

October 17, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Staples

Nestle India Ltd.

We see subdued earnings in the very near-term

Nestle India Ltd.'s (NEST) continued to report weak set of numbers for the second consecutive quarter versus expectations. Domestic sales grew just 1.2% due to muted consumer demand. We believe underperformance in Maggi (ex-Masala-Ae-Magic), Milk & Milk Nutrition (ex-Milkmaid) and Munch, among the bigger portfolio, impacted domestic sales in 2Q. Going forward, while the sector is expected to gain from improving rural growth, NEST with rural mix of 20-25% remains at the lower end among its peers. Hence, rural recovery led volume push will be lower for NEST. Gross margins remained under pressure with 100bps QoQ contraction largely led by high commodity prices especially for coffee & cocoa. Higher other overheads (+210bps YoY) driven by increase in advertising & marketing investments, meant that EBITDA margin was down 150bps YoY (~160bps below our estimate). Key commodity inflation + volatility will continue to put pressure on profitability in the near-term. Over next 2-years, we are now building ~9% EPS CAGR (on a normalized FY24) led by ~8.7% revenue CAGR. The stock currently trades at ~72x/62x/56x FY25E/FY26E/FY27E EPS. We assign multiple of ~60x and roll-forward to FY'27E EPS, arriving at a revised TP of Rs2,550 (Rs2,515 earlier). Maintain NEUTRAL rating.

Result Highlights (Standalone)

- **Headline performance:** NEST's 2QFY25 revenues (inclgd. OOI) grew by 1.3% YoY to Rs51bn (vs est. Rs53.4bn). EBITDA de-grew by 5% YoY to Rs11.7bn (vs est. Rs13.1bn). Adjusted PAT (APAT) de-grew by 9.4% YoY to Rs7.6bn (vs est. Rs8.9bn). Reported PAT up 8.6% YoY to Rs9.9bn.
- **Domestic sales** grew 1.2% YoY to Rs48.8bn (vs est. Rs51.1bn). Exports (~3.8% of sales for the quarter) were up by 3.1% YoY to Rs1.9bn (vs est. Rs2bn).
- **Margins:** Gross margin was down sequentially by 100bps (flat YoY to 56.6% vs. est. of 57.1%). Overheads were slightly higher than our estimate: Staff cost down 40bps YoY, but other expenses were up 210bps YoY. This meant that EBITDA margin was down 150bps YoY to 22.9% (vs. est. 24.5%).
- **1HFY25:** Revenues, EBITDA and APAT up 2.3%, down 0.8% & down 2.9% YoY, respectively. Gross margin up by 140bps YoY to 57.1% while EBITDA margin is down 70bps YoY to 22.9%.
- **Other highlights:**
 - (1) Commodity commentary: Commodity prices remain elevated specially for coffee and cocoa, with prices of cereals and edible oils also being accentuated with recent developments. There is relative stability in milk prices and packaging so far.
 - (2) E-commerce delivered high double-digit growth, which was the highest in the last seven quarters contributing to 8.3% of domestic sales.
 - (3) New products now contribute to approximately 7% of sales. Eight new projects are also in the pipeline.

View & Valuation

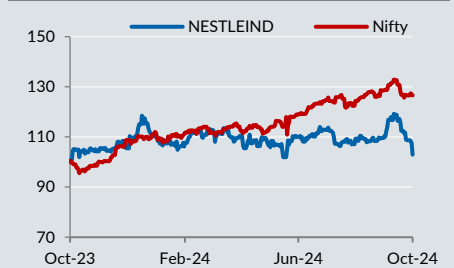
We expect near-term earnings growth to remain under pressure. On a high earnings base, we believe earnings growth over next two years would be driven by (1) Capacity addition led push. (2) Sweating of distribution assets in non-urban markets. NEST's initiative on distribution reach and products catering to RURBAN portfolio is strengthening its position in rural areas but contribution remains low at 20-25% of domestic topline; (3) Continued R&D led innovations leading to maintenance of growth in premium portfolio. Addition of new categories will only add to medium-to-long term earnings. Over next two years, we are now building ~9% EPS CAGR (on a normalized FY24) led by ~8.7% revenue CAGR. The stock currently trades at ~72x/62x/56x FY25E/FY26E/FY27E EPS. We assign multiple of ~60x and roll-forward to FY'27E EPS, arriving at a revised TP of Rs2,550 (Rs2,515 earlier). Maintain NEUTRAL rating.

