Nestlé India | REDUCE

Executing well; punchy valuations

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Nestlé India's 3QFY26 earnings print was ahead of our expectation, driven by another strong delivery in domestic revenue growth (+18.3% YoY, led by healthy double-digit volume growth), which is best-in-class among F&B players that have reported so far. Key positives were – a) strong double-digit growth in Prepared Dishes, Beverages, Chocolates and Confectionery and b) Milk Products and Nutrition clocking mid-single-digit growth (vs. muted performance in FY25/1HFY26). Management attributed the acceleration in sales growth to improved demand following GST rate rationalisation, capacity expansion and strong investment behind brands (A&P spends were up 42% YoY). The commodity outlook remains mixed– milk prices haven't seen moderation, edible oil is likely to remain stable albeit at elevated levels, while coffee prices have stabilised at lower levels. We have raised our sales estimates by c.3-4%; however, factoring higher A&P and depreciation, our EPS increase is c.1-2% over FY26-28E. Nestlé's execution has been best-in-class over the past few quarters and sales momentum is likely to continue in near term (soft base for next 2 quarters), the same is built in our forecasts (c.15% EPS CAGR over FY26-28E) and is adequately captured in valuations (70x/61x FY27/28E). Hence, we maintain Reduce rating with revised TP of INR 1,305 (INR 1,250 earlier, 60x FY28E).

- **Robust volume-led revenue performance surprises positively:** Nestlé's total sales grew 18.5% YoY to INR 56.4bn (8% above estimate), led by strong volume growth (we estimate low double digit to mid-teens volume growth (near 5-year high), much better vs. our expectation of mid-single digit. Growth was driven by capacity expansion, brand building and market recovery post GST benefits. Domestic sales grew by 18.3% YoY while exports outperformed and delivered 22.9% growth YoY, led by coffee.
- **Milk & Nutrition sees recovery with mid-single digit growth, all other segment see strong double digit growth: 1) Prepared Dishes and Cooking Aids** reported double-digit sales growth, driven by volume acceleration. MAGGI noodles delivered strong double-digit volume growth, supported by higher urban consumption (thematic campaigns and new launches) and deeper rural penetration (right price-pack portfolio). Pet food clocked double-digit growth. **2) Milk Products and Nutrition** saw improving trends, with mid-single-digit growth. MILKMAID posted strong growth and EVERYDAY shows signs of recovery in key markets. Toddler milk product did well and reported market share gains. **3) Confectionery** sustains volume-led double-digit growth across KITKAT, MUNCH and MILKYBAR, supported by significant advertising spends, wider presence and availability, distribution expansion in rural, premiumisation, and higher in-home penetration led by quick commerce. **4) Beverages** saw strong double-digit sell-out growth led by NESCAFÉ portfolio; NESCAFÉ ready-to-drink cold coffee saw strong growth. **5) Out-of-home business** continues double-digit momentum.
- **Gross margin tad better than estimate while higher brand investments drag EBITDA margin:** Gross profit grew 17% YoY to INR 31.3bn, though margin contracted 68bps YoY to 55.5% (JMFe: 54.8%), due to elevated input costs (milk, edible oil etc.). Staff costs and other expenses were up c.19% and c.24% YoY (including A&P, up 42% YoY) respectively, restricting EBITDA growth to 9% YoY with margin compression of 186bps to 21.3% (JMFe: 22.2%). Adjusted PAT grew sharply (+27% YoY), driven by higher other income (2.6x vs. base) and lower taxes (-34% YoY). Within RM basket, milk prices are higher, despite flush season and edible oil is likely to remain at elevated levels and trade sideways in the near-term; wheat harvest looks promising and coffee prices have stabilised due to good crop in Vietnam and India.

