

Nestle

Volume-led recovery

Nestlé's 3QFY25 results were significantly ahead of our expectations owing to low single-digit domestic volume growth (vs. our expectation of flat volume growth), strong performance in the exports business (up 21% YoY), and curtailing operating overheads (other expenses were down 6% YoY). Domestic volume growth of 3% was broad-based across all segments except milk and infant nutrition. Management did not state any reason for the subdued performance in the milk and infant nutrition segment for a while. The exports business grew 21% YoY due to strong growth across key international markets, powered by nutrition, Instant Tea, and confectionery, while coffee continued to sustain double-digit growth. NESTLÉ MUNCH, NESCAFÉ SUNRISE, and MAGGI Masala-Ae-Magic were extended to new markets in the United States and the United Arab Emirates.

- 3QFY25 result summary:** Domestic volume grew 3% vs. our expectation of flat volume. Gross margin contracted by c. 220bps to 56.2% owing to firmness in cocoa, coffee, and edible oil prices, partially compensated by benign packaging and edible oil costs. EBITDA margin contracted by c. 105bps YoY to 23.2%; the contraction was less than the GM contraction due to moderation in marketing investments (other expenses down 6% YoY). Adjusted PAT declined by c. 9%, higher than the EBITDA decline due to a sharp decline in other income (down 85% YoY) and a steep increase in interest costs (up 50%).
- Outlook and valuation:** We believe Nestlé has the potential to deliver high single-digit revenue growth in the medium term, owing to several factors: (a) ramping up its rural distribution network, which is currently under-indexed; (b) focusing on substantial growth in its out-of-home channel; (c) prioritizing the salience of NPD and category creation efforts; (d) investing in capacity expansion (with a capex of INR 60bn over CY20-25) to align with long-term penetration-led volume growth objectives; (e) India's prioritization as one of the top 10 markets despite contributing only 2% of global revenue. We have cut our EPS estimates by 3-5% for FY25-26 and maintain an ADD rating with a TP of INR 2,450 (60x FY27 EPS). Kindly note we have reduced our valuation multiple from 65x to 60x in order to account for the correction in the consumer sector multiple and the urban sector slowdown. Key near-term risks include (1) elevated RM index (particularly cocoa and coffee) and (2) the aggressive stance of competitors in the high-margin infant milk category.

Quarterly/annual financial summary

(INR mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	47,621	45,836	3.9	50,748	(6.2)	1,94,671	2,00,837	2,18,979	2,38,806
EBITDA	11,027	11,095	(0.6)	11,677	(5.6)	47,399	46,779	52,343	59,539
APAT	6,961	7,629	(8.8)	6,955	0.1	31,870	30,249	34,224	39,345
AEPS (INR)	7.2	7.9	(8.8)	7.2	0.1	33.1	31.4	35.5	40.8
P/E (x)						72.0	75.8	67.0	58.3
EV/EBITDA (x)						48.3	49.0	43.8	38.5
Core RoCE (%)						63.0	49.5	47.6	64.3

Source: Company, HSIE Research

ADD

CMP (as on 31 Jan 2025)	INR 2,313
Target Price	INR 2,450
NIFTY	23,508

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,600	INR 2,450
EPS %	FY25E	FY26E
	-5.0%	-3.3%

KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	964
MCap (INR bn) / (\$ mn)	2,230/25,749
6m avg traded value (INR mn)	2,347
52 Week high / low	INR 2,778/2,131

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.2	(5.8)	(7.7)
Relative (%)	4.6	(0.6)	(15.7)

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	62.76	62.76
FIs & Local MFs	9.49	10.80
FPIs	11.94	10.26
Public & Others	15.81	16.17
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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3QFY25 press release highlights:

Category-wise performance

- **Prepared Dishes and Cooking Aids (30% of sales):**

1. Reported high single-digit growth, supported by MAGGI noodles returning to credible volume and Masala-ae-Magic performing well.
2. Maggi Atta noodles were extended to rural markets.
3. Management is focused on building a spicy and Korean noodles range.
4. Petcare Business (which is part of the Prepared Dishes portfolio) delivered double-digit growth, fuelled by Felix and Friskies from the cat food portfolio. Growth was driven by strengthening distribution and a strong focus on e-commerce & quick commerce.

- **Milk Products and Nutrition (45% of sales):**

Launched Milkmaid Mini and increased investments in advertising. It seems that the core portfolio of infant milk and nutrition, targeting newborn babies (up to the age of 12 months), has continued to be under stress, and our channel checks indicate that it has probably lost market share to Abbott.

- **Confectionery (15% of sales):**

1. Recorded high single-digit growth, led by a) KITKAT delivering double-digit growth and b) Munch seeing strong momentum post-launch of Munch Max Nuts.
2. Additionally, manufacturing capabilities are expected to increase, as there are plans to commission a new unit for KITKAT manufacturing at the Sanand factory.

