"Nestlé India Limited - Financial Analyst/Institutional Investors' Meet

August 24, 2017

MANAGEMENT: **MR. SURESH NARAYANAN – CHAIRMAN & MANAGING DIRECTOR, NESTLÉ INDIA LIMITED**

MR. SHOBINDER DUGGAL -- DIRECTOR, FINANCE & CONTROL & CHIEF FINANCIAL OFFICER, NESTLÉ INDIA LIMITED

MR. SANJAY KHAJURIA – SENIOR VICE PRESIDENT, CORPORATE AFFAIRS, NESTLÉ INDIA LIMITED

MR. B. MURLI -- SENIOR VICE PRESIDENT, LEGAL & COMPANY SECRETARY, NESTLÉ INDIA LIMITED

MR. KAMAL KEDIA – HEAD, ACCOUNTING & REPORTING, NESTLÉ INDIA LIMITED

MR. SHASHANK KUMAR NAIR – MANAGER, CORPORATE COMMUNICATIONS, NESTLÉ INDIA LIMITED

Shashank Kumar Nair: Good afternoon, ladies and gentlemen. It is a pleasure to have you all here. I would like to thank you on behalf of Nestlé India for joining us today.

Much has happened since the last time we met and I am sure this meet will be an insightful one for all of us. Let me first introduce myself; I am Shashank Kumar Nair – Manager, Corporate Communications. I have with me today Senior Colleagues of the Nestlé India Management Team; 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 and Company Secretary; Mr. Kamal Kedia – Head of Accounting and Reporting.

Now, before we proceed, let me first read out the standard disclaimer as this is very important: This presentation may contain statements which reflects management's current views and estimates and could be construed as forward-looking statements. The future involves uncertainties and risks that could cause actual results to differ materially from the current views being expressed. Potential uncertainties and risks include factors such as general economic conditions, commodities and currency fluctuations, competitive product and pricing pressures, industrial relations and regulatory developments. Real internal growth and organic growth are basis Nestlé 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 maybe given to non-price sensitive questions. The entire proceedings from the session will be uploaded on our website, www.nestle.in Therefore, we request you to please state your name and the organization you are representing during the question-and-answer session. We will need that in the transcript. Thank you very much for doing that.

As per the agenda today, we will have two presentations – Starting with Mr. Suresh Narayanan followed by Mr. Shobinder Duggal. After this, we will have the Question-and-Answer Session and then conclude with tea and coffee.

I will now request Mr. Narayanan to please take over and make his presentation.

Suresh Narayanan: Thank you, Shashank and good afternoon, ladies and gentlemen and hearty welcome to the Analyst/Investor Meet. This is the third time that I will be addressing you. I think each time there is something that is happening within the organization and something that is certainly challenging us and I am sure that you are all far more aware of the challenges that the environment faces. I will share with you the perspective that Nestlé has on our performance and on our road ahead.

The theme of this presentation today is really building for the next 100-years. Why do I see building for the next 100-years when the next 100-days sometimes are unpredictable? It is because the foundations of an organization are based on principles, on strategies and on the core that is important for us to follow through in a disciplined manner and in the manner of execution time after time, year after year with certain premises that are fairly established, for over a period of time. It is to those principles that I allude to when I talk about building for the next 100-years.

So what is it that I will be sharing with you? Basically it will be on five themes. The key takeaways from last time, I will start with the recap of what were the key points that we talked about during the last meet that I had with you: A brief on our GST journey. Since all of us have been through India's biggest fiscal change since independence…I am sure you would like to know before I delve into the rest of the business as to how GST has been for the organization. Where we are in terms of our growth story? Where we are headed? What is our continuity story? Then to summarize, what would be the key takeaways of today.

The purpose of my presentation is not really to drown you into the statistics of numbers, but to give you a sense of direction on the thinking and on the path that we see ourselves following in the coming months and in the coming years.

Following my presentation, there will be a more detailed presentation by Shobinder Duggal who will be taking you through some of the more detailed numbers that you would be looking for as part of the performance of the organization.