Reco	: NEUTRAL
CMP	: Rs 2,379
Target Price	: Rs 2,550
Potential Return	: +7.2%

Stock data (as on Oct 17, 2024)

Nifty	24,750
52 Week h/l (Rs)	2778 / 2298
Market cap (Rs/USD mn)	2373996 / 28251
Outstanding Shares (mn)	964
6m Avg t/o (Rs mn):	2,371
Div yield (%):	1.3
Bloomberg code:	NEST IN
NSE code:	NESTLEIND

Stock performance



	1M	3M	1Y
Absolute return	-6.6%	-8.8%	2.0%

Shareholding pattern (As of June'24 end)

Promoter	62.8%
FII+DII	21.2%
Others	16.1%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price (Rs)	2,550	2,515

Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	33.3	38.6	42.5
EPS (Old)	33.3	38.7	NA
% change	0.2%	-0.2%	NA

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	207,454	229,148	250,383
YoY Growth (%)	-15.0	10.5	9.3
EBIDTA	47,974	54,932	60,641
Margins (%)	23.1	24.0	24.2
PAT	32,129	37,199	41,018
EPS	33	39	43
YoY Growth (%)	-91.9	15.8	10.3
ROCE (pre-tax)	125.7	136.6	147.5
ROE	91.6	100.3	108.5
P/E	71.4	61.7	55.9
EV/EBITDA	47.7	41.7	37.6

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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	51,040	53,385	53,428	(4.4)	(4.5)
EBITDA	11,677	13,079	13,038	(10.7)	(10.4)
EBITDA Margin (%)	22.9	24.5	24.4	(1.6)	(1.5)
Adjusted PAT	7,552	8,872	8,832	(14.9)	(14.5)

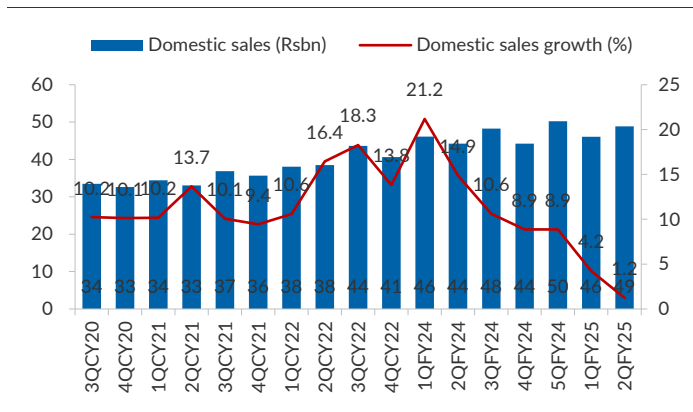
Source: Bloomberg, Company, YES Sec

Exhibit 2: Quarterly snapshot

Particulars (Rs. Mn)	Sept'23	June'24	Sept'24	YoY (%)	QoQ (%)	1HFY24	1HFY25	YoY (%)
Revenue	50,368	48,140	51,040	1.3	6.0	96,954	99,180	2.3
COGS	21,916	20,388	22,139	1.0	8.6	42,966	42,528	-1.0
Gross margin %	56.5	57.6	56.6	0.1	-1.0	55.7	57.1	1.4
Employee costs	5,176	5,054	5,017	-3.1	-0.7	9,748	10,071	3.3
% of sales	10.3	10.5	9.8	-0.4	-0.7	10.1	10.2	0.1
Other expenses	10,989	11,674	12,207	11.1	4.6	21,363	23,881	11.8
% of sales	21.8	24.2	23.9	2.1	-0.3	22.0	24.1	2.0
EBITDA	12,287	11,023	11,677	-5.0	5.9	22,876	22,701	-0.8
EBITDA margin %	24.4	22.9	22.9	-1.5	0.0	23.6	22.9	-0.7
Depreciation	1,112	1,127	1,216	9.4	7.9	2,185	2,343	7.2
EBIT	11,176	9,896	10,461	-6.4	5.7	20,690	20,358	-1.6
Interest expense	314	317	322	2.7	1.7	642	639	-0.4
Other income	333	391	69	-79.4	-82.5	572	460	-19.6
Exceptional items	788	0	2,312	0.0	0.0	788	2,312	-
PBT	11,195	9,971	10,208	-8.8	2.4	20,621	20,178	-2.1
Tax	2,863	2,625	2,656	-7.2	1.2	5,273	5,281	0.2
Effective tax rate %	25.6	26.3	26.0	0.4	-0.3	25.6	26.2	0.6
Adj. PAT	8,332	7,346	7,552	-9.4	2.8	15,348	14,898	-2.9
Adj. PAT margin %	16.5	15.3	14.8	-1.7	-0.5	15.8	15.0	-0.8
EPS	8.6	7.6	7.8	-9.4	2.8	15.9	15.5	-2.9

