

HOLD

TP: Rs 2,445 | ▲ 5%

NESTLE INDIA

Consumer Staples

24 July 2025

Focus on volumes amidst transitory high-cost inventory

- Sales in line with our est, but EBITDA 6% lower. High cost inventory flowing through; 1QFY26 gross margin -250bps vs 4QFY25 -65bps
- Vol. growth accelerated to ~3%. Vol. focus (3 of 4 segments grew vols.) is more suitable as regaining shelf share is expensive
- Commodity outlook is favourable on key commodities of coffee, cocoa, edible oils, and milk. Retain HOLD with INR2,445 target price

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1QFY26 result summary: Nestle India reported 1QFY26 result with sales +6% YoY, in line with our estimates and 1% above consensus. EBITDA was -1% YoY, 4% below consensus and 6% below our estimates. Gross margin performance varied materially between 4QFY25 (down 65bps) and 1QFY26 (down 250bps) as inflation accelerated on high-cost inventory. Nestle India expects slower commodity environment starting the Sep 2025 quarter.

Sales and cost trends in 1QFY26: Volumes increased 3%, a sequential improvement over the sub-2% growth in 4QFY25. Except Milk Products and Nutrition, all other segments (Maggi / Prepared dishes, KitKat / Confectionary, and Nescafe / Coffee) reported volume growth. On sales, Maggi, beverages and Kit Kat were up in double digits. On commodities, inflation is easing in Nestle's key input of coffee. Prices are stable in edible oils and cocoa and are moderating in dairy. While the overall commodity outlook is towards stable to a deflationary trend from a spot perspective, Nestle would benefit with a lag.

FY26e outlook: On a YoY basis, we forecast both sales and EBITDA to grow +6%. We expect continued volume growth driven by the company being selective on pricing amidst an improving demand backdrop in both rural and urban. On margins, the company is still using its high-cost inventory from the March 2025 quarter. We estimate the gross margin pressure will continue in the September 2025 quarter before getting in line with spot, and improving from the December 2025 quarter. We forecast 100bps gross margin deterioration in 2QFY26 with 2HFY26 margins recovering ~110bps.

Our view: We view volume growth focus as a key positive amidst improving demand backdrop in both rural and urban. New capacity in Sanand on Kit Kat and high-cost inventory will keep margin pressured in the September quarter, but we expect improvement in subsequent quarters. We value NEST in line with its 5-year historical 1 year forward average P/E on 12 months to June 2027 EPS. Our TP changes to Rs 2,445 from Rs 2,462. Share price return of 5% – HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	NEST IN/Rs 2,322
Market cap	US\$ 25.9bn
Free float	37%
3M ADV	US\$ 25.8mn
52wk high/low	Rs 2,778/Rs 2,110
Promoter/FPI/DII	63%/12%/25%

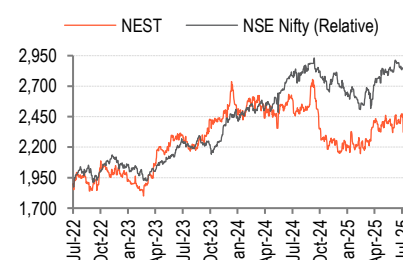
Source: NSE | Price as of 24 Jul 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	202,016	215,099	236,927
EBITDA (Rs mn)	47,737	50,633	58,007
Adj. net profit (Rs mn)	30,419	31,101	35,330
Adj. EPS (Rs)	31.5	32.3	36.6
Consensus EPS (Rs)	31.5	36.0	40.4
Adj. ROAE (%)	82.8	69.3	62.4
Adj. P/E (x)	73.6	72.0	63.4
EV/EBITDA (x)	47.0	44.2	38.7
Adj. EPS growth (%)	(4.7)	2.2	13.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



1QFY26 result review

Fig 1 – Nestle India 1QFY26 result summary

(Rs mn)	Actual			Reported vs (%)	
	1Q25	1Q26	YoY	BoB	Cons.
Sales	48,140	50,962	6	0	1
EBITDA	11,143	11,001	(1)	(6)	(4)
EBITDA margin (%)	23.1	21.6	(156bps)	(128bps)	(122bps)

