

**We retain REDUCE on Nestlé India and Mar-26E TP of Rs2,300, on 60x P/E. We see demand stress persisting in a major part of the portfolio, with demand for milk products continuing to see impact of healthy price hikes (amid inflation) and competitive pressure in prepared dishes. The Beverage and Confectionary portfolios fared well which in our view are price driven amid sharp inflation in coffee and cocoa prices. We see growth recovery being gradual, with macro recovery aiding, while easing in inflation is awaited. Q4 topline growth at 4% stood in-line, while better margin (at 25.5%, flat YoY) aided the 5% EBITDA beat, though earnings missed by 4% (fell 4% YoY) due to higher tax rate.**

#### Topline growth continues to be muted; we see gradual growth recovery ahead

Nestlé India's topline growth remains muted, with 4% domestic revenue growth. We estimate real internal growth at ~2%. Export revenue fell 8% YoY. Growth stress persists in milk products/prepared dishes, while beverage/confectionary saw double-digit growth. For FY25, Nestlé saw 3% growth, aided by high double-digit growth in beverages and a high single digit growth in confectionaries. Prepared dishes saw a mid-single digit FY25 growth. We estimate 3-4% decline in FY25 for the milk products segment. New products, launched since 2015, contribute ~7% of sales. The company has quickly scaled up its franchise in quick commerce, and has now logged ~8.5% of domestic sales for FY25.

#### EBITDA margin firm at 25.5%; we see flat margin for FY26E

With the steady raw material inflationary setting sustaining, the company has been effecting price hikes. Given the stressed demand setting, we see the company's call to pass on the pressure as prudent (vs absorbing it – which will not help the topline growth much). Gross margin contracted by 100bps YoY to 55.7% in Q4, while EBITDA margin at 25.5% stood flat YoY. The management noted steady inflation in coffee, some easing in cocoa, and stable prices for edible oil. With the onset of summers, milk prices have started inching up. Amid demand stress and part raw material remaining inflationary, we see flat YoY margin for FY26E. On expectations of gradual easing in the raw material setting and improvement in mix, we build in ~120bps margin expansion over FY25-28E to ~24.8% in FY28E. We now see 8% sales CAGR and 12% earnings CAGR over FY25-28E. With this report, we introduce FY28 estimates.

#### Weak earnings, but hope of recovery to keep valuations in check; REDUCE

Nestlé India continues to trade at premium valuation (63x P/E for FY27E), given its strong parentage, premiumization potential, actions in rural, and better execution. However, steady inflation in key raw materials and pressure on consumer wallets are hurting its performance. As we expect raw material pressures to gradually ease, we believe we will see actions from Aug-24 under the new leadership, toward enhancing growth with more India-focused launches and leveraging the parent brand portfolio. With fast execution in quick commerce, we see Nestlé India aligning capabilities with user needs.

Target Price – 12M	Mar-26
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(5.5)

Stock Data	NEST IN
52-week High (Rs)	2,778
52-week Low (Rs)	2,110
Shares outstanding (mn)	964.2
Market-cap (Rs bn)	2,346
Market-cap (USD mn)	27,512
Net-debt, FY26E (Rs mn)	26,291.0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,832.9
ADTV-3M (USD mn)	21.5
Free float (%)	37.2
Nifty-50	24,246.7
INR/USD	85.3

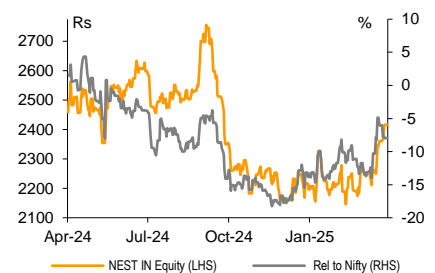
#### Shareholding, Mar-25

Promoters (%)	62.8
FPIs/MFs (%)	10.0/11.3

#### Price Performance

(%)	1M	3M	12M
Absolute	7.5	10.2	(2.7)
Rel. to Nifty	4.9	5.0	(10.1)

