

# Nestlé India Limited

## 25<sup>th</sup> Financial Analysts' Meet



Gurgaon 20<sup>th</sup> November 2015

# Disclaimers

1. *This presentation may contain statements which reflect Management's current views and estimates and could be construed as forward looking statements. The future involves uncertainties and risks that could cause actual results to differ materially from the current views being expressed. Potential uncertainties and risks include factors such as general economic conditions, commodities and currency fluctuations, competitive product and pricing pressures, industrial relations and regulatory developments.*
2. *Real Internal Growth (RIG) and Organic Growth (OG) are basis Nestlé Internal Reporting Standards.*
3. *Figures are regrouped / reclassified to make them comparable to current period.*
4. *Calculations are based on non-rounded figures.*
5. *'Analytical data' are best estimates to facilitate understanding of business and NOT meant to reconcile reported figures.*
6. *Answers may be given to non-price sensitive questions.*

# Agenda

- Setting the Context & Strategic Overview Suresh Narayanan
- MAGGI Noodles Issue Sanjay Khajuria
- Key Financials Shobinder Duggal
- Questions & Answers

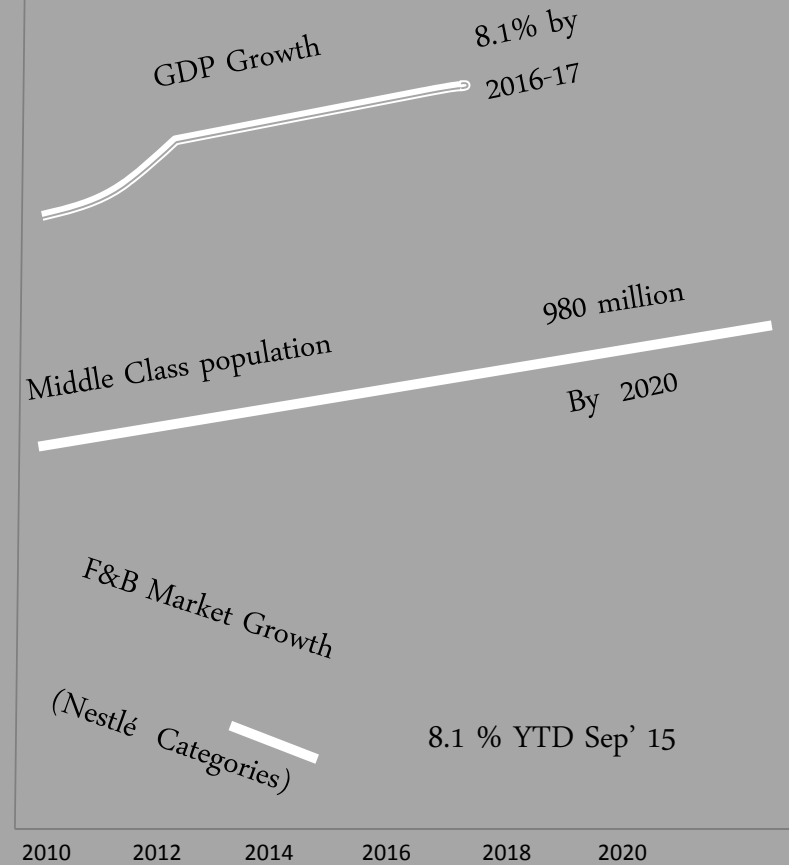
# Getting Stronger after the Storm !

## Financial Analysts' Meet

Nestlé House

20.11.2015

# The Macro Picture





# Setting the Stage



## URBANISATION

- Driving consumption across pyramid
- Metro towns (>10L) growth >50%
- Mega metros (>40L) becoming heterogeneous
- Villages transforming-Rural spends up



## LITERACY

- Literacy co-relates with income
- Literacy and consumption +vely related
- Improved literacy → Improved standard of living



## RISING WOMEN

- Financially enabled women consume differently
- Working women increasing
- Changing attitudes of women increasing consumption



## TECHNOLOGY SURGE

- Surge in internet and mobile penetration
- Brands/products under scrutiny
- Growing E-commerce makes markets and consumers more accessible



## HEALTH

- Double burden on the prowl
- Deficiency diseases
- Lifestyle diseases
- Proactive health



## NOMADIC CONSUMER

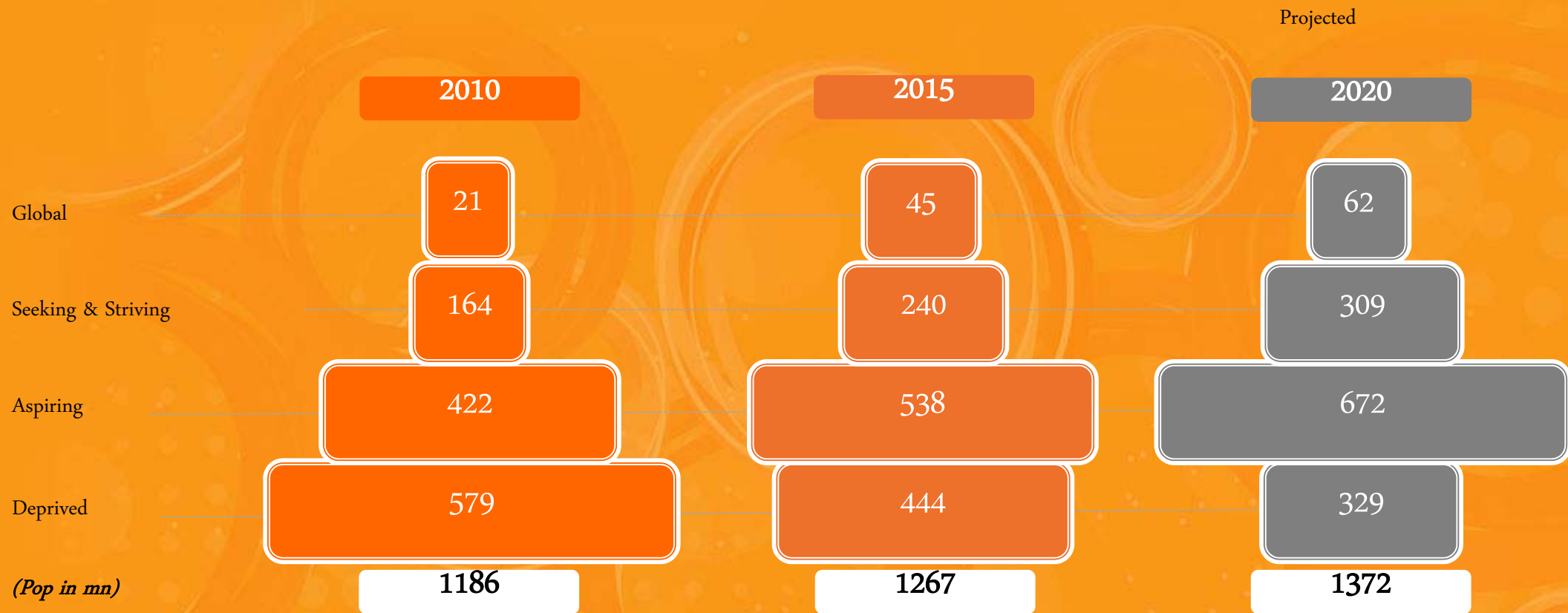
- Shorter shelf life for products, brands, relationships
- No. of brands increasing
- Greater social acceptance for switching



## TRADING UP & DOWN

- Consumers trade down on inflation halo
- Indians have tendency to trade up

# Size of the Prize



Source : Mckinsey; CI Team analysis

# Consumer Attitudes Change

## MULTIPLE DEMAND MOMENTS

- Increased need for variety
- Nutrition/indulgence boundaries blurring
- 'Not guilty' food options
- Instant 'feel good' foods

## FREE TO BE ME

- Increasing technology connects each family member to market place
- Increasing technology facilitating choice
- Segmentation on the rise

## VALOURISING VALUE

- Inflation halo- not feeling poor, but stretched
- Searching for low cost, but higher value

## CITIES WITHIN A CITY

- Straddling many worlds in parallel
- Sub-cities with purchase/consumption patterns
- Distribution of premium products/opportunity for PPP

## SHOPPING 24X7

- Accessibility
- Online shopping
- Home delivery



# Getting Stronger....

## 10 Must Win Battles

# Bring Back 'Double Digit' Growth



Bring Nestlé India  
back to stability



# Learn to manage Volatility and Adversity

- Fast
- Focused
- Flexible





# Revamp to be Fast, Focused, Flexible

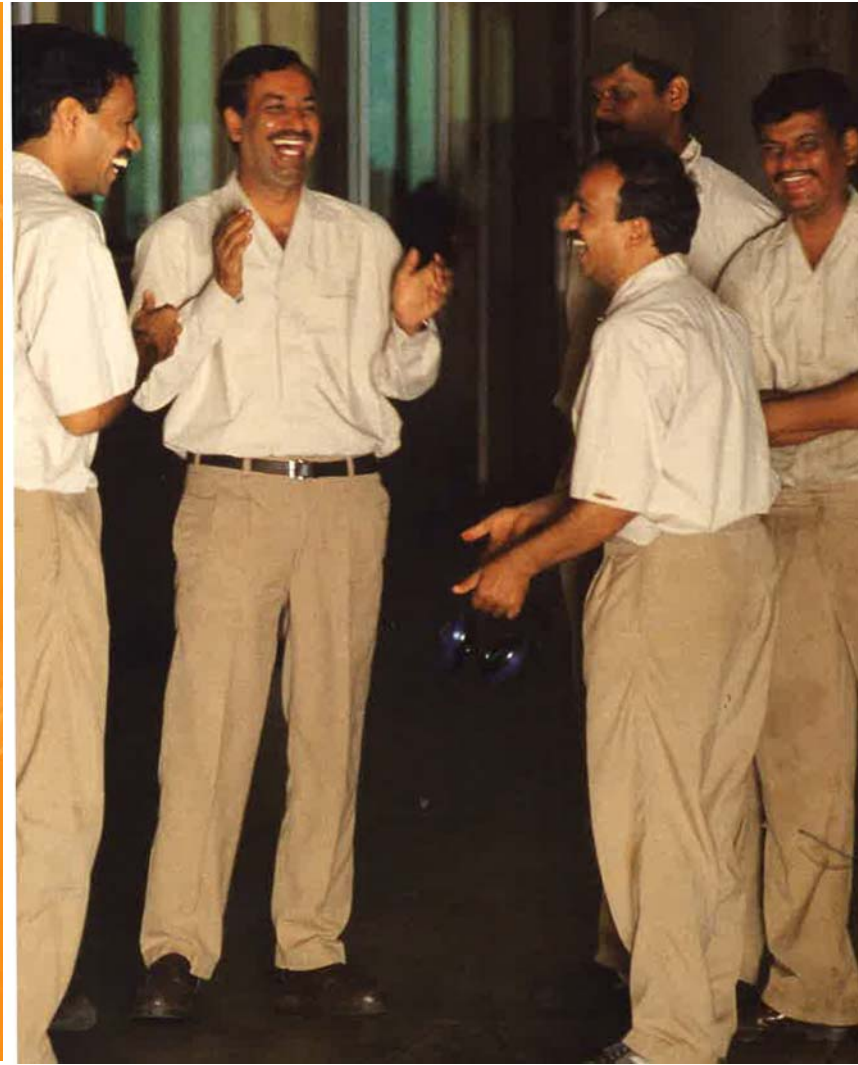
- Commercial Structures
- Environment Response Mechanisms



# OUR PEOPLE:

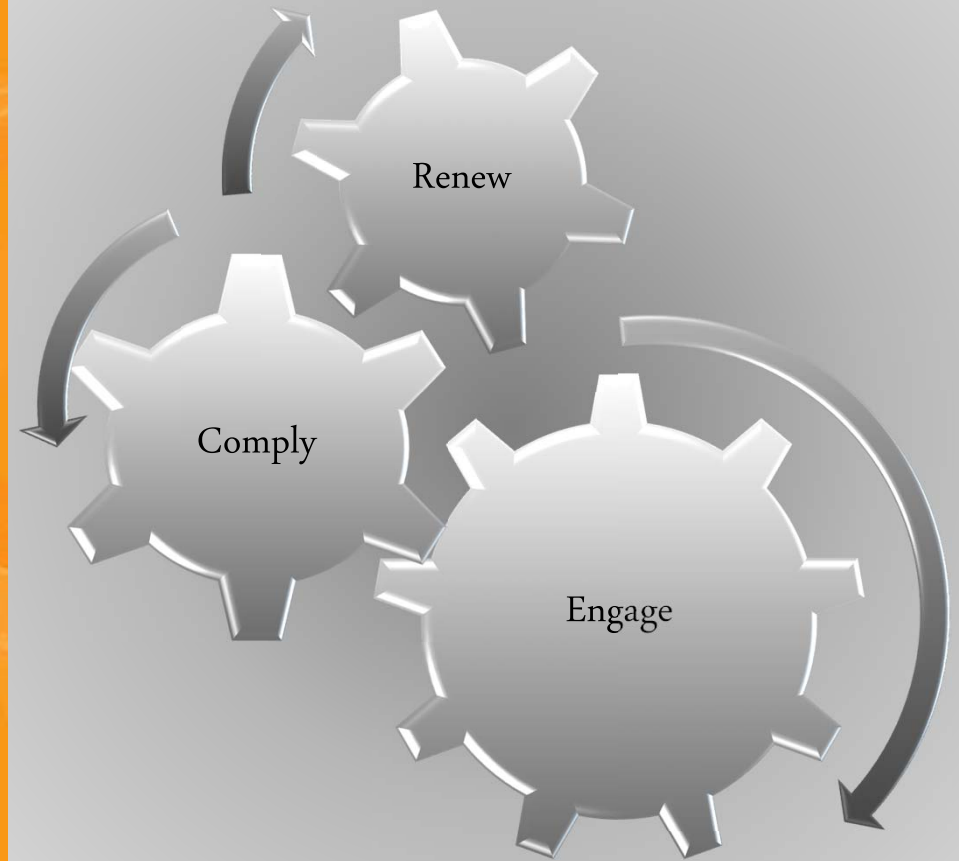
## Enable, Empower, Engage and Energise

- Fit for Battle
- Accountability with responsibility





# Zero Tolerance for Non Compliance



Nurture Key Partners back to  
health & trigger Positive  
Relationships



# Key Priorities

- Consumer Services Engagement
- Digital Media Engagement
- Media Responsiveness
- Friendly Face of Nestlé





Teamwork  
Teamwork  
Teamwork

Breaking  
Silos and lethargic responses



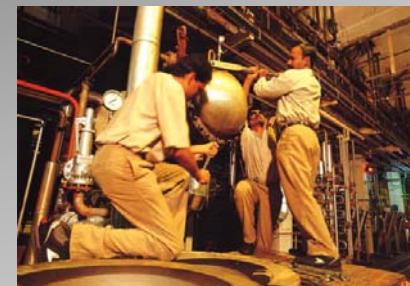
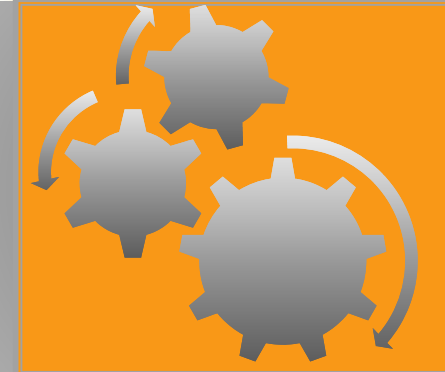
Proud to be Nestlé



What to expect



- Greater Innovation
- Moving beyond the crisis
- Greater engagement
- Commitment to CSV
- Greater Talent and People capabilities





# MAGGI NOODLES UPDATE

Financial Analysts' Meet  
20 November 2015

Nestlé House, Gurgaon

# Background

2014

- At Barabanki, Uttar Pradesh, one sample of MAGGI Noodles taken for analysis in March 2014 and declared misbranded on account of 'No added MSG' declaration
- On appeal, one sample sent to referral laboratory at Kolkata. It found:
  - a) Lead higher than permissible limit
  - b) MSG and therefore misbranded due to 'No added MSG' declaration



# Monosodium Glutamate

What is Monosodium Glutamate?

