Nestle India Ltd

Weak Q1 as profitability misses mark

Stock Update | Result Update

Consumer Goods	Sharekhan code: NESTLEIND
Reco/View: Buy ↔	CMP: **Rs. 2,320** | Price Target: **Rs. 2,600** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

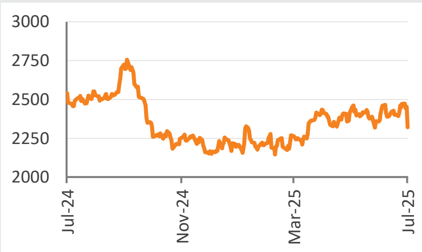
Company details

Market cap:	Rs. 2,23,699 cr
52-week high/low:	Rs. 2,777 / 2,115
NSE volume: (No of shares)	8.7 lakh
BSE code:	500790
NSE code:	NESTLEIND
Free float: (No of shares)	35.9 cr

Shareholding (%)

Promoters	62.8
FII	11.5
DII	11.2
Others	14.6

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.9	-4.6	5.1	-8.7
Relative to Sensex	-2.1	-7.6	-2.8	-11.2

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Nestle India's (Nestle's) Q1FY26 performance missed expectations on profitability front as OPM declined 156 bps y-o-y to 21.6% (versus 23.5% expected), while PAT declined by 11.7% y-o-y to Rs. 659 crore (against expectation of Rs. 749 crore). Revenue grew by 6% y-o-y.
- Nestle sustained strong volume-led double-digit growth in Confectionery and Powdered & Liquid Beverages and posted volume-growth revival in Prepared Dishes & Cooking Aids.
- Margins were hit by consumption of high-cost inventory and increased operational costs. Going ahead, management has guided for stabilisation/correction in prices of key inputs - edible oil, cocoa and coffee, and expects milk prices to decline.
- Stock trades at 67x/59x its FY26E/FY27E EPS, respectively. We maintain a Buy rating with a revised PT of Rs. 2,600.

Nestle's Q1FY26 performance was weak as multiple headwinds led to decline in margins and double-digit decline in PAT. Revenue grew by 5.9% y-o-y to Rs. 5,096 crore, driven by 5.5% y-o-y growth in the domestic business to Rs. 4,860 crore, while export sales grew by 16% y-o-y to Rs. 214 crore. Revenue came in line with our and average street expectation of Rs. 5,070 crore and Rs. 5,090 crore respectively. Prepared Dishes and Cooking Aids, Powdered & Liquid Beverages and Confectionery bounced back to volume-led growth. Gross margin and OPM fell by 249 bps and 156 bps y-o-y to 55.2% and 21.6%, respectively hit by consumption of high-cost inventory and increased operational costs owing to capacity expansion. OPM came in much lower than our and average street expectation of 23.5%. Operating profit fell by 1.3% y-o-y to Rs. 1,100 crore. This coupled with higher depreciation and interest cost (up 39% and 48% y-o-y, respectively) and lower other income (down 90% y-o-y) led to 11.7% y-o-y decline in the PAT to Rs. 659 crore (lagging our and average street expectation of Rs. 749 crore).

Key positives

- Powdered & liquid beverages posted strong double-digit growth led by growth in Nescafe.
- Confectionery grew in high double-digit driven by volume growth across major brands.
- In prepared dishes and cooking aids, Maggi delivered double-digit growth with positive volume growth.
- Petcare business posted strong growth, primarily driven by the cat portfolio.

Key negatives

- Gross margin/OPM fell by ~250 bps/~150 bps y-o-y to 55.2%/21.6%, sharply missing our estimates of 57.0%/23.5% owing to elevated raw material inflation across the portfolio and higher operational costs of manufacturing capacity expansion.
- Interest cost was up by 48% y-o-y due to increased borrowing from commercial banks to fund temporary operational cash-flow requirements.

Management Commentary

- Significant rise in demand recent quarters has led to growth in urban markets.
- Seven out of twelve top brands grew in double-digits.
- Management expects coffee, cocoa, and edible oil prices to sustain at steady levels in the coming quarters and milk prices to decline with the onset of monsoon and flush season.
- Upon the retirement of Mr. Suresh Narayanan, Mr. Manish Tiwary will be taking over as the Chairman and Managing Director from August 01, 2026.