So what were some of the key takeaways of what I said the last time? There were five big points that had come out in terms of the direction for the company – One was a priority on growth across the portfolio. I think far too often there has been a comment being made that Nestlé depends on one or probably two categories in terms of growth. How do we set the foundation for a multiple category growth? What is our strong commitment to nutrition, health and wellness as an organization because that is the core tenet on which the company is based? What will be the role of penetration, frequency and insight-led innovation? That was really what we were talking about. Volume-led growth because of categories and the need to penetrate market. So volume-led growth would therefore justify itself in terms of the outcome both on organic growth and also in terms of profitability. But it was very clearly put that it will be growth with sustained profitability and not that one of the vectors will be discarded in terms of the model of the organization.

Tapping into the many India's within India, I think that is the challenge of all consumer marketers in this country. The fact that 100 Kms from Gurgaon is a different world and that the habits and attitudes and the perceptions that consumers have about brands and about opportunities and about consumption is quite different. So how do we tap into the many India's within India? The emerging channels and consumer trends thereof. Last but not the least to be responsive committed to society, nimble-footed and an organization with a lot of pride in its history and the pride in performing as an organization. This was clearly coming out of the unprecedented situation that faced the company and really it was important to kind of set in place certain building blocks of the future that we would set in motion.

Let me briefly then take you through the following part of our presentation which is our GST journey and I think you would like to know about where we are on this: Clearly, we use some very simple ways in which we address the issue of GST. For us it was prepare, practice and partner. These were really the three core principles that we used in the preparation of GST. To give you an idea, there were about 150 key processes within the organization that had to be completely rewired, information basis for almost 1700 distributors had to be recalibrated and almost 900,000 plus outlets also had to be calibrated in terms of information and in terms of preparedness for the GST exercise. I really take this opportunity to thank my entire team and the team beyond, all our partners, all our distributors for the enormous effort that has been put in. This has been the biggest change that we have seen in the way in which we not only do business but in the manner in which we think about business. So I think it has been a dual process. This process really has meant some key milestones -- So 3,500 suppliers, 1,600 distributors, they were engaged with us in awareness program across India. We chose one-on-one meeting rather than sending them out letters and sending them our circulars, because this is a question of them understanding as to how the process of invoicing, how the process of business takes place. So we made use of our internal teams and also external partners to be able to disseminate this information well. I am happy to report that on day one, the sales and billings started. So we were on the 1st of July in a position to start sales and billings and also on day three, all distributors have successfully migrated to start the sales by the 3rd of July. So therefore, the process of redistribution, which is the process of selling from the distributor to the outlets started on day three.

So this has been the saga of the preparedness that we have had as an organization to try and make it as seamless as possible. This does not mean of course that everything has been completely hunky-dory and it would be wrong for me to say that there were no glitches and everything was absolutely first class in terms of execution. The start has been fairly good but there are operating issues that will also get resolved over a period of time.

But what I want you to understand as investors and as analysts is the fact that the company is prepared to cope with it, that we have got the coping mechanism to be able to address this issue and I do not think we have got any sense of helplessness as far as the GST regime is concerned.

What has been some of the other outcomes of this? Basically, I think one of the key things and we were one of the first companies to publicly announce it and I put the announcement down here that we will pass on the GST benefits to consumers wherever they occur. So that was a transparent, clear message that was given right before GST actually got started, and that is exactly what we have done, that commensurate benefits have been passed on to the consumers in terms of the stocks that have got manufactured from the 1st of July, some of the core categories have been Dairy Whiteners, Sauces, and Infant Cereals where these GST impact has been positive and because of which we have taken the price reduction.

As far as the company is concerned, I want to state very clearly what the opportunities that we see for ourselves are: #1, as I speak to you, we are in the process of recalibrating our distribution infrastructure. We have a network of 38 distribution centers across the country which was primarily based on the earlier fiscal system of taxation which is now being recalibrated to see as to whether we need 38 or we need X number or Y number and what that is going to be in terms of the overall logistics, overall efficiencies and overall proximity to both raw material source and consumption source, unleashing therefore better economic opportunities. Last but not the least the fact is that as an ethical and an honest taxpayer and a player, we see this as a level playing field that makes us more competitive as far as the industry itself is concerned.