- Known as the fifth taste – Umami
- Protein rich foods like cheese, milk, ground nut, tomatoes, etc. contain glutamate naturally
- MAGGI Noodles has hydrolysed groundnut protein, onion powder and wheat flour, etc. which contain ‘glutamate’ naturally, so will test +ve

Regulatory provision:

“Every advertisement for and/ or a package of food containing added Monosodium Glutamate shall carry the following declaration, namely –

[This package of ..... (Name of the food) contains added MONOSODIUM GLUTAMATE] NOT RECCOMENDED FOR INFANTS BELOW 12 MONTHS”



# Lead

- Lead occurs in the earth's crust and is present in air, soil and dust
- Safety Limits are therefore fixed by regulators; in this case 2.5 “parts per million”
- We regularly monitors levels of lead in raw materials, water, packaging materials
- All suppliers are audited by us
- Our tests have shown lead to be much below permissible limits
- The High Court mandated 3 independent NABL accredited, FSSAI notified laboratories gave the same findings



## At Nestlé Quality = Trust

- 300 personnel work in India in the area of food safety
- 11 Internal and External laboratories
- NQAC laboratory at Moga factory has NABL accreditation and the capability to test heavy metals, antibiotics and other contaminants
- Moga NQAC is capable of testing “Parts Per Billion”, whereas regulatory limits are only in “Parts Per Million”
- 100 million analyses are carried out every year globally



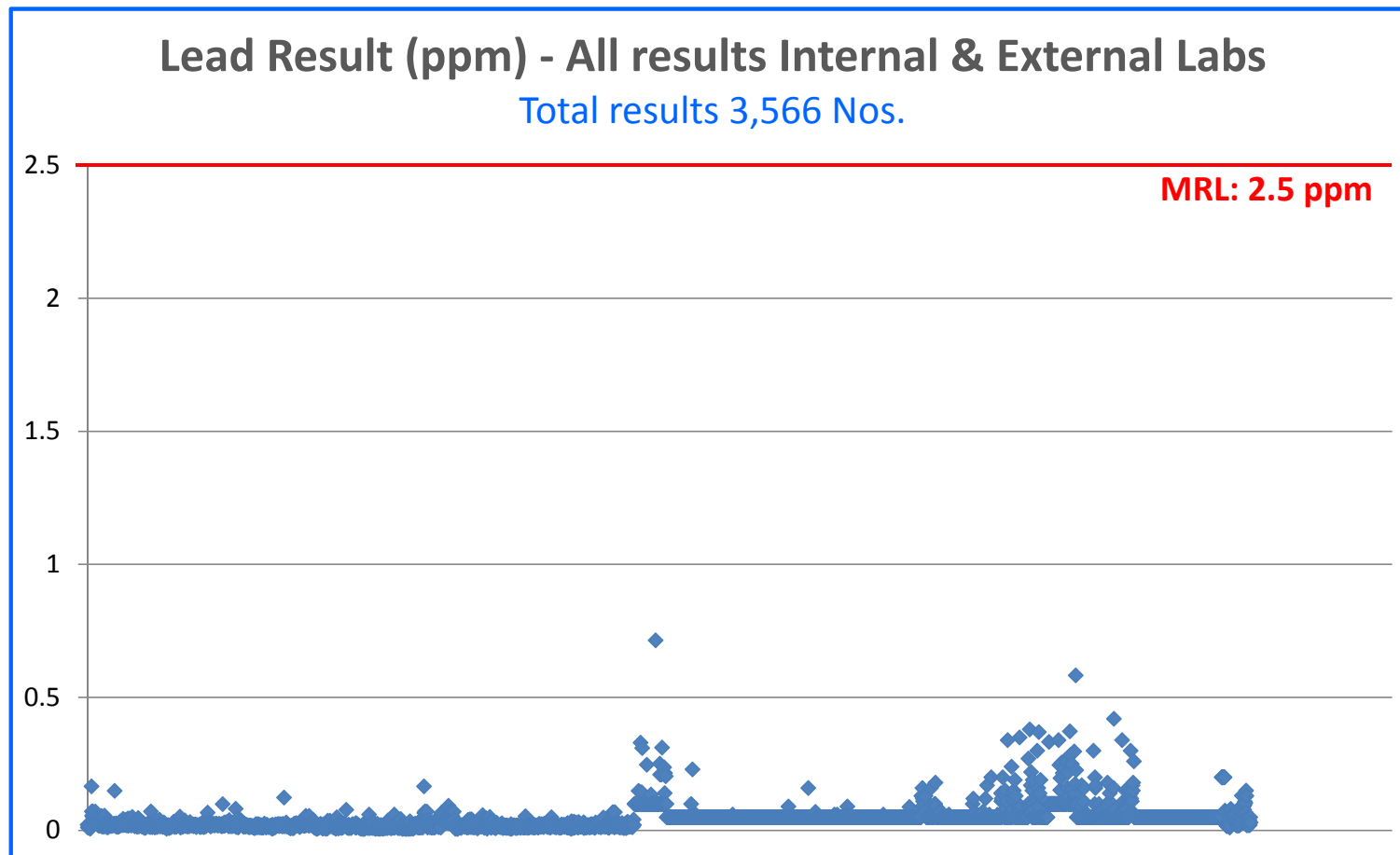


## At Nestlé Quality = Trust

- 3,500 tests done in recent times at accredited labs (internal and external) have shown clear results
- 8 Countries including USA, UK, Singapore, Australia, etc. found MAGGI Noodles exported from India – “Safe for Consumption”
- 3 accredited labs mandated by Hon’ble Bombay High Court have cleared 100% samples (both existing and newly manufactured batches)



# Test Results



## How it started

- At Barabanki, Uttar Pradesh, one sample of MAGGI Noodles taken for analysis in March 2014 and declared misbranded on account of 'No added MSG' declaration
- On appeal, one sample sent to referral laboratory at Kolkata. It found:
  - a) Lead higher than permissible limit
  - b) MSG and therefore misbranded due to 'No added MSG' declaration



## Background

- We were compliant and confident and in direct dialogues with stakeholders
- Press Release - 5th June 2015 12:30 AM

**“MAGGI Noodles are completely safe and have been trusted in India for over 30 years.**

**The trust of our consumers and the safety of our products is our first priority. Unfortunately, recent developments and unfounded concerns about the product have led to an environment of confusion for the consumer, to such an extent that we have decided to withdraw the product off the shelves, despite the product being safe.**

**We promise that the trusted MAGGI Noodles will be back in the market as soon as the current situation is clarified.”**

- Withdrawal process initiated.
- Around noon on 5<sup>th</sup> June, FSSAI ordered the ban on manufacture and sale.



# FSSAI Order

- Salient features
  - Withdraw and recall 9 approved variants being hazardous and unsafe
  - Stop further production, processing, export, distribution and sale
  - Rectification of label (Re. “No added MSG”)
  - Withdraw MAGGI Oats Masala Noodles – No Product Approval



## Proceedings before Hon'ble Bombay High Court

- 11<sup>th</sup> June – Petition filed in the High Court
- 13<sup>th</sup> August - Bombay Court set aside the ban
- Salient Features:
  - Principles of Natural Justice not followed
  - Labs conducting tests were not accredited
  - 'No Added MSG' declaration – No ground for ban
  - Refile application for MAGGI Oats Noodles





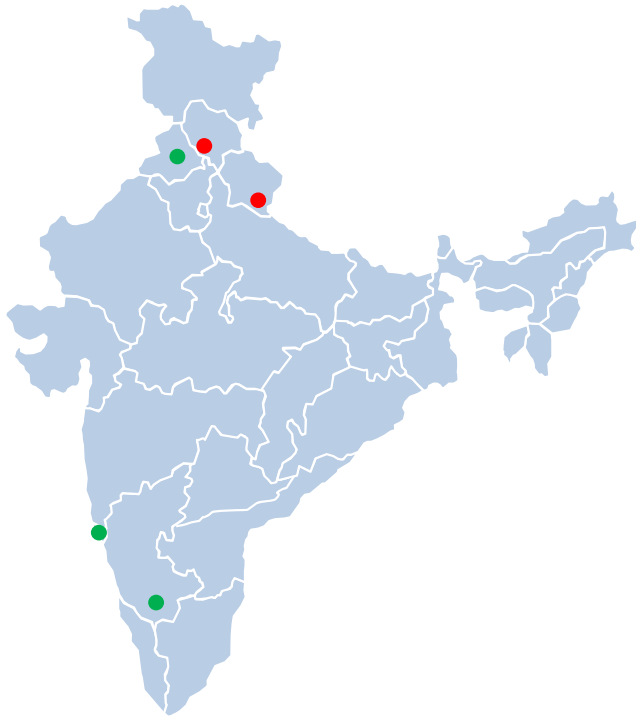
## Hon'ble Bombay High Court directed the way forward

- Out of already manufactured stock, samples to be sent to the 3 accredited laboratories mandated by the High Court (samples taken and sent under FDA Officer's Directions – 100% clear)
- Manufacturing to start, if all samples clear
- Samples from new manufacture to be tested again (100% clear)
- Sales can then Start (Started on 9<sup>th</sup> November)

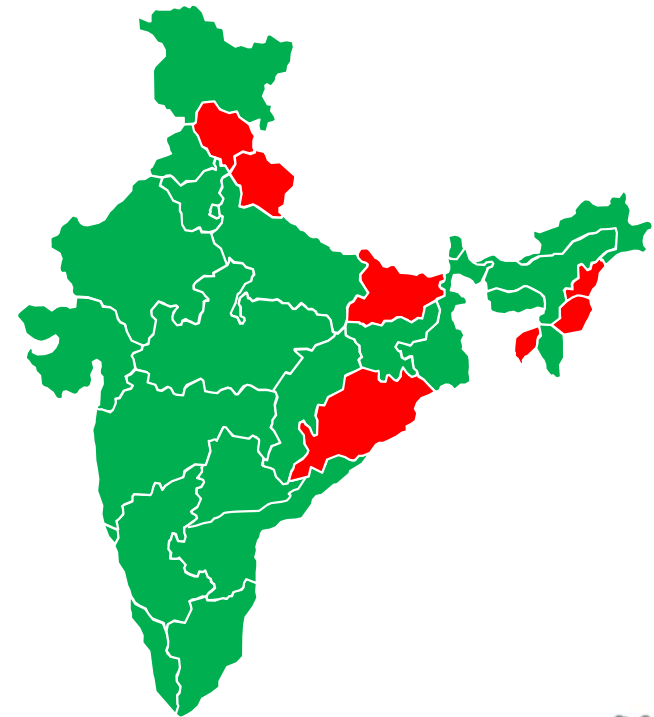


# Present Situation

Manufacturing



Sales



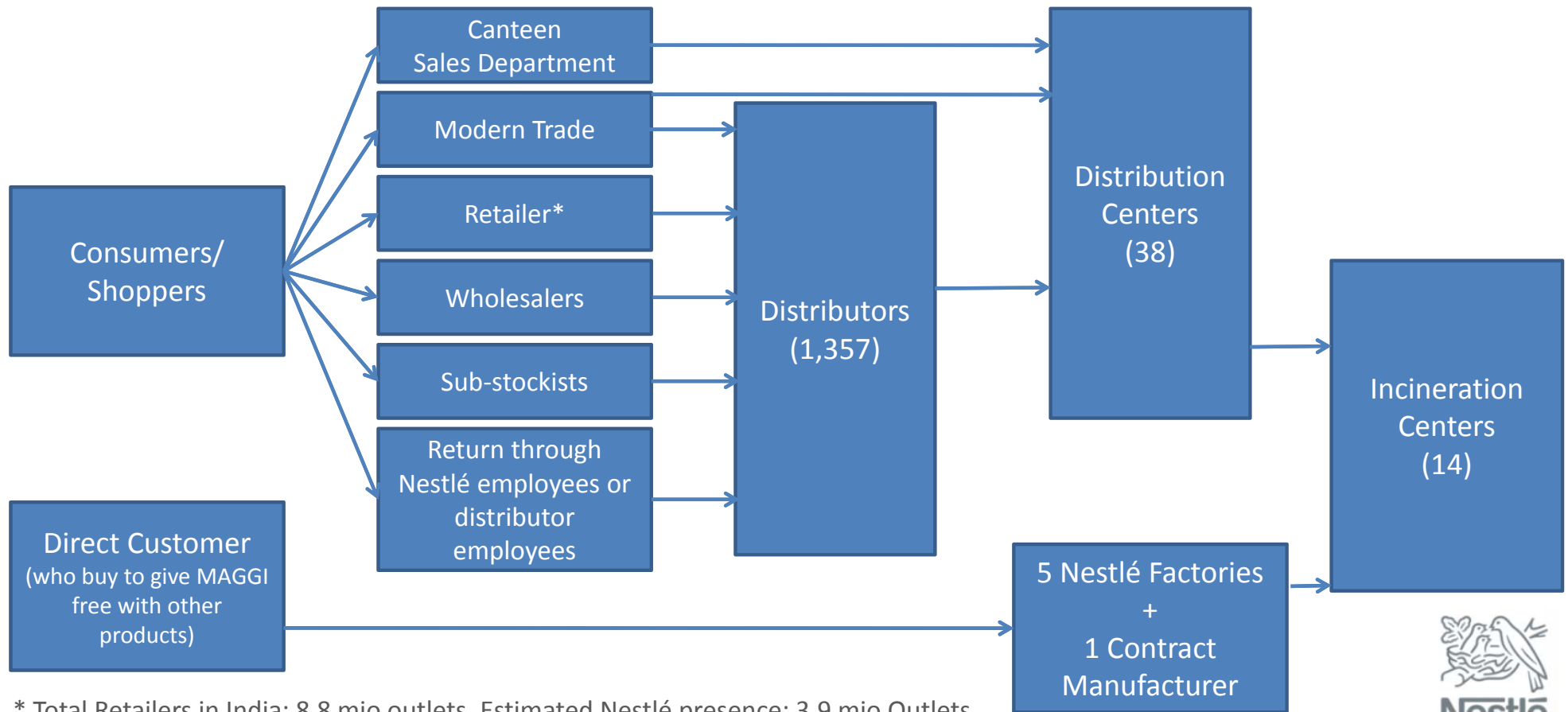
We have learnt that Special leave petition against Bombay High Court has been preferred. Notice not yet served.

## Efficient and Transparent Withdrawal

- Biggest withdrawal – handled professionally, transparently and efficiently
- Immediate stoppage of Manufacturing, Blocked Stocks at Depots and Order processing, Customers' stocks also blocked
- Regular updates to FSSAI
- Dedicated toll free number and customer care centre established
- Recall information ads in leading mainline and regional newspapers
- Picked up MAGGI directly from > 10,000 households



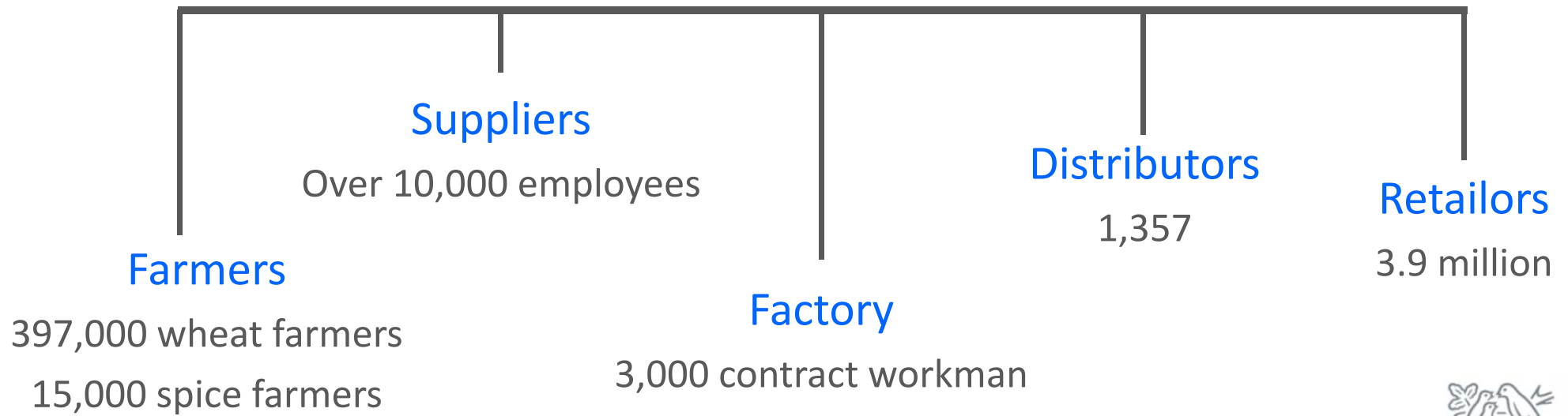
# Reverse Logistics in the Withdrawal Process



\* Total Retailers in India: 8.8 mio outlets, Estimated Nestlé presence: 3.9 mio Outlets

# Social Impact

- Across the Value Chain





## NCDRC

- The Consumer Affairs Ministry filed a complaint before NCDRC seeking Rs. 640 Crores
- Main allegations similar to the ones decided by Hon'ble Bombay High Court
- NCDRC has sent 13 samples to CFTRI, Mysore for testing the level of Lead and MSG.