Revision in earnings estimates – We have reduced our estimates for FY26 and FY27 by ~3% to factor in higher interest cost and lower other income that earlier estimated. We will keenly monitor pick-up in volumes and margin recovery in the coming quarters.

Our Call

View – Maintain Buy with a revised PT of Rs. 2,600: Nestle's Q1FY26 performance was weak as multiple headwinds hit profitability. The company's strong position in the domestic foods market, innovative product portfolio, focus on distribution expansion, capacity expansion and improving out-of-home consumption will help Nestle compete and achieve better growth in a stable demand environment. Volatile commodity prices are likely to keep a check on margins in the near term. However, Nestle's strong pricing power and cost saving strategies might help it to mitigate margin pressure. The stock trades at 67x/59x its FY26E/FY27E EPS, respectively. We maintain Buy rating on the stock with a revised price target of Rs. 2,600.

Key Risks

Delay in demand recovery or regulatory hurdles in key food categories or a rise in key input prices would act as a key risk to our earnings estimates.

Valuation (Standalone) Rs cr

Particulars	CY22	FY24 (15M)	FY25	FY26E	FY27E
Revenue	16,897	24,394	20,202	21,749	23,927
OPM (%)	22.0	23.9	23.5	23.8	24.3
Adjusted PAT	2,391	3,928	3,082	3,348	3,799
Adjusted EPS (Rs.)*	24.8	32.6	32.0	34.7	39.4
P/E (x)	93.6	56.9	72.6	66.8	58.9
P/B (x)	91.0	83.7	54.3	56.7	57.5
EV/EBIDTA (x)	60.1	38.4	47.3	43.4	38.6
RoNW (%)*	108.5	108.4	82.6	83.0	97.0
RoCE (%)*	129.2	126.5	90.3	85.3	105.0

Source: Company; Mirae Asset Sharekhan Estimates
*#FY24 financials are for 15 months due to change in financial year from December 2023 to March 2024; *FY24 figures adjusted for 12 months.*

Key business updates:

- **Milk products and nutrition**
  - Performance was a mixed bag, with certain segments showing growth, while a few had muted performance.
  - Milkmaid delivered single-digit growth.
  - Growing up milk continued to gain momentum bolstered by renovation and scaled up its market share.
- **Prepared dishes and cooking aids**
  - The category swung back to volume growth, recording double-digit growth for MAGGI noodles. Both Quick Commerce as well RUrban markets contributed to the overall performance of the Maggi portfolio.
  - Double Masala Classic Noodles as well Spicy range, which includes Spicy Garlic, Spicy Cheesy, Spicy Pepper and Spicy Manchurian generated positive momentum.
  - Masala-Ae-Magic continued to demonstrate strong performance at a double-digit rate.
- **Confectionery**
  - The category saw high double-digit growth, driven by robust underlying volume growth. The growth was driven by rural acceleration, premiumization, and increased in-home penetration, supported by quick commerce.
  - KitKat emerged as the largest growth driver, achieving double-digit growth, particularly in RUrban markets, while continuing to gain market share.
  - Munch regained momentum with double-digit growth, and MILKYBAR too posted high double-digit growth.
  - During the quarter, the company launched KitKat Duo, KitKat Lemon n Lime, and KitKat Dark Sharebag.
- **Powdered and Liquid Beverages**
  - The category sustained its position as one of the largest growth drivers with another robust performance in Q1 registering strong double-digit growth.
  - NESCAFÉ further solidified its leadership in the coffee category by gaining additional market share. The brand continued to democratize coffee through affordable packs, while also expanding the premium segment with NESCAFÉ Gold and NESCAFÉ Roastery.
  - NESCAFÉ Classic, NESCAFÉ Sunrise, and NESCAFÉ GOLD continued to witness strong performances, achieving double-digit growth driven by successful cold coffee activations in the summer months.
  - NESCAFÉ RTD continued to demonstrate strong growth.
- **Petcare business**
  - The business witnessed strong performance, primarily driven by the cat portfolio.
  - Purina Felix and Purina Friskies reported robust growth.
  - The company strengthened its route to market and infrastructure in major cities, resulting in increased coverage of the business.

