

Short-Term Turbulence Continues, Long-Term Outlook Remains Intact; Maintain BUY
Est. Vs. Actual for Q2FY25: Revenue – **MISS**; EBITDA – **MISS**; PAT – **BEAT**
Changes in Estimates post Q2FY25
FY26E/FY27E – Revenue: -4%/-4%; **EBITDA** -5%/-5%; **PAT** -5%/-6%

Recommendation Rationale

- **Weak Performance:** Nestle posted lackluster results for Q2FY25, with revenue growing by 1.3% YoY (compared to estimates of 6%), primarily due to subdued domestic demand, as volumes de-grew by 3% YoY. On a positive note, 5 out of 12 brands achieved double-digit growth, with the beverage portfolio showing strong high double-digit gains driven by increased penetration and premiumization.
- **Margins pressure:** The company continues to face significant cost challenges, with prices for coffee and cocoa remaining elevated, while cereals and grains experienced initial cost pressures. However, costs for milk and packaging have remained stable. The company's gross margins stood at 56.4%, improving by 12 bps YoY, whereas EBITDA margins de-grew by 144 bps YoY to 23%, primarily due to higher ad spends.

Sector Outlook: Positive
Company Outlook: Positive. A key downside risk to our call is continued volatility in coffee and cocoa prices.

Current Valuation: 66x Dec-26 EPS (Earlier: 70x Dec-26 EPS)

Current TP: Rs 2,640/share (Earlier TP: Rs 2,960/share)

Recommendation: We remain optimistic about the company's long-term prospects. With an 11% upside potential from the CMP, we maintain our BUY rating on the stock.

Financial Performance

Nestle delivered a weak set of numbers, with domestic revenue growing by 1.2% YoY and expo increasing by 3% YoY. The company's gross margins improved by only 12 bps YoY, reaching 56.4% offset by rising commodity prices (coffee and cocoa). EBITDA margins stood at 23%, down by 14 due to higher ad spends. The company's adjusted PAT grew by 9% YoY to Rs 986 Cr, driven by exceptional income from the slump sale of its Nutraceutical business to Dr. Reddy's and Nestle Health Ltd, along with the rejig of its pet care business.

Outlook

We remain positive on Nestle from a long-term perspective, as current challenges such as lower volume growth and volatility in raw material prices are expected to be short-term in nature. With the rural market anticipated to recover in the coming quarters, Nestle is well-positioned to benefit, given its substantial expansion in rural presence over the last three years, increasing its reach from 110k to 200k villages. Additionally, its long-term initiatives include: 1) Efforts toward rural penetration and market share gains through the RURBAN strategy, 2) Constant focus on innovation (launching 125 products in the last seven years), thereby driving growth, 3) Driving premiumization in core categories (e.g., Maggi noodles range) and launching differentiated products, 4) Entering new categories of the future (e.g., Nespresso, Purina Pet Care, and Gerber's for toddler nutrition), 5) Introducing a D2C platform to engage consumer attention, and 6) Renewed focus on its fast-growing nutraceutical portfolio. We believe Nestle has all the right levers for long-term growth.

Valuation & Recommendation

We expect Nestle's Sales, EBITDA, and PAT to grow at 11%, 13%, and 13% CAGR over CY22-FY27E, respectively. **We maintain our BUY stance with a TP of Rs 2,640/share, representing an 11% upside from the CMP.**

Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	5,075	5.9	1.3	5,318	(4.6)
EBITDA	1,168	4.8	(4.7)	1,258	(7.2)
EBITDA Margin (%)	23.0	-24 bps	-144 bps	23.7	-64 bps
Net Profit	986	32.1	8.6	852	15.8
EPS (Rs)	10	32.1	8.6	9	15.8

Source: Company, Axis Research

(CMP as of 17 th Oct 2024)	
CMP (Rs)	2379
Upside /Downside (%)	11%
High/Low (Rs)	2777/2310
Market cap (Cr)	229440
Avg. daily vol.(6m)Shrs. '000	1016
No. of shares (Cr)	96.4

