"Nestlé India Limited
28th Financial Analyst/ Institutional Investors' Meet"

August 21, 2018

MANAGEMENT: **MR. SURESH NARAYANAN – CHAIRMAN AND MANAGING DIRECTOR**
MR. SHOBINDER DUGGAL – DIRECTOR - FINANCE AND CONTROL AND CHIEF FINANCIAL OFFICER
MR. SANJAY KHAJURIA – SENIOR VICE PRESIDENT - CORPORATE AFFAIRS
MR. B. MURLI – SENIOR VICE PRESIDENT – LEGAL & COMPANY SECRETARY
MR. KAMAL KEDIA – HEAD OF ACCOUNTING AND REPORTING
MR. SHASHANK KUMAR NAIR –CORPORATE COMMUNICATIONS MANAGER

Shashank Kumar Nair: Good afternoon, Ladies and Gentlemen welcome to the 28th Financial Analyst and Institutional Investors meet. As some of you already know I am Shashank Kumar Nair – Corporate Communications Manager. I have with me today my senior colleagues from the Nestle India Management Team, Mr. Suresh Narayanan – Chairman and Managing Director, Mr. Shobinder Duggal – Director -Finance & Control and Chief Financial Officer, Mr. Sanjay Khajuria – Senior Vice President -Corporate Affairs, Mr. B. Murli – Senior Vice President -Legal & Company Secretary and Mr. Kamal Kedia – Head of Accounting and Reporting.

Now before we get started let me first read out the standard disclaimer as it is very important for us to go through the same. This presentation may contain statements which reflect management's current use and estimates and could be construed as forward-looking statements. The future involves uncertainties and risks that could actual results to defer materially from the current views being expressed. Potential uncertainties and risks include factors such as general economic conditions, commodities and currency fluctuations.

Competitive products and pricing pressures, industrial relations and regulatory developments Real Internal Growth and Organic Growth are basis Nestlé's internal reporting standards. Figures are regrouped, reclassified to make them comparable. Calculations are based on non-rounded figures. Analytical data are best estimates to facilitate understanding of business and not meant to reconcile reported figures. Answers may be given to non-price sensitive questions. The entire proceedings will be uploaded on our website www.nestle.in. I would request you to state your name and organization during the question and answer session. We are going to need that for the transcript.

As per the agenda today we will have two presentations. First by Mr. Suresh Narayanan followed by Mr. Shobinder Duggal. After this we will open the floor for Q&A and then conclude with tea and coffee. I will now request Mr. Suresh Narayanan to please take over and make his presentations.

Suresh Narayanan: Good afternoon ladies and gentlemen and a hearty welcome to the Financial Analyst/ Institutional Investors meet. I believe that this is now been re-casted to a different format so we can see that you are facing a different side of the room. And I really would like to take this opportunity to welcome each one of you. I know you have all come from different parts of the country to attend this meeting today.. Now what I will be really taking you through in the next 45 to50 minutes are fundamentally the themes for the organization for the future, what is it that we are looking at, what are the areas that give us hope or what are the areas that we wish to accelerate in, but before I begin I thought I will first begin with the recap of what is it that I had left you with, last time there were 7 messages. So I would like to begin with that and the key take away from last time, Number one was driven by our purpose and values I think fundamentally as an organization which is more than a 100 years old in this country and 150 years old globally. All organizations as you know this better than I do, are driven by purpose and values tend to higher longevity**,** those without it tend to fall off the bandwagon of the performance and I think what has kept us going as an organization has been with a sense of purpose and putting in the value that makes us who we are. Secondly, we have always talked about this and I believe that it has got articulated in a reasonably clear manner that for the Company it is growth and profit it is not just one for the other that is either on the profit and no growth or there is only growth and no profit. I believe that like a good diet it has to be carbohydrates and protein and a little bit of other things.

The third element is really a fact and it is reasonably well known that most of the categories in which we are operating in as a Company are those which have got relatively low levels of penetration. So therefore, there is still a lot of room in terms of expansion, in terms of using the power of innovation, renovation in order to access more consumers more frequently to buy more over a period of time. So focus on penetration and volume growth to drive growth is a simple straight forward strategy, there is no complication but I believe that strategies which are relatively simple and straight forward do tend to get executed far better than those strategies which become a lot more complex over a period of time.

Our continued efforts towards innovation and renovation, I think you know this very well that Nestlé globally has got numerous brands. The portfolio in India is still in its formative stages and I would say that there is still headroom for introduction of brands and categories as we go forward and I presume that coming generation of managers in this Company will still have the opportunity to bring in more than one brand of Nestlé as far as this market is concerned.

The fifth key message is commitment towards relevant nutrition proposition. Nutrition Health and Wellness as this Company is defined by the fact that it is at the center of the plate in terms of thrust on nutrition health and wellness both from a perspective of products and services and also from the perspective of putting in a fairly significant amount of investment each year in R&D behind the nutrition health and wellness proposition.

Consumer centric initiatives on digital, I think the fact of the matter is that the country is changing very, very rapidly. We talked about 400 million millennials but it is interesting to see that generation Z has also joined now. There are those born in 2001 who are going to be 18 years next year and that is going to be a significant part of the population and that is also going to be a consuming part of the society. Many of our brands fits squarely in that phase and therefore I think anything that is consumer centric, that is digital, that has talked about activation and talked about go to market and that accesses and that is able to focus on this segment of population is clearly in the space that Nestlé operates in. Last but not the least every successful organization has been made by people and I myself am a great believer in the power of people. We have seen the power of people working through our partners and through everything else that we have done in the last three years and I believe that these people initiative would continue to be bedrock of the performance that we have as an organization.

So with that let me go through what is it that I would like to share with you today. Which is committing ourselves to a healthier future. What is the platform of that - number one is healthier business, this is like a healthy mind so therefore it is an important aspect of every human body, healthier product which is a healthy heart, healthier society which is a healthy body and finally last but not the least healthier environment which really needs the capability for us to cope with the environment that is surrounding us that is defining us and that in every sense is the one that is guiding us into the future. So these are really the four key building blocks of the business as well, fairly simple, fairly straight forward, but I think the commitment is to the action that we have put behind it. What do you mean by healthier business and healthier product, if you look at where we are today and I think thanks to the power of consumer, the power of investors, the power of partners, we are the largest listed pure play food and beverage Company, in India we crossed the 10,000 crore mark. Last year it was a milestone for us, we can say look did it take you so much of time it should have been done in half the time. The fact of the matter is that when you are growing organically bit by bit, consumer-by-consumer, pack-by-pack it does take a bit of a while, it is not a package that gets consumed in a very short time.

Second of course we are the third largest FMCG by market capitalization, today the shares price is almost skirting 11,000 bucks, it fell a little short of that, you can see that there is a fair amount of momentum that is building up that as far as the Company itself is concerned over a period of time. Innovation has a strong foundation of growth I will talk about it later in terms of the healthier products that we have got. Innovation is going to form a key part of the rhetoric for the organization in the coming years. It is not something that we have done in 2016, 2017 and forgotten about it, this is something that we will continue. Innovation is a life blood of the consumers that surround us, certainly our core consumer target group whether they are urban or semi-urban are consumers who are looking for newer experiences in products. I think that we have the stomach and we have the wherewithal to be able to make that happen.

As an organization I believe that we are sitting on some of the lowest levels of talent attrition I know that nobody likes to be public on this but I am proud of fact that I have in my organization a bunch of very, very committed, talented and dedicated youngsters. 70% of the organization as I mentioned to you before are millennial and I think millennials do not stick for a couple of years or indeed or attend to a telephone call more than a few seconds and the fact of the matter is if there is purpose, if there is value and if they see a scope and if they see a dimension of the organization that interests them they will stay and I think we have an example of that happening.

Last but not the least and this is something that there are many naysayers who believe that look it is a fragile foundation. There is no fragile foundation here because in 85% of where we operate in terms of our product portfolio we are the market leaders. So we are speaking from a position of strength not arrogance, not complacency but we are talking from position of strength because this kind of strength is what give us the impetus to do new things, to try new things on a foundation that is fairly strong**.** This together with whatever else we will build up in the coming months, in the coming years will make us stronger than what you see us at this point in time. So the fact of the matter is, that this is really translating itself in terms of brand strength and here are some numbers which really gives you the brand number as they stand as I mentioned to you. I think the fact of the matter is that in seven out of nine categories clearly there is a leadership position that is fairly strong, fairly resilient and in consumer mind space for a period of time. The fact of the matter you all know it tracking consumer based Company is the history of consumer or brands has always been one of ensuring resonance and also salience with consumers over a period of time and I think that is something that we are extremely proud. This is the last survey that was done by Economic Times brand equity when you see our brand MAGGI which went through a rough patch coming back strongly from a 21 brand ranking position it has gone upto a 13th brand ranking position. This is done externally and nothing do what Company might believe. NESCAFE which is our flagship brand in Coffee where you will see more actions happening in the coming period, again has moved up in terms of consumer ranking from 7 to 6 and what is most heartening for us is that 6 out of the top 10 brands in the chocolates and confectionary category also are from Nestlé. Now you can say that look you are not market leaders, we are not market leaders very clearly in this category but the strong foundations of growth also come from a strong foundation that brands have with consumer in terms of most resonance and in terms of importance and in terms of failures and I can say confidently here that some of our brands which will look extremely small to you - POLO is not the biggest brand that we have got but the 'Mint with a hole' has managed to stay on for years and years and has moved on from 20 position to 10 position in just one year. So therefore, you can see the three things can be done on in brand in order to get them to where they are. Incidentally it also important for you to note that on a brand like Kit Kat we are one of the fastest growing market in the world. So it is not that we are sitting on some small positions, we are having very significant growth in the brand like Kit Kat, in the brand like NESCAFE, in a brand like MAGGI and I think that is an important aspect that makes this market and make this proposition also important.

Now we talked about Innovations in the first meeting and that was the time MAGGI was just been launched I talked to you about the promise of innovations and today I think we have gone beyond that and we have actually done a fair amount of innovation in the last two years. Look at the total number of launches that we have had between the period 2016 to 2018 in terms of brand launches. There has been about 39 brand launches, out of them the ones that have been sustainable are 25. There have been a few that have been limited addition launches and about 11 products which we introduced we have taken off. I would say that is third of your total launches which accounts for 1% of the total new product sale in H1 2018. What does this tell us about the Company, this tells you that Nestlé is not risk averse. If Nestlé was risk averse we would have launched three products we would have said we got three product here to show you. We launched 39 products, 25 of them continued, some of them are products which are limited edition ,i.e, in and out because that is also a strategy that the Company has. So therefore, you see from our 1.5% of total full year domestic sales in 2016 we are sitting at a contribution of 3% of sales in 2018 and the show goes on.