- **E-commerce and organised trade**
  - E-commerce has maintained its growth momentum, contributing to 12.5% of domestic sales, driven by Quick Commerce and new launches.
- **Out Of Home (OOH) segment**
  - The business consistently grew at double-digit rates, making it the fastest-growing business across Beverages and Foods portfolio.
  - Nestlé Professional also achieved a landmark milestone with 1,000 Retail One kiosks operational across India through our flagship NESCAFÉ Corners, MAGGI Hotspots and KitKat Break Zones.
- **Exports**
  - Registered 16% y-o-y growth to Rs. 214 crore on a low base of 7% decline in Q1FY25, driven by foods, coffee, instant tea, and breakfast cereals, despite commodity headwinds.
  - The company launched Masala-Ae-Magic in the UK during Q1.

Results (Standalone) Rs cr

Particulars	Q1FY26	Q1FY25	Y-o-Y (%)	Q4FY25	Q-o-Q (%)
Net Sales	**5,074.0**	**4,793.0**	**5.9**	**5,447.6**	**-6.9**
Other Operating income	22.2	21.0	5.8	56.2	-60.5
Total Revenue	**5,096.2**	**4,814.0**	**5.9**	**5,503.9**	**-7.4**
Raw Material Cost	2,285.4	2,038.8	12.1	2,412.4	-5.3
Employee Cost	515.7	505.4	2.0	522.0	-1.2
Other Expenses	1,194.8	1,155.4	3.4	1,180.5	1.2
Total Operating Cost	3,995.9	3,699.6	8.0	4,114.9	-2.9
Operating Profit	**1,100.3**	**1,114.3**	**-1.3**	**1,389.0**	**-20.8**
Other Income	4.0	39.1	-89.7	8.4	-52.1
Interest & Other Financial Cost	46.9	31.7	48.0	37.5	25.0
Depreciation	156.9	112.7	39.2	155.3	1.0
Profit Before Tax	900.5	1,009.1	-10.8	1,204.6	-25.2
Tax Expense	241.2	262.5	-8.1	319.2	-24.4
Reported PAT	**659.2**	**746.6**	**-11.7**	**885.4**	**-25.5**
Adj. EPS (Rs)	6.8	7.7	-11.7	9.2	-25.5
			bps		**bps**
GPM (%)	55.2	57.6	-249	56.2	-101
OPM (%)	21.6	23.1	-156	25.2	-365
NPM (%)	12.9	15.5	-257	16.1	-315
Tax rate (%)	26.8	26.0	78	26.5	30

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Volumes and margins to recover gradually

Consumer goods companies are expected to see yet another muted quarter. We expect gradual uptick in volume growth on low base in the coming quarters driven by expectations of good monsoon, income tax benefits, interest rate cuts, and a gradual improvement in the macroeconomic environment. We believe large improvement in the volume growth could be seen in H2FY26 amid stable demand. We expect margins to remain lower in the coming quarters and if input prices stabilise in the coming months, we might see margin expansion from H2FY26.

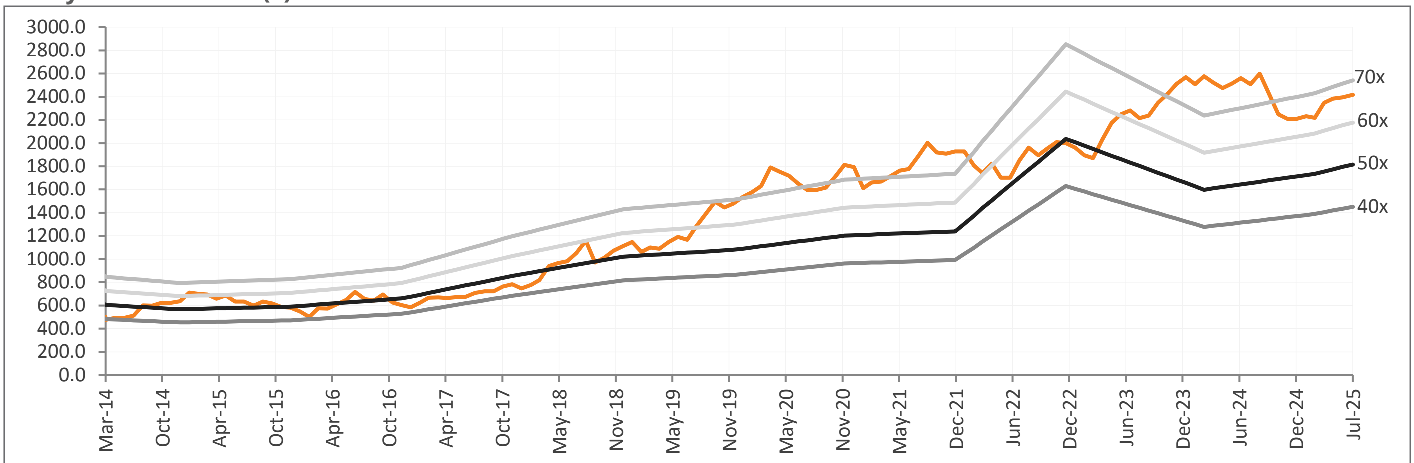
■ Company Outlook – Focus on consistent growth in long run; commodity headwinds in near term

