

# DETERMINATION OF ARM'S LENGTH ROYALTY RATE FOR NESTLE INDIA LIMITED 2024

## EXECUTIVE SUMMARY

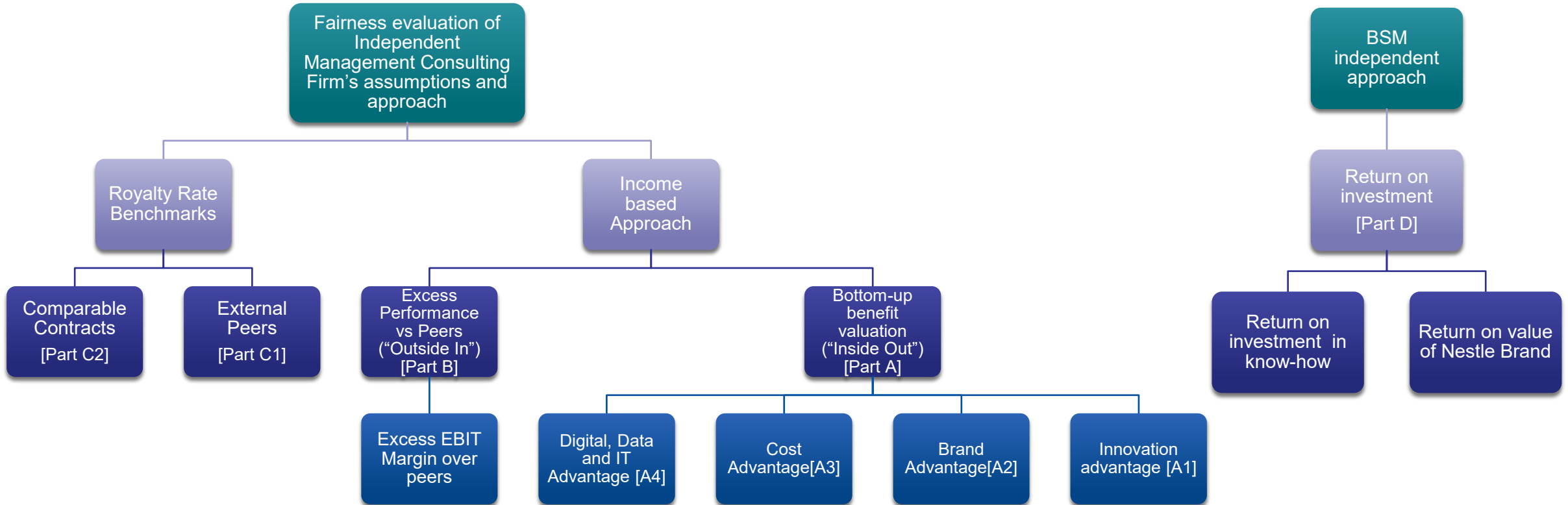
UDIN: 24102062BKEUBV3468



# TERMS OF REFERENCE

- We have been approached by Nestle India to provide our opinion on fairness of royalty rate recommended by Independent Management Consulting Firm for payment of royalty by Nestle India to SPN and independent assessment of rate of royalty payable by Nestle India to SPN (“this Assignment”).
- The report that this Executive Summary is based on was prepared solely for the purpose of this Assignment and should not be used or relied upon for any other purpose.
- This Executive Summary sets out the chief findings of our exercise.