## Re-launch 9<sup>th</sup> November – Present Status



33,000,000  
Packs sold



350  
Towns reached



724  
Distributors invoiced



120,000  
Outlets covered



## Re-launch 9<sup>th</sup> November – Present Status



## Re-launch 9<sup>th</sup> November – Present Status



20 November 2015

Financial Analysts' Meet 2015



20



# Financial impact of MAGGI Noodles Issue (Jan-Sep'15)

INR Mio

- Net Sales reversal (23,649 Tons) 3,037
- Exceptional Cost 4,762
- Stock of MAGGI Noodles obsolete/ destroyed (34,663 Tons) 2,435



# Exceptional Cost

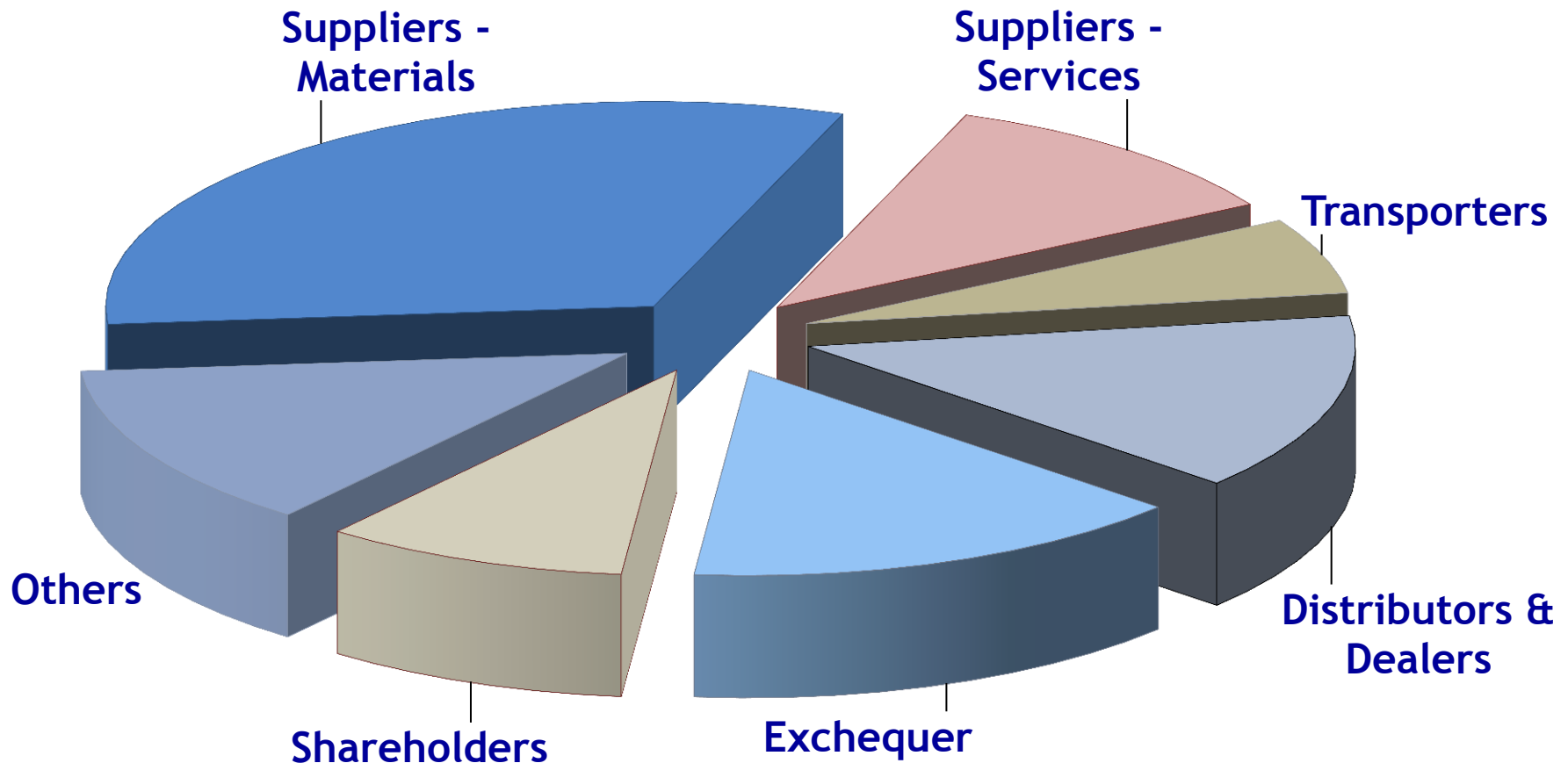
- Third party commitments
- Reverse transportation
- Cost of incinerating stock
- Handling, repacking
- Laboratory testing
- Administrative costs



- Cost of finished goods (Variable +Fixed)
- Obsolescence of RM/PM/ WIP
- Duties & Taxes etc.

- Costs already incurred and reclassified to Exceptional Cost
- Incremental costs due to MAGGI Noodles withdrawal

# Stakeholders share in the MAGGI Noodles business



# Most Valuable Brands by Millward Brown
















- 8 F&B brands in Top 50














- NESTLÉ at no. 1 in F&B

## Overall ranking

- NESTLÉ ranked 15th

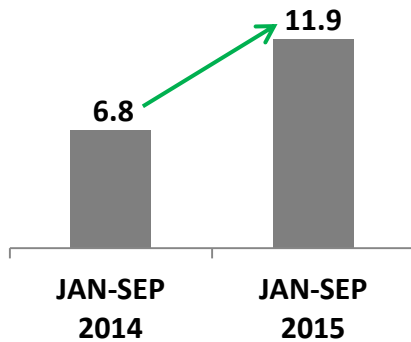
- MAGGI ranked 30th

	Brand	Category	Brand Value 2015 \$M
1	 <b>HDFC BANK</b> We understand your world	Banks	12,577
2	 <b>Airtel</b>	Telecom Providers	11,039
3	 भारतीय स्टेट बैंक <b>State Bank of India</b>	Banks	9,374
4	 <b>ICICI Bank</b>	Banks	5,122
5	 <b>asianpaints</b>	Paints	3,867
6	 <b>BAJAJ</b> Distinctly Ahead	Automobiles	3,345
7	 <b>Hero</b>	Automobiles	2,907
8	 <b>AXIS BANK</b>	Banks	2,494
9	 <b>kotak</b>	Banks	2,394
10	 <b>MARUTI SUZUKI</b> Way of Life!	Automobiles	2,318
11	 <b>Idea</b>	Telecom Providers	1,981
12	 <b>Castrol</b>	Lubricants	1,773
13	 <b>IndusInd Bank</b>	Banks	1,542
14	 <b>McDowell's</b>	Alcohol	1,516
15	 <b>Nestlé</b>	Food and Dairy	1,498

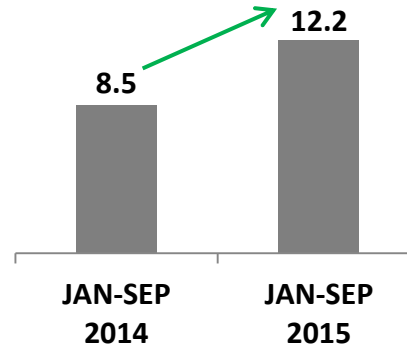
	Brand	Category	Brand Value 2015 \$M
26	 <b>Colgate</b>	Personal Care	1,070
27	 <b>Surf Excel</b>	Home Care	1,041
28	 <b>Brooke Bond</b>	Soft Drinks	904
29	 <b>Sunfeast</b>	Food and Dairy	816
30	 <b>Maggi</b>	Food and Dairy	770
31	 <b>Lifebuoy</b>	Personal Care	759
32	 <b>Wealth Simple Bank of India</b>	Banks	712
33	 <b>Fair &amp; Lovely</b>	Personal Care	704
34	 <b>LUX</b>	Personal Care	654
35	 <b>Berger</b>	Paints	648
36	 <b>Corona Bank</b>	Banks	645
37	 <b>MRF</b>	Tires	630
38	 <b>Saffola</b>	Food and Dairy	598
39	 <b>IDBI BANK</b>	Banks	532
40	 <b>HDFC Life</b> Just what life needs	Insurance	531

# Market Value Growth (%)

## FMCG

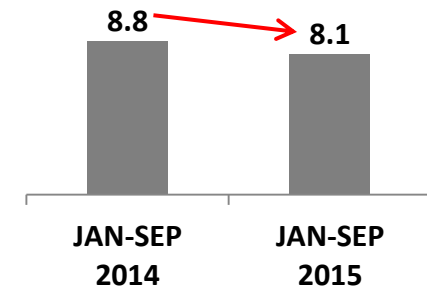


## F&B



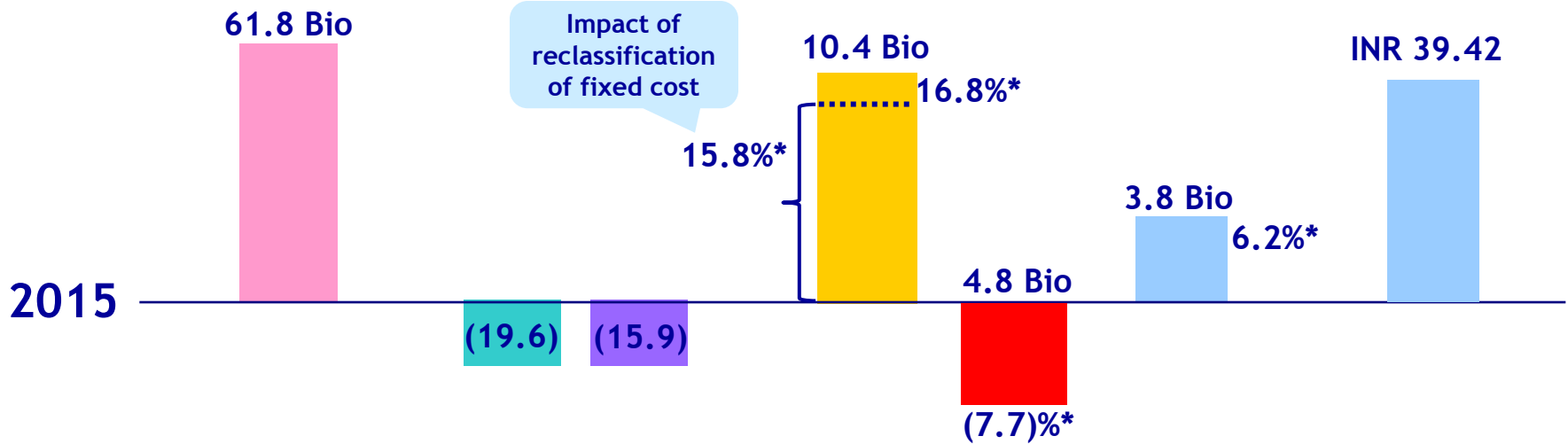
## F&B

*(Nestlé Categories)*

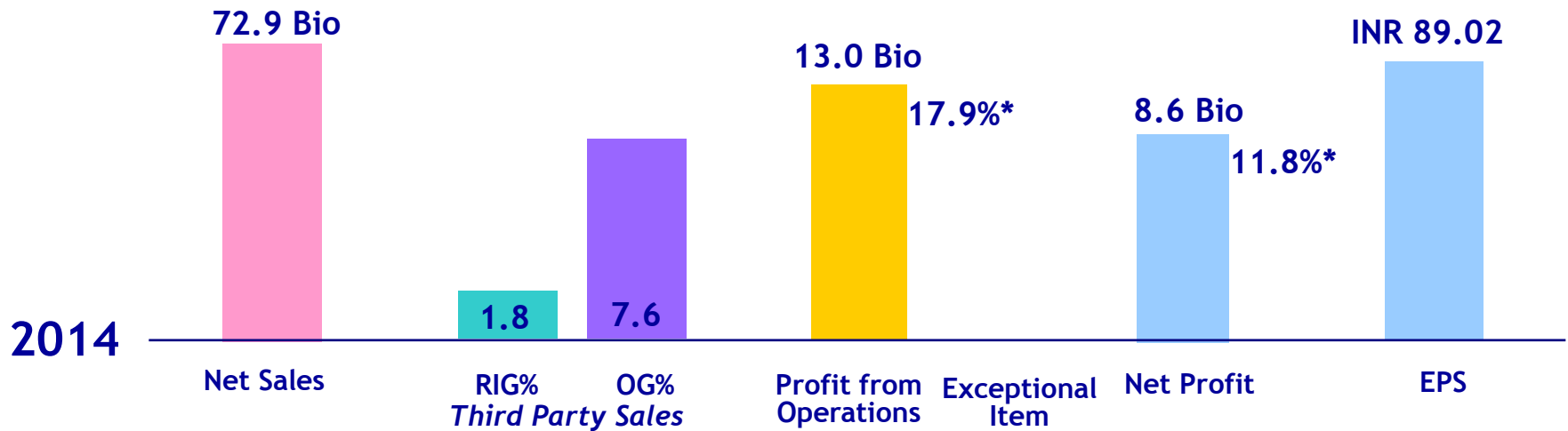


Source: Nielsen Jan-Sep 2015; All India (Urban + Rural)

# Jan-Sep highlights



-11.1 Bio	Weighted Volumes & Prices	-2.7 Bio	-4.8 Bio	INR -49.60
-15.3%		-110 bps	-560 bps	-55.7%

