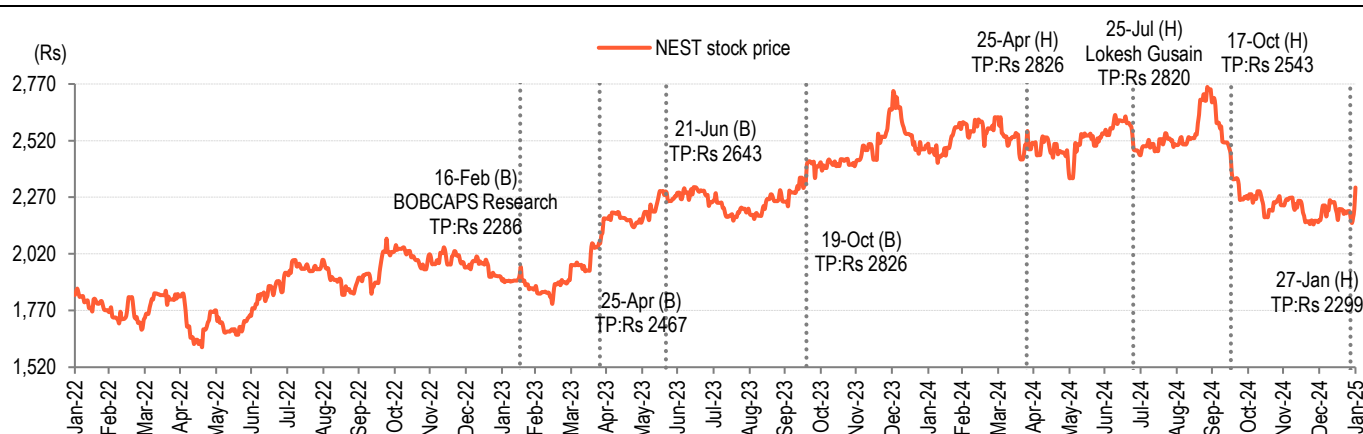
**HOLD** – Expected return from -6% to +15%

**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.

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

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