Recommendation and Price Target	
Current Reco.	REDUCE
Previous Reco.	REDUCE
Current Price Target (12M)	1,305
Upside/(Downside)	-2.1%
Previous Price Target	1,250
Change	4.4%

Key Data – NEST IN	
Current Market Price	INR1,332
Market cap (bn)	INR2,569.3/US$27.9
Free Float	31%
Shares in issue (mn)	1,928.4
Diluted share (mn)	1,928.4
3-mon avg daily val (mn)	INR1,234.7/US$13.4
52-week range	1,340/1,055
Sensex/Nifty	82,270/25,321
INR/US$	92.0

Price Performance

%	1M	6M	12M
Absolute	4.6	19.4	20.2
Relative*	7.6	18.3	12.1

** To the BSE Sensex*

Financial Summary (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,42,755	2,00,775	2,26,145	2,48,495	2,71,238
Sales Growth (%)	44.6	-17.3	12.6	9.9	9.2
EBITDA	58,498	47,737	50,490	57,443	64,524
EBITDA Margin (%)	24.0	23.6	22.2	23.0	23.7
Adjusted Net Profit	39,296	30,978	31,615	36,745	41,956
Diluted EPS (INR)	20.4	16.1	16.4	19.1	21.8
Diluted EPS Growth (%)	64.4	-21.2	2.1	16.2	14.2
ROIC (%)	1,291.7	152.1	116.0	157.5	210.9
ROE (%)	135.5	83.1	72.5	76.7	82.6
P/E (x)	65.4	82.9	81.2	69.9	61.2
P/B (x)	76.9	62.4	55.7	51.6	49.5
EV/EBITDA (x)	43.8	53.9	50.8	44.5	39.5
Dividend Yield (%)	1.2	1.0	1.1	1.3	1.6

Source: Company data, JM Financial. Note: Valuations as of 30/Jan/2026

Exhibit 1. 3QFY26 result snapshot (parent): Strong volume-led revenue performance; higher A&P spends drives restricts EBITDA growth

INR mn	3QFY26	3QFY25	YoY change	3QFY26E	% variance	9MFY26	9MFY25	YoY change
Net Sales	**56,435**	**47,621**	**18.5%**	**52,413**	**7.7%**	**163,477**	**146,299**	**11.7%**
Other Operating Income	235	176	34%	180	30.7%	591	678	-12.9%
Total Revenue	56,670	47,797	19%	52,593	7.8%	164,068	146,977	11.6%
Gross Profit	**31,347**	**26,775**	**17%**	**28,722**	**9.1%**	**89,754**	**82,925**	**8.2%**
Gross Profit Margin %	55.5%	56.2%	-68 bps	54.8%	74 bps	54.9%	56.7%	-178 bps
Staff Cost	5,910	4,947	19.47%	5,241	12.8%	16,434	15,017	9.4%
Other Expenses	13,652	10,978	24.36%	12,025	13.5%	38,521	34,738	10.9%
EBITDA	**12,021**	**11,027**	**9.0%**	**11,636**	**3.3%**	**35,390**	**33,848**	**4.6%**
EBITDA margin %	21.3%	23.2%	-186 bps	22.2%	-90 bps	21.6%	23.1%	-149 bps
Depreciation	1,744	1,503	16.1%	1,782	-2.1%	4,947	3,846	28.6%
EBIT	10,277	9,524	7.9%	9,854	4.3%	30,443	30,002	1.5%
Interest Expense	283	346	-18.4%	450	-37.2%	1,216	985	23.4%
Financial Other Income	117	44	163.7%	50	134.2%	174	504	-65.5%
PBT (before exceptional)	**10,111**	**9,223**	**9.6%**	**9,454**	**6.9%**	**29,401**	**29,521**	**-0.4%**
PBT (after exceptional)	11,681	9,223	26.7%	9,454	23.5%	30,971	32,429	**-4.5%**
Taxes	1,500	2,261	-33.7%	2,316	-35.2%	6,666	8,138	-18.1%
Reported Net Profit	**10,181**	**6,961**	**46.2%**	**7,138**	**42.6%**	**24,305**	**24,291**	**0.1%**
Adjusted Net Profit	**8,813**	**6,961**	**26.6%**	**7,138**	**23.5%**	**22,937**	**22,104**	**3.8%**