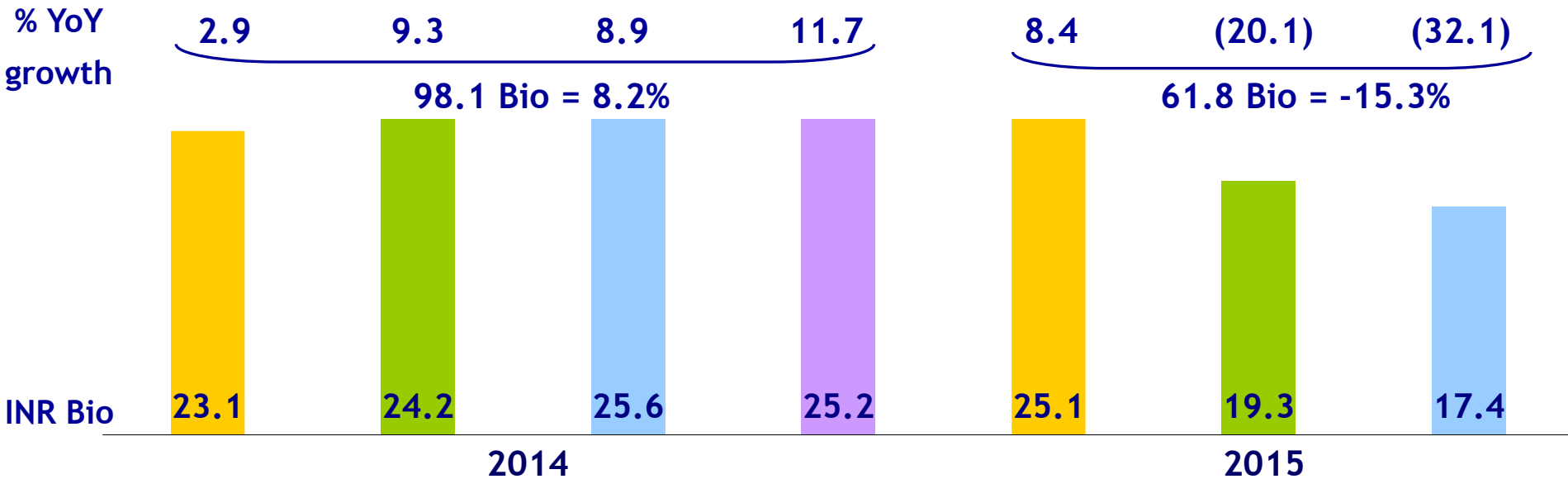




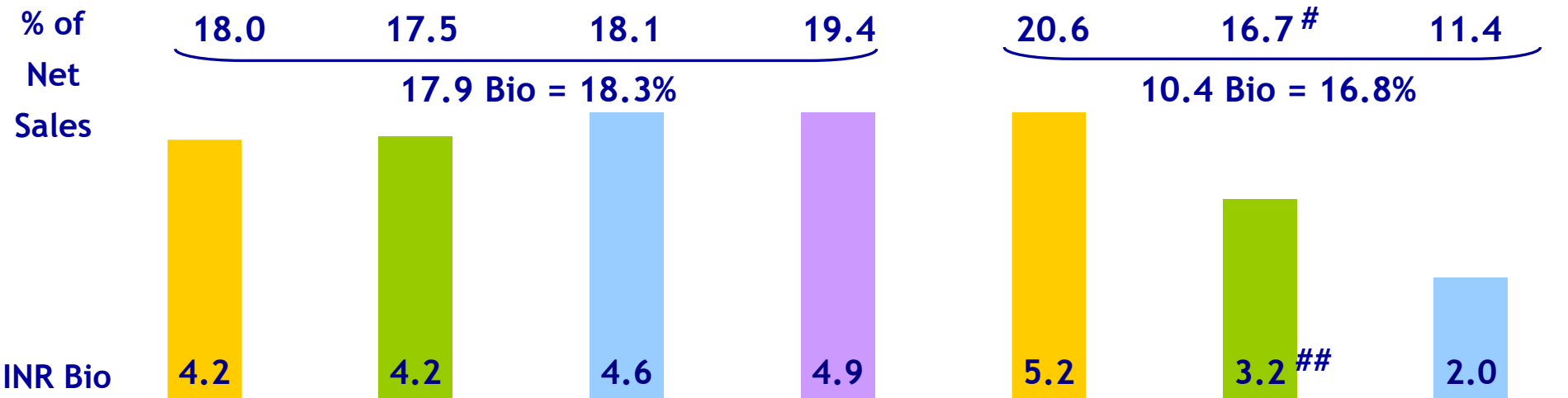
# Quarterly evolution of results

## NET SALES

Q1 Q2 Q3 Q4



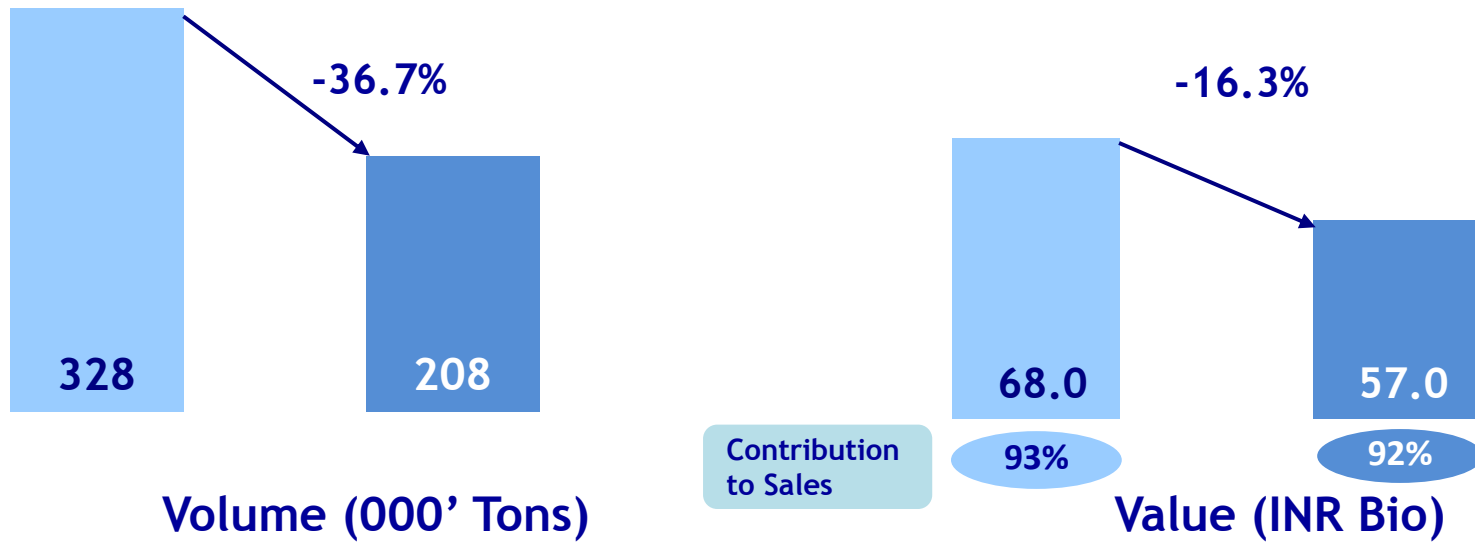
## OPBIT



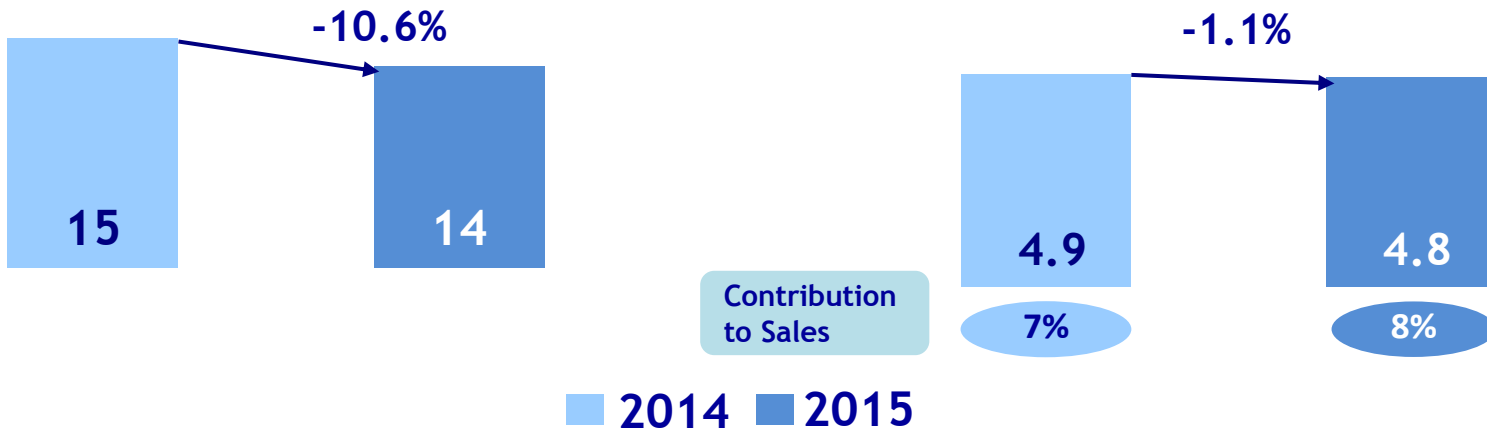
# 13.7% without reclassification of fixed cost to Exceptional item

## 2.7 Bio without reclassification of fixed cost to Exceptional item

# Domestic Sales: Jan-Sep



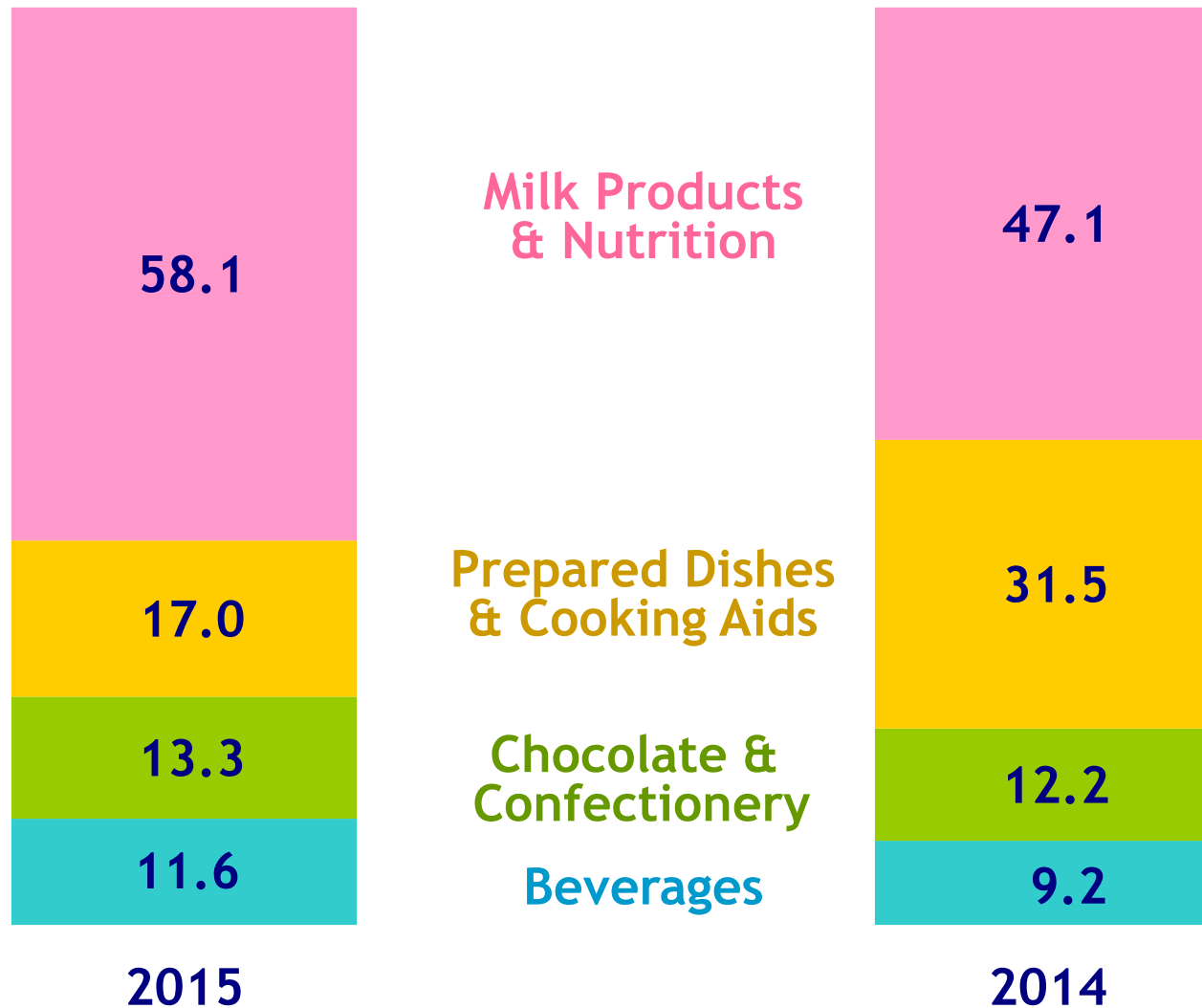
## Exports (Affiliates + Third parties)



# Jan-Sep Reported & Comparable Domestic Sales Growth

		2014	2015	%	Effective%
VOLUME	Reported in Tons	328,399	207,990	(36.7)	(6.8)
	Noodles			(29.0)	
	(-)PPO (-)Ghee			(1.0)	
VALUE	Reported in INR Mio	68,045	56,964	(16.3)	1.7
	Noodles			(16.9)	
	(-)PPO (-)Ghee			(1.0)	

# % Contribution to Domestic Sales Jan - Sep



# Domestic Sales - 2015

	Q1	Q2	Q3
Reported Sales in INR Bio	23.3	17.8	15.9
Reported yoy Growth %	7.6	-20.6	-33.8
Comparable Growth %*	8.4	1.6	-4.5
Comparable RIG %*	0.7	-3.0	-5.5

*Turbulent Quarters with “MAGGI Noodles Issue”*

*\* Excluding sales of Noodles & Product Portfolio Optimisation initiatives.*



# Materials Cost - 2015

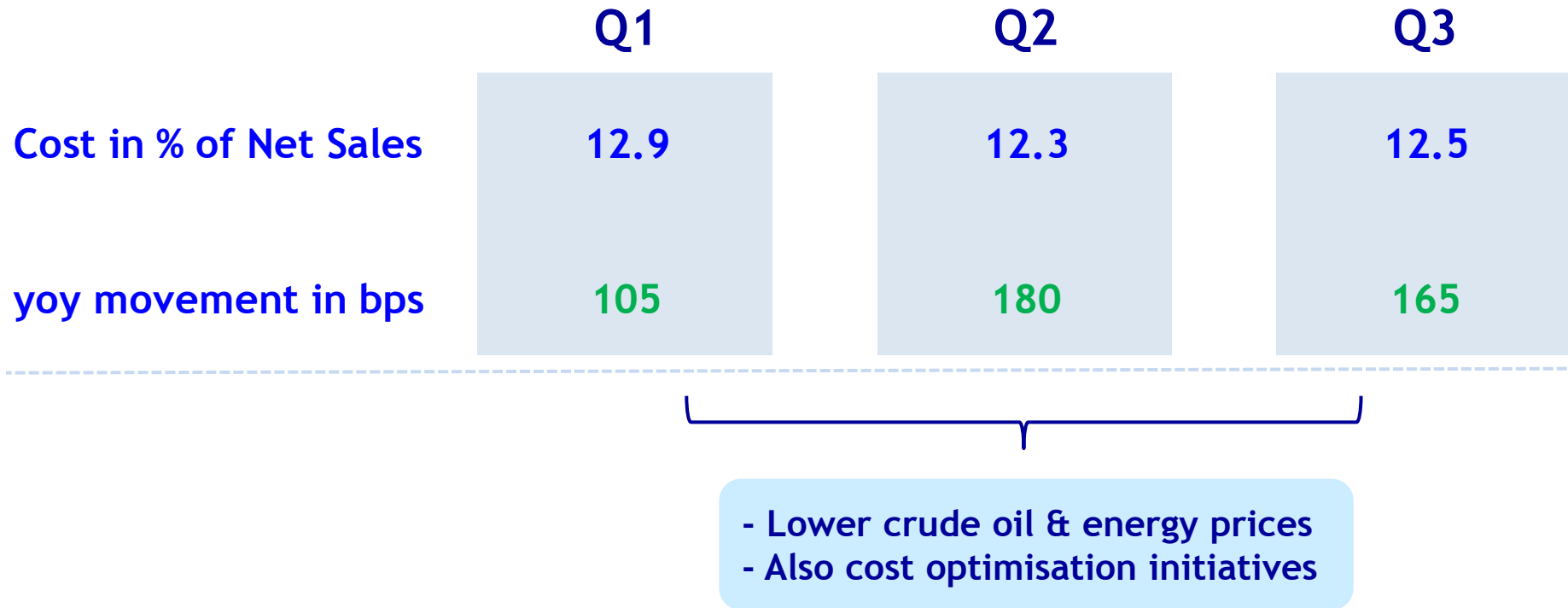
	Q1	Q2	Q3
# Materials cost in % of Net Sales as reported	42.4	44.2	42.8
## Movement in conversion cost in bps	10	90	40
Net materials cost in % of Net Sales	42.3	43.3	42.4
yoy movement in bps	390	420	380
<u>of which</u>			
Commodities	60	240	310
Realisations	440	200	80
Mix impact (Product mix and Mix of third party & Affiliates)	10	20	40
<div> <div></div> <div>- Favourable commodity prices</div> <div>- Selling price increases, largely carry over pricing</div> </div>			

# Materials Cost = Cost of materials consumed + Purchase of stock-in-trade + Changes in inventories of finished Goods & WIP

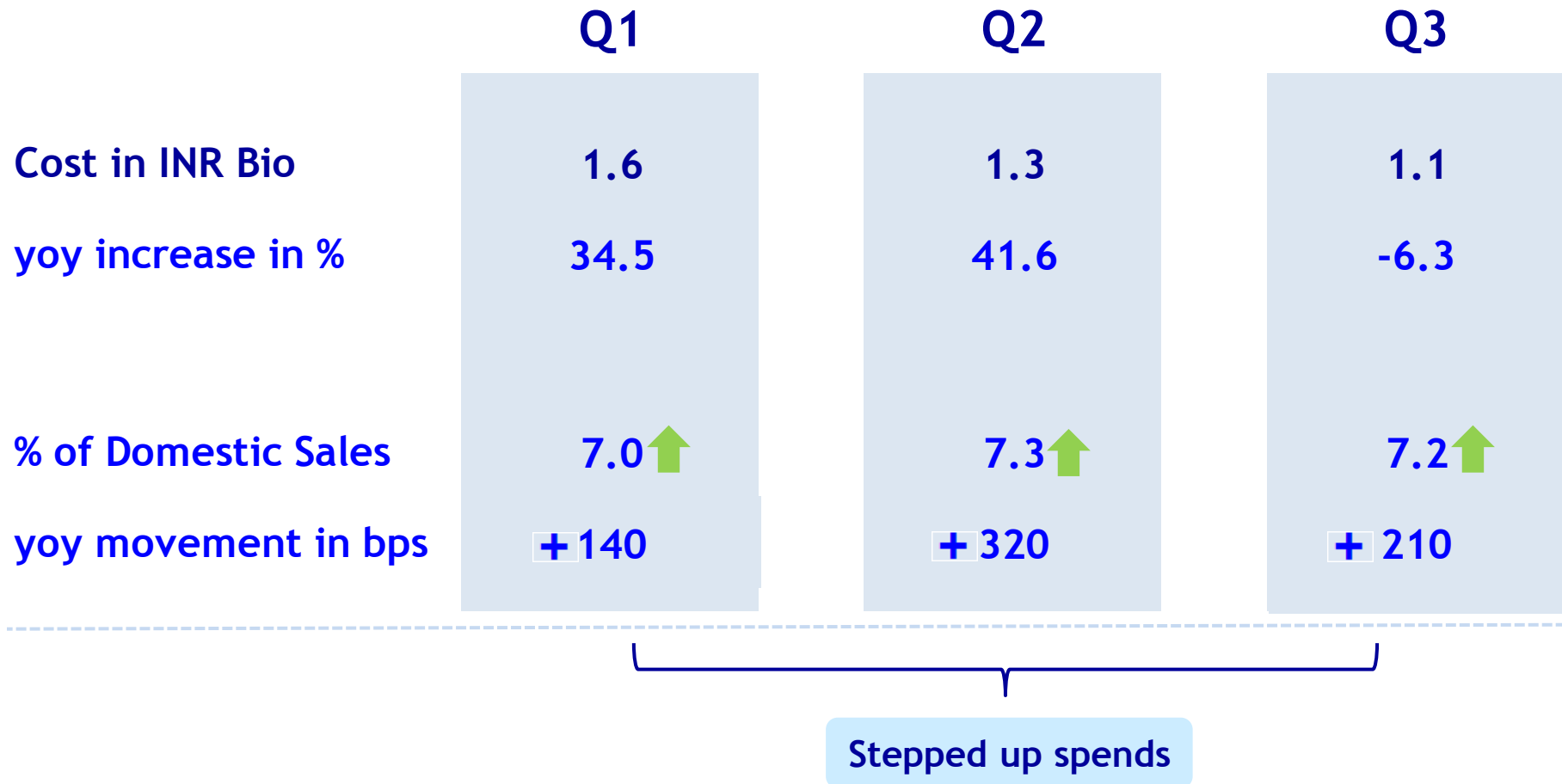
## Conversion cost embedded in inventories of finished Goods & WIP