#### 1-Year share price trend (Rs)



#### Nestle India: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	243,939	202,016	216,316	234,134	252,907
EBITDA	58,490	47,737	51,172	56,797	62,651
Adj. PAT	39,577	30,237	32,779	36,938	41,985
Adj. EPS (Rs)	41.0	31.4	34.0	38.3	43.5
EBITDA margin (%)	24.0	23.6	23.7	24.3	24.8
EBITDA growth (%)	55.6	(18.4)	7.2	11.0	10.3
Adj. EPS growth (%)	62.5	(23.6)	8.4	12.7	13.7
RoE (%)	136.5	81.1	73.6	71.3	68.6
RoIC (%)	114.8	65.9	56.9	66.1	83.0
P/E (x)	59.3	77.6	71.6	63.5	55.9
EV/EBITDA (x)	40.5	49.9	46.5	41.9	38.0
P/B (x)	70.2	57.0	49.0	42.1	35.2
FCFF yield (%)	1.0	0.4	1.5	1.7	2.4

Source: Company, Emkay Research

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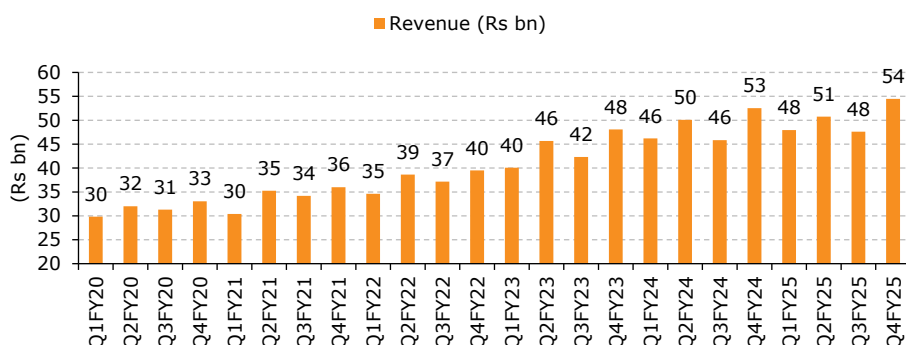
## Q4FY25 performance

Exhibit 1: Nestlé India – Q4FY25 and FY25 performance

(Rs mn)	4QFY25	4QFY24	YoY (%)	3QFY25	QoQ (%)	Emkay Est	Var (%)	FY25	FY24	YoY (%)
Total income	55,039	52,676	4.5	47,797	15.2	54,547	0.9	202,016	195,634	3.3
Cost of goods	24,124	22,759	6.0	20,846	15.7	24,971	(3.4)	87,498	84,770	3.2
Employee expenses	5,220	4,869	7.2	4,947	5.5	5,166	1.0	20,237	18,818	7.5
Other expenses	11,805	11,663	1.2	10,978	7.5	11,205	5.4	46,543	44,654	4.2
<b>EBITDA</b>	<b>13,890</b>	<b>13,385</b>	<b>3.8</b>	<b>11,027</b>	<b>26.0</b>	<b>13,205</b>	<b>5.2</b>	<b>47,737</b>	<b>47,391</b>	<b>0.7</b>
<b>EBITDA margin (%)</b>	<b>25.2</b>	<b>25.4</b>	<b>-20bps</b>	<b>23.1</b>	<b>220bps</b>	<b>24.2</b>	<b>100bps</b>	<b>23.6</b>	<b>24.2</b>	<b>-60bps</b>
Depreciation	1,553	1,089	42.7	1,325	17.2	1,253	24.0	5,399	4,361	23.8
<b>EBIT</b>	<b>12,336</b>	<b>12,297</b>	<b>0.3</b>	<b>9,702</b>	<b>27.2</b>	<b>11,952</b>	<b>3.2</b>	<b>42,338</b>	<b>43,030</b>	<b>(1.6)</b>
<b>EBIT margin (%)</b>	<b>22.4</b>	<b>23.3</b>	<b>-90bps</b>	<b>20.3</b>	<b>210bps</b>	<b>21.9</b>	<b>50bps</b>	<b>21.0</b>	<b>22.0</b>	<b>-100bps</b>
Interest cost	375	262	43.1	346	8.4	345	8.7	1,360	1,133	20.0
Other income	84	268	(68.4)	44	90.1	217	(61.2)	589	1,143	(48.5)
<b>PBT</b>	<b>12,046</b>	<b>12,302</b>	<b>(2.1)</b>	<b>9,400</b>	<b>28.1</b>	<b>11,824</b>	<b>1.9</b>	<b>41,567</b>	<b>43,040</b>	<b>(3.4)</b>
Tax	3,192	3,164	0.9	2,261	41.1	2,627	21.5	11,330	11,022	2.8
Tax rate (%)	26.5	25.7	80bps	24.1	240bps	22.2	430bps	27.3	25.6	160bps
Non-recurring items	0	204	(100.0)	(178)	(100.0)			2,908	(55)	(5349.5)
<b>PAT</b>	<b>8,854</b>	<b>9,342</b>	<b>(5)</b>	<b>6,961</b>	<b>27.2</b>	<b>9,198</b>	<b>(3.7)</b>	<b>33,145</b>	<b>31,962</b>	<b>4</b>
<b>Adj Profit</b>	<b>8,854</b>	<b>9,190</b>	<b>(3.7)</b>	<b>7,096</b>	<b>24.8</b>	<b>9,198</b>	<b>(3.7)</b>	<b>31,029</b>	<b>32,003</b>	<b>(3.0)</b>
<b>Net profit margin (%)</b>	<b>16.1</b>	<b>17.4</b>	<b>-140bps</b>	<b>14.8</b>	<b>120bps</b>	<b>16.9</b>	<b>-80bps</b>	<b>15.4</b>	<b>16.4</b>	<b>-100bps</b>
EPS (Rs)	9.2	9.5	(3.7)	7.4	24.8	9.5	-3.7	31.4	33.2	(5.5)