Shareholding (%)

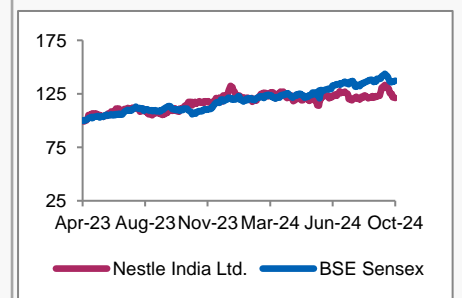
	Mar-24	Jun-24	Sep-24
Promoter	62.8	62.8	62.8
FIs	12.1	11.9	11.9
MFs / UTI	4.5	4.4	4.5
FIs/Banks	0.0	0.1	0.1
Others	20.7	20.9	20.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	20,663	22,864	25,314
EBITDA	4,845	5,353	5,976
Net Profit	3,245	3,539	3,950
EPS (Rs)	33.7	36.7	41.0
PER (x)	70.6	64.8	58.0
EV/EBITDA (x)	47.4	42.8	38.1
P/BV (x)	57.6	47.5	37.7
ROE (%)	81.5	73.4	65.0

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-4%	-4%
EBITDA	-5%	-5%
PAT	-5%	-6%

Relative performance


Source: Ace Equity, Axis Securities

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Other Highlights

- **Launched new Variant in CERELAC with no refined sugar:** Nestle has introduced a new variant in its CERELAC range, featuring no refined sugar. The expanded CERELAC portfolio in India will now consist of 21 variants, with 14 of these containing no refined sugar. Seven of these variants will be available by the end of Nov'24, with the remaining ones to be introduced in the coming weeks.
- **Out of home:** Nestle's out-of-home segment is one of its fastest-growing areas, achieving double-digit growth driven by portfolio transformation, premium offerings, new customer acquisition, and an expanded reach beyond metropolitan areas.
- **Other channels:** The E-commerce channel recorded its highest growth in seven quarters at 38%, now contributing 8.3% to domestic sales. This growth was driven by quick commerce, popular brands such as KITKAT, NESCAFE, MAGGI, and MILKMAID, along with factors like premiumization, new user acquisition, festive sales, and targeted digital marketing strategies.
- **Organized Trade:** The retail business posted double-digit growth, driven by value-added noodles, beverages, and overall premiumization.
- **Export:** The export segment grew by 3% YoY in Q2FY25, expanding its presence through new product launches across various categories in markets such as Canada, the Middle East, Maldives, and Papua New Guinea.

Product Performance

- **Prepared Dishes and Cooking Aids:** Growth continued, supported by premiumization initiatives, including the launch of new products such as MAGGI Chatpata Besan Noodles.
- **Milk products and Nutrition:** Nestle has launched MILKMAID mini and also increased its advertising investments
- **Confectionary:** MUNCH gained traction in regional markets by providing excellent value, while Nestle continued to engage young consumers through its collaboration with Candy Crunch.
- **Beverages:** The company's beverages portfolio achieved robust double-digit growth, with Nescafe Classic, Nescafe Sunrise, and Nescafe Gold performing well, driven by premiumization and new customer recruitment. MILKMAID and Masala-Ae-Magic also witnessed double-digit growth, while KITKAT recorded high single-digit growth.
- **Petcare Business:** E-commerce momentum remained strong, with a positive reception for Felix and Friskies cat food. The Pro Plan dog food line also experienced significant growth in the premium segment.