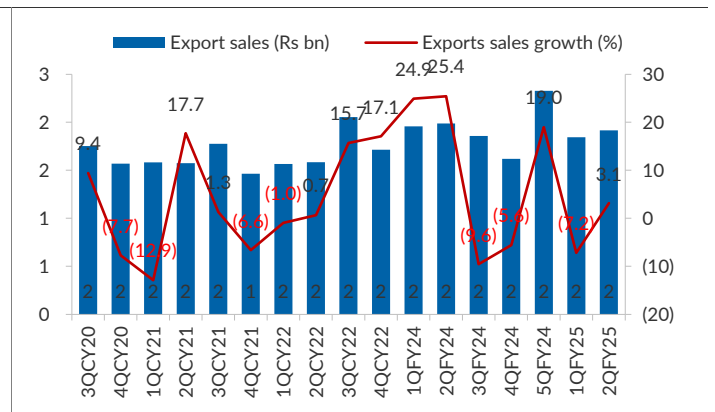
Source: Company, YES Sec

Exhibit 3: Domestic sales grew 1.2% YoY in 2QFY25



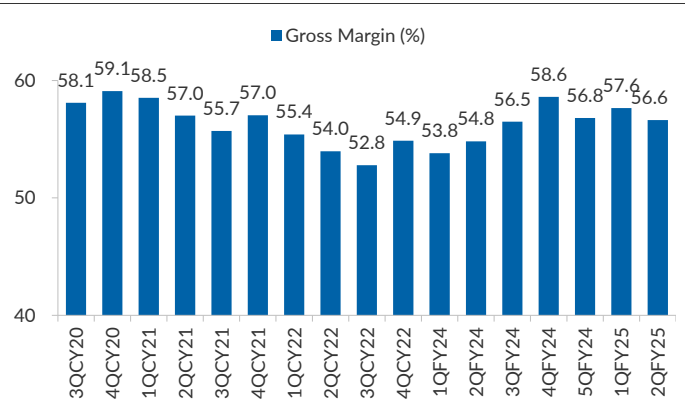
Source: Company, YES Sec

Exhibit 4: Export sales grew by 3.1% YoY in 2QFY25



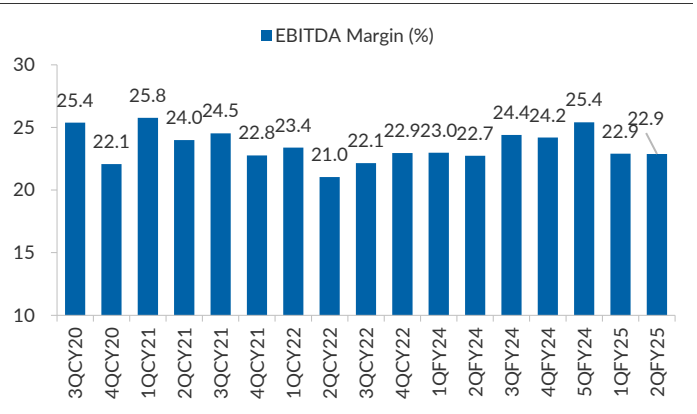
Source: Company, YES Sec

Exhibit 5: Gross margin was flat YoY/-100bps QoQ



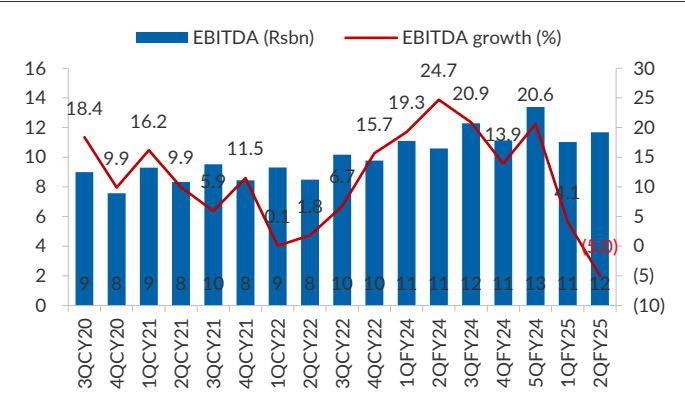
Source: Company, YES Sec

Exhibit 6: EBITDA margin was down 150bps YoY to 22.9%



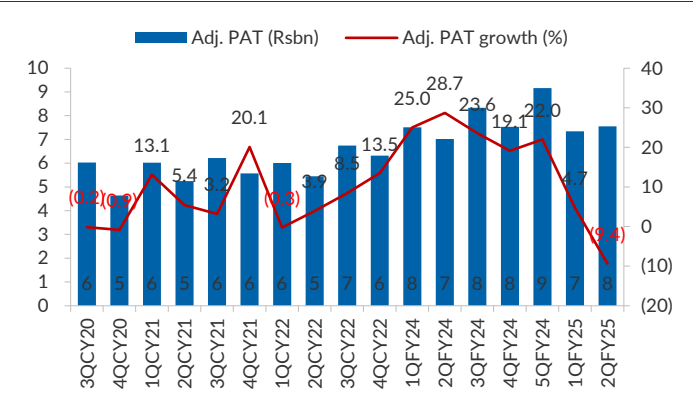
Source: Company, YES Sec

Exhibit 7: EBITDA de-grew by 5% YoY to Rs 11.7bn



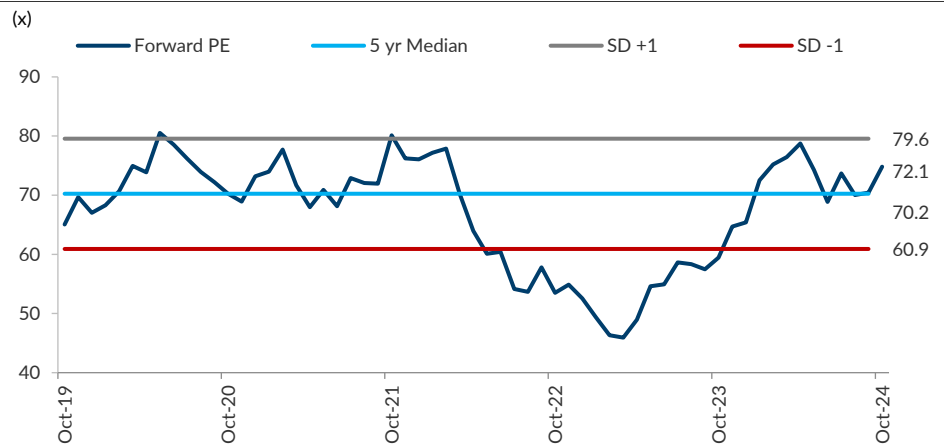
Source: Company, YES Sec

Exhibit 8: Adj PAT de-grew by 9.4% YoY to Rs 7.6bn



Source: Company, YES Sec

Exhibit 9: Currently trading at ~72x 1-yr fwd EPS



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/E March (Rs mn)	CY22	FY24	FY25E	FY26E	FY27E
Share capital	964	964	964	964	964
Reserves	23,628	32,445	35,739	36,488	37,199
Net worth	24,592	33,409	36,703	37,452	38,164
Total debt	300	311	311	311	311
Deferred tax liability	(256)	120	120	120	120
Total liabilities	24,636	33,841	37,135	37,884	38,595
Gross block	54,740	63,337	72,337	87,337	92,337
Depreciation	24,303	28,734	33,144	37,934	43,324
Net block	30,437	34,602	39,193	49,403	49,013
Capital work-in-progress	3,584	17,417	23,417	23,417	23,417