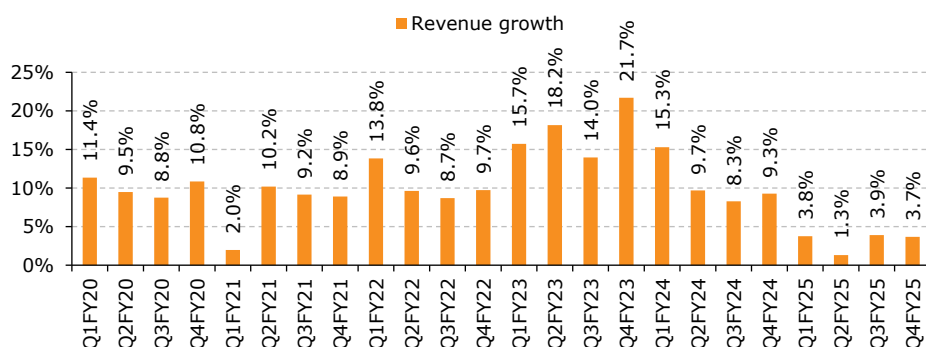
Source: Company, Emkay Research

Exhibit 2: Nestlé India – Revenue



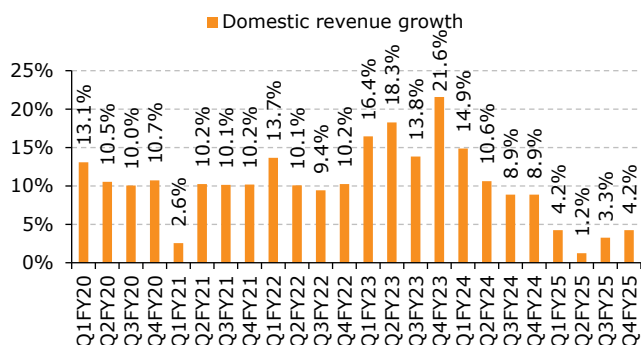
Source: Company, Emkay Research

Exhibit 3: Nestlé India – Revenue growth (YoY)