What is the business scenario that you have seen post GST? I think the June growth was negatively impacted by softer trading circumstances, I can say that this is something that we had mentioned in our second quarter results but also this had been the result of both the postponement of the purchases by the wholesalers and some kind of down stocking both of which had taken its toll as far as the company's business is concerned. However it is pertinent to add that as for the company, our wholesale sale is probably relatively small as compared to many other FMCGs and to that extent; the impact is mitigated.

The second one which Shobinder Duggal will highlight in his presentation more clearly and I think I would like to as the Head of this company be transparent with you is the outlook that the expected registered sales would be lower. That is because the excise duty has been now subsumed in the GST. So the sales line will take a number hit. Mr. Duggal will describe to you in more detail exactly what that hit would be. It is not a hit in terms of slowing down of the company which is really what I would like to highlight. Because when you see a figure of 8.8 and then you see a figure of say 4.0, you would suddenly think that the company has tremendously slowed down its pace of growth which would not be the case. The sales would be effected because of the charge that GST makes on the top line of the organization. So this is something that will be covered to you in all transparency in more detail so that you understand how our numbers evolve. I am sure all of you already know it but I think it is important for me as the Chairman of this company to be able to highlight this to you in this meet itself.

So that is where we are on GST. So far so good. The two messages that I would like to leave with you is that the transition has been relatively smooth and also the level of confidence that we have in our capability to handle any of the operating issues is also fairly high and also I think there are people and there are skills and there are competencies within the organization that are fairly strong to be able to tide over the situation. I think the extensive work that has been done with partners, extensive work that has been done with distributors and the suppliers has made some of them in fact comment that we as a company were probably one of those who provided the best inputs to them as they made the transition. So I am heartened by it because that is really the way in which Nestlé does business, to be able to ensure that our partners are as much a part of the organization as we ourselves are.

So where are we in terms of the overall journey itself and where are we in terms of our growth story? I would just like to quickly take you through the growth model because this is central to who we are and what we would be intending to do. This is part of the journey that we would like to pursue as an organization. There are three vectors of growth – Consumer-led growth, having the winning edge and also simplifying to energize the organization. So there are multiple points that we are addressing as an organization in the journey that we see ahead within the context of three behaviors that we want to valorize as a team which is the ability to be fast, the ability to be focused and the ability to be flexible. The fact of the matter is that you all know it very well. The market is evolving at a tremendous pace. I think the pace of change is something that we would like to be contemporary and be ahead of the curve rather than being behind the curve as some of us would choose to do. I think this is manifested itself in some of the actions that we have taken which I will talk about.

What does consumer-led growth mean? Consumer-led growth means that we would be looking at double-digit growth, that is clearly the objective of the organization and it is as is being said the last time volume-led growth. Consumption happens only when people eat and drink the product, not when they put their rupees into the hands of the shopkeeper. Consumption happens only when brands are penetrated in households and consumption takes place of packs of sachets or whatever we are selling. Since we are not in the business of selling money, but in the business of selling brands, volume growth becomes an important aspect of what we are as a company.

Consumer Insight-led: I think it is important to understand that as a company we have got relevant skills and competencies in being able to not only calibrate but also get relevant consumer insight in order to produce brands and in order to produce offerings that are tailored to consumer needs. We are a pure play company in the Foods space. Over 105 years existence, that competence has come to bear and that is something that we would like to put to use as well.

Launching new products in each category: I think the level of innovation that you might have noticed in the organization has sharply increased. Innovation comes together with investment and with a risk. Not everything that we launch is going to be successful, not everything that we launch is going to be a failure. The belief of the organization is unless you try, you will not make any progress at all. So the question is the capability of the organization to be coming out with new product, some would be successful; some would not be so successful. That is where the management actions come to be able to churn that thought to be able to always come up with an offering that is better and that is more long-term.