Nestle's Q1FY26 performance was weak with revenues growing by ~6% y-o-y, OPM declining by 156 bps y-o-y and adjusted PAT lower by ~12% y-o-y. The company is focusing on consistent growth through innovations, expansion in rural/tier-2 markets, and accelerating footprints through new channels. The company's recent launch of premium coffee and partnership with a pharma company to scale up its science-based product portfolio augurs well for the long term. Nestle reported a strong improvement in OPM in FY24 due to stable input prices. However, a recent spike in key commodity prices and increase in the royalty charges will put stress on the margins in the near term.

■ Valuation – Maintain Buy with a revised PT of Rs. 2,600

Nestle's Q1FY26 performance was weak as multiple headwinds hit profitability. The company's strong position in the domestic foods market, innovative product portfolio, focus on distribution expansion, capacity expansion and improving out-of-home consumption will help Nestle compete and achieve better growth in a stable demand environment. Volatile commodity prices are likely to keep a check on margins in the near term. However, Nestle's strong pricing power and cost saving strategies might help it to mitigate margin pressure. The stock trades at 67x/59x its FY26E/FY27E EPS, respectively. We maintain Buy rating on the stock with a revised price target of Rs. 2,600.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
HUL	55.9	52.9	48.0	39.5	37.1	33.7	26.9	29.0	32.8
Britannia Industries	62.1	54.8	48.8	43.0	38.3	34.2	36.4	39.1	38.3
Nestle India	72.6	66.8	58.9	47.3	43.4	38.6	90.3	85.3	105.0

Source: Company; Mirae Asset Sharekhan Research

About company

Nestlé is the largest food company in India with turnover above Rs. 20,000 crore. It is present across India with nine manufacturing facilities, four branch offices, one R&D centre, and ~8,000 employees. The company manufactures products under internationally famous brand names such as Nescafé, Maggi, Milkybar, KitKat, Bar-One, Milkmaid, and Nestea; and in recent years, the company has introduced products of daily consumption and use such as Nestlé Milk and Nestlé Slim Milk. Nestlé has a diversified portfolio of brands divided into four segments: Milk Products and Nutrition, Prepared Dishes and Cooking Aids, Confectionery, and Beverages. The brands are broadly segregated on the basis of nutrition, health, comfort, variety, indulgence, and taste. Nestlé is the market leader in the categories of 'Instant Noodles' and 'Infant Cereals & Infant Formula'.

Investment theme

Nestlé has maintained its leadership position across key categories over the years. The company had faced a setback in CY2015 post the Maggi debacle; however, it bounced back within a short span of time by re-launching the product with the help of innovative media campaigns. Sustained innovation, premiumisation, enhancing of distribution reach, and adoption of the cluster-based distribution approach would be the key growth drivers for the company in the near to medium term. We expect revenue and PAT to clock 9% and 11% CAGR over FY25-27E, respectively.

Key Risks

- Any slowdown in demand would affect sales of key categories, resulting in moderation of sales volume growth.
- Increased competition in highly penetrated categories such as instant noodles, instant coffee, and infant cereals would act as a threat to revenue growth.
- Any significant increase in the prices of some key raw materials such as milk would affect profitability and earnings growth.

Additional Data

Key management personnel

Name	Designation
Suresh Narayanan	Chairman-Managing Director
Svetlana Boldina	Executive Director – Finance and Control and CFO
Pramod Kumar Rai	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.67
2	Vanguard Group Inc.	1.57
3	BlackRock Inc.	1.40
4	ICICI Prudential AMC Ltd.	0.89
5	SBI Funds Management Co Ltd.	0.84
6	UTI Asset Management Co Ltd.	0.64
7	Norges Bank	0.40
8	Credit Agricole Group	0.23
9	Franklin Resources Inc.	0.22
10	Goldman Sachs Group Inc.	0.22

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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