The show goes on because this is not a new brand, not a new variant or not a new segment but a completely new category. This is after a long, long time an entry of Nestlé into a completely new category of Breakfast Cereals. NesPlus, this is a brand that has been introduced a few weeks back, it was first launched on Amazon prime and it was globally a first launch for us to have NesPlus on Amazon Prime. The initial response has been extremely heartening in fact i can tell you that during the Amazon Prime period we were selling a pack every three seconds. So it is a brand that has received a lot of interest. Today if I look at the initial traction, the initial responses that we are getting across the country it has been quite a positive response that I am seeing in this category.

This category itself is interesting it is a large category where I believe that there are few real serious players and Nestlé with this expertise together with General Mills in a joint venture partnership called Cereal Partners Worldwide has come into India with a brand that is meant for India. So NesPlus doesn't exist anywhere else in the world, it is a brand that has been put out for India and the recipes and formulations are for India. It is made from four grains. I think the whole grain story is a big story, it is a complete grain that you need in your diets and those of you who are into nutrition would know that it has got the goodness of wheat, rice, oats and of jowar which is again getting a lot of the Indian element into it. The product stands for Nutrition plus as it is fortified with Vitamins. It also offers Taste Plus and, this is the first cereal that stays crunchy in warm milk. So it is an important proposition that we work with and today a range of almost with a full launch it will be close to 16 to 17 SKUs across different product spaces. This makes it interesting not just as a breakfast opportunity, it makes it interesting as a snack opportunity, it makes it interesting as a multipurpose opportunity that we can build over a period of time.

Clearly the next one that I am talking about again you will say this is something that is also at the center of the Indian universe Nestlé Heath Science. This is again a relatively small within the group of the Nestlé brands that we have got. Clearly something that addresses some of the core health issues and some of the clear nutrition requirement that consumers have over a period of time. There are different products here, different segments some of them are related to a particular diseases whether it is renal or whether it is hepatic, whether it is protein related RESOURCE high protein I do not how many of you have tried it. This is probably one of the few products which is 78% whey protein and 0.1% sugar, so you are not taking a lot of sugar with this product. It is good and protein supplements are clearly an area of significant growth. Now over a period of time clearly, clearly we would be rolling out and investing in this category to make it much bigger than it is. There is a nutrition requirement, there is a health requirement and let's be very clear I think all of us know very well I hope it never becomes but this is heading towards becoming the Diabetic capital of the world. When you are going to have these kinds of issues coming up, companies like Nestlé need to put its foot forward in terms of at least coming with specialist products and then hopefully making some of our mainstream products also compatible and friendly with a lot of people who have these health issues and lifestyle related issues over a period of time. So this is really laying a foundation as we see it.

Out-of-Home this is a significant opportunity. This is an opportunity that is growing at least a twice the pace of the retail opportunities and Nestlé has its significant presence there. As I speak to you we have almost 350 touch points today that are either MAGGI hotspots or NESCAFE hotspots or places where there is an availability of the full portfolio of Nestlé and that is really the advantage that we have got today. We are not just a noodle Company, or we are not just a milk Company. We have noodles, we have milk, we have chocolates, we have ready to drink, we have cans we have whole repertoire now breakfast cereals, a whole repertoire of things has become a significant part of the out-of-home presence, this is also Nestlé brand, this is also Nestlé presence and we are close to about 30,000 vending machines that are already set up. We are not the biggest but we are one of the biggest and there are clear plans here to bring in the benefits of our brand and of our technology in order to leverage this space and indeed with the millennial generation, with the working population, with increase in urbanization, most of you would emphasize with the fact that you try to eat out more than you tend to eat at home and that is becoming a clear opportunity space as far as the Company is concerned.

Again all this during the course of the last year has led to and I talked about it in my first start I talked about the power of people and I think that is something that has been truly a humbling experience for the Company is that in numerous areas of the Company we have achieved excellence not just in innovation space, in the marketing space, in the digital space, in the supply chain space, in managing partnership in human resources, in talent management, in our credibility across other space whether it is with government authorities whether it is with the environment at large. All of this has become a significant part of the skill set of the Company and some of the products of course here for example Ceregrow has won the ‘Product of the Year’ award 2018, this is judged by consumers not judged by us. We don’t sit here and decide on whether something is innovative or not innovative, consumers decide on each of these products. Why it is innovative because it an excellent product for kids who are upwards of three years who need the kind of full nutritional composition that is not available in any other food form that they might consume. So all this is building a sense of greater purpose, greater excitement, greater aggression and also greater capability as far as the organization is concerned.

We talked about double the digit growth and I just want to put a slide out here that captures what is it that we have done. I have just said we are in step with our listed peers. Now this is a comparison between Nestlé India and our listed peers that we compare ourselves to, 2016 obviously our growth rates were much higher because we are coming out of a crisis. The numbers are higher, 12.8% versus 6.4% almost twice that of our listed peers. The full year 2017 has also shown that the Company has outperformed its listed peers from 9.2% to 11%, again in the first half of 2018 some of them had the benefit of base effect some others have accelerated growth, we are there in the same league 13.6% versus 14.8% and the journey continues.

If you look at the value deliveries, I am just taking here because it is not important to go across the last 10 to 15 years but we could take recent past performance which is a performance that keeps us alive and that keeps us awake. The fact of the matter if we look at the comparable growth because this is the GST adjusted growth rate to make them comparable, with the past trends accord you can see the tracking of double digit growth has been fairly consistent in the last couple of quarters. So this is not a one fall between the summers. This is not one-off action that has been taken that is leading to these growth hopefully these are actions taken sustainably across the organization that is leading to these kind of benefits. I talked about penetration-led growth, I talked about volume-led growth, I talked about the fact that this is going to be the mantra that we want to follow as a Company. So you can see what we are doing there. Again the volume growth has been fairly strong and fairly sustained and this has been over a period of time when you declared our results for the last quarter please note that the volume growth that we had in Q2 2017 was also 7.7% which was one of the highest in the FMCG industries. So we are talking of higher growth numbers that we have achieved, it is a not a base effect that is leading us to give us whatever results.

This is obviously a tough journey, this is obviously a compelling journey, this is a journey that demands that all the parts of the engine are in symphony that all cylinders are firing, but honestly we cannot build a business in consumables unless you have this at the center piece of whatever you are doing. Some companies choose to do it differently, but I think it is a strategy and a strategic call that the organization has taken. So therefore, in terms of overall I talked about growth and profits. So, you can see that the numbers here the volume growth, the growth for organic growth and of course operating profit as a percentage of sales has also had a very steady tick over a period of time.

This is the model that we would like to be in given the circumstances, given where we are, this is always every Company has got a fond wish and it is this wish that we have got sustainable growth with sustainable profits because that is really what makes us a compelling proposition.

Total shareholder return I talked about it and I think chart captures it a little bit longer from 2008 till July 2018. We have had a total return of 504% during this period, annualized return of little over 20% and in fact the stock has moved up 7.3x versus the FMCG Benchmark Index has gone up by 6x and as I mentioned to you we crossed a trillion rupees of market capitalization a few weeks back. Therefore, I think that is also a milestone that we would like to keep in mind and this is something that gives the organization an enormous responsibility and it also gives enormous motivation and inspiration to continue the journey to make it strong and faster than what we are today. So if you were to say you want to do it once more, there is an encore to it, what is it that you need in terms of essential principle. My communication to you always been fairly simple and I do not use too many complicated terms or any complicated jargons because I believe i.e. intrinsically move fast, is the core set of simple thing applied with diligence and with an enormous amount of inspiration and hard work to make it happen.

So for us what are these eight essential “M’s” as I call it.

#1. Mind set of growth, I can assure you one thing that Nestlé is with a mindset of growth. We are not sitting here and talking about let us do a 0.1% kind of growth and clap and go down the room and congratulate each other. I am a double-digit man I would like to stick to it wherever possible and in whatever direction I can to make it happen well and good if I cannot make it happen I will try and I will continue to try. So, the mindset of growth is something that is at the centre of the growth model that I shared with you on the very first presentation

#2. Method and plan and I will come to this that there is a method and plan to it this is not an accidental exercise. The reason why I showed you this chart on the trend growth rate because it is not something that has been a on fall between the summers, but it has been something that you tried to work on over a period of time so there is a method and plan to it.

#3. There are meanings and outcomes to it, we do have very clearly the outcome coming out of our strategy and we have got a very clear meaning in terms of what are the areas that we will be focusing on over a period of time both in terms of operational excellence, both in terms of organizational simplification and also in terms of the people strategies that we will have.

#4. Mastery of execution-the most brilliant strategy has been put to that by allow the execution and we too are going to look at it we can say it is a redefined environment or a redefined leadership or whatever but if the execution does not happen we fall by the way side. What I am proud to say in the Nestlé organization, this is the spirit and is the Mastery of execution over a period of time.

#5. The next one, Might Lies in Detailed Clusters and I will come to this what is the mindset of the organization, how are we going to ensure that we have the growth model that we are talking about and gives you really Might lying in the Detailed clusters that we have put forward as a Company.

#6. Managing infrastructure to match growth. We had the MAGGI crisis in 2015 that derailed us temporarily on the path of achieving our distribution excellence. I am happy to say that in 2018 we will be back again to the distribution numbers that we have lost in the interim because of the issue that we have been in building back the brand but again as I continue to add more categories and I continue to add greater traction to it, the challenge that I have is to match the infrastructure, to match the growth ambitions of the Company. So this is an area where there is a lot of work been done, in go-to-market through clusters and through planning a better infrastructure management in places where the cost of infrastructure are clearly on the increase.

#7 Magic of people: I talked about it, I know this is not an audience of HR professionals but I can tell you one thing that I have always believed that if you got a people on your side, anything and everything is possible as far as the organization is concerned.

#8 Music of performance. Ultimately all of us as human being are elevated or inspired by the music of performance. I think if we carry on this virtuous cycle and that I think the challenge of all of us and you face it in your own business any single date, but for us the challenge is to ensure that the music of performance in all parts of the organization continues.

So let me now come to this element that has been talked about and that have shared at various points in time is Consumer Clusters, what is it and why is it a different approach for us and why is it that you think that this is an approach that is likely to help us in more ways than one. If you look at the context, our current construct was we had geographic branches and we had of course the political states. So we looked at every geography, every opportunity through a construct of a geography and a construct of a state. Consumer targeting was influenced by past precedents and of course by performance. Number three, that all new products planning and launches were based on largely legacy and past performances, how did we do on a particular brand in a particular geography, is there a merit in launching it there or not, and what should we do, should we do a limited launch, should we kind of pray and pray across the geographies and be wish whether these brands work or not. The context in India is changing dramatically. This is also contextual. It is not that something voltaic has happened to us. It is the environment in which we are in that also compels to have a change of thinking.

So where do we see the gap, the gap that we saw was clearly that regional players and startups are showing in consumer connect is high agility and there are nimble footed players out there who are coming in and who are able to chip off the bits of market shares that we are finding hard to keep.