In terms of the winning edge, we have talked about fast, focused and flexible in both thoughts and action. As a company, we are a fairly large company with structures, with processes, with systems. I think one of the elements that we have tried to work through in the organization very strongly is the ability to be fast in both identification and action to be focused in terms of putting in our energies behind the right kind of initiatives and flexible to be able to recalibrate ourselves if indeed there is a change in the market conditions of the kind that we have indeed faced. We had a crisis situation on MAGGI. That was a very-very different context. We had demonetization. That was also a very different context. We had GST. That was also a different context. There is overall competitiveness and competitive intensity that is also a different context. That means that the organization itself has to operate on being fast, focus and flexible.

Embrace powerful ways of working in terms of the organization structure and systems and of course enable, empower, engage and energize our colleagues and employees. 70% of Nestlé India are millennial. This is a very young organization. So in a young organization, the task of leadership is to engage and empower. I think this is part of the journey to ensure that we enable, empower and engage our colleagues in order to not only market better brands but also have better levels of engagement of the kind that we will be talking about.

Simplify to Energize: It has always been said the larger an organization becomes the more complexity and more pluck starts getting set within the organization. We are trying to ensure that we simplify our organization and not make it more complex. So some examples in terms of process, reduction between 30% and 40%, reduction in number of meetings, that is not a material thing as far as you are concerned, but I think in terms of time of people it is a huge amount of effort that goes in and of course zero tolerance as far as non-compliance is concerned. The foundation of this company has been on compliance, has been on ethical and right behavior and that is unlikely to change in the foreseeable future or in fact it is going to be a core part of the DNA of this company.

So this is the growth model that we have had and this is the growth model that we will follow. It is simple and clear. As I mentioned to you last time, it is important that everyone in the organization understands this model. So my endeavor is to ensure that the front line salesmen also understand what the company seeking to do as indeed the colleague of mine on the board and the senior management of this company is capable of comprehending as to what this company seeks to do.

So where are we? I just would like to touch upon very briefly the progress based on the second quarter results which is basically from April to June. I would just like to highlight that again getting back to the story of volume growth. You would recall that as a company, we recorded an overall growth of 7.3% with 8.8% of domestic growth. If you strip off the price effect, the volume growth was roughly 6% that we have had. About half of the growth has come from the non-Noodles portfolio. So that is an important marker for us. Half of this has come from non-Noodles portfolio. Close to quarter of the growth has come from the Noodles portfolio and another quarter has come from new products and from new product launches.. The reason why I talk about volume again is because that should what be interesting in organizations that are seeking increased levels of penetration how has the volume growth progressed.

So in sum and substance, there have been three aspects that you should remember as far as this growth is concerned – First, it has been secular across category. So it has not been focused on any one particular part of the business. Secondly, there has also been a level of energy that has come into the MAGGI Noodles business as a result of not only our actions but also in terms of the renovation and innovation and coming back of the category together which has helped us and last but not the least we have had encouraging responses to our new product innovation and renovation. This does not mean that every single new product is successful. So I am not here to make that statement to you. But to tell you that many of the products that we have launched actually have met with some amount of success in the marketplace. This journey is going to continue as far as we are concerned.

So where are we in terms of the brand strength and market position? Roughly again without taking too much of time in almost 5 out of the 9 categories in which we are in, we are sitting at a pole position of #1. Now, clearly there are other categories where the degree of competitiveness is high and that is where the effort of the organization also is to be able to do even better in the renovation and innovation that we seek to offer.

Some of our new launches, I think you would have already seen. I think this has been across categories, whether it has been in the milk and nutrition area with CEREGROW, there has also been a large number of launches that have happened in the Chocolates and Confectionary category. We have come in with Ready-to-Drink format of both NESCAFE and MILO. There have been also products around the Yogurt space. MAGGI HOT HEADS has been one of our successes as far as the Noodles portfolio is concerned. I think the latest that you might have noticed is MAGGI Masalas of India which I do hope that all of you have tasted these products. Trying to get in the regional flavor and the taste that have defined us and defined our being in different parts of the country into the MAGGI portfolio since it is a much loved and much liked brand.