- **Beverages (12% of sales):**

1. Reported price-led high double-digit growth, driven by NESCAFÉ, and has crossed 20bn in the last trailing 12 months.
2. Furthermore, NESCAFÉ solidified its leadership position in the market by gaining market share and achieving significant household penetration gains (up to 3.7 million households). NESCAFÉ GOLD and NESCAFÉ Roastery led the premiumization journey, while new customers were recruited into the category via NESCAFÉ Classic and Sunrise brands.
3. NESPRESSO's (super-premium coffee portfolio) website went live during the quarter, and the first boutique will open soon in Delhi.

Channel-wise performance

- **E-commerce:** The channel grew in high double digits YoY, contributing to 9.1% of domestic sales. Quick commerce is the key driver fueled by the following brands: Kit-Kat, Nescafe, and Maggi. Growth was aided by new user acquisition, festive participation, and targeted digital communication across touchpoints.
- **Organized trade:** Growth driven by noodles, beverages and overall premiumization.
- **Out of Home (OOH):** Delivered strong double-digit growth propelled by portfolio transformation, premiumization, new customer acquisition and expansion beyond metros. Expanded presence with Nestlé Retail One Kiosks to 940+ across colleges, hospitals, and tourist hotspots
- **Export:** Delivered strong growth powered by nutrition, instant tea and confectionery while the coffees export continued to sustain double-digit growth. NESTLÉ MUNCH, NESCAFÉ SUNRISE, MAGGI Masala-Ae-Magic were extended to new markets in the United States and the United Arab Emirates.

Standalone P&L

(INR mn)	CY22	FY24	FY25E	FY26E	FY27E
Net Sales	1,67,895	1,94,671	2,00,837	2,18,979	2,38,806
Growth (%)	14.5	15.9	3.2	9.0	9.1
Material Expenses	77,499	84,770	87,772	94,794	1,01,429
Employee Expense	16,355	18,818	20,609	22,257	24,038
Other Expenses	37,991	44,646	46,532	50,525	54,834
EBITDA	37,126	47,399	46,779	52,343	59,539
EBITDA Growth (%)	4.1	27.7	(1.3)	11.9	13.7
EBITDA Margin (%)	22.1	24.3	23.3	23.9	24.9
Depreciation	4,030	4,517	5,158	5,411	5,750
EBIT	33,095	42,883	41,621	46,933	53,789
Other Income	1,010	1,143	593	653	718
Interest	1,546	1,133	1,337	1,337	1,337
PBT	32,560	42,892	40,877	46,248	53,169
Tax	8,655	11,022	10,628	12,025	13,824
Profit from minority/associates					
RPAT	23,905	31,870	30,249	34,224	39,345
Adjustment	-	-	-	-	-
Adjusted PAT	23,905	31,870	30,249	34,224	39,345
APAT Growth (%)	12.8	33.3	(5.1)	13.1	15.0
Adjusted EPS (INR)	24.8	33.1	31.4	35.5	40.8
EPS Growth (%)	1.5	33.3	(5.09)	13.1	15.0

Source: Company, HSIE Research

Standalone Balance Sheet

(INR mn)	CY22	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	964	964	964	964	964
Reserves	23,628	32,445	43,844	47,266	51,201
Total Shareholders Funds	24,592	33,409	44,808	48,230	52,165
Minority Interest	-	-	-	-	-
Long Term Debt	2,173	2,814	2,814	2,814	2,814
Short Term Debt	532	631	631	631	631
Total Debt	2,705	3,445	3,445	3,445	3,445
Net Deferred Taxes	(256)	120	120	120	120
Other Non-current Liabilities & Provns	32,225	29,327	24,915	27,152	29,596
TOTAL SOURCES OF FUNDS	59,266	66,301	73,289	78,948	85,327
APPLICATION OF FUNDS					
Net Block	30,437	34,603	39,445	44,034	48,284
CWIP	3,584	17,417	17,417	17,417	17,417
Other Non Current Assets	20,609	18,264	18,264	18,264	18,264
Total Non-current Assets	54,630	70,283	75,126	79,715	83,965
Inventories	19,288	20,894	22,010	23,998	26,171
Debtors	1,919	3,005	2,201	2,400	2,617
Other Current Assets	4,239	3,261	3,261	3,261	3,261
Cash & Equivalents	9,456	7,789	4,986	5,707	7,456
Total Current Assets	34,902	34,947	32,457	35,365	39,504
Creditors	19,338	22,379	18,708	20,398	22,245
Other Current Liabilities & Provns	10,927	16,551	15,585	15,734	15,897
Total Current Liabilities	30,265	38,929	34,293	36,132	38,142
Net Current Assets	4,636	(3,982)	(1,836)	(767)	1,362
TOTAL APPLICATION OF FUNDS	59,266	66,301	73,289	78,948	85,327