Investments	7,775	4,639	6,758	4,931	7,252
Inventories	19,288	20,894	18,597	19,533	21,546
Debtors	1,919	3,005	2,831	3,122	3,412
Cash	9,456	7,789	1,044	286	4,834
Loans, advances & other assets	17,073	16,886	17,057	17,228	17,973
Total current assets	47,735	48,572	39,530	40,170	47,765
Creditors	19,338	22,379	22,662	24,748	26,904
Other current liabilities & provisions	45,557	49,011	49,102	55,288	61,947
Total current liabilities	64,895	71,390	71,763	80,036	88,851
Net current assets	(17,160)	(22,818)	(32,233)	(39,866)	(41,086)
Total assets	24,636	33,841	37,135	37,884	38,595

Source: Company, YES Sec; Note: Since the FY24 numbers are for 15 months, numbers are not comparable

Exhibit 11: Income statement

Y/E March (Rsmn)	CY22	FY24	FY25E	FY26E	FY27E
Net Sales	168,970	243,939	207,454	229,148	250,383
% Growth	14.6	44.4	-15.0	10.5	9.3
COGS	77,499	107,085	91,905	100,369	109,111
Staff costs	16,679	23,463	21,079	21,882	24,162
Other expenses	37,209	54,899	46,496	51,966	56,469
Total expenses	131,387	185,448	159,480	174,217	189,742
EBITDA	37,583	58,491	47,974	54,932	60,641
% growth	6.1	55.6	-18.0	14.5	10.4
EBITDA margin (%)	22.2	24.0	23.1	24.0	24.2
Other income	1,010	1,480	888	932	979
Interest costs	1,546	1,456	1,326	1,363	1,415
Depreciation	4,030	5,378	4,409	4,790	5,390
Profit before tax	33,017	53,137	43,126	49,711	54,814