# Other Variable Cost - 2015



# Advertisement & Sales Promotion - 2015



*Includes Media spends, Consumer Sampling and Promotions, Display etc.*

# Fixed Cost - 2015

	Q1	Q2	Q3
<u>Reported</u>			
Cost in INR Bio	4.5	4.1	4.7
Cost in % of Net Sales	18.0	21.3	27.1
<u>Comparable*</u>			
Cost in INR Bio	4.5	4.7	4.7
Cost in % of Net Sales	18.0	24.2	27.1
yoy movement in bps	120	665	980
<u>of which</u>			
Impairment	50	-	70
Depreciation (Companies Act'13)	30	30	30

Impact of  
'absorption  
of fixed cost'  
due to MAGGI  
Noodles Issue

*\* Including fixed cost reclassified to Exceptional Item in the reported figures, in line with Accounting Standards (AS) 2 & 5*

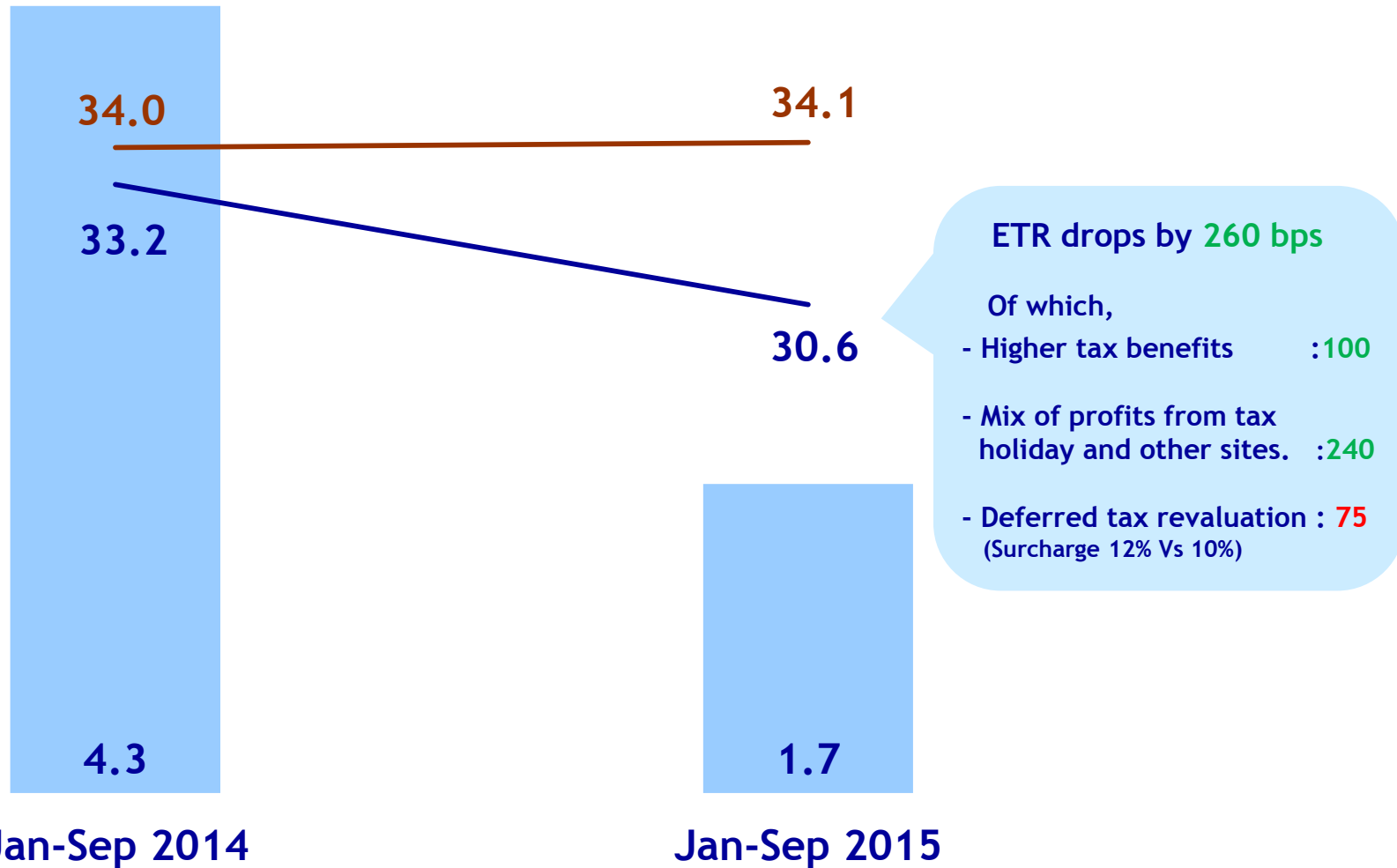
# Profit from Operations - 2015

	Q1	Q2	Q3	YTD
<u>Reported</u>				
Profit in INR Bio	5.2	3.2	2.0	10.4
Profit in % of Net Sales	20.6	16.7	11.4	16.8
yoy movement in bps	255	80	675	110
<u>Comparable*</u>				
Profit in INR Bio	5.2	2.7	2.0	9.8
Profit in % of Net Sales	20.6	13.7	11.4	15.8
yoy movement in bps	255	375	675	205

Impact of  
'absorption  
of fixed cost'  
due to MAGGI  
Noodles Issue

*\* Including fixed cost reclassified to Exceptional Item in the reported figures, in line with Accounting Standards (AS) 2 & 5*

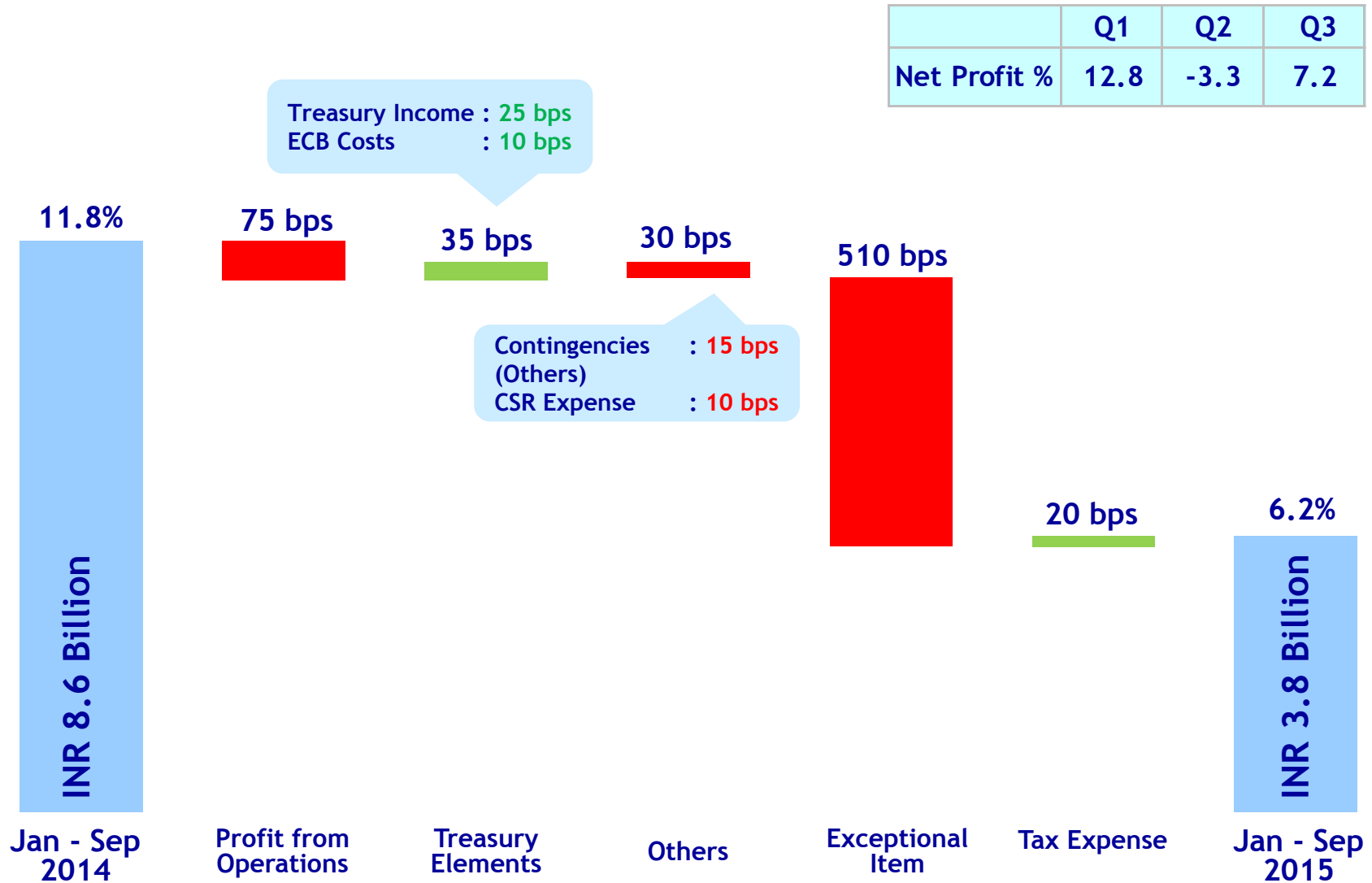
# Tax Cost and Effective Tax Rate



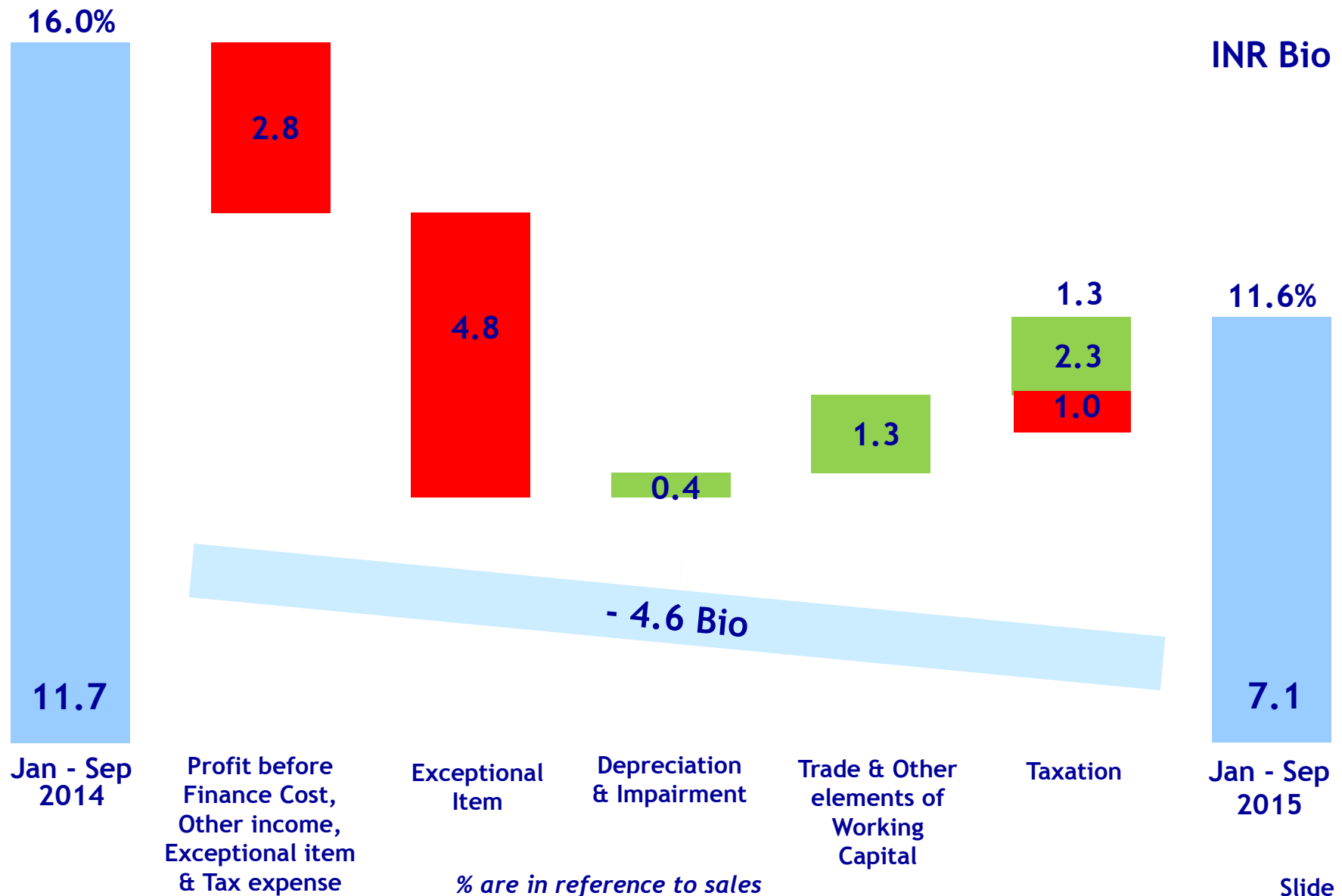
■ Tax Expense (INR Bio) — Marginal Tax Rate (%) — Effective Tax Rate (%)



