

**HOLD**

TP: Rs 2,462 | ▲ 1%

**NESTLE INDIA**

Consumer Staples

25 April 2025

## Experience in inflation management is valuable

- 4QFY25 sales were above our estimates, but EBITDA was in line. NEST continues to manage margins despite high cocoa/coffee inflation
- Similar to 3QFY25, pricing was ahead of inflation. Nestle is perhaps the only FMCG major to offset absolute inflation across 2HFY25
- Such high pricing creates risk around volume elasticity and shelf share loss, which may be harder / expensive to regain. Retain HOLD

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**4QFY25 result summary:** Nestle India reported 4QFY25 result with sales +4% YoY, in line with consensus and 3% above our estimate. Compared to our estimates, lower sales likely reflect higher than expected elasticity. EBITDA was +4% YoY and in line with our estimates.

**Sales and cost trends in 4QFY25:** We estimate sales growth continued to be driven by beverages, confectionary and prepared dishes as nutrition remained a drag. On commodities, inflation sustained in coffee. Cocoa prices have moderated but remain elevated. Edible oils are stable while milk prices were up mainly on seasonality. From Nestle India's perspective, prices will likely stabilise in coffee while there could be a gradual pullback on cocoa to drive sales growth.

**High pricing raising risk on volume elasticity:** We estimate NEST's COGS basket inflation in 4QFY25 at 19%. With gross margin down only 65bps, we estimate pricing was well ahead of the 8% required run-rate to offset absolute inflation. Margins per unit were up on our estimates. The company continues to improve profitability despite inflation. Despite that, such high pricing, if sustained, can potentially slow the category; and so we expect some pullback in confectionary pricing unless the company continues to trade volumes for margins.

**Our view:** Lower-than-expected deterioration in gross margins has resulted in earnings upgrades. NEST has continued to pass through inflation to retain profits. Elasticity is likely leading to some negative operating leverage, which is a partial offset to our higher gross-margin-driven upgrades. Sales growth needs to be closely monitored for elasticity, given high pricing on our estimates. Even then, on the positive side, Nestle India is perhaps the only FMCG major that has comfortably passed through inflation to restore rupee margins in both 3QFY25 and 4QFY25. We value NEST in line with its 5-year historical 1 year forward average P/E on FY27 EPS. Our TP changes to Rs 2,462 from Rs 2,470. Share price return of 1% – HOLD.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	NEST IN/Rs 2,433
Market cap	US\$ 27.5bn
Free float	37%
3M ADV	US\$ 22.0mn
52wk high/low	Rs 2,778/Rs 2,110
Promoter/FPI/DII	63%/12%/25%

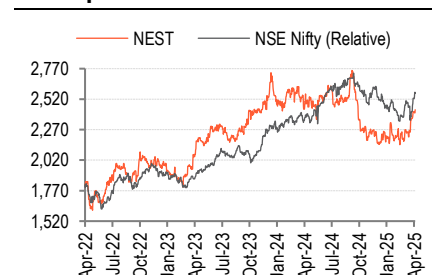
Source: NSE | Price as of 24 Apr 2025

## Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	202,016	217,302	238,725
EBITDA (Rs mn)	47,737	52,123	58,337
Adj. net profit (Rs mn)	30,419	32,589	36,245
Adj. EPS (Rs)	31.5	33.8	37.6
Consensus EPS (Rs)	31.5	34.7	39.1
Adj. ROAE (%)	82.8	69.4	59.9
Adj. P/E (x)	77.1	72.0	64.7
EV/EBITDA (x)	49.3	45.0	40.3
Adj. EPS growth (%)	(4.7)	7.1	11.2

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Q4FY25 result review

**Fig 1 – Nestle India 4QFY25 result summary**

(Rs mn)	4QFY24	4QFY25E	YoY (%)
Sales	52,676	55,039	4
EBITDA	13,488	14,067	4
EBITDA margin (%)	25.6	25.6	(5bps)

Source: Company, Bloomberg, BOBCAPS Research

## Earnings revisions

- **Sales** – Our sales forecasts are ~2% lower for both FY26E and FY27E as our higher pricing assumptions are more than offset by lower volumes.
- **Margins** – Our EBITDA margin forecasts are 60bps-80bps higher across the forecast periods. Similar to sales, higher pricing that more than offsets cost inflation is resulting in lesser impact on gross margin percentage. Negative operating leverage is starting to show, which is a partial offset to our higher gross margin assumptions.