Exceptional items	-457	-249	2,020	-292	-292
Tax	8,655	13,560	10,997	12,512	13,797
Rate of Tax (%)	26.2	25.5	25.5	25.2	25.2
PAT	23,905	39,328	34,149	36,907	40,725
Adj PAT	24,362	39,576	32,129	37,199	41,018
Adj PAT margin (%)	14.4	16.2	15.5	16.2	16.4
% Growth	6.6	62.4	-18.8	15.8	10.3

Source: Company, YES Sec; Note: Since the FY24 numbers are for 15 months, numbers are not comparable

Exhibit 12: Cash flow statement

Y/E March (Rs mn)	CY22	FY24	FY25E	FY26E	FY27E
PAT	24,148	39,901	32,567	37,630	41,454
Depreciation	4,030	5,378	4,409	4,790	5,390
Other income	(683)	177	(888)	(932)	(979)
Interest paid	181	(1,220)	1,326	1,363	1,415
(Inc.)/dec. in working capital	(302)	(2,489)	2,671	6,875	5,768
Cash flow from operations	27,374	41,748	40,086	49,726	53,049
Capital expenditure (-)	(5,407)	(18,783)	(15,000)	(15,000)	(5,000)
Net cash after capex	21,967	22,965	25,086	34,726	48,049
Inc./(dec.) in investments & others	1,362	6,717	349	2,037	(2,071)
Cash flow from investments	(4,045)	(12,066)	(14,651)	(12,963)	(7,071)
Dividends paid (-)	(20,247)	(30,082)	(30,854)	(36,158)	(40,014)
Others	(980)	(1,267)	(1,326)	(1,363)	(1,415)
Cash from financial activities	(21,227)	(31,349)	(32,181)	(37,521)	(41,429)
Opening cash balance	7,354	9,456	7,789	1,044	286
Closing cash balance	9,455	7,789	1,044	286	4,835
Change in cash balance	2,102	(1,667)	(6,745)	(758)	4,548