Key Risks to Our Estimates and TP

- Increase in competitive intensity
- RM inflation
- Weakening of demand environment

Change in Estimates

	Old est.		Revised est.		% Revision	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	23,751	26,297	22,864	25,314	-4%	-4%
EBITDA	5,629	6,287	5,353	5,976	-5%	-5%
PAT	3,744	4,181	3,539	3,950	-5%	-6%
EPS (Rs)	38.8	43.4	37	41	-5%	-6%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q3CY23	Q1FY25	Axis Sec Est.	Q2FY25	YoY growth (%)	QoQ growth (%)	Axis Sec Est. (Var %)
Volume growth (% YoY)	5	1	2	-2			
Net Sales	5,010	4,793	5,318	5,075	1.3	5.9	(4.6)
Gross Profits	2,818	2,754	3,004	2,861	1.5	3.9	(4.8)
Gross Margin (%)	56.3	57.5	56.5	56.4	12 bps	-109 bps	-13 bps
Staff costs	518	505	569	502	(3.1)	(0.7)	(11.9)
Other operating expenses	1,103	1,155	1,191	1,221	10.7	5.7	2.5
EBITDA	1,225	1,114	1,258	1,168	(4.7)	4.8	(7.2)
EBITDA margin (%)	24.5	23.2	23.7	23.0	-144 bps	-24 bps	-64 bps
Depreciation	111	113	118	122	9.4	7.9	2.7
Interest Cost	31	32	32	32	2.7	1.7	1.7
Other Income	33	39	43	7	(79.4)	(82.5)	(84.1)
PBT	1,116	1,009	1,151	1,021	(8.5)	1.2	(11.3)
Tax	314	262	299	325	3.6	23.9	8.7
Tax rate (%)	28.1	26.0	26.0	31.9	372 bps	585 bps	586 bps
Reported PAT	908	747	852	986	8.6	32.1	15.8
EPS (Rs.)	9	8	9	10	8.6	32.1	15.8

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Net sales	24,275	20,663	22,864	25,314
Growth, %	45	(15)	11	11
Other operating income	118	109	120	132
Total income	24,394	20,772	22,984	25,446
Raw material expenses	(10,709)	(8,888)	(9,821)	(10,804)
Employee expenses	(2,336)	(2,032)	(2,256)	(2,504)
Other Operating expenses	(5,529)	(5,006)	(5,553)	(6,162)
EBITDA (Core)	5,820	4,845	5,353	5,976
Growth, %	57	(17)	10	12
Margin, %	24	23	23	24
Depreciation	(538)	(477)	(589)	(659)
EBIT	5,282	4,368	4,764	5,317
Growth, %	60	(17)	9	12
Margin, %	22	21	21	21
Interest paid	(145)	(116)	(122)	(128)
Other Income	148	133	141	150
Non-recurring Items	(4)	-	-	-
Pre-tax profit	5,280	4,385	4,783	5,338
Tax provided	(1,356)	(1,140)	(1,244)	(1,388)
Profit after tax	3,924	3,245	3,539	3,950
Unadj. shares (Cr)	96	96	96	96

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25E	FY26E	FY27E
Cash & bank	779	(416)	323	1,579
Marketable securities at cost	40	40	40	40
Debtors	300	226	251	277
Inventory	2,089	1,778	1,968	2,179
Loans & advances	76	76	76	76
Other current assets	275	275	275	275
Total current assets	3,559	1,979	2,932	4,425
Investments	424	424	424	424
Gross fixed assets	6,119	8,319	9,319	10,319
Less: Depreciation	(2,658)	(3,135)	(3,724)	(4,383)
Add: Capital WIP	1,742	1,742	1,742	1,742
Net fixed assets	5,202	6,925	7,336	7,677
Non-current assets	1,338	1,338	1,338	1,338
Total assets	10,523	10,666	12,030	13,864
Current liabilities	3,918	3,853	4,112	4,401
Provisions	2,917	2,483	2,748	3,042
Total current liabilities	6,835	6,336	6,859	7,443
Non-current liabilities	347	347	347	347
Total liabilities	7,182	6,683	7,207	7,790
Paid-up capital	96	96	96	96
Reserves & surplus	3,244	3,887	4,727	5,978
Shareholders' equity	3,341	3,983	4,823	6,075
Total equity & liabilities	10,523	10,666	12,030	13,864