Number two there are many India's within India. We know intuitively but in consumer marketing term it is becoming even sharper, even smarter. The big cities that we talked about a few years ago saying that the large metros where the business is now redefined by the Ranchi and Raipur coming into the top gear. So when you included these cities in the top launches today they become important in the context of any new initiatives and of course we need to update our view of consumer India. So, we have gone through a fairly extensive exercise and this is using big data, using analytics, using both ability and affinity as measures in order to map out every single area that we are operating in geographically in terms of category sense. So, to grow by reaching out the consumers more efficiently that is number one. Number two, by having a sharper understanding of what are our consumer potentials both demographic, typographic, attitudinal, media habits, shopping habits and different matrices that we can use to it and also consumer differentiation what are the kinds of differentiation we looked at, at different levels. What sells where and who buys what and why? Sometimes you know that some brands was in particular geography but why does it work. It is not dependent on anecdotal evidence but it is also based on some weak consumer insight that we need to put in.

So, as a consequence of this fairly detailed exercise, we have now looked at not again changing our organization structure because I am a fellow who is fairly averse in terms of adding head counts and adding costs - that is not a good way of running businesses but what we have tried to do, we have tried to cluster India on this business. So, our India now is in 15 clusters. There are three clusters called geographic branch and there are three metropolitan clusters which again is not just the metropolitan cities but it has got other elements that gets added to it and the prism for looking at all the consumer-led activities, distribution-led activity, brand-led activities, innovation-led activity, execution-led activity, decision-making activities are all seen through the prism of the cluster. This makes it a lot sharper and a lot smarter than an approach which is an intrinsically date on mega numbers and mega issues and mega perceptions.

So what is it that we expect the cluster approach to do this is to unleash the growth potential. We talked about growth as an important dimension. Here are the benefits that we have already started to see, one is planning ahead, I think the planning process has become a lot more seamless, a lot more transparent, a lot faster because there are fewer number of people involved with greater amount of information capability and digesting capabilities of that information.

Second problem solving, a lot of the problems are not related to the strategic content of brands but lies more in execution how are we going to make this happen. I have launched 39 brands, how are we going to digest 39 brands into my distribution system, into my warehousing system, into my commercial organization that is a challenge. I can keep pushing from the top saying look I want to have 55 brands, I want to have 60 brands, the fact and the matter is that you must have selling capacity and we also have digesting capacity, capability of being able to handle it within the organization.

Third, performance tracking. This is making performance tracking a lot sharper - so the examples of the eleven products that we knocked out happened fairly quickly because we were able to track and say this is working and this is meant for the geography, it was introduced but it did not work and here is the consumer prognosis, 'do not waste your time going after it, don't keep trying it out in different geographies, take it out, do improvise and do something else.'

So the strategy that we have is not 100% perfection, it is 80% workability. If something is 80% workable get out there and do it limited or large is a question of fight but you need to do that and then if you find it does not work your performance tracking mechanism pull back and put something else because there is no point in trying to keep that faith shaken.

Resource optimization and this is leading a lot of resource optimization where do I need to be media dense where do I need to be media dark, where do I need to be in digital mode, where do I need be in activation mode, where do I need to be in sampling mode at various point of sale, more importantly, what our shopper behavior is and how are they influencing the way in which I am looking at the brand. All this is becoming a lot more sharp and therefore the resource optimization. The money that we put on A&P becomes a lot better in this new Consumer Clusters.And last but not the least and this is something that I am delighted about is empowerment of the local levels. If I am sitting in Rajahmundry I need to have a say in the fortunes of NESCAFE Sunrise in Rajahmundry, why should somebody sitting in Gurugram take the decision whether to run a consumer promotion there or not, what should be the trade promotion, what should be the activation, I am not saying that every decision is taken here but for the sake of simplicity, if the decisions they take move 75% towards the geography of action it is likely to lead to much better results and if 75% of the decisions are being taken here with me being involved because I am still looking at the map and figuring out where the hell is Rajahmundry? So I think these are some of things that we have put in place and we are quite confident that going forward this would be a distinct benefit to us both in terms of optimization and in terms of commercial excellence that we do. So remember that all this is virtual organization I will not sit here and put a big structure. These are all virtual organization mapped within the context of where we are and how we are in order to improve the efficacy and improve the efficiency of our operations. This is an area again the process is not just of optimization, the process is also one of efficiency and this I will not dwell into great detail because my colleague, Shobinder Duggal – the CFO would be taking you through this module but again what we are trying to do, we are trying to say wherever there are economies of scale, huge activities to scale. Why should you create little boxes in every single geography to do this function it can be centralized and which can be put into a single business excellence center.

So this is really going to means three things:

One is going towards center of excellence.

A center of competence or what matters needs judgment move into the areas the judgment centers and of course Nestlé in the Market which is what we say that all Nestlé businesses come together on a local basis and wherever there is non-sharable categories and where our business focus is more customer focused.

So these are ways in which we improve efficiency, we improve optimization, we improve speed and also as a consequence we reduce the overall cost that we have in our systems.

This is the piece that we talked to you about people. What is it in people that is making a difference in the way if we look at it.. Happy to report to you that this is again Nielsen Survey in the FMCGs that all FMCGs has come on campus and Nestlé ranks in the top three. So therefore, the question for me is not the catchment area or the type of calendar I guess. So therefore, we are reasonably certain that Nestlé works with some of the brightest people who are interested in joining FMCG. Of course, there are many who are interested like you in becoming analyst but there are some at least who want to work in the FMCG sector right, and we want to get those people.

What is striking is that for most aspiring students Nestlé is in the top two. Who says purpose, value, who says, dignity, performance and portfolio and responsibility do not move on to that. We are not the highest paymaster in the industry but we still manage to get some right people because of some reason why we are able to do that and that is probably one of the things. We also pride ourselves a lot in gender diversity and I think as a Company we are making steady progress. I will not say we are there but we are making steady progress. About 18.5% of our total employee strength are women. We are one of the highest in the field women of any consumer organization almost 17% of our field force are women and about 15% of our managerial position are women. The future offers to be even more promising in management training 71% of that are women so it is a fairly strong number and you are trying to break some mindsets here by getting skeptical feeling and these are mechanical engineer, chemical engineering, food technologist. nutritional expert and manufacturing experts, dairy technologies 63% of them are women so we are putting them in our factory to ensure that the next generation of the production manager and hopefully one day the technical director will be a woman for this Company that will be a day when there is a lot of enormous amount of difference. I am not going here into the reasons why we do it. We do it because this is a core belief this is one of the respects that we have for diversity or is something that is playing out extremely in the context of our organization. Multiple touch points, he talks about it I am not going to detail. So, there are numerous ways we need to keep track of the talent and the talent keeps track of us. So, there is clearly a progress that is happening here that is also going to be an important aspect. Again, how to retain these people, you get the best people how to retain them and I am happy to say that the high attrition performer or high performer attrition in the last 4 years has come down quite significant, right? Today you talking at 3% level of attrition, which is pretty low, right? This is not the boast about it but this is clearly something that we want to set up ourselves into a benchmark so that we are able to do faster and smarter. We will manage the attrition again as a result of all the steps that we have taking as a Company has hurt in the last 3 years. It is important for us because this is an essential part of who we are as a Company this defines the moral, the cultural and the employee strategy of the Company. We also going in extensively for having soft skill enhancement program on campuses especially the technical campuses, I myself was there at Udaipur and NDRI, Karnal in order to conduct workshop for young engineering technology graduate because their preparedness for the industry is still a little bit deficient when it comes to leadership, people management and assertiveness, right, as compared to the technical skill that of course, they build up and there we also support them through internships. Again, I think this is something that is I am proud of it is that I know that all the millionaires is here and all the young people here we all lead very stress life, people like me are little over the hills therefore stress life are not for us. But we certainly beat the stress life's and we are putting in place employee wellness initiative. We are almost 3,000 plus employees have been covered with 24/7 professional counseling support has been provided and of course self-assessment tools on where you stand. Why is this important because this define the performance fabric of the Company. We going to have a bunch of people who are perpetually on the treadmill of anxiety that it will not be great for a particularly great organization.

How do we deal with healthier society and healthier environment, a very quick take on this. I think we talked about enhancing quality of life and contributing to a healthier future for individuals and families, for the communities and lastly of course for the planet and the future. There are some core programs here, which we are very proud of not that we are not proud of the other programs. For the Nestlé Healthier Kids program covers over 200,000 students on nutrition education to ensure that they start living better life and they start leading better habit in their own life. The other one which is something for which we are extremely proud of is the training of Street Food Vendors through safe and hygienic food training. I think this is the area which is of extreme important, we started this across 5 states and the response is extremely good. This is a way in which you secure livelihood of people who are selling in the streets. And last but not the least of course is the water awareness program which we are extremely proud of. And of course, apart from this there are numerous initiatives around the nutrition area, around the farming area. For example, in terms of reducing the water consumption in agriculture which we are working with the government of Karnataka and fundamentally ensuring that our employees are involved in this entire focus. Because that I think builds in accountability over a period of time.

Well, Good Food, Good Life also means eat right and that is an important element of business that is why we are a food Company. We have reduced alkaline contain by almost 10% in relevant categories. We also reduced the amount of sugar which is got in our product, 850 tonnes reduction of Sugar in relevant product categories in recent years. We are pledged more to it because this really does not stop and we are very much part of the Eat Right movement that FSSAI has put together which we believe is an important initiative across the country. We put down a clear pledge and this is in writing and this is a commitment reducing the levels of sugar by 6%, reducing levels of salt by 10% and reducing the levels of fat by 2.5% across the portfolio. Now, hopefully all this will be without comprising the taste because obviously I can reduce sugar by 50% and give you a product that will not taste right. The technology gives the capability to do it without affecting the taste of the product.