Source: Company, JM Financial

Exhibit 2. Quarterly performance – standalone basis

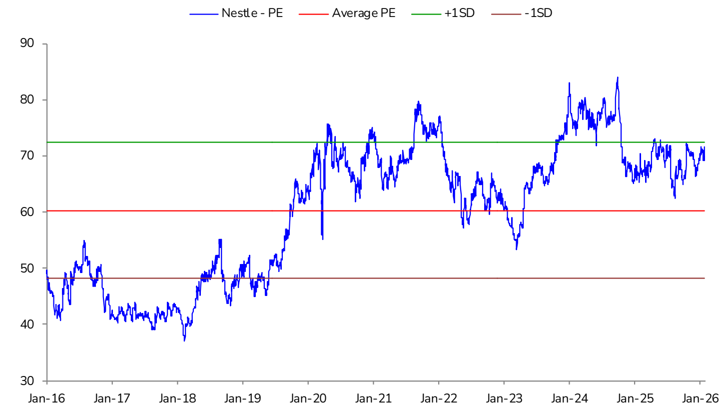
INR mn	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26
Sales	**45,836**	**52,544**	**47,930**	**50,748**	**47,621**	**54,476**	**50,740**	**56,302**	**56,435**
YoY	8%	9%	4%	1%	4%	4%	6%	11%	19%
Other operating income	**168**	**132**	**210**	**292**	**176**	**562**	**222**	**134**	**235**
Revenue from operations	**46,004**	**52,676**	**48,140**	**51,040**	**47,797**	**55,039**	**50,962**	**56,436**	**56,670**
YoY	8%	9%	3%	1%	4%	4%	6%	11%	19%
Gross Profit	26,959	29,917	27,751	28,901	26,951	30,914	28,107	30,656	31,582
Staff cost	4,201	4,869	5,054	5,017	4,947	5,220	5,157	5,367	5,910
Other expenses	11,663	11,548	11,554	12,207	10,978	11,805	11,948	12,922	13,652
EBITDA	**11,095**	**13,501**	**11,143**	**11,677**	**11,027**	**13,890**	**11,003**	**12,366**	**12,021**
YoY	12%	22%	6%	-5%	-1%	3%	-1%	6%	9%
Depreciation	1,231	1,101	1,127	1,216	1,503	1,553	1,569	1,634	1,744
Interest	230	262	317	322	346	375	469	464	283
Other income	303	268	391	69	44	84	40	16	117
PBT before exceptional items	**9,938**	**12,405**	**10,091**	**10,208**	**9,223**	**12,046**	**9,005**	**10,285**	**10,111**
YoY	16%	25%	7%	-9%	-7%	-3%	-11%	1%	10%
Exceptional income / (expense)	-1,073	101	0	2,908	0	0	0	0	1,570
PBT after exceptional items	8,865	12,506	10,091	13,116	9,223	12,046	9,005	10,285	11,681
Tax	2,309	3,164	2,625	3,252	2,261	3,192	2,412	2,753	1,500
Reported PAT	**6,556**	**9,342**	**7,466**	**9,864**	**6,961**	**8,854**	**6,592**	**7,532**	**10,181**
YoY	4%	27%	7%	9%	6%	-5%	-12%	-24%	46%
Adjusted PAT	**7,350**	**9,266**	**7,466**	**7,677**	**6,961**	**8,854**	**6,592**	**7,532**	**8,813**
% to sales	**3QFY24**	**4QFY24**	**1QFY25**	**2QFY25**	**3QFY25**	**4QFY25**	**1QFY26**	**2QFY26**	**3QFY26**
Gross margin	58.4%	56.7%	57.5%	56.4%	56.2%	55.7%	55.0%	54.2%	55.0%
Staff cost	9.2%	9.3%	10.5%	9.9%	10.4%	9.6%	10.2%	9.5%	10.5%
Other expenses	25.4%	22.0%	24.1%	24.1%	23.1%	21.7%	23.5%	23.0%	24.2%
EBITDA margin	24.2%	25.7%	23.2%	23.0%	23.2%	25.5%	21.7%	22.0%	21.3%