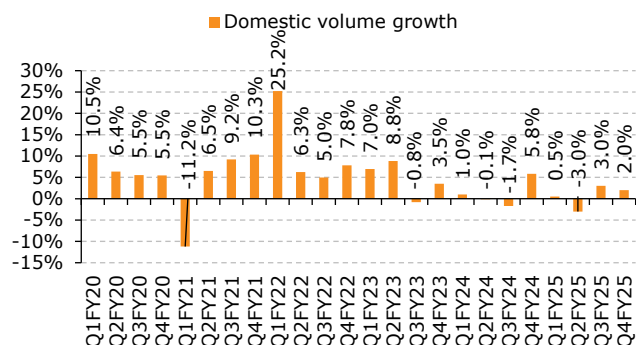


Source: Company, Emkay Research

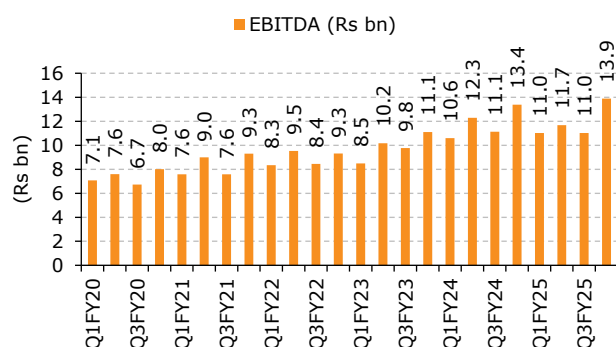
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**Exhibit 4: Nestlé India – Domestic revenue growth**