I am putting this upfront because this is an environment issue, plastic waste management and I think as a Company we are committed to it and we are, I must say that it is beyond the emotional phase of trying and putting action where our mouth is because I think this is something that we can’t keep waiting for consumers to educate themselves and society to educate itself Reality in India is that we generate around 26,000 tonnes of plastic waste every single day, 6% of which is multilayered plastic waste. Why are we using plastic in the first place you all know the importance of it is shelf-stability, it reduces the food waste as a consequence of it, innovative packaging options are available and of course it also makes for consumer convenience. This is not a pitch here to tell you guys how important plastic is because do I even need to tell you that? You need to hear from me what is Nestlé going to do what because I think is an important element as who we are as a Company. A few steps that we have already taken and that we are in the process of putting in place a plan for reducing the use of plastic we will do it for a period of time. We reduced for example last year about 1,500 tonnes of plastic that we use in our products. Number two is that we are working with the authority, with State Pollution Boards, with NGOs, with other industry members to develop waste management model, to develop recycling models, sadly none of the material is biodegradable, right now. It is still sometime away in terms of technology and the commercial necessity of this. The second one, of course is that the Extended Producer Responsibility implementation which is already in place in 12 states. So, we have moved on this reasonably quickly and my colleague here, Mr. Sanjay Khajuria, is the person who leads this initiative as far as the Company is concerned. Changing the packaging combination, I think this is work in progress in terms of developing more environment friendly packaging, we are doing commercial pilots now on MAGGI and Munch packaging and hope to roll this out very quickly which will make it more friendly in terms of its recyclability. So, that is clear an area that we want to focus on and of course we all know the importance of tourist spot and the brands that figure on this. We have taken on a plan and we are working on this quite aggressively with the few entities special kind of action for hill states and tourist destinations. Because this is an important element of this and we will not as a Company walk away from it, I want to give you the commitment that we will be invested in this and we will not walk away from this because I do not think that is right for either as being an Indian or for the society in which we are. We may be small contributors to it or we will not be the guy who move the dial, big time but as investors of Nestlé you need to understand that there is a commitment and the strong bonding as far as this issue is concerned. And building of course, awareness, consumer awareness on plastic waste disposal because all of us to go on holidays, we realize how people are flinging out bottles and packs of various stuffs from their car and littering the roads and the Rohtang Pass has got more bottles in it than it has got ice so there is a clear problem in this. So, both the societal commitment and the environment commitments are going to be a part of ensuring that we have a healthy business, we have a healthy portfolio, we have healthy results, we have healthy people and we have a healthy environment.

So, I want to leave you with the few key takeaways today as a consequence of whatever I said “Speed, Sharpness and Sustainability” are going to be the key mantras that we will operate with, in the context of 3 behaviors “Fast, Focus and Flexibility”. Nestlé is not here to keep waiting and keep wondering over things to happen. We can have our own doubts and we can have or own frailty but the fact of the matter is that we need to move on as an organization with the opportunities that we have.

Innovations are at the core and I talked about this improvise. Getting 80% right product and put it out there, right, try, tested, and scale it up if it works, if it does not work take it back or something else, right. Waiting for perfection to happen is waiting for the perfect boss or the perfect partner, both of these are still a dream as far as human beings are concerned may be you have yours but all of us have our own questions on it, right. Those dimension, I talked about it we are here to thrive and not to survive. The mindset are very difficult. I am not talking here about I can keep my head above water this ensure that we guys will do it that is not objective at all. The objective is there is an organization that is capable of unwinding its potential, we will do it and we will have the mode of thriving and not just surviving in the environment that we are in**.**

Manage the market shares growth should be greater than category growth remember that 85% of that is sitting on market leadership. So, we have a task there to be running on the treadmill to ensure that we do not get upstage. That is something that I want to give you the confidence on that we do not want to be only clusters, micro-targeting resources for action. I think rolling up the sleeves and getting things done rather than just having plain presentations and telling you what we need to do about market is not important and I think some of us and people like me have had long-long time to realize that the action is putting the pack on the shelf and not in the computer putting it as a click. Right here these are very different in terms of what we do.

Our key efficiency enhancement to Nestlé Business Excellence, Nestle Business Excellence is looked at as an efficiency enhancement and also as a way in which the enhance are all capability to ensure that the front line remains connected with the consumer and the customer rather than worrying about transaction and worrying about putting this transaction in assistance. Active engagement with enlargement and issues and I think that is something that I want to put forward but this is not something that we will walk away from and last but not the least people, passion and progress as a way of our life. I believe that what you have seen from the organization has been less reflection of any of the leadership of either me or people sitting on the dice but the wind and the collective ability of those 7,200 people who have made the result happened for the organization in the last couple of year.

I thank you very much for your time and for your attention.

Shobinder Duggal: Good afternoon, very warm welcome to you once again to this analysts meet. What I propose to do in the next half an hour or so is to talk to you about four specific points, one is what Suresh mentioned earlier on the Nestlé Business Excellence, what are we planning to do there. Second is to take you through the market dynamics specifically for the last 2 halves, H1 2018 and H2 2017. Since we are going to be talking to you on the financial performance and we have been declaring our results with a lot of caveats on comparable and things like that, I would rather recap what is the impact of GST on our numbers which we published and then come to the financial performance for first half of 2018.

So first things first, what is Nestlé Business Excellence. It is essentially folding in 3 organizational units - Global Business Services which was formed centrally by Nestlé SA in 2006; Nestlé Continuous Excellence which was formed in 2008; and you must have heard before about Globe which is a technology backbone and ERP and this was founded in 2000. It has been decided to fold all these 3 organizational units under one umbrella which is Nestlé Business Excellence and essentially the idea is to leverage skills and capabilities of specifically NCE and Globe. What does that mean? I think Suresh already touched upon in his presentation and the main objective of this is to generate fuel for growth. How do you do? it is essentially by simplifying, standardizing and sharing some of transaction based activities and other activities which require certain amount of judgment so that you are able to release time for demand generating activities. Now, first part of this is to optimize the end-to-end flows and I am pretty sure that you are familiar with the industry standards of order to cash, record to report, so on and so forth. But I think the important point to note here is that these end-to-end flows are being scrutinized on 5 vectors which are processes, the data embedded there, the organization which is running it, the technology on which they are based and the degree of penetration of shared services in each of these end-to-ends.

The second part is on the world class business services, which also as I mentioned earlier, a group initiative and essentially what it entails is setting up Centers of Competence which engage into judgmental or competence skill, for example, costing, treasury, pricing and so on and so forth. The second part is the Center of Scale which is transactional activities requiring far lower judgment, there is some judgment involved but very little and the competence levels for center of scale are very different from the competence level required for the Center of Competence. I am happy to share with you that we very recently inaugurated a Nestlé Business Services setup here in Gurgaon which is going to be essentially looking after the Indian business as well as lending its services, when the time arises, to some of the other companies of the group in the region, but that is the long term direction. For the moment it is mostly focused ‘on India for India’ and this can bring into, if you can see this part on the screen, this is the end game - to have a demand focused organization with obviously the enablers being NCE, which is more people orientation and Globe which is more to do with technology, data and processes. These are the typical phases of an NBE program, first is the ‘Transparency’, second is the ‘Engagement’ and third is the ‘Transformation’. Below the slide you see the various end-to-ends. For example, Plan to Execute is currently under the Transparency phase as far as we are concerned, Idea to Launch is under the Engagement phase, Record to Report is in between Engagement and Transformation, but the ones which really matter the most today - “Order to Cash and Source to Pay” are in their transformation phase and we have finished the journey of Transparency and Engagement.

What does this actually mean? Why are we sharing this with you? We have had a classical structure of operating through sales branches and which virtually engaged into more or less all kinds of activities from selling to supply chain, to order processing, to accounts receivables, to accounting operations and things like that. What is going to be the future design is that lot of these activities are going to move from decentralized setup into a centralized setup, either into Center of Competence or in the Center of Scale. We’ve had some advantage because we already had a shared service center which was related to mostly financial transactions. That is going to get extended now to embrace activities which are more relating to order management, collections and customer facing supply chain. This would also entail a certain degree of restructuring which we will have to undergo based on the new design of the organization and that I think is also the reason why we are sharing this with you at this juncture, besides the efficiencies which it will surely bring. I am pretty sure that many of you are aware that some other companies have already implemented this sometime ago.

Coming to the market dynamics, this is how it looks. So if we look at overall FMCG market that is close to 53 billion and this is data which has been taken from Nielsen. Out of the 53 billion, food and beverages is close to 30 billion and the categories in which we operate is close to 5 billion. As per Nielsen, the way first half of 2018 grew was close to 11% on the total FMCG, going down to about 8.3% for the Nestlé categories. We say the market momentum continued to be favorable because you will see later on in the results that this has been an influencer in most of the companies' performance including ours. It is not that the growth rates have softened in general and I would mention that in our categories where you see 8.3%, it is also the impact of price drops which many companies would have taken post the implementation of GST late last year where lot of GST rates were reduced, the benefits of which were passed on. All in all I would say this momentum has continued to be favorable.

Suresh shared this information with you in another way. What I want to bring out to you is that we have seen that the products which score high on nutrition, health and wellness have a tendency to grow faster. If you look at the standalone profitability of these products, they also perform better than the products which are relatively less on NHW and this is pretty much in sync with our purpose, our vision and our focus on NHW.

Recap on the impact of GST on our financial results. For the first half, the reported sales growth is 5.8% lower as compared to what it would have been had there not been a change in the indirect tax structure. This obviously has also impacted the growth rate by 6.7% and that is why when you see the comparable figures published, we gross them up for these percentages. These percentages are not only reflecting the change of the tax rates or the movements in the tax rates in different lines but these are also reflecting the price changes which were done to pass on the benefit of GST to the consumers. Our operating profit as a percentage of sales is overstated by 120 basis points as compared to the previous era and the net profit as a percentage of sales is up by 80 basis point as compared to the pre-GST sales. Just a little reminder that when you try to compare numbers which have been published, you are going to face these challenges, for example the expenses which have been reported, pre-GST were inclusive of taxes, unless and until they could be offset and post GST to the extent they are available for an offset, they are net of taxes. Likewise, if you try to do some ratio analysis they will be distorted. So before you conclude doing any kind of ratio analysis you may refer to these slides to be able to bring some color to your interpretations. This is more to guide you reading the reported numbers and also help you doing your valuations including the terminal growth rate.

These are the highlights for the first 6 months. Our reported growth rate is 7.3% which compares to 13.6% on a like-to-like basis. Real internal growth is 9.9% and because there is a negative pricing, you see the OG at 7.3% compared to a comparable figure of 13.9%. The reported margin looks like up by 590 basis points, it seems a lot but you will soon get to understand where the movement is coming from. Effectively it is an increase of 470 basis points with a 20.9% operating profit. Our net profit reflects an improvement of 300 basis points to 14.3%. Total comprehensive income moves from 5.5 billion to 7.9 billion, reflecting 13.9% of sales. Earnings per share has gone up by close to 44% and it is important to note that roughly 10% of the earnings per share come out of non-operating profits, that is out of the treasury income.

If you look at the evolution of our quarterly results and here you can see that the first 2 quarters of 2017 were the ones pre-GST and from the third quarter onwards you see the numbers which are post-GST. So the growth which was running at 9.1%, 7.3%, reported for Q3 and Q4 was 3.6%, 10.9% and comparable was 8.6%, 17.7% and so on and so forth. I think, either which ways you look at it, the absolute amount sequentially have improved post-GST implementation from 25 to 25.9 billion, which stepped up to 27.4 billion in quarter 1 and 26.8 billion in quarter 2. Likewise, you have seen improvement in profit from operations and yes coincidentally they seem to be improving with the same quarter as the implementation of the GST. But you will soon see the underlying reasons for it and then we will be able to appreciate better where the improvement is coming from, it has got very little per se to do with change of the tax laws.