Source: Company, HSIE Research

Standalone Cash Flow

(INR mn)	CY22	FY24	FY25E	FY26E	FY27E
Reported PBT	32,560	52,889	40,877	46,248	53,169
Non-operating & EO Items	-	-	-	-	-
Interest Expenses	-	-	-	-	-
Depreciation	4,030	5,378	5,158	5,411	5,750
Working Capital Change	(302)	(2,489)	(9,360)	1,889	2,064
Tax Paid	(8,412)	(12,988)	(10,628)	(12,025)	(13,824)
OPERATING CASH FLOW (a)	27,374	41,748	26,047	41,523	47,159
Capex	(5,499)	(18,827)	(10,000)	(10,000)	(10,000)
Free Cash Flow (FCF)	21,875	22,921	16,047	31,523	37,159
Investments	(1,071)	-	-	-	-
Non-operating Income	2,653	6,453	-	-	-
INVESTING CASH FLOW (b)	(3,917)	(12,374)	(10,000)	(10,000)	(10,000)
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(181)	(260)	-	-	-
FCFE	21,694	22,661	16,047	31,523	37,159
Share Capital Issuance	-	-	-	-	-
Dividend	(20,247)	(30,082)	(27,224)	(30,801)	(35,411)
Others	(1,066)	(8)	-	-	-
FINANCING CASH FLOW (c)	(21,227)	(31,349)	(27,224)	(30,801)	(35,411)
NET CASH FLOW (a+b+c)	2,230	(1,976)	(11,177)	722	1,749
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	9,964	7,989	(3,188)	(2,467)	(718)

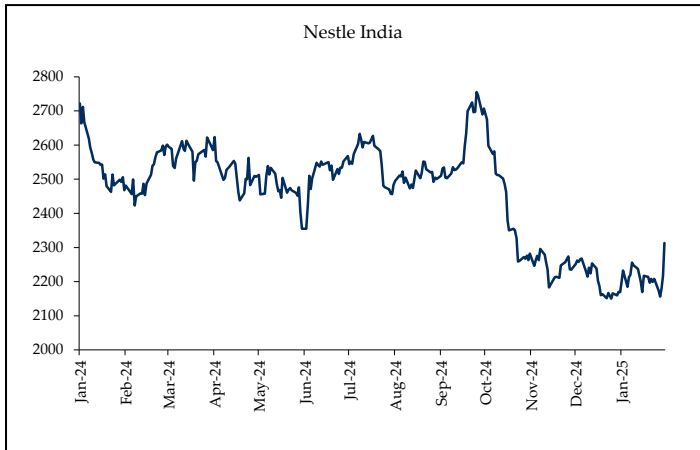
Source: Company, HSIE Research

Ratios

KEY RATIOS	CY22	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	53.8	56.5	56.3	56.7	57.5
EBITDA Margin	22.1	24.3	23.3	23.9	24.9
EBIT Margin	19.7	22.0	20.7	21.4	22.5
APAT Margin	14.2	16.4	15.1	15.6	16.5
RoE	105.2	109.9	77.3	73.6	78.4
RoIC (or Core RoCE)	50.9	63.0	49.5	47.6	64.3
RoCE	44.6	55.3	45.5	44.9	58.9
EFFICIENCY					
Tax Rate (%)	26.6	25.7	26.0	26.0	26.0
Fixed Asset Turnover (x)	3.4	3.4	3.0	2.8	2.7
Inventory (days)	41.9	39.2	40.0	40.0	40.0
Debtors (days)	4.2	5.6	4.0	4.0	4.0
Other Current Assets (days)	9.2	6.1	5.9	5.4	5.0
Payables (days)	42.0	42.0	34.0	34.0	34.0
Other Current Liab & Provns (days)	23.8	31.0	28.3	26.2	24.3
Cash Conversion Cycle (days)	(10.5)	(22.1)	(12.4)	(10.8)	(9.3)
Net D/E (x)	(0.3)	(0.1)	(0.0)	(0.0)	(0.1)
Interest Coverage (x)	21.4	37.8	31.1	35.1	40.2
PER SHARE DATA (Rs)					
EPS	24.8	33.1	31.4	35.5	40.8
CEPS	29.0	37.7	36.7	41.1	46.8
Dividend	22.0	29.5	28.2	32.0	36.7
Book Value	25.5	34.7	46.5	50.0	54.1
VALUATION					
P/E (x)	95.9	72.0	75.8	67.0	58.3
P/BV (x)	93.3	68.7	51.2	47.6	44.0
EV/EBITDA (x)	61.6	48.3	49.0	43.8	38.5
EV/Revenues (x)	13.6	11.8	11.4	10.5	9.6
OCF/EV (%)	1.2	1.8	1.1	1.8	2.1
FCF/EV (%)	1.0	1.0	0.7	1.4	1.6
FCFE/Mkt Cap (%)	0.9	1.0	0.7	1.4	1.6
Dividend Yield (%)	0.9	1.2	1.2	1.3	1.5

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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