What have we done as far as new products is concerned? What is the core strategy behind it? Are we just putting in products for the sake of putting in products or is there a strategy behind it? I give here a chart which really gives you the population of the country which has been divided into four categories of Deprived, Aspiring, Seeking Striving and Global and the percentage consumer expenditure that is behind each of those categories. If you look at the core innovation strategy of Nestle and divided into three segments, valuing up which is more the value added and premiumization, mainstream and PPP which is the Popularly Positioned Products in our portfolio. You would notice that in the period January 2016 to May 2017 for which we have taken the information, most of our innovations have really come in the mainstream and value up category. So almost 36 out of the 43 new products that were introduced were in this segment. So one of the key tenets that we had said was that we would look at a premiumization and a strategy of value-up across categories. That is what we are working towards and that is what the focus is on and that is really what this chart is also trying to tell you in terms of the initiatives of the company.

What is new? I think this is something that I thought I will take the occasion to introduce this to you. I think you will carry it today out of this room. We have just relaunched our entire range of MAGGI Atta and Oats Noodles which is being put back again into the market with renewed vigor. What are the core essentials of it? One is of course it is a wholesome proposition targeting the breakfast occasion. There is also nutrition proposition. It gives almost 15% of the recommended dietary allowance as far as protein is concerned and of course it has got the goodness of fiber and loaded with veggies as far as the proposition itself is concerned. These have come in first the flavor of Masala which is the well-known flavor that we have. It has also got interesting and I do hope you like the Mexican flavor which is something that is different as far as Noodles is concerned. And of course you also got the Oats in the variants of Masala and Herbs and Spices which is also a very interesting variant that we have put together.

This is one of the innovations to really look at targeting different occasions, not just as a light snack but also alluding to the breakfast occasion for consumption which is arguably the most important meal of the day that we have and probably an area where the opportunity is still there. Not just to call it as oats or whatever but also to give a proposition that becomes a wholesome proposition for the consumer.

Similarly, we are just in the process of relaunching MILYBAR that is addressed largely at children. One of the core benefits that we are looking at in this entire relaunch is to cut the amount of sugar that is there and also enhance the amount of milk that is there in the product. So it becomes really what the pack says which is Milk is #1 in our recipe. So almost 37.5% would be the content of milk as far as this recipe is concerned, making milk the #1 part of this portfolio.

The other one we have just launched. I presume we will have some of it to taste, I do not know, Shashank whether we have it, which is NESTLE GREKYO Lichee. So this is again as part of the Greek Yogurt journey which has had an encouraging response that we have seen in the marketplace. Again, this is a product that is consumed largely at breakfast but also as a healthier snack as far as consumers are concerned. And of course we are also in the process of fortifying our milk with Vitamin A and D, especially Vitamin D as far as fortification itself is concerned which I will come to later as one of the themes for what the company would do with its products going forward.

So as a consequence of the overall growth strategy of the company, as a result of the innovation, clearly, the approach that we have to both engagement and consumer communication has been fairly different and fairly dramatic. I told you that Nestlé India is now a 70% millennial company. I think one of the advantages is that we have been able to put together a very unique digital initiative as far as brands are concerned. I do not know how many of you are aware but the initiative that we had on MAGGI Masalas of India with Google is the first of its kind in the country where Google allowed us to use the search engine as actually a kind of platform for voting on which flavors of Masalas of India would you expect and would you like. So this was an exercise that really helped us enormously in terms of building up the excitement on the brand since everybody Google for just about everything. This is part of the journey as well.