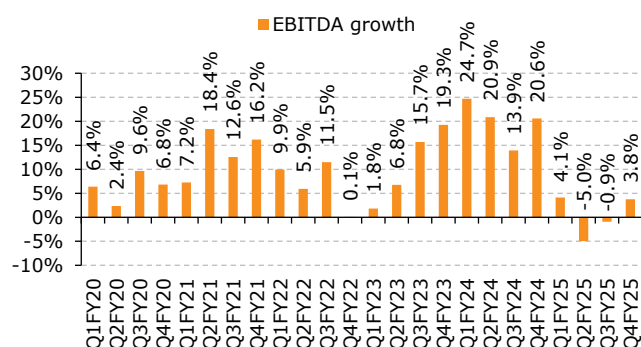
Source: Company, Emkay Research

**Exhibit 5: Nestlé India – Domestic volume growth**

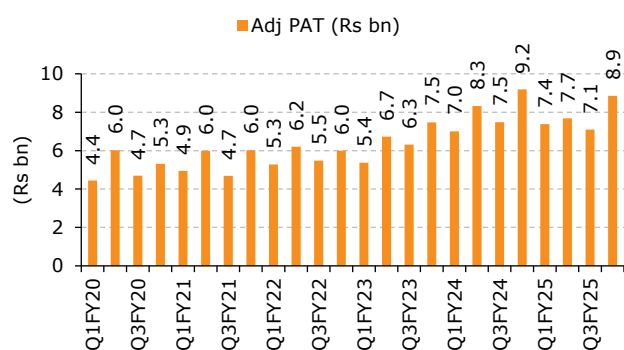
Source: Company, Emkay Research

**Exhibit 6: Nestlé India – EBITDA**

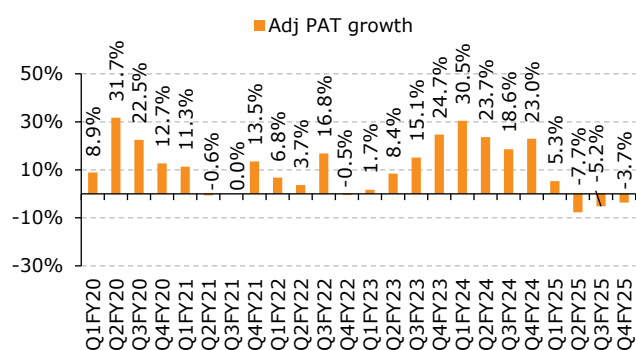
Source: Company, Emkay Research

**Exhibit 7: Nestlé India – EBITDA growth**

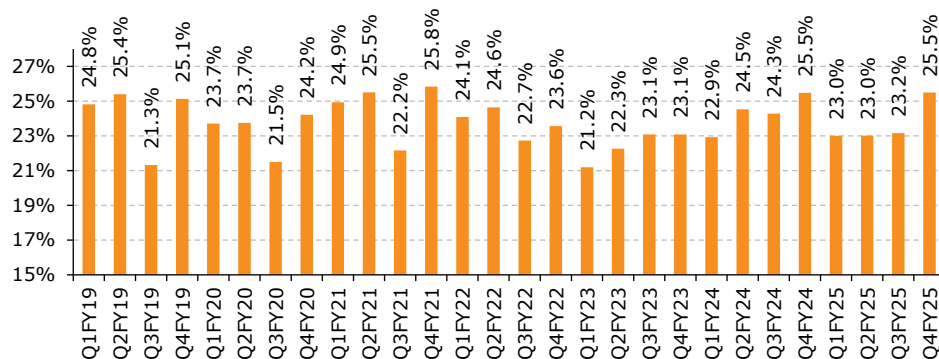
Source: Company, Emkay Research

**Exhibit 8: Nestlé India – Adjusted PAT**

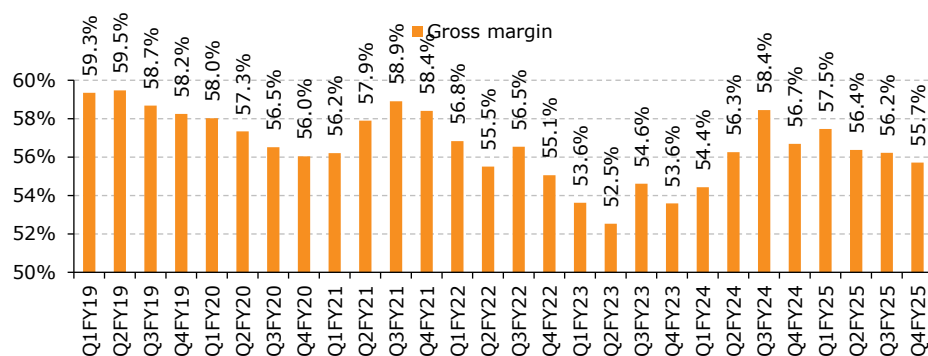
Source: Company, Emkay Research

**Exhibit 9: Nestlé India – Adjusted PAT growth**

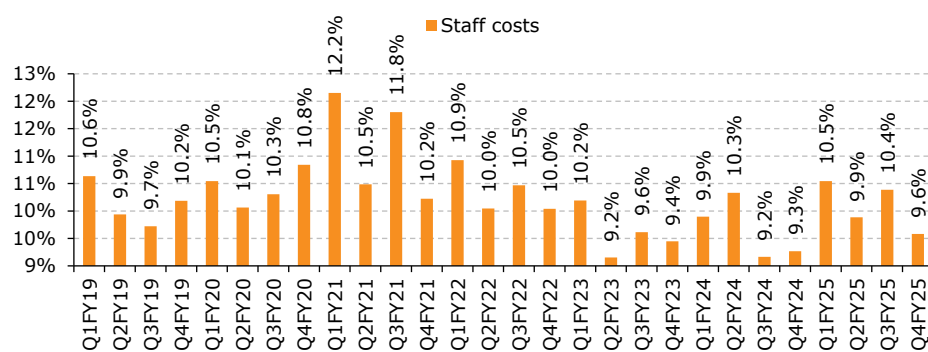
Source: Company, Emkay Research

**Exhibit 10: Nestlé India – EBITDA margin**

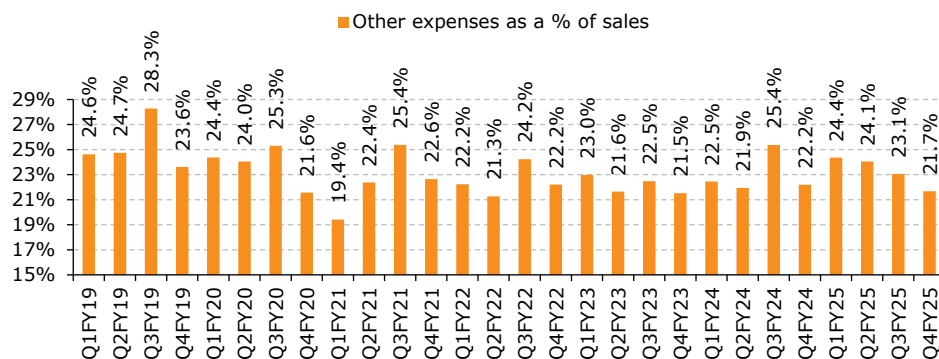
Source: Company, Emkay Research

**Exhibit 11: Nestlé India – Gross margin**

Source: Company, Emkay Research

**Exhibit 12: Nestlé India – Staff costs**

Source: Company, Emkay Research