Sales performance split between domestic which is 94% of the business and exports 6%. The value growth is 7.1% on domestic and 13.8% comparable. The volume has gone up by 9.2% and kindly note that the 206.1 [‘000] tonnes which are being mentioned here include the grammages which had been given to the consumers to pass on the GST benefits. Also, the fact is that the 9.2% is an aggregate of tonnages and as we move towards selling more liquid products these percentages have to be seen at the lowest levels for you to interpret what is the underlying growth of each of the business. Besides naturally the mix of powders and less density products and so on and forth. The reason I have not shared with you the RIG is just the way OG or organic growth was impacted by implementation of GST, there has been an impact on the real internal growth also because of the GST specially due to the fact that we have been coming with a number of new SKUs and new products and they disturb the equations, so that is why we have kept it aside and not to confuse you with this. Export finally has shown a very good progress in first half of 2018 after a number of quarters which were soft in the past.

This is the domestic growth where if you peel and leave the comparable out this is the reported growth which is 7.1% and you can see that even though the RIG maybe a little bit distorted but at an aggregate level the distortion reduces. So, the underlying growth which comes out of volume and mix of products is actually 9.8% which is broad-based as you will see in the subsequent slides. This has been offset by the negative pricing due to the implementation of GST both due to the enhanced tax rates as well as the fact that prices were dropped to pass on the GST benefit.

Sharing with you, that the growth has been broad based, you can see across the regions on a comparable basis the growths are well above the double digit. E-commerce has grown very well, it has been growing quarter-after-quarter sequentially for number of quarter's. First half as compared to first half, we have grown by 72% and our focus continues to be there on this channel.

Just a summary of the categories you are familiar with these, but again the theme is on the broad based growth. It is fairly well spread out across the categories.

Coming to the first category which is milk products and nutrition, you see here the category has grown on comparable basis by 10.8% which is backed by volume growth of 4.6%. It is not that every single brand has grown by 4.6% and 10.8% but the good part is that most of the key brands have grown within the vicinity of these figures given and take a little here and there. We have had an excellent response to both Ceregrow and NAN Excella pro which were launched recently.

Moving on to prepared dishes and cooking aids the value growth is 15% the volume growth here is 12.8%. You would like to know where are we on the rebuild of Maggi Noodles but simply put we are a little short or little shy of 100% of the pre-crises in terms of value and we are little short of 90% on the pre-crisis volumes and this is based on the average which we have had for the first ballpark 7 months and hopefully by the end of this year we should be able to surpass the pre-crises levels. You see the way the movement has happened reflected in this chart which has been indexed with 100 for quarter 1 of 2016 and quarter 2 at 2018 to 154. We have had a very good run with Masala-e-Magic with lots of activities which have been done, the growth has been extremely strong here.

We move on to confectionary, the comparable growth here is 15.3% and you might get curious about the fact that the volume growth is only 6%. The reality is that our key brands like Kit Kat, Munch and some others have grown extremely well, we've had a difficult run with the Eclairs business, the sugar confectionary business which negates the growth of wafers and whites and brings the figure to around 6%. Also, this is the category where we've had a good increase in grammages across different SKUs because being price points, it was difficult to pass on the GST benefit through pricing and actually the majority of grammages which you see on an overall basis are in this category. We have continued to focus on value up and main stream and have kind of worked through our activities supporting growth of those particular SKUs in the entire portfolio in this business.

Coming to powdered and liquid beverages it is important to know that the growth here is also being influenced by a sharp increase in the contribution of the liquid business which is in its infancy but it is also heartening to know that the powder business has also done well. And we regained our number one market position in instant coffee where we had slipped some time ago. So, this is the business which on a comparable basis have actually grown the fastest in terms of percentage and had the taxes levy which were amongst the highest.

Moving on to operating profit and I think, this will give you a little better picture of why do you see such a steep jump. Now, first of all when you see something like 16.2% going on to 20.9%, I like to remind you that 16.2% as we discussed last time was one of the lower set of margins which we had delivered in early 2017. So, the base is fairly low. What makes us move to 20.9% I think, the story is as explained here. So, you see that this is how the commodity prices moved in the first half of 2018 versus first half of 2017. Milks was down by 12%, wheat was flat, coffee -8%, palm oil up, sugar down, DWP up, MSK down, palm kernel down. And if you look at the index of commodity basket it has been having a yo-yo but it has steeply increased from 2011 to 2014 then for 2 years it came down, it stepped up in 2017 to 122 and H1 2018 actually it came down to 119. Looking at it a little bit more granularly because you watched the quarter 1 and quarter 2 numbers where you had an expansion in margins. You can see how the price index of the commodity basket increased in Q4 2016 and how it has been coming down. But before you conclude that this is a trend for certainty, I would like to share some figures with you which show actually the things are hardening. So for example the milk prices hardened a little bit as we speak, same goes for wheat flour, coffee, palm oil, sugar, DWP flat and MSK is slightly down, palm kernel oil is up. So, we are seeing as we also mentioned in our results, some headwinds which we are facing now. The benefit which we get in employee benefits and other expenses, are largely coming out of the scale benefits or the operating leverages as we call it. Depreciation is in many ways the result of if you recall some years ago we had built up an industrial structure quite heavily and it has been used ever since then including the aberration which we had of the non-usage of the Maggi Noodles lines fully after the crises while the depreciation continued. So, naturally the depreciation now is giving us a favorable impact after having given us a hit in the earlier years. Advertising and sales promotion, this is reflective of that we have stepped up the direct expenditure on advertising and sales promotion and that accounts for a 50 basis points erosion in the built up of the margin. What you see in the end between 20.9 and 22.1 is something which I mentioned to you guys in the beginning illustrating the impact of GST. So, I think for all practical purposes, it is best for you to focus on the first part here from 16.2 to 20.9 to be able to analyze the underlying performance of the business.

This is how the marketing spends look. These reported figures have been adjusted to bring some sense and make them comparable for you to digest them. There is an overall increase of 14% and the intensity remains at 7.8% even though the underlying expenses are switched from some other heads into direct advertising and happy to share that the digital spends in percentage doubled since 2014 from what they were, where the spend was x has become 2x in the overall scenario. And we have maintained supporting the new products consistently over these periods.

The value of the tax cost has gone up significantly which is directly related to increase in the profits and with the tax holiday at Samalkha factory Unit-2 coming down to the 30% levels, the effective tax rate has gone up. Net profit after tax is relatively straight forward story most of the improvement is coming from the base which I talked about the lower base. 310 basis points coming from the operating profits which I just explained. Financial income I talked a little bit right in the beginning this is the treasury income which improved further and tax has taken 40 bps out of it giving us a percentage of 14.3. This is also pretty much reflected in the fact that our cash generation has been very strong and I think this is the first time we crossed the 10 billion mark in half a year. There is only one part which is worth commenting here, while there have been some underlying improvements in the trade networking capital, but we have also been enabled with some one-off from the comparative periods. So, I won't go by sustaining the 600 million cash generation from working capital quarter-on-quarter. On the other elements of working capital, its now more comparable unlike last time because we have both periods more comparable on GST which has redefined some of the elements moving from trade networking capital into other elements of working capital.

We have stepped up our dividend payout systematically over the years and so far the trend has been positive and enhancing for the first half of 2018 as well.

Capital efficiency and value accretion has been systematically improving and you can see a large part of the value creation is actually coming with depletion in the invested capital and this is also heavily contributed by the book value of the fixed assets coming down as the rate of enhancement of the fixed assets is lower than the rate of depreciation. This also goes back to the fact that we had a hard time when we build up capacities for a few years that you see now the dividend of that is coming through.

So, what does that mean in summary. The market momentum continued to be favorable for us and help us in delivering this performance for the first half. We have market leadership in 85% of our portfolio. We have retained focus on nutrition, health and wellness and innovations. Our sales growth has been broad based whichever way you look at it, from a geographic stand point or from a category stand point or even from the channel stand point. Our margin improvement has been aided by softer commodity prices and also with a very soft base which we had in the comparative period. We have had strong cash generation from operations, our dividend payout has increased and we have been able to sustain our value creation. With that I close my session and if you have any questions we can take it in the Q&A thank you!

Shashank Kumar Nair: We will now open the floor for question and answers. My colleagues will help you out with the mic. Only one request, please state your name and the name of your organization before you ask questions.

Vinayak: Vinayak from Morgan Stanley. First question I have is on the infant nutrition business especially the milk products in infant nutrition, whether you had this low single digit growth now for the past three years in this particular category and this is really the category where Nestlé should be doing very, very well, so what is the prognosis of this category because we have moved away from a weak macro environment and all those factors that we had laid out earlier, so what really is the prognosis for this particular category? And if you could possibly spread out definitely for infant nutrition in particular?

Suresh Narayanan : Well overall terms it is certainly a growing category and the reason for the past performance showing very clearly that the growth is accelerating. It is no longer a category of what we will call anemic at the same time I think it is a category where nutrition where scientific selling and where the role of the environment in which children are being born today and are being raised is becoming an important issue, so I can only say that it is very much the centre of plate as far as the Company itself is concerned, but measuring or evaluating Nestlé's capabilities, purely on whether infant formula will grow at double-digit or single digit would I think will be reasonably narrow mindset fatigue as far as the organization capabilities are concerned. Having said that, Shobinder Duggal also mentioned in his slide the response that we have received on some of the value added launches in nutrition has been very positive and that is something that we need to be working on over the periods in the next couple of years.

Vinayak: My second question, while Shobinder gave the numbers for volume versus value across categories there is a big difference in most of the categories. You explained what happened to the confectionary business but in other categories also there is a huge difference. So the question really is that in a year where you had such a lot of input cost tailwinds, where you had GST led price cuts and GST hindrance too, why not be more aggressive on the pricing front to try and capture more volumes. So what is your view on volume versus margins going forward essentially over the next two to three years. Thank you.

Shobinder Duggal: I somehow lost you. I think you started the question with saying that while I talked about the underlying reasons for the volume growth of confectionary, I did not talk about the other categories.

Vinayak: There is a big gap across categories for the volumes versus pricing, there has been some price/mixed action that has happened across all the categories, in a year where you had a lot of tailwinds on the input costs and that has been one of the reason why the margins have gone up, what is your view on the margin versus volume equation over the next two or three years?