MILKMAID has leveraged it very-very strongly. In fact, our MILKMAID site is one of the most visited sites as far as desserts is concerned. So therefore those of you who love making desserts please go to the MILKMAID site, you keep getting all kinds of really-really tasty and yummy desserts, then you can cook up yourself or get your spouse, or get your friend or get somebody in the family, your mother probably to make it for you as well. There has been an enormous amount of capability building not only on communication which is what really you saw when you walked in and I shall not belabor the point in terms of the communication that we have done. But one of the skills that we have built in as an organization is the fact that we have our own "Digital Content Studio" as a company. Since our budgets are going a lot towards digital engagement with consumers, we felt the need that it is important to build digital skills within the organization rather than farm it out to 25 different agencies and try to do the work. So digital content for most of our brands today, whether it is MUNCH Nuts, POLO or KITKAT or any of these brands, is developed in-house. We have a design agency for packaging which is in-house, we have a digital acceleration team which is in-house, and we have a digital content studio which is in-house. The reason why I said is that the marketing propositions of brands can get accelerated only with timely real time and effective communication. And that lies in the capability of the company to be able to internalize some of the skills rather than externalize it or trying and do it from different places. So this has been one of the things that have been an exciting part of our journey as well.

Where are we headed and I think that is an important part that you would like to know and I call this a continuity story. The reason I call this a continuity story is that because as a management team and as a professional, I do not believe in coming up with new strategies all the time in order to derail and in order to destabilize what is being achieved. What is working will work, what needs to be changed will change. But by and large if something is working, do not keep meddling with it till it falls apart and then you regret it because that is not the sign of either maturity or wise management. So what is it that we are looking at as propositions? The strategy continues as growth with sustained profitability. So, I do not want us to ever give an indication to ourselves that it is one or the other. We need to grow, but we also need to generate the fuel to power the engine for growth further. So this is going to be a strategy that we will be continuing.

And what are some of the essentials of this? Again volume led growth, I repeat this as a broken record, but I believe strongly that unless we start orienting the consumer goods space to volume led growth, we are going to be carried away by the euphoria of getting tactical growth one quarter on another quarter and come collapsing and crashing down in the subsequent quarters. It does not help us. Increased penetration and saliency, the reason why we innovate, the way we innovate. The reason why we do the initiatives, the way we do it is to increase the penetration and saliency of our brand because there is still a lot of ground to be covered. These are not categories which have become matured, but the levels of penetration are so high that we do not have opportunities for growth. There are still opportunities for growth even if you take a category like noodles where the level of penetration is relatively low as compared to a soap or a detergent or a shampoo or any of these categories.

Innovation and renovation will be across brands. The focus is that we rev up the engine across all the cylinders and not just one or two of them doing the job and the rest of them are fundamentally silent. Specific initiatives on channel and alternate business opportunities, I want to categorically state that since MAGGI relaunched, we have almost added over half a million outlets, about 600,000 outlets into the space. This year alone in the first half we would have added close to 100,000 outlets. Our extension has been strong in terms of alternate channels of business whether you look at out-of-home, whether you look at railways, railways we have close to 1700 touch points nationally now in terms of where we sell and what we sell and this endeavor of developing the alternate business channels apart from organic growth in our distribution is going to be the key facet of the penetration strategy that we want to pursue. So it is not just a unidimensional, let us launch the brand strategy. It is launch the relevant brands, relevant communication, relevant proposition and relevant distribution that is going to drive this together.

And last but not the least, I would like to reiterate that there would be a need for continued investments to grow the portfolio. Growth always comes with a price tag, okay, growth never comes free. In order to build categories, in order to build brands, you need to invest and I think what we are internalizing as an organization is that we would need to invest behind the winning categories in order to valorize our growth dimension and our growth hunger as we go forward.

What are therefore some of the tenets of the hundred years that I believe that we will continue as a company and while I will not belabor the point here it is important to understand the Purpose of this organization and organization succeed only with Purpose and Values. You can have business models, but business models are flawed by purpose or are flawed by values. You as analyst will jettison those companies because you will find performance either erratic, not happening, not transparent or something that you cannot read and that is always difficult. The reason why I put a Purpose slide here is because I would like to share with you the Purpose of this organization and why are we, what we are. So that is important in the journey that we make together.