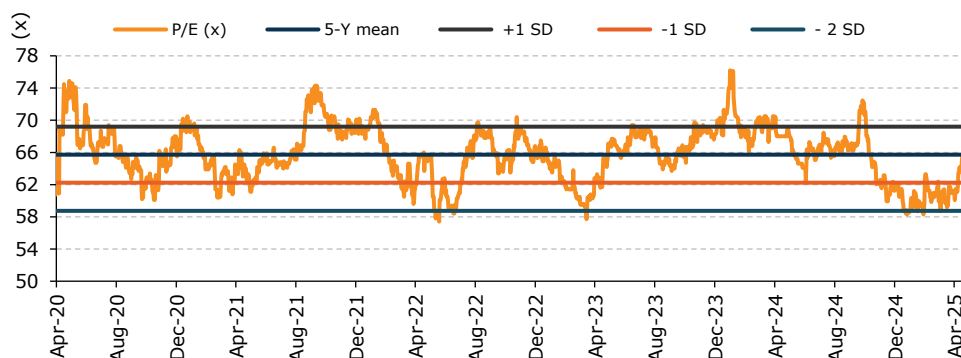
**Exhibit 13: Nestlé India – Other expenses**

Source: Company, Emkay Research

**Exhibit 14: Key assumptions**

	CY21	CY22	FY24E	FY25	FY26E	FY27E	FY28E
<b>Income statement</b>							
Total income growth	10.1%	14.7%	15.7%	3.4%	6.6%	8.1%	8.0%
Volume growth	10.5%	5.6%	2.7%	-0.5%	3.3%	5.0%	5.0%
Gross margin	57.0%	54.1%	56.1%	56.7%	56.8%	57.1%	57.3%
Royalty	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
Advertisement	5.2%	4.1%	5.3%	5.3%	5.4%	5.4%	5.5%
EBITDA margin	24.3%	22.2%	24.0%	23.6%	23.6%	24.3%	24.9%
Tax rate	23.9%	26.2%	25.5%	27.3%	25.5%	25.5%	25.5%
Adj PAT growth	12.5%	3.3%	30.0%	-4.5%	7.5%	13.2%	13.7%
EPS (Rs)	24.4	25.3	41.0	31.4	33.7	38.2	43.4
<b>Balance Sheet</b>							
ROE	114.9%	107.2%	109.2%	81.1%	73.2%	71.5%	68.9%
ROCE	152.3%	145.6%	145.0%	102.7%	89.1%	91.2%	86.5%
Inventory days (no of)	39	42	39	51	39	39	32
Receivable days (no of)	4	4	6	7	6	6	3
Payable days (no of)	43	42	42	43	41	41	41