# MAGGI Noodles issue impacts Net Profit



# Cash generation from Operations



# We remain debt free

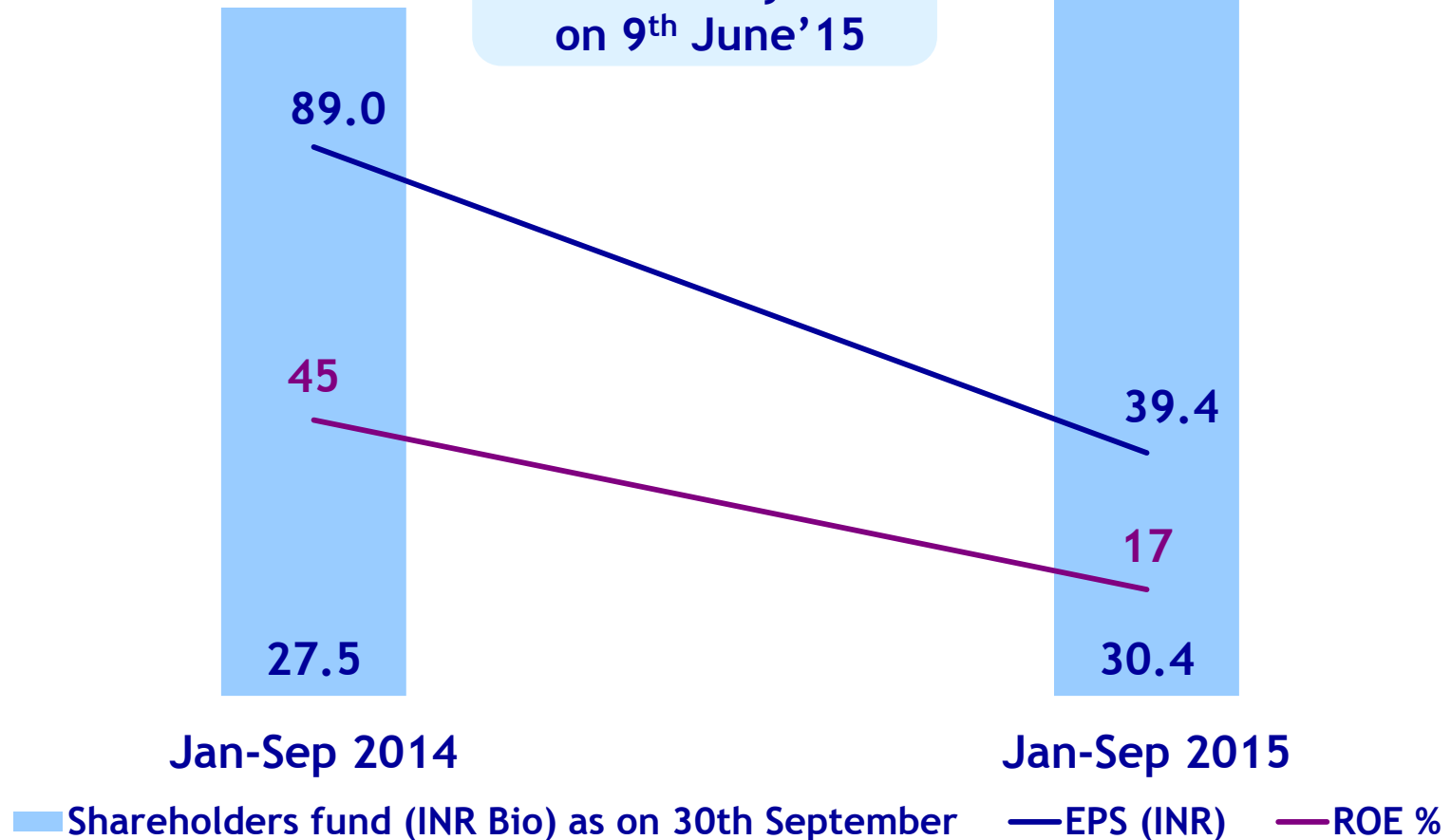
## ROE & EPS impacted by MAGGI Issue

Debt : Equity

1 : 99

1 : 99

AAA Rating  
reaffirmed by CRISIL  
on 9<sup>th</sup> June'15

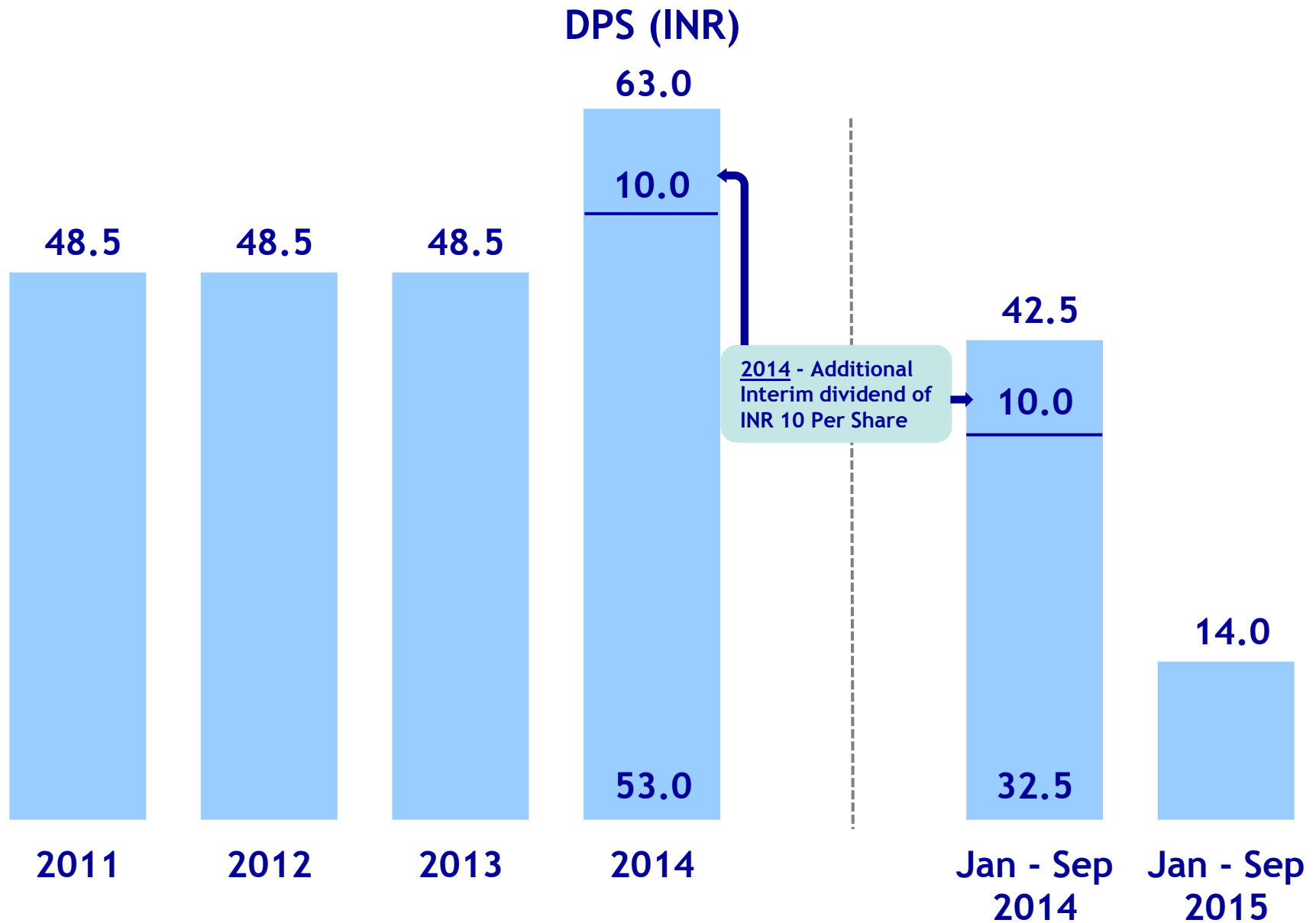


Avg. Share  
Price (INR)

5,155

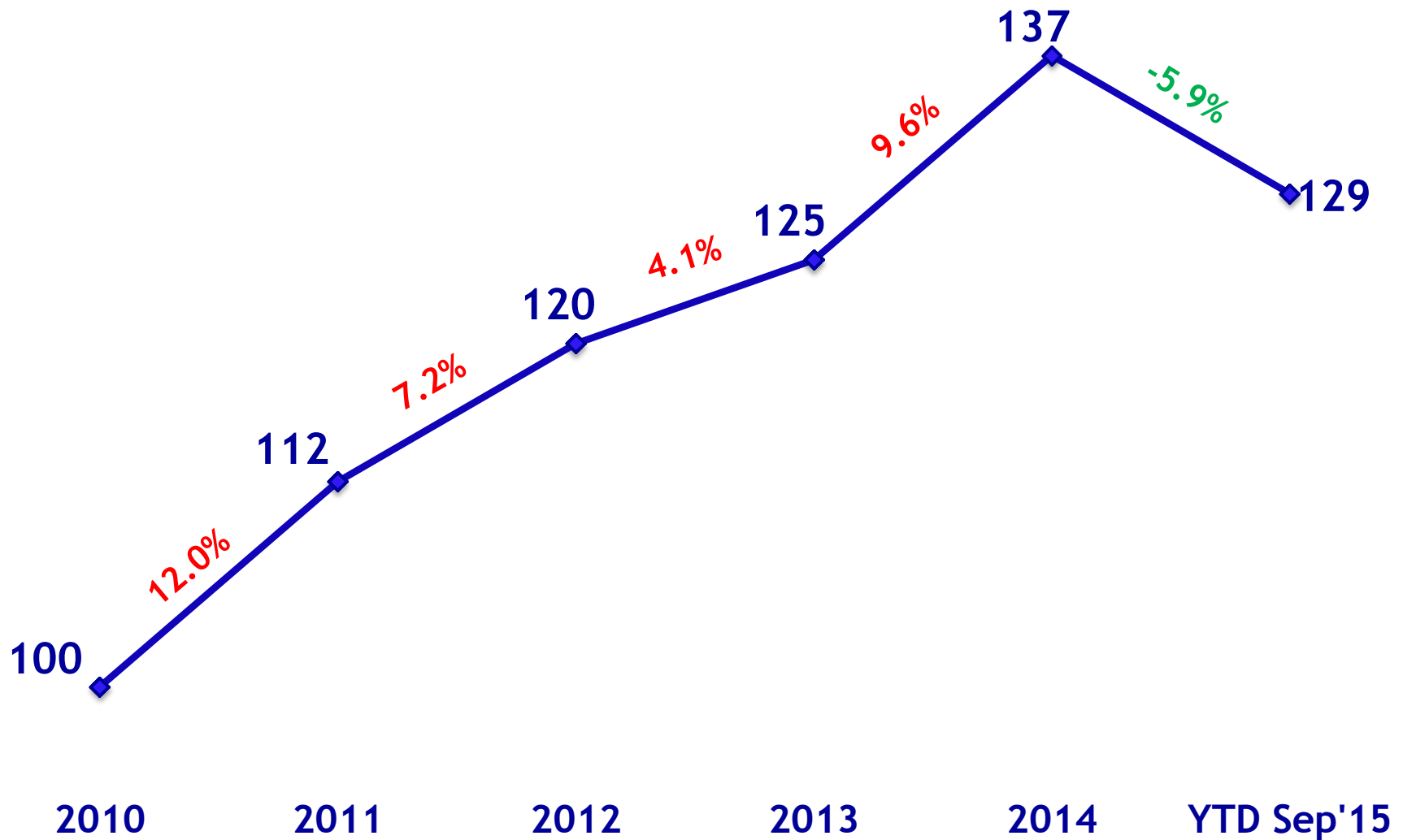
6,578

# Interim dividend curtailed due to MAGGI Issue



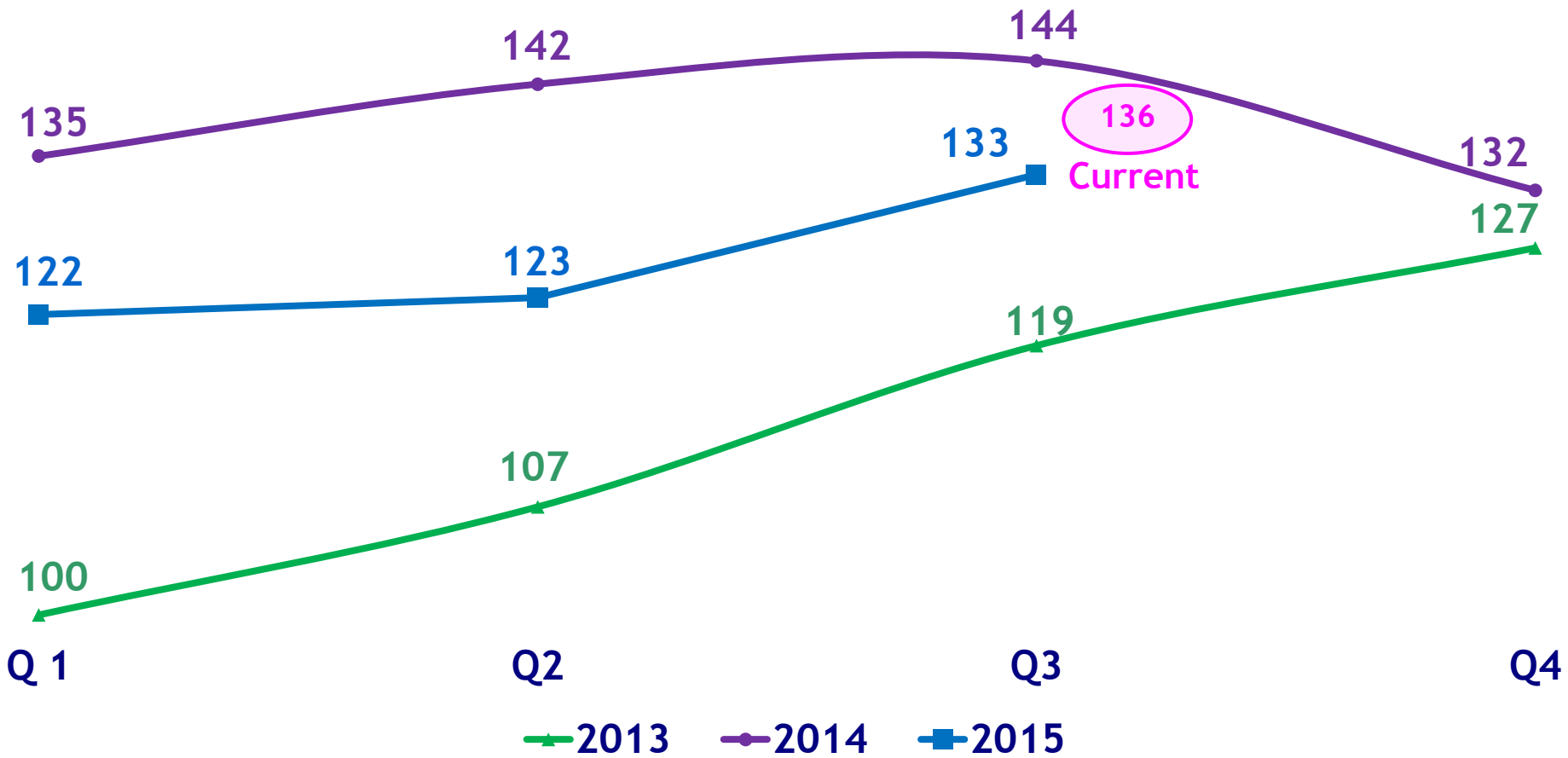
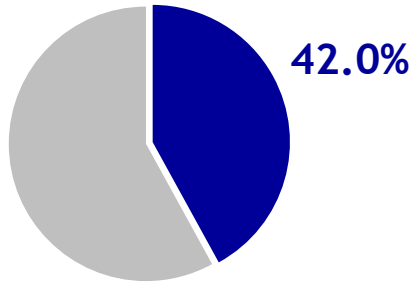
# Linked Slides

# Nestlé India's Commodity Basket

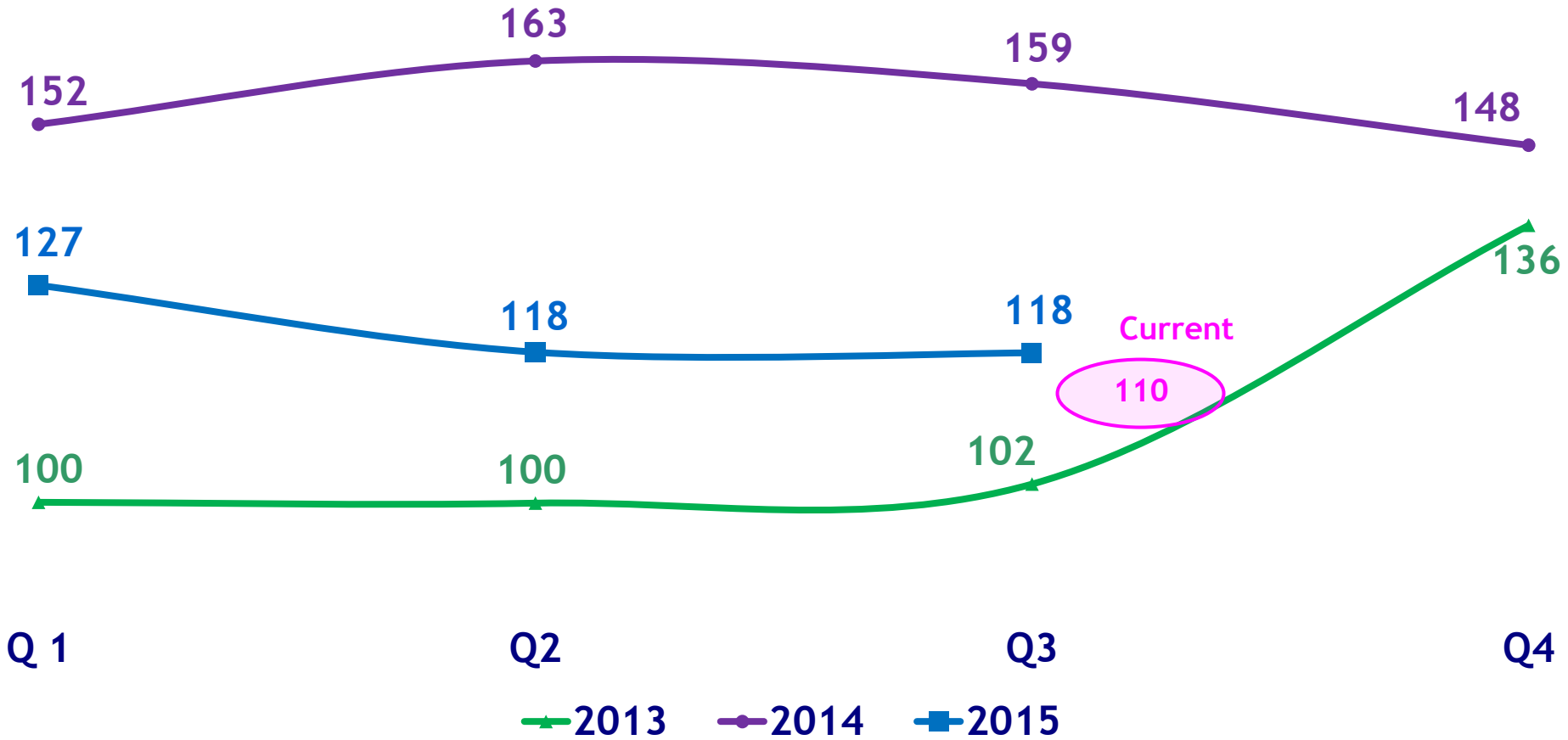
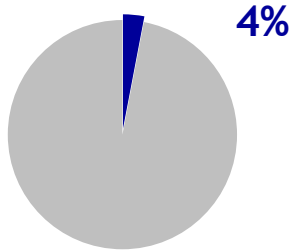