# OVERVIEW OF THE APPROACH



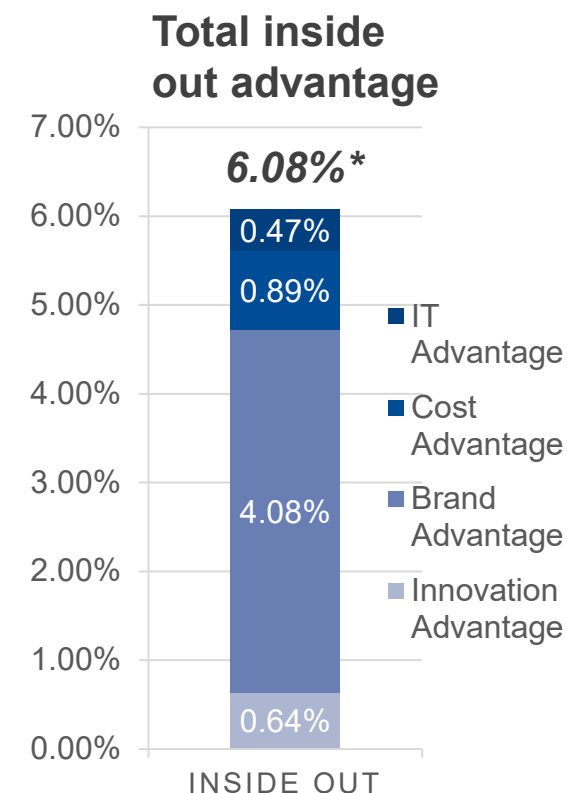
- Parts A, B and C: For the purpose of opining on the fairness on Independent Management Consulting Firm's approach, we have modified the same as considered appropriate by us and also revisited some data available in public domain. We have thereby arrived at a range under the modified approach that we consider fair.
- Part D: We have also used our own independent approach for assessing the fair range.

# INCOME APPROACH

[Based on profitability of NI]

## ■ PART A: Inside-out approach (i.e., bottom-up benefit valuation)

Innovation Advantage	Brand Advantage	Cost Advantage	IT and Digital Advantage
<ul style="list-style-type: none"> <li>This refers to the benefit flowing to the Licensee on account of innovations carried out by the Licensor.</li> <li>We have identified profit earned on the portion of innovation sales due to the effort of the Licensor.</li> <li>Advantage quantified at 0.64%.</li> </ul>	<ul style="list-style-type: none"> <li>This refers to the benefit flowing to the Licensee on account of use of Nestle Brand/s.</li> <li>We isolated the turnover that is achieved purely based on the Licensor's Brand strength.</li> <li>Weighted average advantage - 4.08%.</li> </ul>	<ul style="list-style-type: none"> <li>Total improvement in margin derived by the Licensee on account of cost saving measures implemented by the Licensor at the behest of Licensor which is computed as a function of Turnover.</li> <li>Quantified at 0.89%.</li> </ul>	<ul style="list-style-type: none"> <li>This identifies lower IT spend due to the initiative of the Licensor in IT innovation, digital platform and data which would improve the profits earned by NIL</li> <li>Advantage quantified at 0.47%.</li> </ul>



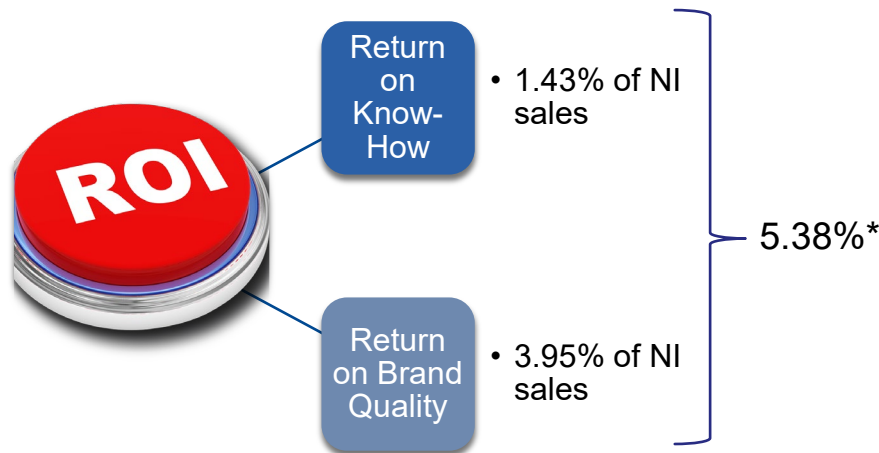
## ■ PART B: Outside-in approach (i.e., excess performance vs peers):