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25E	FY26E	FY27E
Pre-tax profit	5,280	4,385	4,783	5,338
Depreciation	538	477	589	659
Chg in working capital	396	(114)	310	345
Total tax paid	(1,313)	(1,140)	(1,244)	(1,388)
Other operating activities	-	-	-	-
Cash flow from operating activities	4,901	3,608	4,439	4,955
Capital expenditure	(2,338)	(2,200)	(1,000)	(1,000)
Chg in investments	136	-	-	-
Chg in marketable securities	177	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	(2,024)	(2,200)	(1,000)	(1,000)
Free cash flow	2,877	1,408	3,439	3,955
Equity raised/(repaid)	(837)	-	-	-
Debt raised/(repaid)	(1)	-	-	-
Dividend (incl. tax)	(21,208)	(2,603)	(2,699)	(2,699)
Other financing activities	-	-	-	-
Cash flow from financing activities	(22,047)	(2,603)	(2,699)	(2,699)
Net chg in cash	(19,170)	(1,195)	739	1,256
Opening cash balance	946	779	(416)	323
Closing cash balance	779	(416)	323	1,579

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E Mar	FY24	FY25E	FY26E	FY27E
EPS (INR)	40.8	33.7	36.7	41.0
Growth, %	64.3	(17.4)	9.1	11.6
Book NAV/share (INR)	34.7	41.3	50.0	63.0
FDEPS (INR)	40.8	33.7	36.7	41.0
CEPS (INR)	46.4	38.6	42.8	47.8
CFPS (INR)	48.2	36.0	44.6	49.8
DPS (INR)	220.0	27.0	28.0	28.0
Return ratios				
Return on assets (%)	41.7	31.7	32.3	31.5
Return on equity (%)	117.6	81.5	73.4	65.0
Return on capital employed (%)	64.9	50.1	49.7	46.9
Turnover ratios				
Asset turnover (x)	7.7	4.6	4.3	4.5
Sales/Total assets (x)	2.5	2.0	2.0	2.0
Sales/Net FA (x)	5.6	3.4	3.2	3.4
Receivable days	4.5	4.0	4.0	4.0
Inventory days	31.4	31.4	31.4	31.4
Payable days	44.0	51.9	51.9	52.0
Working capital days	(17.7)	(26.4)	(24.6)	(23.0)
Liquidity ratios				
Current ratio (x)	0.9	0.5	0.7	1.0
Quick ratio (x)	0.4	0.1	0.2	0.5
Interest cover (x)	36.3	37.5	39.0	41.4
Total debt/Equity (%)	0.0	0.0	0.0	0.0
Net debt/Equity (%)	(0.2)	0.1	(0.1)	(0.3)
Valuation				
PER (x)	58.4	70.6	64.8	58.0
PEG (x) - y-o-y growth	0.9	(4.1)	7.1	5.0
Price/Book (x)	68.6	57.6	47.5	37.7
EV/Net sales (x)	9.4	11.1	10.0	9.0
EV/EBITDA (x)	39.3	47.4	42.8	38.1
EV/EBIT (x)	43.3	52.6	48.0	42.8

Source: Company, Axis Securities

Nestle India Price Chart and Recommendation History



Date	Reco	TP	Research
17-Feb-23	BUY	22,00	Result Update
26-Apr-23	BUY	23,00	Result Update
28-Jul-23	BUY	24,60	Result Update
26-Oct-23	BUY	26,90	Result Update
02-Feb-24	BUY	2,800	Top Picks
08-Feb-24	BUY	2,800	Result Update
01-Mar-24	BUY	2,800	Top Picks
01-Apr-24	BUY	2,800	Top Picks
26-Apr-24	BUY	2,880	Result Update
02-May-24	BUY	2,880	Top Picks
03-Jun-24	BUY	2,880	Top Picks
01-Jul-24	BUY	2,880	Top Picks
26-Jul-24	BUY	2,800	Result Update
02-Sep-24	BUY	2,800	Top Picks
01-Oct-24	BUY	2,960	Top Picks
18-Oct-24	BUY	2,640	Result Update

Source: Axis Securities

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