**Fig 2 – Nestle India earnings revisions**

(Rs mn)	Actual	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY25	FY26	FY26	Change	FY27	FY27	Change	FY28	FY28	Change
Sales	202,016	217,302	221,382	(1.8)	238,725	243,201	(1.8)	256,379	n/a	n/a
EBITDA	47,737	52,123	51,724	0.8	58,337	57,458	1.5	63,020	n/a	n/a
EBITDA Margin (%)	23.6	24.0	23.4	62bps	24.4	23.6	81bps	24.6	n/a	n/a
Adj. PAT	30,419	32,589	33,219	(1.9)	36,245	36,692	(1.2)	39,444	n/a	n/a
Adj. EPS	31.55	33.80	34.45	(1.9)	37.59	38.05	(1.2)	40.91	n/a	n/a

Source: Company, Bloomberg, BOBCAPS Research

## Valuation

NEST has traded at a 5-year average P/E of 66x on a 1 year forward EPS. We value NEST in line with its 5 historical average P/E on 12M to Mar'27 EPS. Our TP changes to Rs 2,462 from Rs 2,470. Share price return of 1% – HOLD.

Sales growth needs to be closely monitored for elasticity, given the high pricing on our estimates. Even then, on the positive side, Nestle India is perhaps the only FMCG major that has comfortably passed through inflation to restore rupee margins in both 3QFY25 and 4QFY25. We value NEST in line with its 5Y historical 1 year forward average P/E on FY27 EPS. Our TP changes to Rs 2,462 from Rs 2,470. Share price return of 1% – HOLD.

## Risks

Key upside/downside risks to our estimates are:

- Input cost deflation / inflation
- Strong / weak recovery in rural
- Strong / weak recovery in urban
- Lower / higher volume elasticity on current high price levels

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Total revenue</b>	<b>243,939</b>	<b>202,016</b>	<b>217,302</b>	<b>238,725</b>	<b>256,379</b>
EBITDA	58,198	47,737	52,123	58,337	63,020
Depreciation	5,378	5,222	6,477	7,794	8,690
EBIT	52,820	42,516	45,647	50,543	54,330
Net interest inc./(exp.)	(1,455)	(1,360)	(2,235)	(2,370)	(2,370)
Other inc./(exp.)	1,480	589	41	154	632
Exceptional items	(44)	(1,834)	0	0	0
EBT	52,845	41,744	43,452	48,327	52,592
Income taxes	13,560	11,085	10,863	12,082	13,148
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	(240)	0	0	0
<b>Reported net profit</b>	<b>39,328</b>	<b>32,254</b>	<b>32,589</b>	<b>36,245</b>	<b>39,444</b>
Adjustments	(44)	(1,834)	0	0	0
<b>Adjusted net profit</b>	<b>39,285</b>	<b>30,419</b>	<b>32,589</b>	<b>36,245</b>	<b>39,444</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	22,379	23,735	23,121	25,144	26,667
Other current liabilities	17,125	15,810	15,810	15,810	15,810
Provisions	29,292	31,201	31,201	31,201	31,201
Debt funds	311	7,533	9,033	9,033	9,033
Other liabilities	2,714	3,552	3,552	3,552	3,552
Equity capital	964	964	964	964	964
Reserves & surplus	32,445	39,138	52,908	66,214	80,559
Shareholders' fund	33,409	40,102	53,873	67,178	81,523
<b>Total liab. and equities</b>	<b>105,231</b>	<b>121,933</b>	<b>136,590</b>	<b>151,918</b>	<b>167,786</b>
Cash and cash eq.	7,589	762	2,243	6,662	17,090
Accounts receivables	3,005	3,632	3,335	3,642	3,873
Inventories	20,894	28,501	27,831	28,343	26,859
Other current assets	3,460	4,447	4,447	4,447	4,447
Investments	0	0	0	0	0
Net fixed assets	47,974	60,982	75,124	85,214	91,907
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	22,310	23,610	23,610	23,610	23,610
<b>Total assets</b>	<b>105,231</b>	<b>121,933</b>	<b>136,590</b>	<b>151,918</b>	<b>167,786</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Cash flow from operations</b>	<b>41,748</b>	<b>29,364</b>	<b>41,615</b>	<b>47,466</b>	<b>52,680</b>
Capital expenditures	(18,827)	(20,086)	(20,619)	(17,884)	(15,383)
Change in investments	2,838	4,239	0	0	0
Other investing cash flows	3,615	(2,262)	39	146	601
<b>Cash flow from investing</b>	<b>(12,374)</b>	<b>(18,109)</b>	<b>(20,580)</b>	<b>(17,738)</b>	<b>(14,782)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	7,257	1,500	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(30,082)	(24,586)	(18,819)	(22,939)	(25,100)
Other financing cash flows	(1,267)	(1,152)	(2,235)	(2,370)	(2,370)
<b>Cash flow from financing</b>	<b>(31,349)</b>	<b>(18,481)</b>	<b>(19,554)</b>	<b>(25,310)</b>	<b>(27,470)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(2,274)</b>	<b>(7,627)</b>	<b>1,481</b>	<b>4,419</b>	<b>10,428</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,589</b>	<b>762</b>	<b>2,243</b>	<b>6,662</b>	<b>17,090</b>

### Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	40.8	33.3	33.8	37.6	40.9
Adjusted EPS	40.7	31.5	33.8	37.6	40.9
Dividend per share	182.0	27.0	22.6	25.0	26.9
Book value per share	34.6	41.6	55.9	69.7	84.5

### Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	9.6	11.6	10.8	9.9	9.2
EV/EBITDA	40.2	49.3	45.0	40.3	37.3
Adjusted P/E	59.7	77.1	72.0	64.7	59.5
P/BV	70.2	58.5	43.5	34.9	28.8

### DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	74.3	72.9	75.0	75.0	75.0
Interest burden (PBT/EBIT)	100.1	98.2	95.2	95.6	96.8
EBIT margin (EBIT/Revenue)	21.9	21.0	21.0	21.2	21.2
Asset turnover (Rev./Avg TA)	200.6	177.9	168.1	165.5	160.4
Leverage (Avg TA/Avg Equity)	3.4	3.1	2.8	2.4	2.1
<b>Adjusted ROAE</b>	<b>110.1</b>	<b>82.8</b>	<b>69.4</b>	<b>59.9</b>	<b>53.1</b>

### Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
<b>YoY growth (%)</b>					
Revenue	10.3	3.3	7.6	9.9	7.4
EBITDA	21.5	1.0	9.2	11.9	8.0
Adjusted EPS	25.8	(4.7)	7.1	11.2	8.8

### Profitability & Return ratios (%)

EBITDA margin	24.1	23.6	24.0	24.4	24.6
EBIT margin	21.9	21.0	21.0	21.2	21.2
Adjusted profit margin	16.3	15.1	15.0	15.2	15.4
Adjusted ROAE	95.5	82.8	69.4	59.9	53.1
ROCE	65.3	56.6	51.4	49.5	46.6

### Working capital days (days)

Receivables	5	6	6	5	5
Inventory	87	103	111	101	93
Payables	90	96	92	87	87

### Ratios (x)

Gross asset turnover	2.6	2.2	1.9	1.8	1.7
Current ratio	0.9	0.8	0.8	0.9	1.0
Net interest coverage ratio	39.5	31.3	20.4	21.3	22.9
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>

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

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**BUY** – Expected return >+15%

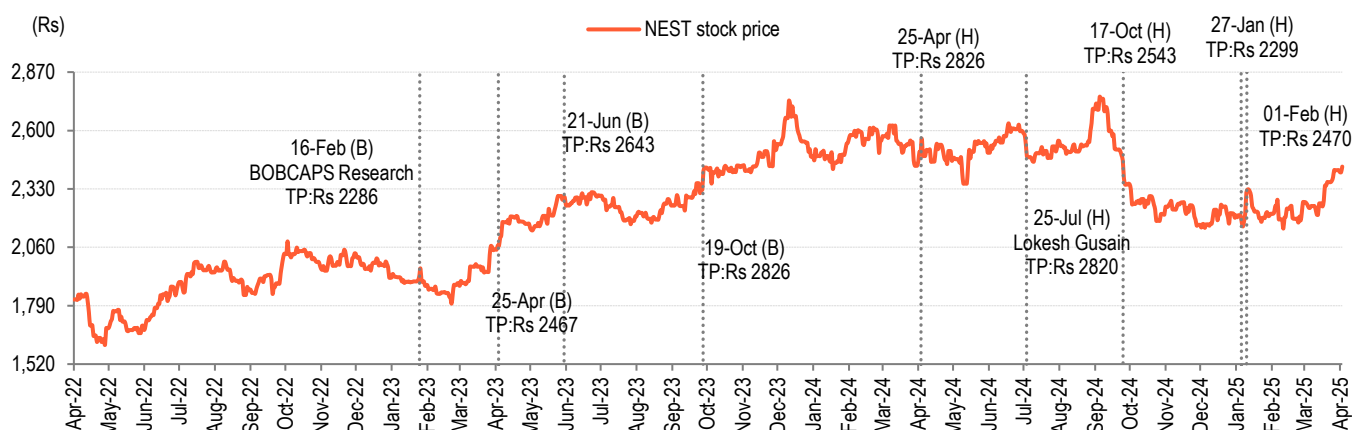
**HOLD** – Expected return from -6% to +15%

**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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