- Under this approach operating margin of NI was compared with the weighted average operating margin of competitors for each business segment.
- The portion of differential margin contributed by the Licensor is quantified at 6.80%\*

\*Rate net of TDS

# RETURN ON INVESTMENT APPROACH

- Under this approach, investment in R&D and the Brand Value is viewed as an asset that should be expected to generate return as in the case of a financial asset.
- Since, the investment in R&D and ownership of Brand is with the parent, this model has been framed as return on equity of NI



# EXTERNAL BENCHMARK

## Peer Comparison

- Payments by MNCs to other group entities have been considered for determination of arms' length rates.
- Average percentage of turnover paid by peers:
  - 6.44%\* based on 2022 numbers [NI at 5.13%]
  - 6.61%\* based on 2020, 2021, 2022 average [NI at 5.22%]
- It may be noted that these transactions are between related parties and may not be free from bias. Hence, this approach does not form part of our conclusion.

## Comparable Contracts

- Considered contracts in Food and Beverage & Pet Food Industry based on data shared by Independent Management Consulting Firm.
- The royalty is observed to be 5.58%\*.
- Basis available information these contracts may not be as exhaustive as the GLA. Hence, benchmarking based on Contracts approach has only been considered for reference.

\*Rate net of TDS

# CONCLUSION

Method	Rate net of TDS
Income Approach	
• Inside Out [Part A]	<b>6.08%</b>
• Outside IN [Part B]	<b>6.80%</b>
Return on Investment Approach [ Part D]	<b>5.38%</b>

*Based on the foregoing, we have arrived at the range of net royalty of 5.38% to 6.80%*

*The rates mentioned in this table would have to be grossed up for withholding taxes (at the rate of 10%) which would be borne by Nestle India.*



# GLOSSARY

Abbreviation	Definition
BSM	Bansi S. Mehta & Co.
Inside Out	Bottom-up benefit valuation
Licensee	Nestle India Ltd
Licensor	Société des Produits Nestlé S.A
MNC	Multi-national Co
Nestle India	Nestle India Ltd
SPN	Société des Produits Nestlé S.A
NI	Nestle India Ltd
Outside In	Excess Performance vs Peers
ROI	Return on Investment

# LIMITATIONS

- This Executive Summary is to be read in totality and not in parts.
- Our findings are subject to the limitations mentioned in our detailed Report.
- Our findings are based on the information furnished to us being complete and accurate in all material respect.
- We have relied on the written representations from the Management that the information that our findings are based on is materially accurate and complete in the manner of its portrayal and therefore forms a reliable basis for the assignment.
- The information presented in this Executive Summary does not reflect the outcome of any financial due diligence procedures. The reader is cautioned that the outcome of that process could change the information herein and, therefore, the valuation materially.
- Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to us. We have, therefore, not performed any audit, review or examination of any of the historical or prospective information used and therefore, we do not express any opinion with regard to the same.
- Due to lack of availability of data, we have not considered actual 9 months ended December 2023 figures of Licensee in our analysis.
- In the course of this assignment, we were provided with both written and verbal information, including market, financial and operating data. In accordance with the terms of our engagement, we have carried out relevant analysis and evaluations through discussions, calculations and such other means, as may be applicable and available, we have assumed and relied upon, without independently verifying (i) the accuracy of the information that was publicly available, sourced from subscribed databases and formed a substantial basis for our findings and (ii) the accuracy of information made available to us by NI. In accordance with the terms of our engagement / appointment and in accordance with the customary approach adopted in these exercises, we have not audited, reviewed, certified, carried out a due diligence, or otherwise investigated the historical financials / financial information or individual assets or liabilities, provided to us. Also, with respect to explanations and information sought from NI, we have been given to understand that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusion is based on the assumptions and information given by / on behalf of the Companies. The Management has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis / results.





THANK YOU

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