Source: Company, Emkay Research

**Exhibit 15: Nestlé India – One year forward P/E (on consensus)**

Source: Bloomberg, Emkay Research

Nestle India: Standalone Financials and Valuations

Profit & Loss					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	243,939	202,016	216,316	234,134	252,907
Revenue growth (%)	44.4	(17.2)	7.1	8.2	8.0
EBITDA	58,490	47,737	51,172	56,797	62,651
EBITDA growth (%)	55.6	(18.4)	7.2	11.0	10.3
Depreciation & Amortization	5,378	5,399	6,642	7,223	7,574
EBIT	53,113	42,338	44,531	49,574	55,077
EBIT growth (%)	58.3	(20.3)	5.2	11.3	11.1
Other operating income	1,184	1,241	1,367	1,476	1,552
Other income	1,480	589	468	907	2,078
Financial expense	1,455	1,360	1,000	900	800
PBT	53,137	41,567	43,998	49,581	56,355
Extraordinary items	(249)	2,908	0	0	(100)
Taxes	13,560	11,330	11,220	12,643	14,371
Minority interest	-	-	-	-	-
Income from JV/Associates	-	-	-	-	-
Reported PAT	39,328	33,145	32,779	36,938	41,885
PAT growth (%)	64.5	(15.7)	(1.1)	12.7	13.4
Adjusted PAT	39,577	30,237	32,779	36,938	41,985
Diluted EPS (Rs)	41.0	31.4	34.0	38.3	43.5
Diluted EPS growth (%)	62.5	(23.6)	8.4	12.7	13.7
DPS (Rs)	31.2	25.5	27.0	30.3	27.0
Dividend payout (%)	76.5	74.2	79.4	79.0	62.2
EBITDA margin (%)	24.0	23.6	23.7	24.3	24.8
EBIT margin (%)	21.8	21.0	20.6	21.2	21.8
Effective tax rate (%)	25.5	27.3	25.5	25.5	25.5
NOPLAT (pre-IndAS)	39,559	30,798	33,175	36,932	41,033
Shares outstanding (mn)	964	964	964	964	964

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	964	964	964	964	964
Reserves & Surplus	32,445	40,207	46,953	54,724	65,754
Net worth	33,409	41,172	47,917	55,688	66,718
Minority interests	0	0	0	0	0
Non-current liab. & prov.	0	536	536	536	536
Total debt	29,483	36,900	32,135	32,635	33,235
Total liabilities & equity	62,892	78,607	80,588	88,859	100,489
Net tangible fixed assets	34,603	54,736	57,585	57,256	52,682
Net intangible assets	-	-	-	-	-
Net ROU assets	-	-	-	-	-
Capital WIP	17,417	11,726	14,235	10,341	8,005
Goodwill	0	0	0	0	0
Investments [JV/Associates]	4,239	7,056	4,239	4,239	4,239
Cash & equivalents	8,188	957	5,844	18,850	44,750
Current assets (ex-cash)	40,784	48,765	44,048	47,250	43,879
Current Liab. & Prov.	42,338	43,097	45,364	49,078	53,066
NWC (ex-cash)	(1,555)	5,668	(1,315)	(1,828)	(9,187)
Total assets	62,892	80,142	80,588	88,859	100,489
Net debt	21,295	35,943	26,291	13,785	(11,515)
Capital employed	62,892	78,607	80,588	88,859	100,489
Invested capital	33,048	60,404	56,269	55,429	43,495
BVPS (Rs)	34.6	42.7	49.7	57.8	69.2
Net Debt/Equity (x)	0.6	0.9	0.5	0.2	(0.2)
Net Debt/EBITDA (x)	0.4	0.8	0.5	0.2	(0.2)
Interest coverage (x)	37.5	31.6	45.0	56.1	71.4
RoCE (%)	91.1	60.9	56.9	60.0	60.7