Shobinder Duggal: First let me get the volume and value equation straight. I think if you try to compare the volume and value equation this time, you have to do it on comparable figures. Each one of them has a different configuration of taxes. You will see a delta of 6.3 and 10.8 in milk products and nutrition and you will see a delta of 9.2 and 23.6 in beverages. So if you want to really see the underlying business, I would go more by the comparable growth. Alternatively, we will have to redo the 2017 to the post GST, it will not come to very different results. It is true that when you look at the comparable growth, you have a situation where milk products and nutrition is growing say by 10.8 and you have coffee and beverages growing by 23.6. But it is also a fact that coffee and beverages has done better because we have been able to regain market share and as I said before that we have regained our number one position and also there are liquids which were launched in coffee and beverages that have also supported the growth. To say that one is better than the other I think, I would like to take you to the market shares wherever they are available. Means, if you go back to the market share slide, you will see that in infant nutrition, Lactogen if you exclude Amulspray it will be 67% around and Cerelac is still 96% around. So, if these growth rates were softer than the other players, we would have lost market shares. I am not saying that there has not been any movement in the market shares, but the movement in the market share which is significant to note are those in coffee and pasta. The rest of the movements have been relatively small and the specialist who follow Nielsen advise are that that they are within the tar mark of not being significant. So this is to get you thinking on the fact that I would not compare a noodles growth with a coffee growth with an infant formula growth. If I want to see those growth I will see those growth and I will see the market shares to get a sense of how we are doing. That is on the first part of the comparative growth. Look, you know very well that we have always operated in a band of margins and we discussed this before and I don't think that we will move away from operating within the band of margins. We are not going to be endlessly running as some of your colleagues would say margin obsession, we would not be running madly after improving margins quarter-on-quarter, but we will also not be running after improving our growth rates quarter-on-quarter at the expense of margins. So we will pretty much be doing what I think even Suresh mentioned in his opening session and what we have been mentioning earlier. So it is going to be a balance between the two.

Avneesh: My question is to Mr. Narayanan. If I can recall, the first presentation given to us a couple of years back one of the key highlight which you mentioned then was that you will go where the consumer is because ours are more is just a slightly top end kind of a products and now when I look at your cluster strategy where you are saying that the regional players are going into the interiors they are getting a share there, so is there a change in thought process or how do regional players are changing those strategy?

Suresh Narayanan: I think go where the lion hunt is that strategy has not changed at all. I think going where the consumer is and where the consumer feels really for the brand continues to be our strategy. What we have tried to do is we have tried to make these commercial backups for it, the commercial strategy being a commercial backbone for it, much sharper than what we were doing earlier. So it is sharpening the kind of pencil as far as the commercial planning, execution and the resource allocation strategy is concerned, equally what we are observing is that now India if you look at semi-urban and rural markets and let us say urban markets the division that was there earlier, is now coming down quite sharply. So in our own portfolio we will find that KITKAT is getting into a rural market, we find the coffee getting into a rural market, we have MAGGI Noodles significantly getting into rural markets, we have our nutrition portfolio also getting into the rural market, so I think we no longer is the strategy, just that look I will address only one set of consumer, but I will use the cluster to see the relevant part of the clusters which supports a semi-urban, rural strategy to also carry some of the SKUs of the categories that we talk about. It is really to sharpen the commercial orientation, to sharpen the decision, which is orientation, the flexibility and finally the resource allocation. That is really where we are as far as this model is concerned.

Avneesh: Sir, my second question is on MAGGI. At the peak MAGGI was on 55% of our tonnage has declined to 45% during the crisis last year we were around 51% and as Shobinder said this year we would be again reaching to the earlier levels, so now we have more or less in tonnage reached the earlier levels where the market shares are significantly lower than what they were at the peak.

Suresh Narayanan: Tonnage terms we are at about 10%, sorry to correct, we were about 1% lower than where we were. In value terms, we are almost there.

Avneesh: Yes, now from here on, what sort of trajectory we are looking at MAGGI, because if I can recall, a few years back, before the crisis, when your predecessors were there, then the commentary used to be that now MAGGI has reached a level that we cannot continuously grow at a very high level, now what is your thought process on the same**.**

Suresh Narayanan : I think the fact of the matter is that the competitor's space has certainly become more intensive, but the fact that MAGGI has come back to leadership and come back strongly we have seen the growth rate that we are showing shows that the brand has got enormous resilient and power in the market place. The whole snacking area is expanding quite rapidly, so there is nothing called a Noodle space and a district space and X, Y, Z space, all the spaces are interfacing with each other very closely, so we are looking at innovative strategies, product strategies and brand strategies where we will have enhanced offerings from MAGGI which will start expanding the size of the footprint even beyond the main space that we are talking about because that is where the opportunity is. The opportunity is not just it will yield dimension, yes Masala Noodles will still be an important part, but that will not be the only kind of mantra that we will have as a Company.

Avneesh: So you are planning to extend MAGGI beyond Noodles and Pasta into some of the other snacking category?

Suresh Narayanan: It could be yes.

Avneesh: Sir, my third question is on resource, you have showcased a new packaging of these products, I believe that they were available many years earlier also in the market but what actually is required is you can say the recommendations by doctors or prescription for these, so what is Nestlé doing on that front, so that these two orders are more and more recommended by doctors?

Suresh Narayanan: Well, I think, it is very clear that in the whole nutrition space and in fact in the health sciences space, the medical fraternity plays an important role because in the nutrition space there is nothing called advertising and activation and all that and there I believe that over a period of many years now there is a strong position that we have as a Company of choice under the trustworthy partner of choice with the healthcare professional and I think that is only strengthening over a period of time and not weakening and with addition of new healthcare products in the portfolio, we are able to cross leverage some of these equity to build for a stronger nutrition health and wellness platform that we have taken, so in a sense the consumer healthcare is taking a lot of synergies from nutrition and I hope that in the coming years with the addition of more products and platforms today we will in fact enhance the trust level, but all these are based on science, but above all trust and as you rightly said the trust is provided by the medical professionals. So I really think that this whole space will become much bigger. We will ourselves play to our strength. We have a roaster of premium products that we have got in this space, and you will see this happening over a period of time.

Avneesh: Can you share any number in terms of feet on street or people you are deploying specifically to target the medical fraternity for pushing up the sales?

Suresh Narayanan: Let me put it this way. It is a fairly significant number and we can say that at least half of our field force would be involved in people on the ground making contacts with the medical fraternity.

Avneesh: Thanks Sir. Just one maintenance question for Shobinder; if we exclude the RTD launch in Nescafe what could be the volume growth in beverages?

Shobinder Duggal: I will give you the figures for powdered beverages. It is going to be ~ 6% and this is not a reflection of coffee growth, I want to highlight that. I will only share the figure at the total level, but also want to underline that do not take this across all the products, the growth probably which is higher than this.

Abneesh Roy: Abneesh from Edelweiss. Sir, you are already the market leader in 85% of the portfolio. We are targeting growth higher than the category. In the last one year in most of the segment, we have gained market share, is it possible to get some sense on how much is the gain and where you have lost?

Suresh Narayanan: Clearly we have grown in Noodles. That is the area of gain for us. We have gained in coffee. That has also been an area of gain for us. Pasta and coffee are the biggest gainers along with Noodles.

Abneesh Roy: Well, coffee actually what has worked because the other player also claims leadership, you also claim leadership?

Suresh Narayanan: Well, the fact of the matter is that we all look at the same data, but there are some of us who are more clever, we take crux of which is non-south we are the leaders and south someone else is the leader. I want to say undisputable the market share for Nescafe the brand, which is Nescafe plus Nescafe Sunrise. In south, non-south, east, west, center all put together we have crossed 50% mark, so very clearly we are leading in market share. You can make disputing whether Nielsen is right number or not the right number but all of us we all view it when we make gains and we all curse it when we make losses, I do not think that should be the principle that we use as far as this brand is concerned.

Abneesh Roy: Sir, last two years, you have launched a lot of new products. Could you also discuss the failures and some of the reasons? Was the ad spends backup not available for some of those because 50 BPS increase in ad spend that means quite low when you are launching so many, in normal Company which do not launch which are much higher, could you describe that?

Suresh Narayanan: Well two things, one is while I leave Shobinder to tell you on the ad spend figure, which is incidentally gone up by 14% in absolute terms, it is not a small amount of money. I think as I mentioned to you, we had 39 launches that we have done. Today 25 of them are what we call the sustainable launches and 11 of them we have withdrawn. Those 11 accounts for 1% of the new product sales that we generate, so these are really brands that did not pick up the traction in the geographies in which they have been put. It was not for reasons of advertising expenditure, it was more to do with consumer salience that it did not pick the kind of consumer attraction that it is needed to and rather than continue with it and sort of taking it to different geographies since we have got a pipeline that is like onward on rushing train, we said, why do not we take these off and put the money behind ones where we are having greater promise. So it is purely that, but I think had we spent more, we have made this successful, the answer is no, because our assessment was that these were not working. We thought that it would work, but it did not work, but that is the luck of the draw, and just to tell you the average success rate in India if you look at the last three years data, 17000 launches in FMCG where India has new product launches, success rate less than half a percent. So this is a ruthless market. We are all gloating on the consumption economy and the fact that we are building up a lot of consumption traction, but it is ruthless market. It is worse than United States of America. The USA has got a higher success rate than India and that is how tough this market is so we are happy that we have at least got 25 launches which have continued and which are doing well.

Abneesh Roy: Sir, last one in the previous meeting you said, you will be a bit more cautious on the rural demand side, you said that the clearly your products are more suited for urban and we will distribute in rural, but main focus will be on urban, any change to that given rural growth has come back much stronger?

Suresh Narayanan: There is no real change. Our portfolio still is quite urban centric, but I think, under the aegis result, the answer as I said earlier on the whole trusted approach. I think we still have a lot of juice left in some category SKUs where the rural presence or the semi-urban presence is increasing quite significantly. Two things are happening. One the digital divide in this country is broken down. There is no longer digital divide. In rural and urban people see the same ad, we can all call it the Jio effect where people tend to watch more videos and they tend to make up each other face today. That is the reality. And I think that is becoming a brand equalizer as far as brand aspirations are concerned. Secondly as you rightly said amidst people growing, rural income and hopefully all things considered that even after Kerala that we land up with a decent overall monsoon, I think, there is a great rural demand that is coming from some of our products and some of our categories so I still believe that our portfolio is biased towards urban India but there are parts of this portfolio which still continue to work quite well within India so I will tap into that segment as we move or as we go forward.

Abneesh Roy: Thank you.

Vivek Maheshwari: Vivek from CLSA. First on the new launches, which has moved to 3% of overall revenues, what is the medium term aspiration? Where do you want to take this number or where you will be happy once it hits a particular level?

Shobinder Duggal: Again, it is not to give you a guidance that we are going to hold on to for the next one or two years. For me as I see it as a marketer and as a commercial person if my overall new product portfolio is able to give anywhere between 3% and 5% of sales, I think, it is a good starting point for us. Some brands which are higher traction, some brands which are at lower traction, but only hitting 3% and 5% will be a good start as far as brands are concerned, so we are starting to clock those numbers and I need to now continue this format.