Source: Company, JM Financial

Exhibit 3. Nestlé's 5yr avg. PE Band

Source: Bloomberg, Company, JM Financial

Exhibit 4. Nestlé's 10yr avg. PE Band



Source: Bloomberg, Company, JM Financial

Exhibit 5. Revision in estimates

INR mn	Revised			Earlier			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Sales	226,145	248,495	271,238	218,461	238,211	259,935	3.5%	4.3%	4.3%
EBITDA	50,490	57,443	64,524	49,450	56,960	63,296	2.1%	0.8%	1.9%
PAT	32,785	36,745	41,956	30,989	36,581	41,299	5.8%	0.4%	1.6%
EPS	16.4	19.1	21.8	16.1	19.0	21.4	2.0%	0.4%	1.6%

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,42,755	2,00,775	2,26,145	2,48,495	2,71,238
Sales Growth	*44.6%*	*-17.3%*	*12.6%*	*9.9%*	*9.2%*
Other Operating Income	1,184	1,241	1,153	1,267	1,383
Total Revenue	**2,43,939**	**2,02,016**	**2,27,299**	**2,49,762**	**2,72,622**
Cost of Goods Sold/Op. Exp	1,07,086	87,498	1,01,891	1,10,984	1,19,966
Personnel Cost	23,361	20,237	22,504	24,416	26,492
Other Expenses	54,995	46,543	52,414	56,918	61,640
EBITDA	**58,498**	**47,737**	**50,490**	**57,443**	**64,524**
EBITDA Margin	*24.0%*	*23.6%*	*22.2%*	*23.0%*	*23.7%*
EBITDA Growth	*56.3%*	*-18.4%*	*5.8%*	*13.8%*	*12.3%*
Depn. & Amort.	5,678	5,399	6,754	7,171	7,484
EBIT	52,820	42,338	43,737	50,272	57,040
Other Income	1,480	589	258	449	818
Finance Cost	1,455	1,360	1,558	1,398	1,541
PBT before Excep. & Forex	52,845	41,567	42,437	49,322	56,316
Excep. & Forex Inc./Loss(-)	44	2,908	1,570	0	0
PBT	52,889	44,475	44,006	49,322	56,316
Taxes	13,560	11,330	11,222	12,577	14,361
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	39,328	33,145	32,785	36,745	41,956
Adjusted Net Profit	**39,296**	**30,978**	**31,615**	**36,745**	**41,956**
Net Margin	*16.1%*	*15.3%*	*13.9%*	*14.7%*	*15.4%*
Diluted Share Cap. (mn)	1,928.4	1,928.4	1,928.4	1,928.4	1,928.4
Diluted EPS (INR)	**20.4**	**16.1**	**16.4**	**19.1**	**21.8**
Diluted EPS Growth	*64.4%*	*-21.2%*	*2.1%*	*16.2%*	*14.2%*
Total Dividend + Tax	31,046	26,032	27,867	33,071	39,858
Dividend Per Share (INR)	16.1	13.5	14.5	17.1	20.7