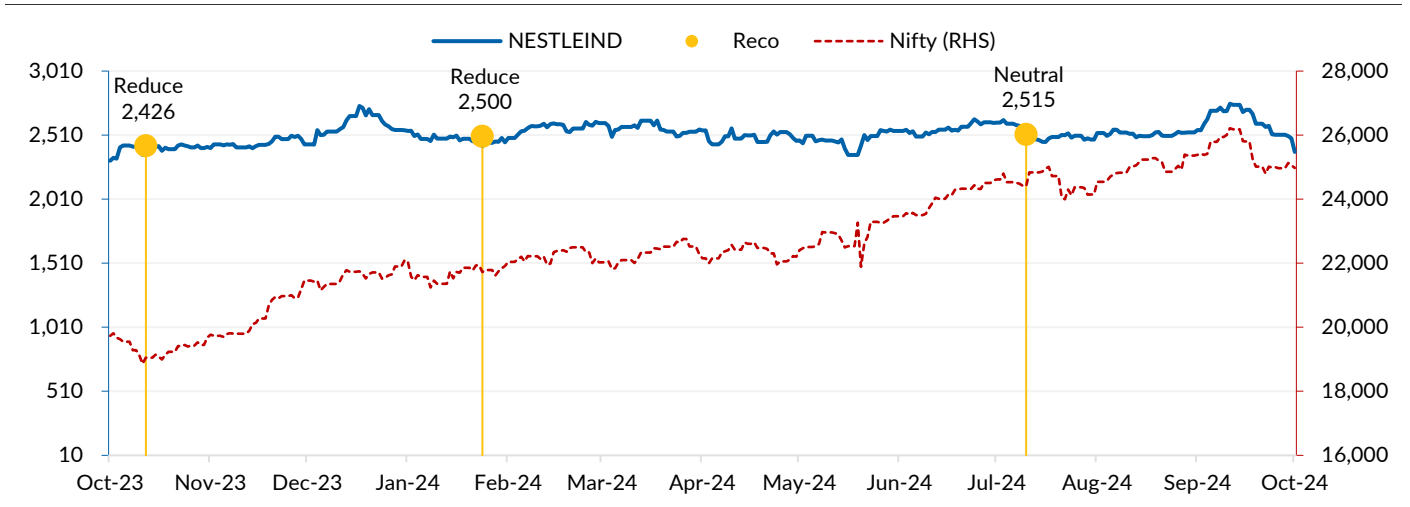
Source: Company, YES Sec; Note: Since the FY24 numbers are for 15 months, numbers are not comparable

Exhibit 13: Growth and Ratio matrix

Y/E March	CY22	FY24	FY25E	FY26E	FY27E
Per share (Rs)					
EPS	252.7	410.5	33.3	38.6	42.5
Book value	255.0	346.5	38.1	38.8	39.6
DPS	210.0	31.2	32.0	37.5	41.5
Valuation (x)					
EV/sales	13.5	9.4	11.0	10.0	9.1
EV/EBITDA	60.6	39.0	47.7	41.7	37.6
P/E	94.2	58.0	71.4	61.7	55.9
P/BV	93.3	68.7	62.5	61.2	60.1
Return ratios (%)					
RoCE (pre-tax)	154.7	186.3	125.7	136.6	147.5
RoE	110.6	136.5	91.6	100.3	108.5
Profitability ratios (%)					
Gross margin	54.1	56.1	55.7	56.2	56.4
EBITDA margin	22.2	24.0	23.1	24.0	24.2
EBIT margin	19.9	21.8	21.0	21.9	22.1
PAT margin	14.4	16.2	15.5	16.2	16.4
Liquidity ratios (%)					
Current ratio	0.7	0.7	0.6	0.5	0.5
Quick ratio	0.4	0.4	0.3	0.3	0.3
Turnover ratios					
Total asset turnover ratio (x)	7.6	8.3	5.8	6.1	6.5
Fixed asset turnover ratio (x)	5.6	7.0	5.3	4.6	5.1
Inventory days	83	68	78	69	69
Debtors days	4	4	5	5	5
Creditor days	87	71	89	86	86

Source: Company, YES Sec; Note: Since the FY24 numbers are for 15 months, numbers are not comparable

Recommendation Tracker



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Name of the Research Analyst : Vishal Punmiya, Manas Rastogi

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Analyst signature

Analyst signature

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