Vivek Maheshwari: One of the earlier questions and probably you have not answered which was around A&P spends, a 5% ATL it is stubbornly at 5% with so many new launches, margin obsession is something that I have been using for a while, I still see that margin obsession, you are making post royalty margin why stick to that number why not just invest, you may not decide to take down prices but why not increase A&P intensity when you are launching so many new products?

Suresh Narayanan: Look, I think, my so-called margin obsession has been also with a bearish commodity obsession that I have been chased with, so it is not something that we have single-handedly created. During an inflection point between the amount of money that you put behind advertising and the kind of traction that you pickup in volume~~s~~ terms, every consumer product has it, some call it elasticity of demand, some call it the lack of inflection, in the short-term. In many of our categories we have to build and this is not a cosmetic, the cosmetic can do an advertising and you can see a blip, because people will go and buy. We are in food products. Food products even if I advertise I will look at the current options and decide on the X option, Y option, I might or might not try, I might or might not like. So to that extent we have to be judicious to judging the responsiveness of A&P in terms of translating to actual demand increases and here I am talking about value increases and that is why I am happy to highlight the volume increases that I have shown you because those are solid volume increases but there will never be 25% and 30% because in the food business intrinsically it takes time, you will do this and if you do this advertising over the period of time, and it is the drawing work, then you will see the proportion building up. It is like our MAGGI Noodles. MAGGI Noodles for the initial years of the study it has been having a steady quantum with innovation, with changing habits that is where the challenge comes, so our combination is not just what we put in advertising, but we put in trade, what we put in activation, what we put in sampling, what we put in digital, the whole rigmarole gives us the benefit that we get and my friend, it takes time. The food industry I can tell you it is not a quick fix that when I launch a product today, I mean, you guys for example may not even change the source of the Dhokla. Food products take time. That is really the short answer for you.

Vivek Maheshwari: Sorry for harping on this point, but if I am not ready to change my Dhokla that is where the communication should be that is where the A&P focus should be, right? Why stick to 7.5% all put together, 5% ATLs looks too low for a Company like Nestlé which is sitting on 22% margin accretive to parent, why worry so much about margin for, or the other way you are entering into breakfast, why spread out portfolio in such a manner rather than price your things spend aggressively behind it? Why just launch so many new products if it is really the case?

Suresh Narayanan: No, I think, the fact of the matter is we launched 39 and we are sticking to 25 and the 25 is giving us the hit rates we want to. The debate you and I have now is that I want to have a hit rate of 10% which is not going to happen by my pushing in 600 or 700 basis points more of advertising expenditure. That is the hard reality of this business. So just pushing down the throat the enormous amount of communication does not shift the dial as far as eating habits are concerned. If that were case, in some of the brands in the market would have been 100% of the market, by sheer communication. It does not happen that way. So I am not saying that we will not spend more. I mean we have launched NesPlus. This will be supported fully. This will be a core category, on which we put our money where our mouth is and this is a separate brand.

Vivek Maheshwari: Last two if I may, and two quick ones, one gross margins, commodity prices moving up, mixed increase and all, does that worry you from a gross margin perspective in the foreseeable future?

Suresh Narayanan: Well, Shobinder has shared with you clearly the price is moving northwards, as we are seeing it. I think as a Company we combine both technical finesse with product capabilities and nobody is interested and certainly I do not support it at all that we just take up blind price increases following a particular commodity path, if I am able to mitigate it, for example, if it is 20% commodity overall increase then obviously it is too much for me to do whatever I can without compromising on the core of this Company, which is food quality and safety, but if it is in low single digits, we might be able to mitigate and we might be able to find ways to absorb the cost.

Vivek Maheshwari: Last one, when I go to modern trade stores nowadays I see private labels coming back again and becoming active, is that something that you worry about or there is enough space for everyone in the market?

Suresh Narayanan: Private labels are clearly when they came in first, they were a matter of deep concern, about 8 to 10 years ago, when private labels came all of us, consumers marketers were struggling at the thought that there will be somebody selling a product which is 20% cheaper, over a period of time, we have established as our power of brands are important. We have in all the categories in which we are operating in, by and large, not all of them, but most of them, we have got private labels that are operating. Yes, they will at the fringe look off at certain amount of consumer franchise from us, but I do not see, this is where the companies have to be concentrating, this is where me and my team have to constantly work to upgrade our products, because I am more expensive gram for gram for a coffee that is sold on a private label, I am more expensive on a lot of things, but I have not lost significant share to any of these players because the consumer still values that quality and that brand. So long as we are able to keep that equation I said, I am in the beating. The day I slacken up, or the way I start doing things little foolishly then we will have to buy that. So today I see it yes emerging, there will be a space, but so long as companies like mine do not wear from the path of brand proposition and NHW characteristics over the period of time, we should be all right.

Vivek Maheshwari: Great. Thank you and all the best.

Amit Sachdeva: Amit Sachdeva from HSBC. Sir, I have two questions; first one is on the elderly nutritional space, that was there before its being re-packaged some of it is new, some of it is old so, I just want to know what is your definition of who the consumer is. I understand that one part is a bureaucracy channel where the doctor’s prescription is required and so the other channels absence not a bureaucracy as well. May be protein supplements lie there. So what sort of opportunities have you mapped is kind of size of the opportunity and how you are going about to capture it, so that is the question number one. Second question Sir is about the confectionaries space, your definition of portfolio is narrow and I understand there is a remarkable progress on NCD and other fronts and also there is a production of volume growth across whether it is commendable. So when I look at a confectionary and if you look at the portfolio, does it feel like the definition of the portfolio is still very narrow because I see the biscuits chocolate gap is blurring, but you are still focusing on chocolates and not judging the other categories, some biscuits are now becoming more like chocolates, but you are still focusing on the chocolates, do you see the risk the category where the whole habit is changing or may be blurring and ideally anything about KITKAT will be taking more than actually you will be able to find it right now?

Suresh Narayanan: Good questions, both of them. Let me take the second one first. Yes, I think, we are in the process of looking at recalibrating our chocolate business in terms of premiumization capabilities that we have in the business, the opportunities that we have, whether it is from KITKAT platform or the MUNCH platform or some other platform, time will tell, but clearly there are opportunities. There could be opportunities in adjacencies as well. We will closely explore, but the core brands will still remain the brands that we have got on the table, so we will be redicovering five new brands and put it in the market, because we need sustainability to in order to make that happen. On your first question on the health side business it is really divided into two distinct part, one is what we call the consumer facing brands, the consumer health science portfolio, in that resource high protein that I talked about in my presentation is a protein supplement and more than half of India is protein deficient. And this is young and old alike, so the strategy there will be more mainstream~~,~~ the millenial is my consumer, the middle age is my consumer, the elderly person is my consumer, because everyone needs a protein dose, so I think that will be a more mass market strategy, but again, within the norms of certain channel, because it is not a grocery product in that sense, some of the other products that the ones which we have for example, resource dialysis or resource for hepatic related issues, those would be more specific, those would be more related to hospital prescriptions, where we have got a detailing team that visits hospitals and get the prescriptions for that. So it will be dual strategy. It is my hope that we will build a protein supplement business that will become the kind of bedrock and we will have these special need products, which we will put it over a period of time. Initial responses when we took this on for example on e-commerce, on Amazon, it got a good traction. People who have used it have liked it and have come back to it, and I think that is a strong vote that we have but it is still a small business, but I see this that in a country where healthcare and lifestyle related issues are becoming bigger by the day. I would also be looking at getting a diabetic product, which is more mainstream, so you do not have to go to a doctor to buy it because buy it on your own, because the product becomes more mainstream and that is where the next kind of opportunities lies.

Amit Sachdeva: So we will find out the opportunities in the protein space?

Suresh Narayanan: If you look at the total health science space, I would say it is in the region of about $150 to $200 billion as we estimate it because it is reasonably a big sized one, why are we excited about it is because it is a play of R&D and science. If I am putting a product out there, which was high protein and please try it if you have not tried it, it is 0.1% sugar, only no sugar, it will be a whey protein there is a science to it, it is not like I am taking a whole shot of protein, so these kinds of products, I believe is where the new India is and people are willing to pay the price for the kind of quality that we get.

Amit Sachdeva: My sense is if you were to go to say gym and things like that there is…

Suresh Narayanan: Sure, we are doing that also.

Amit Sachdeva: So, if you are pushing that advertisement as well on the TV, because that I do not think so advertising is banned so it is very unlike?

Suresh Narayanan: My friend, you are absolutely right. We have developed a campaign for it, we will be putting it out in advertising, so we have tied up with a couple of gyms including some big ones from gyms from Mumbai where it has gone, it is sampled along with if you were to go out for a workout, so yes, and that is a more consumer side of it which will be very, very different, on the dialysis part of it, which I will go to hospital and see a dialysis patient and merits post their decision.

Amit Sachdeva: Thanks so much. It is very helpful.

Percy Panthaki: This is Percy from IIFL. Sir, my first question is on your milk and milk products portfolio that is almost half of your total turnover and just like to get a little bit more flavor about the internals of that so as I see it there are three major products which would probably account for 80% to 90% of your sales so that is infant formula, baby cereals and daily whitener, so if you were to start by giving what is the market size of each of these three segments and what is the industry growth rates of these and are we sort of in each of these three growing in line ahead or below the industry? That is the first part of the question. Second part is we were one of the first to setup a dairy procurement network in India certainly it is one of the first private players, so apart from these three products we do have UHT milk and curd, but they are rather small and I do not see too much of focus on that. So just wanted to know what is your broader strategy on the other dairy products apart from these three large sort of verticals that we have?

Suresh Narayanan: I think as far as the sizes are concerned, we can share this with you, but I am not carrying, but let me just tell you that yes you are right in the sense that the broad portfolio that you defined as the core are growing quite healthily at 6% volume growth that you saw there, it is a composite of dairy whiteners which is a bit higher as compared to the nutrition part of the portfolio. These have clearly been in line with some brands ahead of the market growth that is why our shares have remained strong. When we are talking about 67% plus market share and 96% plus market shares in baby food so those have remained strong because the overall growth that we track are very clearly in line with the category growth that we have done. As far as the future is concerned, liquid is very clearly an area of attention for the Company. We have launched the Ready to Drink products. In tetra to begin with and cans now in Nescafe and in Milo they utilise the milk that we procure so the sales and outlet for the milk we have, so another reason why the quality of the product is very good because of the products that go into it, so we look at more opportunities in that space because Ready to Drink is clearly becoming a matter of choice and you know the overall debate that is being taken between sugary beverages and between milk based beverages and we are well placed to take that opportunity. So we will accelerate in that area quite strongly and hopefully expand the liquid milk, the pure milk out of the portfolio as well.

Percy Panthaki: Sir, if you could just clarify one small thing for me, for you, Nestlé India would Infant formula be a bigger business than Infant Cereals or would it be vice versa?

Suresh Narayanan: Both of them are very big businesses.