Source: Company, Bloomberg, BOBCAPS Research

Earnings revisions

On a YoY basis, we forecast 6% growth on both sales and EBITDA. Nestle India's focus on top line is evident from the 1QFY26 volume growth of 3%; an improvement over the sub 2% delivery in 4QFY25. We expect continued volume growth driven by the company being selective on pricing amidst an improving demand backdrop in both rural and urban. On margins, the company is still using its high-cost inventory from the March 2025 quarter. While a typical 45 days lag is reasonable to assume, we expect Nestle went higher to safeguard product supply and manage COGS visibility. Assuming >45days advance purchase, we estimate the gross margin pressure will continue in the September 2025 quarter before getting in line with spot. We forecast 100bps gross margin deterioration in 2QFY26 with 2HFY26 margins recovering 110bps on average.

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	215,099	217,302	(1.0)	236,927	238,725	(0.8)	254,561	256,379	(0.7)
EBITDA	47,737	50,633	52,123	(2.9)	58,007	58,337	(0.6)	63,248	63,020	0.4
EBITDA Margin (%)	23.6	23.5	24.0	(45bps)	24.5	24.4	5bps	24.8	24.6	26bps
Adj. PAT	30,419	31,101	32,589	(4.6)	35,330	36,245	(2.5)	38,950	39,444	(1.3)
Adj. EPS	31.55	32.26	33.80	(4.6)	36.64	37.59	(2.5)	40.40	40.91	(1.3)

Source: Company, Bloomberg, BOBCAPS Research

Valuation

NEST has traded at a 5-year average P/E of 65x on 1 year forward EPS. We value NEST in line with its 5 historical average P/E on 12M to Jun'27 EPS. Our TP changes to Rs 2,445 from Rs 2,462. Share price return of 5% – 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
Total revenue	243,939	202,016	215,099	236,927	254,561
EBITDA	58,198	47,737	50,633	58,007	63,248
Depreciation	5,378	5,222	6,516	7,767	8,654
EBIT	52,820	42,516	44,118	50,240	54,594
Net interest inc./(exp.)	(1,455)	(1,360)	(2,494)	(3,000)	(3,000)
Other inc./(exp.)	1,480	589	61	125	627
Exceptional items	(44)	(1,834)	0	0	0
EBT	52,845	41,744	41,684	47,365	52,220
Income taxes	13,560	11,085	10,583	12,035	13,270
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	(240)	0	0	0
Reported net profit	39,328	32,254	31,101	35,330	38,950
Adjustments	(44)	(1,834)	0	0	0
Adjusted net profit	39,285	30,419	31,101	35,330	38,950

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	22,379	23,735	23,045	25,097	26,576
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	12,533	12,533	12,533
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	48,702	62,582	77,427
Shareholders' fund	33,409	40,102	49,666	63,546	78,391
Total liab. and equities	105,231	121,933	135,807	151,738	168,063
Cash and cash eq.	7,589	762	1,522	6,625	17,689
Accounts receivables	3,005	3,632	3,289	3,611	3,843
Inventories	20,894	28,501	28,060	28,582	26,992
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	74,880	84,863	91,484
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
Total assets	105,231	121,933	135,807	151,738	168,063

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	41,748	29,364	40,147	47,186	52,848
Capital expenditures	(18,827)	(20,086)	(20,414)	(17,751)	(15,274)
Change in investments	2,838	4,239	0	0	0
Other investing cash flows	3,615	(2,262)	58	119	595
Cash flow from investing	(12,374)	(18,109)	(20,356)	(17,632)	(14,678)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	7,257	5,000	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(30,082)	(24,586)	(21,537)	(21,451)	(24,105)
Other financing cash flows	(1,267)	(1,152)	(2,494)	(3,000)	(3,000)
Cash flow from financing	(31,349)	(18,481)	(19,031)	(24,451)	(27,106)
Chg in cash & cash eq.	(2,274)	(7,627)	760	5,103	11,064
Closing cash & cash eq.	7,589	762	1,522	6,625	17,689