Source: Company, Emkay Research

Cash flows					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	51,658	40,978	43,531	48,674	54,277
Others (non-cash items)	326	(2,965)	0	0	0
Taxes paid	(12,988)	(10,244)	(11,220)	(12,643)	(11,220)
Change in NWC	(2,489)	(6,687)	6,984	512	7,360
Operating cash flow	41,748	29,364	46,936	44,666	58,791
Capital expenditure	(18,783)	(19,841)	(12,000)	(3,000)	(664)
Acquisition of business	-	(2,817)	2,817	0	0
Interest & dividend income	-	-	-	-	-
Investing cash flow	(12,066)	(21,670)	(8,715)	(12,093)	1,414
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(2,869)	7,416	(4,765)	500	600
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,455)	(1,360)	(1,000)	(900)	(800)
Dividend paid (incl tax)	(30,082)	(24,586)	(26,033)	(29,167)	(26,033)
Others	3,056	48	0	0	19
Financing cash flow	(31,349)	(18,481)	(31,798)	(29,567)	(26,215)
Net chg in Cash	(1,667)	(10,788)	6,423	3,006	33,991
OCF	41,748	29,364	46,936	44,666	58,791
Adj. OCF (w/o NWC chg.)	44,237	36,050	39,953	44,153	51,432
FCFF	22,965	9,522	34,936	41,666	58,128
FCFE	21,510	8,162	33,936	40,766	57,328
OCF/EBITDA (%)	71.4	61.5	91.7	78.6	93.8
FCFE/PAT (%)	54.7	24.6	103.5	110.4	136.9
FCFF/NOPLAT (%)	58.1	30.9	105.3	112.8	141.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	59.3	77.6	71.6	63.5	55.9
P/CE(x)	52.2	65.8	59.5	53.1	47.3
P/B (x)	70.2	57.0	49.0	42.1	35.2
EV/Sales (x)	9.8	11.9	11.1	10.2	9.5
EV/EBITDA (x)	40.5	49.9	46.5	41.9	38.0
EV/EBIT(x)	44.6	56.3	53.5	48.1	43.2
EV/IC (x)	71.6	39.4	42.3	43.0	54.8
FCFF yield (%)	1.0	0.4	1.5	1.7	2.4
FCFE yield (%)	0.9	0.3	1.4	1.7	2.4
Dividend yield (%)	1.3	1.0	1.1	1.2	1.1
DuPont-RoE split					
Net profit margin (%)	16.2	15.0	15.2	15.8	16.6
Total asset turnover (x)	4.1	2.8	2.7	2.8	2.7
Assets/Equity (x)	2.1	1.9	1.8	1.6	1.5
RoE (%)	136.5	81.1	73.6	71.3	68.6
DuPont-RoIC					
NOPLAT margin (%)	16.2	15.2	15.3	15.8	16.2
IC turnover (x)	7.1	4.3	3.7	4.2	5.1
RoIC (%)	114.8	65.9	56.9	66.1	83.0
Operating metrics					
Core NWC days	(2.3)	10.2	(2.2)	(2.8)	(13.3)
Total NWC days	(2.3)	10.2	(2.2)	(2.8)	(13.3)
Fixed asset turnover	4.1	2.7	2.3	2.3	2.4
Opex-to-revenue (%)	32.1	33.1	33.2	32.8	32.5

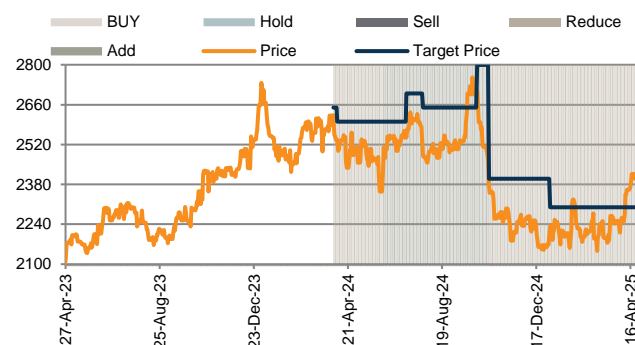
Source: Company, Emkay Research

## RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
26-Feb-25	2,250	2,300	Reduce	Nitin Gupta
18-Feb-25	2,222	2,300	Reduce	Nitin Gupta
05-Feb-25	2,249	2,300	Reduce	Nitin Gupta
02-Feb-25	2,327	2,300	Reduce	Nitin Gupta
31-Jan-25	2,313	2,300	Reduce	Nitin Gupta
03-Jan-25	2,233	2,300	Reduce	Nitin Gupta
17-Oct-24	2,379	2,400	Reduce	Nitin Gupta
02-Oct-24	2,707	2,800	Add	Nitin Gupta
24-Sep-24	2,696	2,650	Add	Nitin Gupta
25-Jul-24	2,481	2,650	Add	Nitin Gupta
04-Jul-24	2,545	2,700	Add	Nitin Gupta
26-Jun-24	2,534	2,600	Add	Nitin Gupta
04-Jun-24	2,428	2,600	Add	Nitin Gupta
13-May-24	2,516	2,600	Reduce	Nitin Gupta
08-May-24	2,539	2,600	Reduce	Nitin Gupta
25-Apr-24	2,563	2,600	Reduce	Nitin Gupta
15-Apr-24	2,554	2,600	Reduce	Nitin Gupta
07-Apr-24	2,538	2,600	Reduce	Nitin Gupta
02-Apr-24	2,623	2,650	Reduce	Nitin Gupta

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research



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