# Milks



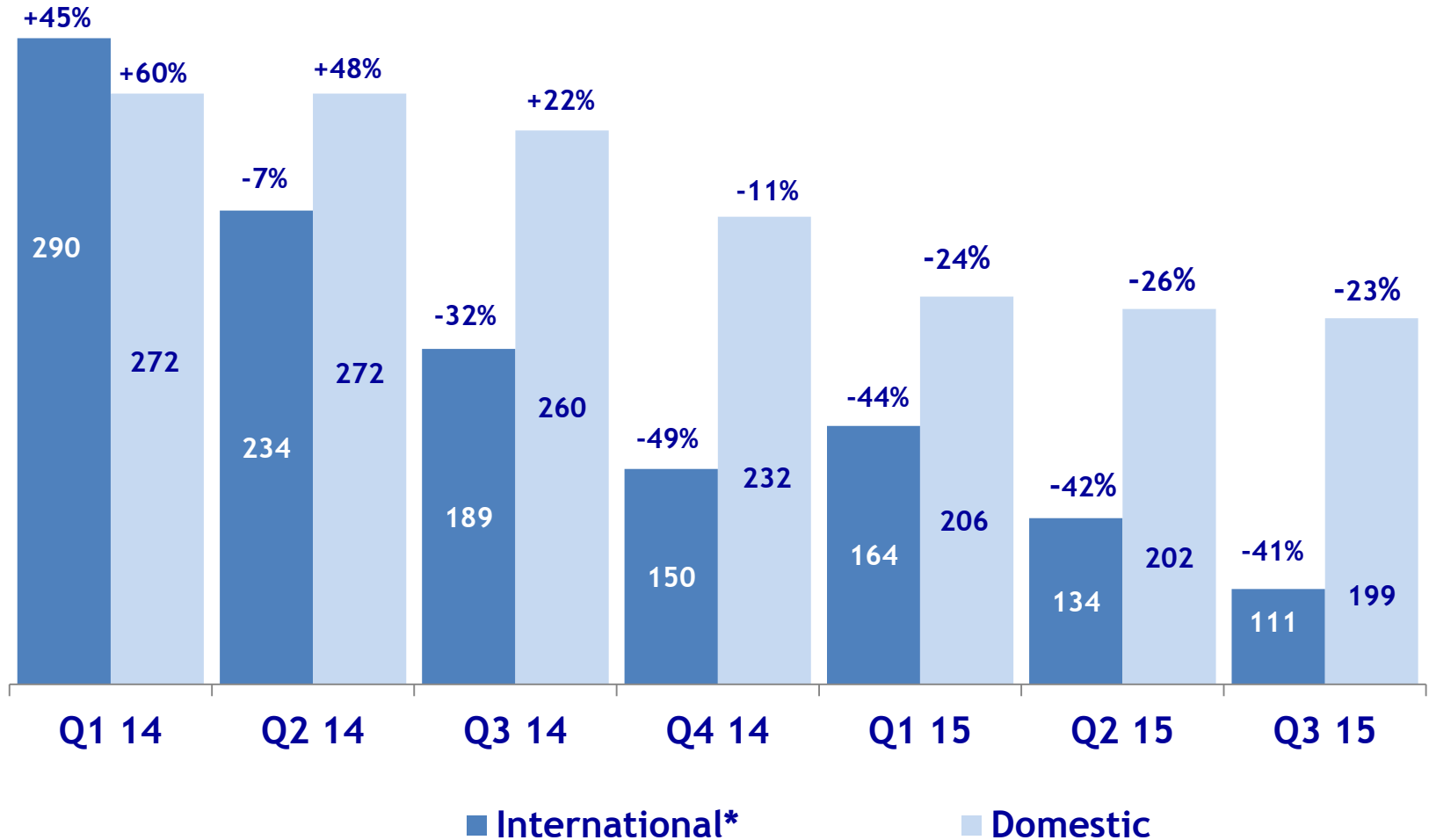
# MSK



*Indexed with base Q1-13*

# Skimmed Milk Powder (MSK) Prices /kg

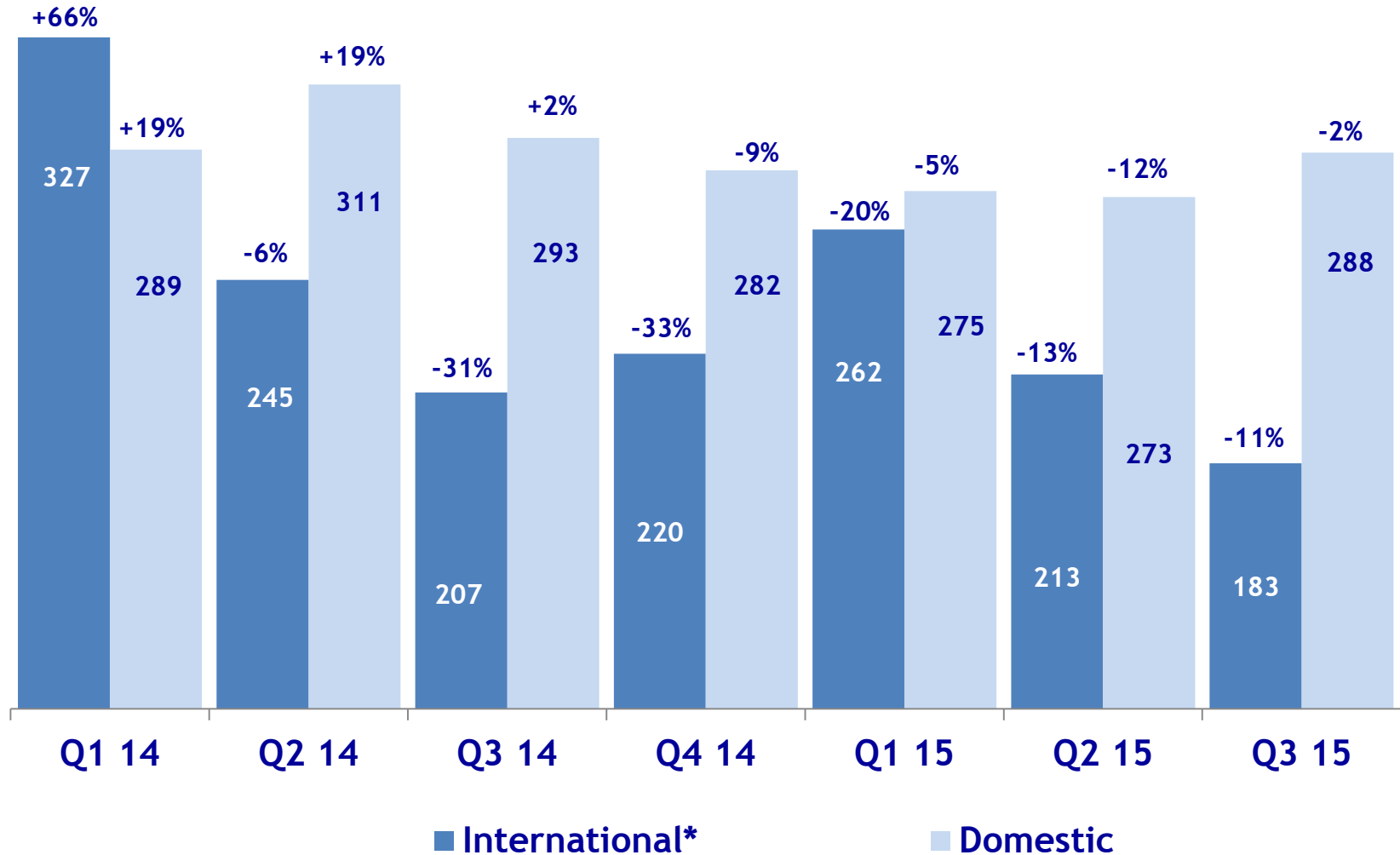
Variance vs LY



*\*USD spot Prices /Kg converted to INR*

# AMF (Ghee) Prices /kg

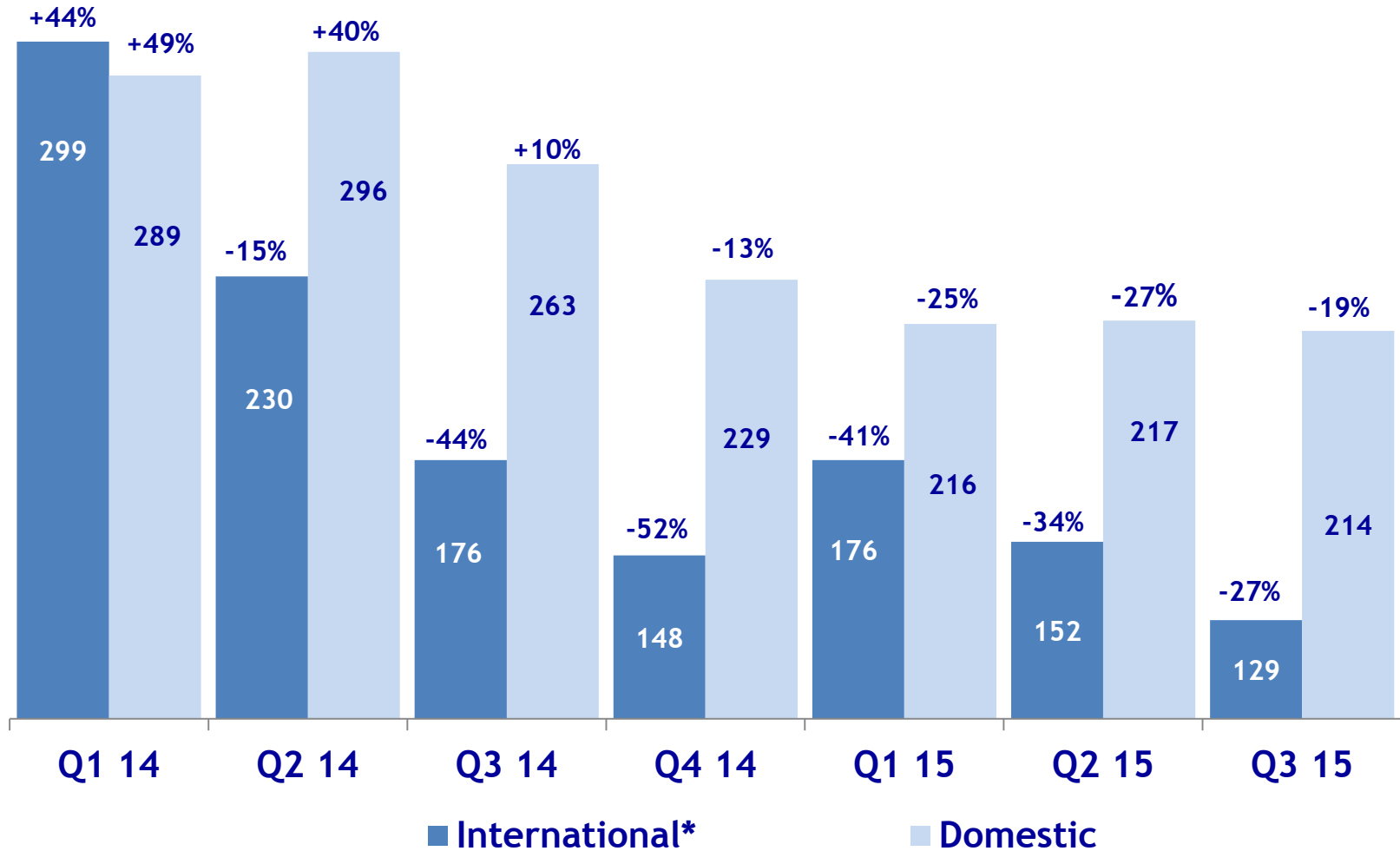
Variance vs LY



*\*USD spot Prices /Kg converted to INR*

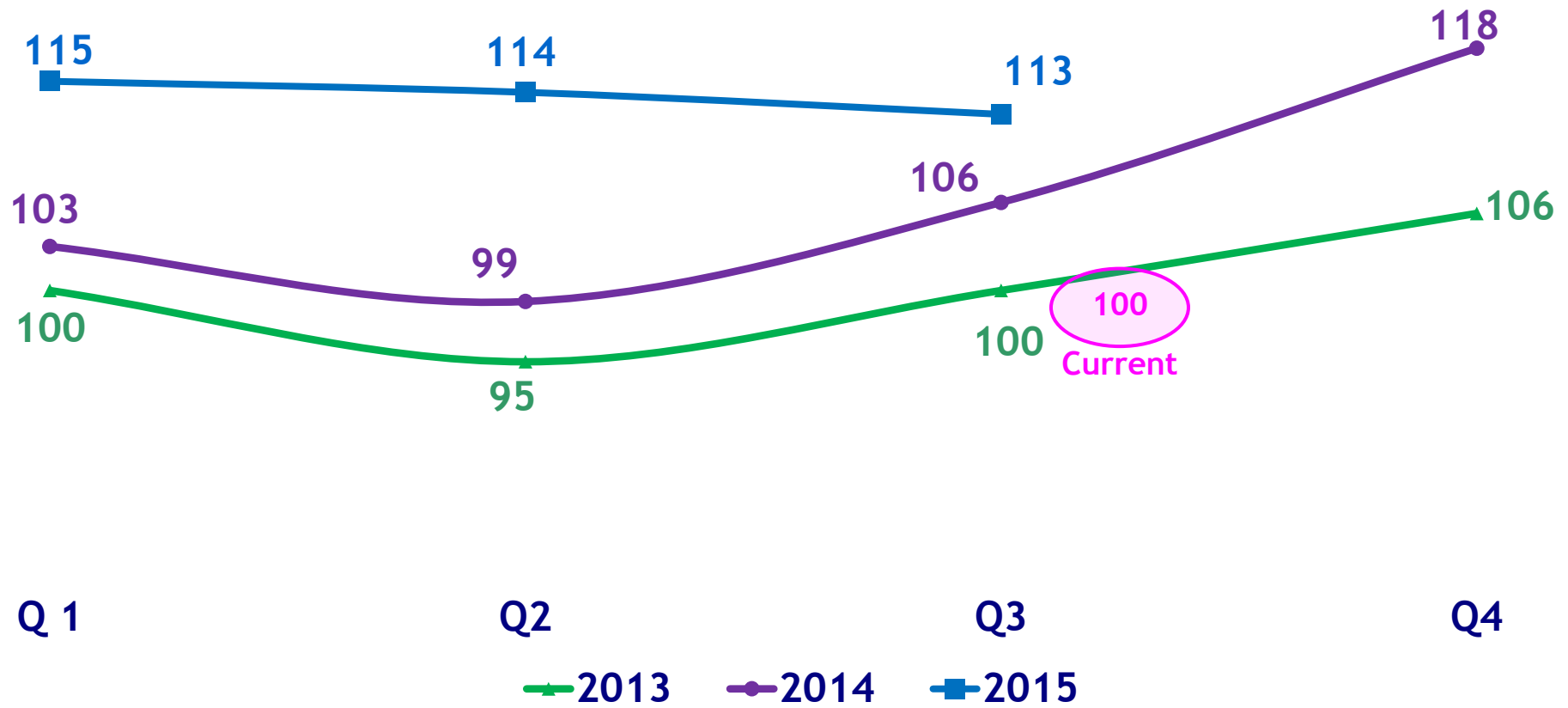
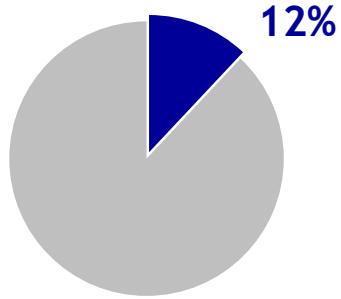
# Full Cream Milk Powder(FCMP) Prices /kg

Variance vs LY

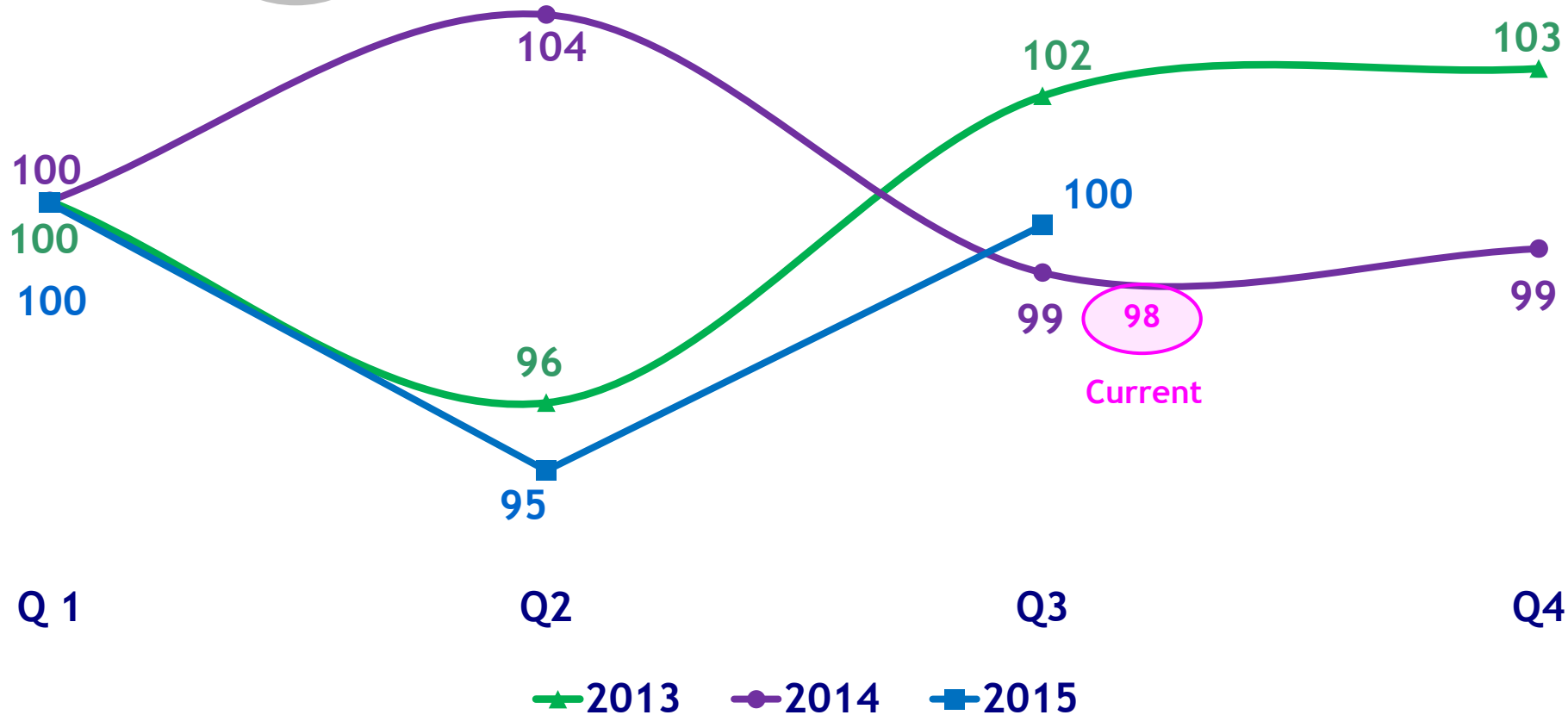
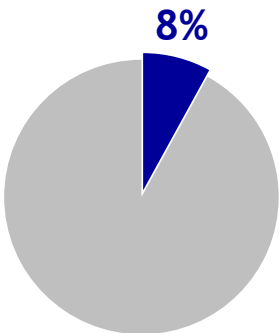