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	40.8	33.3	32.3	36.6	40.4
Adjusted EPS	40.7	31.5	32.3	36.6	40.4
Dividend per share	182.0	27.0	24.0	23.8	25.9
Book value per share	34.6	41.6	51.5	65.9	81.3

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	9.1	11.1	10.4	9.5	8.8
EV/EBITDA	38.3	47.0	44.2	38.7	35.5
Adjusted P/E	57.0	73.6	72.0	63.4	57.5
P/BV	67.0	55.8	45.1	35.2	28.6

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	74.3	72.9	74.6	74.6	74.6
Interest burden (PBT/EBIT)	100.1	98.2	94.5	94.3	95.7
EBIT margin (EBIT/Revenue)	21.9	21.0	20.5	21.2	21.4
Asset turnover (Rev./Avg TA)	200.6	177.9	166.9	164.8	159.2
Leverage (Avg TA/Avg Equity)	3.4	3.1	2.9	2.5	2.3
Adjusted ROAE	110.1	82.8	69.3	62.4	54.9

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	10.3	3.3	6.5	10.1	7.4
EBITDA	21.5	1.0	6.1	14.6	9.0
Adjusted EPS	25.8	(4.7)	2.2	13.6	10.2
Profitability & Return ratios (%)					
EBITDA margin	24.1	23.6	23.5	24.5	24.8
EBIT margin	21.9	21.0	20.5	21.2	21.4
Adjusted profit margin	16.3	15.1	14.5	14.9	15.3
Adjusted ROAE	95.5	82.8	69.3	62.4	54.9
ROCE	65.3	56.6	52.1	51.0	48.2

Working capital days (days)

Receivables	5	6	6	5	5
Inventory	87	103	110	102	93
Payables	90	96	91	86	87

Ratios (x)

Gross asset turnover	2.6	2.2	1.9	1.8	1.7
Current ratio	0.9	0.8	0.7	0.8	1.0
Net interest coverage ratio	39.5	31.3	17.7	16.7	18.2
Adjusted debt/equity	0.0	0.2	0.3	0.2	0.2

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

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BUY – Expected return >+15%

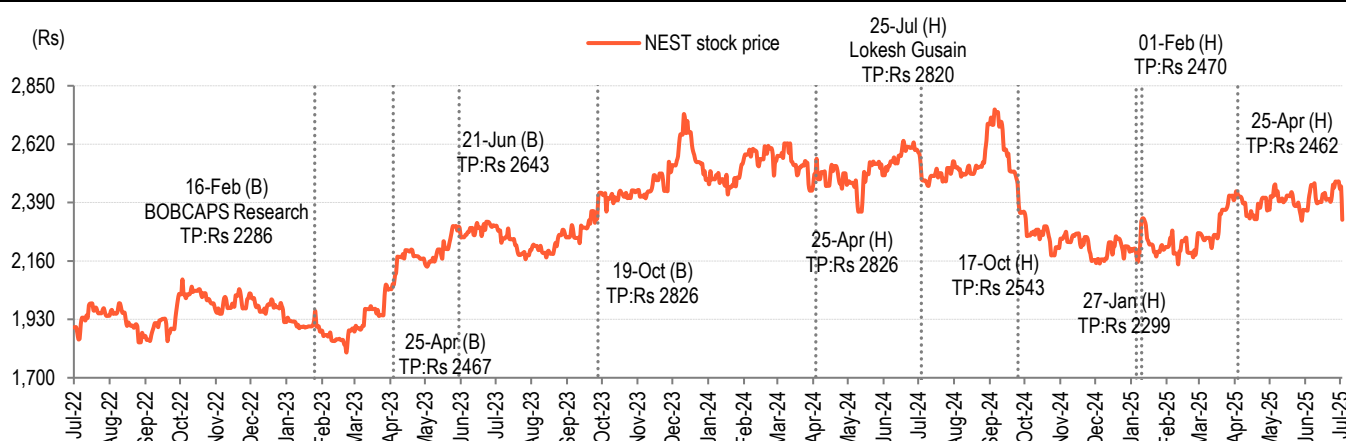
HOLD – Expected return from -6% to +15%

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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