Percy Panthaki: Sir, next question is on your new launch strategy, you have launched 39 products and discontinued a few and few of them are still doing well, if you could just name your core products which have clearly performed very well and maybe three or four which were like complete duds, what are the reasons why it has panned out that way? Has there been a success? What have been the factors behind that and if there is a failure what is the factors behind that?

Suresh Narayanan: I think probably Shobinder will have will have some details on this. For example, the ones which worked out very well are Nescafe Ready to Drink that has done very well, Munch Nuts did very well, Milkybar Moosha, which is a bar that has done well, Shobinder had talked about it, Excella Pro has done very well, Ceregrow has done very well, so these are all the ones which are doing extremely well. KITKAT Dessert Delight has also done extremely well, so these are amongst the ones, which have done extremely well. There are some others, which are promising, example, Nescafe RTD**,** the can which we have put out that has gone off to a terrific start, Masala-e- Magic we have launched regionals variants which has also got off to a promising start. We launched a Munch Orange, which has also got off to a promising start, then we had some limited editions like KITKAT Mini Duo, which is limited edition, Masala's of India in MAGGI was again limited, it came and went, some of the ones which did not work out, we had in milks we had a brand called Pro Grow which did not work out well, we had the EveryDay Masala Fusion, which also did not work out too well, we had insta filter in Sunrise that also did not work well, so these are the ones which have not done as well as we hoped that they would. Broadly two sets of reasons; one is difference between assumed salience of the brand and its actual in use importance, so we thought there will be a certain frequency of the usage by consumer testing, but we actually put it out does not become that important and in some cases a confusion between the intention of the product and its translation in the product benefit. Like for example, the Masala Fusion was assumed by consumers to be a three in one tea, when actually it was a whitener which had masalas infused, which had to be used in tea, some people were adding water to it and saying why is it not becoming brown. So you can say why cannot you correct it and do it, but then it means a total difference of products, if I look at a different product that does work. So we put that in the drawing board. INSTA Filters for example, I have an issue saying it is filter coffee, so filter coffee means liquid, how can a powder be liquid. In research, it doesn't comes out so loud & clear, however when consumer goes and buys it, I need a liquid looking stuff not the powder looking stuff, so these are some of the situations, there is a gap between the product promise and what the consumer got, again back to the drawing board, because I just cannot rebrand it and put it in because the consumer will say, I have to pay. So these are the kind of issues that we go through. To answer my friends from CLSA the fact is we keep pumping in money, it will not change, it will confuse the consumer even more.

Chitrangda Kapur: This is Chitrangda Kapur from Sameeksha Capital. I have two broad questions and one observation. First question, there is a thought in progress that by Government of India that royalty payout to the parent will be capped going forward for brands and for technologies being used. First part of the question is how much of the royalty payout, which is about 4.5% of the sales currently is for the brand and trademark and technology if we can have that breakup? If hypothetically this cap comes into force, how will that impact Nestlé India in terms of specifically for launches by the parent to India for instance Nestlé is specifically tailored for India by Nestlé S.A and General Mills Companies and the first part of that is should there be a reduction in the payout to the parent? Will that increase the dividend payout for the shareholders? That is my first question.

Shobinder Duggal: As far as royalty arrangements are concerned, we don’t have any split in the agreement between brands, know-how and technology. It’s a composite arrangement which is at 4.5% net of tax on sales. So we do not demarcate it between how much is for brands and how much is for technology.

Chitrangda Kapur: But Sir, I think, the Government of India will kind of force you to demarcate the technology versus the brand and trademark, because there is separate cap for separate categories?

Shobinder Duggal: Yes, there may be separate caps but we don’t have our agreement and we have never paid separately for brands and for know-how because for us it is an integral package, you cannot have one without the other. For example, if you want to get into a brand here, and you do not follow the best practices on quality or know-how or manufacturing of that brand, we may not even be able to get a brand license for that. So to consolidate a package if you want to sell a certain brand, it has to follow the rules of the game and the brand properties of the brand owner. So it is theoretical to have a split and we do not have a split and we never had a split right from the beginning. That is as far as the split is concerned. Regarding what are we going to do. We are looking at it. We are aware of the impending regulations and we will see how to tackle with it. Today I do not think we can share with you one way or another what will be our approach, but we do believe that when we took up the royalty rate from 3.5% to 4.5%, you remember this was announced roughly five years ago, we had gone through a very detailed governance process and the negotiations with the brand holders and the license provider lasted for over two years. To recap they had hired McKinsey to do a fair valuation of what should be the royalty, which Nestlé India should be paying and once they presented their findings, Nestlé India’s board hired KPMG and Bansi Mehta to do a fairness opinion on McKinsey. So we got the advice from Bansi Mehta and KPMG of the range of royalties, which we should be paying and they were not very different from what McKinsey had advised Nestlé SA. So finally this went through an audit committee and board meeting and the executive directors of Nestlé recused themselves from this meeting and the resolution was left to be passed by the independent directors, which is pretty much reflective of the process which is being eluded to you. So how are you going to do it, I think this is work-in-progress and we will tackle it accordingly. Should that eventuality arise of your hypothetical question that if the royalty is capped from X to Y or to Z, will it result into a more dividend payout, I think it is a highly speculative question because the question would be that, will we be able to generate that level of business without the royalty arrangement as we are doing today and will this be a natural thing because mechanically royalties are out of the P&L, it goes into higher dividends. I think it is a highly speculative question and the answer will all depend on whether the parents would be willing to license the products at a different level, if that situation arises. But I think at this point in time, taking a position on that or trying to do a modeling on that is highly speculative.

Suresh Narayanan: Just to add Chitrangda, one thing is the 4.5% that we pay is in line with the kind of royalty payments globally for Nestle. So we will see what happens and how they define it but I think the points that Shobinder said are valid. Ultimately Nestlé without brand does not exist if I do not have any of these brands this building doesn’t make much sense, so I think there are larger issues and let us see how it evolves. It is not to say that people are foreclosed, but I think it will be something that will involve some healthy professional debate if it comes to some understanding. So this is the last question.

Chitrangda Kapur: I have not finished my second question.

Suresh Narayanan: You want me to ask, after this session, because one more person can get unless it is kind of a burning question, you are attacking me and saying, why you have put on this plan?

Chitrangda Kapur: No. I will take it offline.

Arnab Mitra: This is Arnab from Credit Suisse. Just one question, we have had two new categories entrants this year, one has been Breakfast Cereal, which has come through this Company and we had Petcare, which came outside. Just wanted an underlying thought process around in the future launches how do you decide what comes in the listed entity and what does not come in the listed entity?

Suresh Narayanan: Thank you for that question and I hope to clarify this very clearly. When we had launched Petcare through Purina Petcare, the logic that had been very clearly used was that the nature, the tenure of the business, the expertise, the scale, route to the market and the mechanics that drives the business are distinctly different from the core business of Nestlé India so in that context is what Purina Petcare India was setup it operates as an wholly owned subsidiary of Nestlé SA. It conducts its business. Note that the principle was consumer salience and competency. Since those were completely out of whack as far as the core Nestlé was concerned, it was kept outside. When we come to Breakfast Cereals. Technically, it is a joint venture named Cereals Partner Worldwide between General Mills and Nestlé. The option could have been that we come in as a joint venture into India. Why did we choose to come in as Nestlé to keep with the consistency of the stand that we have taken because in Breakfast Cereals I think the Company knows enough to deal with the consumer product, they have got the competencies, it has got the caliber, it has got the customer agility and it has got everything that can make this brand a big opportunity for the Company. So my friend we have remained consistent with the argument that we had given and this will be the argument that broadly becomes the kind of template that we want. Where we have the skills, where there is a synergy, where there is a competency, we do it. We do not have it at all, and this is straightly out of thinkers, then you as investors ask me you have no expertise, why are you breaking your head on this, you have nothing, simply because you are under one umbrella of Nestlé, it does not mean that you know everything that this is the direction, so that was the logic and I hope that this logic is clear in terms of what we have. The argument is not on synergy, but the fact is that we are going to be building competence for Petcare business from scratch. It is just a function of whether you want to create that value in the listed entity or outside it, you can keep a separate legal entity as a 100% subsidiary, it is no different than it is 100% subsidiary of Nestlé India or Nestlé S.A. So, but we just clearly do not understand as to why cannot it be done in the listed entity as a 100% subsidiary.

Shobinder Duggal: I think you are talking more of a corporate entity structure, but the fact of the matter is that whether it is the same entity or it is a subsidiary, unless and until you see some benefit of being under the same management which has competencies, knowledge of that category and it is also willing to associate a pet food business to the human food business, the 100% subsidiary is not going to help. I think we should not forget that the pet food business did come through a separate vehicle through a separate entity which was 100% subsidiary of Nestlé even when it was launched earlier and then it ran into tremendous difficulties, incurred a significant amount of losses because of different considerations, which were regulatory led and had to be closed down.

Unknown Participant: So that is besides the point. So let us not, it can happen with the breakfast cereal going forward, but it is you are not going to copy from doing the breakfast cereals in the future?

Shobinder Duggal: Yes, but there is a commonality here. This is a food business. If you see the route to market, nothing dramatically different.

Suresh Narayanan: I think it is pretty much believable in and I mean, if you are going to look 10 year ahead it is not we are not doing business on a very miopic viewpoint, if you think about Petcare being a part of modern trade business or the e-commerce business there are a couple of channels that are growing pretty fast, Then why not and from a distribution point of view.

But the question is I have 20 priorities as a company do I address 10 of them and do a great job of it or do I spread that itself in all 20. In the call, this was very clear that when it comes to breakfast cereals there is a scale, competency and there is a road to market and stuff that Nestlé India has being strong that limit is against setting up a subsidiary and doing this operations.

Shobinder Duggal: For example, tomorrow let us say we want a business, you see an opportunity in ice creams and water and I do not say that ice cream is a priority and I put it into the listed entity and water is not a priority so I will put it separately.

Suresh Narayanan: No, I think, we will cross it when we come to it because there is nothing foreclosing but yes if you lead the skills for water and the skills for the ice cream business is well within the measure of synergies and competencies as far as Nestlé India is concerned. There is no reason to go out, and if there is if you investigate that market and we find that there are parts of it that we will not be able to manage very well as a company, because remember one thing, I can get a couple of things, right every single day and every single time and I build my credentials as a company on that. If I am going to be manufacturing different things, all of them needing totally different competencies and better equipped though we make order for separate entity rather than putting it into my own basket. That is the way in which successful businesses operate. If I become a conglomerate of different things, which I am not. Let me tell you, what I have told to Chitrangada, that what will happen in the future, but this will happen, we are not going to foreclose anything opportunities is not foreclosed, but I think it is looked at and evaluated and we will see whether it fits into the required portfolio, the competency, the opportunity and the capability of the company. We will now conclude the presentation. Thank you very much.

===