*\*USD spot Prices /Kg converted to INR*

# Green Coffee

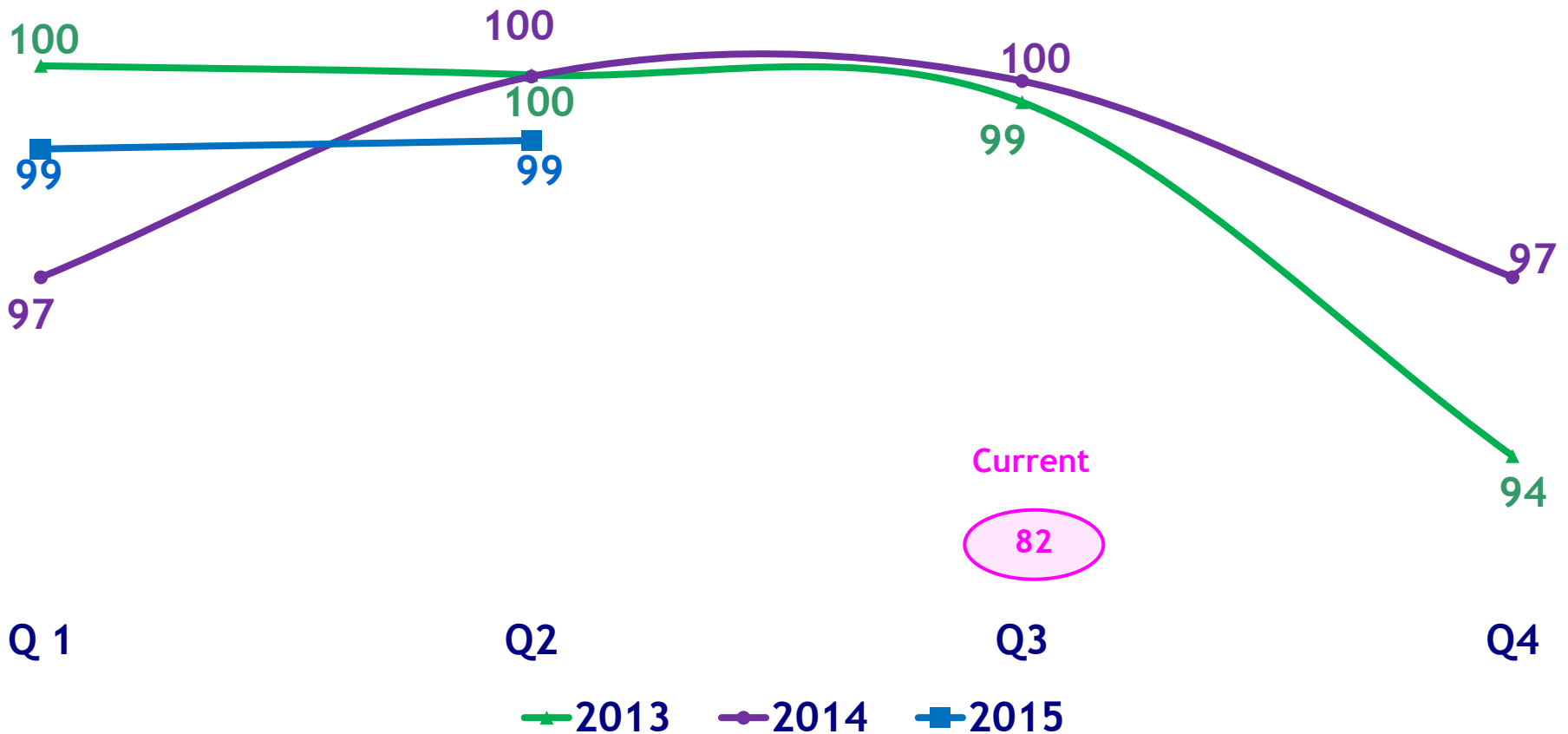
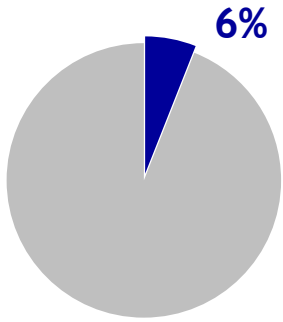


# Wheat Flour





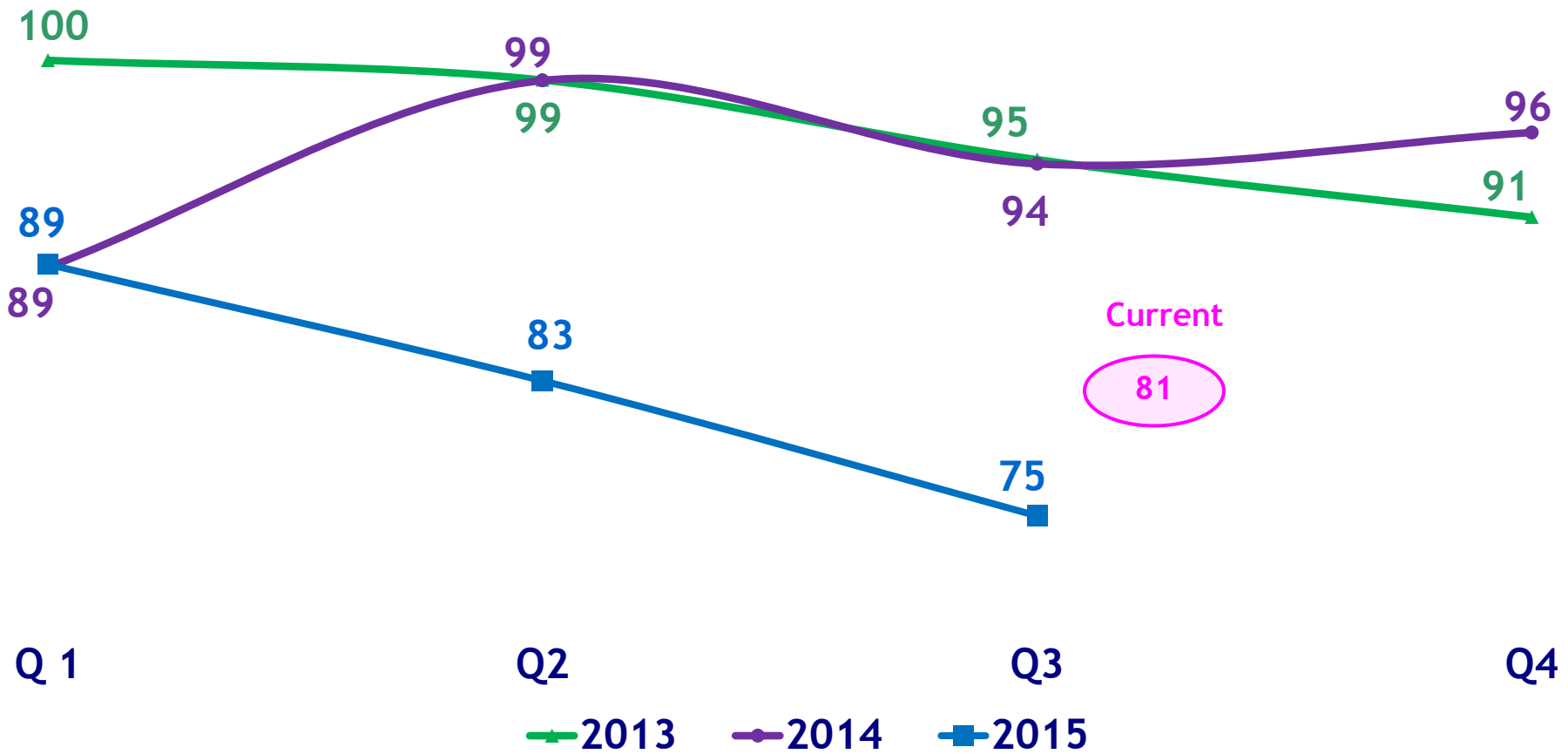
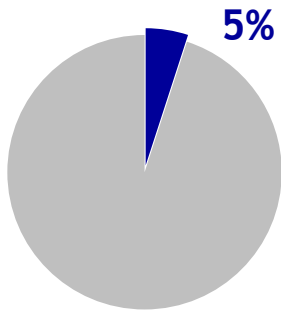
# Palm Oil



*Indexed with base Q1-13*

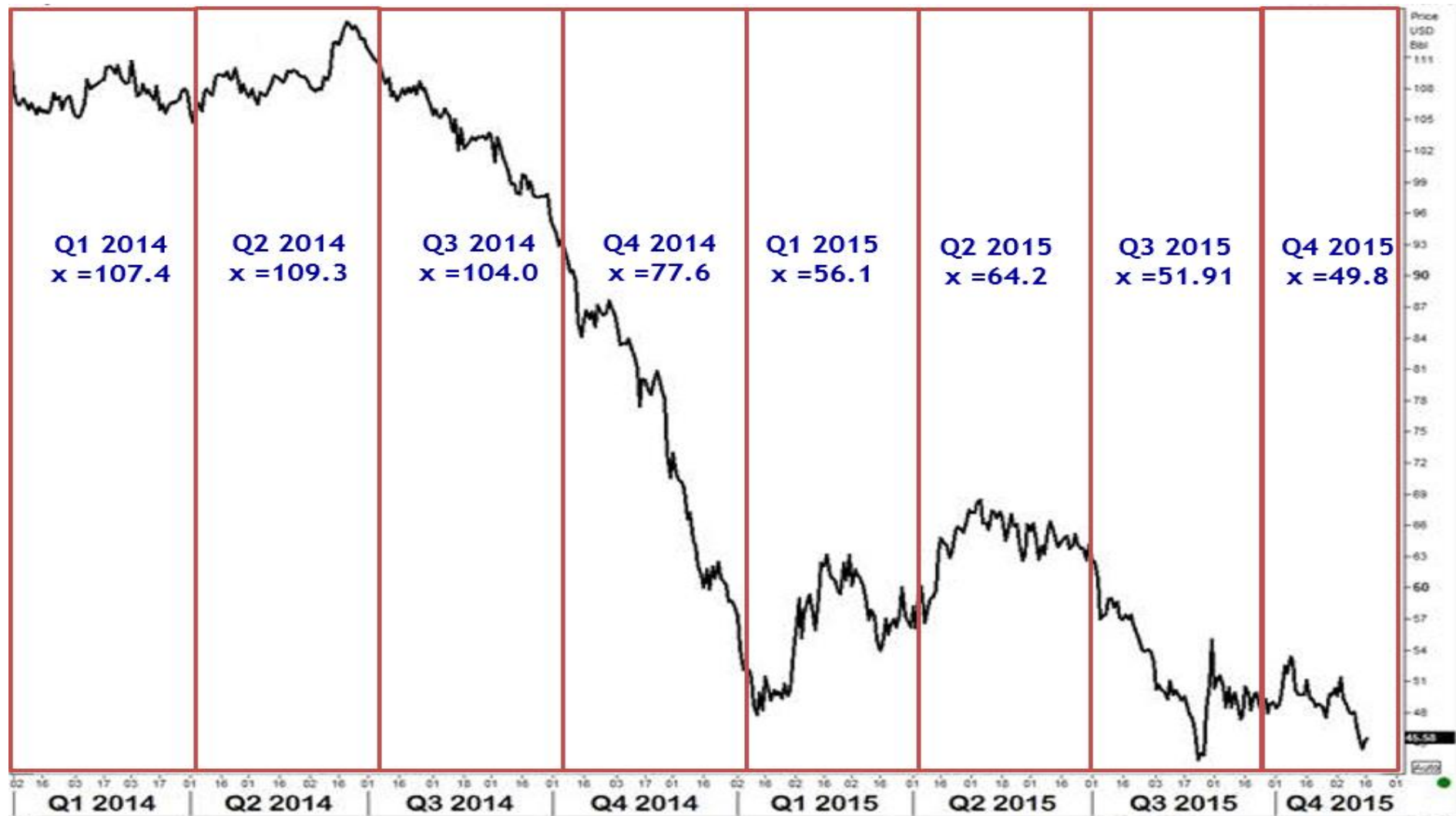


# Sugar



# Brent Crude

USD per barrel



# Robusta

## USD per Ton

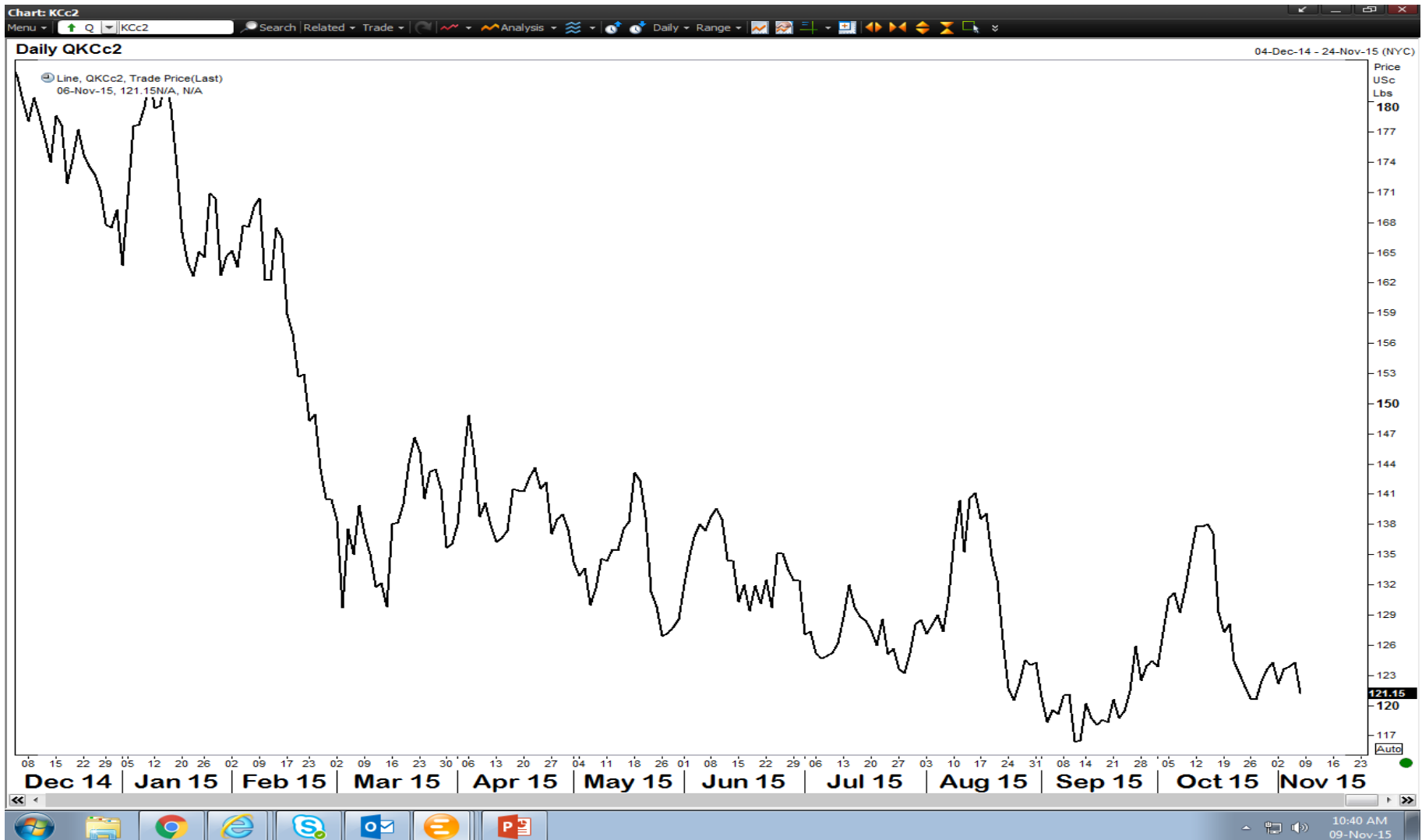
### London Exchange



# Arabica

## US Cent per Pound

### New York Exchange



# Palm Oil

## MYR per Ton

### Malaysia Exchange



# Sugar

## US Cent per Pound

### New York Exchange