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	33,409	41,172	46,089	49,764	51,861
Share Capital	964	964	964	964	964
Reserves & Surplus	32,445	40,207	45,125	48,799	50,897
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	311	7,533	714	0	0
Def. Tax Liab. / Assets (-)	120	536	536	536	536
Total - Equity & Liab.	**33,841**	**49,241**	**47,339**	**50,300**	**52,397**
Net Fixed Assets	48,886	62,327	61,443	59,583	57,424
Gross Fixed Assets	57,142	79,949	87,949	92,949	97,949
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	26,585	30,692	37,217	44,148	51,381
Capital WIP	18,329	13,070	10,712	10,782	10,856
Investments	15,173	17,032	17,032	17,032	17,032
Current Assets	38,038	39,746	45,845	56,291	66,393
Inventories	20,894	28,501	30,359	33,360	36,413
Sundry Debtors	3,005	3,632	3,717	4,085	4,459
Cash & Bank Balances	7,789	957	4,294	10,658	16,611
Loans & Advances	6,352	6,656	7,475	8,188	8,911
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	68,256	69,863	76,981	82,605	88,452
Current Liabilities	36,086	36,086	41,356	44,984	48,675
Provisions & Others	32,170	33,777	35,625	37,621	39,777
Net Current Assets	-30,218	-30,118	-31,136	-26,315	-22,059
Total – Assets	**33,841**	**49,241**	**47,339**	**50,300**	**52,397**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	52,845	41,567	42,437	49,322	56,316
Depn. & Amort.	5,678	5,399	6,525	6,931	7,233
Net Interest Exp. / Inc. (-)	0	0	1,300	950	723
Inc (-) / Dec in WCap.	-2,489	-7,112	4,356	1,543	1,697
Others	-1,298	-247	0	0	0
Taxes Paid	-12,988	-10,244	-11,222	-12,577	-14,361
Operating Cash Flow	**41,748**	**29,364**	**43,396**	**46,169**	**51,609**
Capex	-18,783	-20,044	-5,574	-5,000	-5,000
Free Cash Flow	*22,965*	*9,320*	*37,822*	*41,169*	*46,609*
Inc (-) / Dec in Investments	4,736	-1,491	0	0	0
Others	1,673	3,426	190	378	744
Investing Cash Flow	**-12,374**	**-18,109**	**-5,384**	**-4,622**	**-4,256**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-30,082	-24,586	-27,867	-33,071	-39,858
Inc / Dec (-) in Loans	-8	7,204	-6,819	-714	0
Others	-1,260	-1,099	-1,558	-1,398	-1,541
Financing Cash Flow	**-31,349**	**-18,481**	**-36,244**	**-35,183**	**-41,399**
Inc / Dec (-) in Cash	**-1,976**	**-7,227**	**1,768**	**6,364**	**5,953**
Opening Cash Balance	11,629	8,188	957	4,294	10,658
Closing Cash Balance	9,853	1,156	2,725	10,658	16,611

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	16.1%	15.3%	13.9%	14.7%	15.4%
Asset Turnover (x)	2.6	1.8	1.9	1.9	2.0
Leverage Factor (x)	3.3	3.0	2.8	2.7	2.7
RoE	135.5%	83.1%	72.5%	76.7%	82.6%

Key Ratios

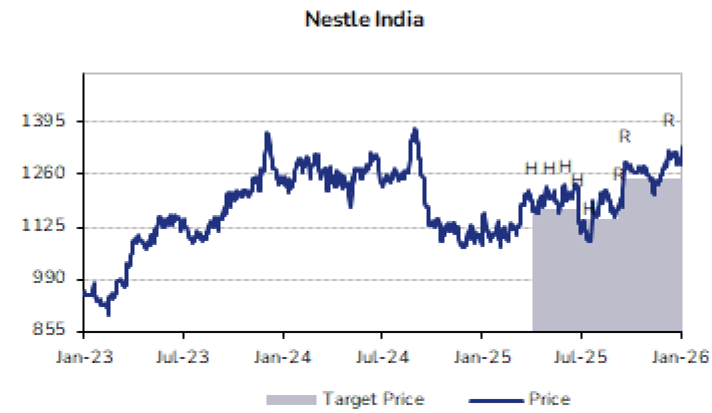
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	17.3	21.4	23.9	25.8	26.9
ROIC	1,291.7%	152.1%	116.0%	157.5%	210.9%
ROE	135.5%	83.1%	72.5%	76.7%	82.6%
Net Debt/Equity (x)	-0.2	0.2	-0.1	-0.2	-0.3
P/E (x)	65.4	82.9	81.2	69.9	61.2
P/B (x)	76.9	62.4	55.7	51.6	49.5
EV/EBITDA (x)	43.8	53.9	50.8	44.5	39.5
EV/Sales (x)	10.5	12.7	11.3	10.2	9.4
Debtor days	4	7	6	6	6
Inventory days	31	51	49	49	49
Creditor days	71	85	85	85	85

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
1-May-25	Hold	1,170	
3-Jun-25	Hold	1,170	0.0
4-Jul-25	Hold	1,170	0.0
24-Jul-25	Hold	1,145	-2.1
17-Aug-25	Hold	1,145	0.0
8-Oct-25	Reduce	1,200	4.8
16-Oct-25	Reduce	1,250	4.2
6-Jan-26	Reduce	1,250	0.0

Recommendation History



APPENDIX I

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Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

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