Enhancing quality of life and contributing to a healthier future is what we are as a company, that is what we will be, that is what we have been. We impact individuals and families in terms of the products to enable healthier and happier life. We impact communities that help in terms of developing thriving resilient communities, whether it is our farmers in the Punjab or in Haryana or in different parts of the country or in Karnataka or coffee farmers or spice farmers or wheat farmers. All of these are integral parts of this organization. The reason why we were able to resurrect ourselves on MAGGI is not just the love of the brand, but the fact that we have got a network of people who are dedicated, who have supported us for years and I think that is an important relationship that we would like to nurture. Indeed, we know the value of that. It is only in difficult times, my ladies and gentlemen, that you know the value of relationships and I think these relationships we have nurtured over a period of time and that makes it that much more important for us.

For the planet, in terms of stewarding resources for future generations, there have been numerous initiatives here in terms of a project that outreaches to encourage good nutrition and best feeding practices throughout the community, reaching almost over 2 million beneficiaries. We have benefits of the healthy kids program which is a nutrition education program that we conduct in secondary schools that has benefited over 200,000 students and of course we have a Nestlé volunteering program where we encourage our employees and since we have a large number of people who are young and who want to contribute back to society to get them to also be part of the initiatives that we do as a company. Why do I say all this to you, I say all this to you because organizations need to be grounded. They need to be grounded in the reality of where they are to be able to deliver today and to deliver tomorrow as such. We have for our communities water access programs, water and sanitation reaching over 240,000 students. We are working in close partnership with FSSAI on food quality and safety. So we are conducting programs on safe and hygienic food and these programs are also being conducted in order to enhance the knowledge of food safety which is an important part of consumption in this country and of course enhancing rural livelihood, over 250,000 farmers are in some manner or the other educated, supported, guided and nurtured by the Nestlé organization.

For the planet, I think what we have been doing is reducing water use in agriculture. We have a specific project that we run in the Kabini basin in Karnataka to reduce the amount of water that is being used in agricultural crops in that part of the world. We are creating awareness of water conservation. Almost 90,000 students are part of this and of course we also do a fair amount of recycling of waste in order to ensure that we have as little impact on the natural resources as possible. So this is where we are as an organization moved on a growth strategy, targeting on ensuring that we penetrate our categories more by delighting consumers with relevant products, relevant offerings on a purpose and set of values that define who we are as a company. This is not philosophy to us, this is the core purpose of what businesses seek to do not only to be profitable and growth oriented company, but also to do something for the society to which we belong.

One of these which is something that we have taken on very seriously as a priority not only for the country, but as the priority for ourselves is on food fortification and you will be surprised to see some of the statistics on food deficiencies that we have in this country. Below the age of 5 basis the national survey that was conducted in 2013-2014 by the Ministry of Women and Child Development, 70% of kids suffer from iron deficiency, 65% of kids suffer from vitamin A deficiency, 45% of kids suffer from zinc deficiency. Deficiencies in these three, ladies and gentlemen, can lead to permanent damage in terms of not only the economic productivity, but indeed the lives of these children as they grow to adulthood and as they grow to be Indians contributing to our society. At the moment, only between 2% and 5% of food items are believed to be fortified with micronutrients. It is a very small microscope of whatever needs to be addressed and therefore the fortification is probably one of the solutions to micronutrient deficiency. It is also part of the overall national strategy and a strategy of the FSSAI to encourage companies for food fortification.

As part of this, we have just started one of our key journeys which is to take MAGGI Noodles itself and you may think that look it is fairly simple, it is not. When you add iron to a product, there are organoleptic issues that we need to take care of and stability issues that we need to take care of and that is where the technology comes. So today we have said in a product like MAGGI Noodles which has almost 7 million servings a day, iron fortification becomes an important element to at least try and give the child or to give the adult or to give the person who is consuming it a dietary essential of iron which they are able to have in their diet to mitigate whatever impacts of iron deficiency that they have. This is not the only solution, but this is clearly one of the solutions. So our task is basically to innovate supporting national priorities. There are lists of other products that will come subsequently where we will be part of this journey as far as the country is concerned. So the initiatives to manage malnutrition by micronutrient fortification is fortification with products and brands. There are various examples, Masala-ae-Magic which is our fortified seasoning mix that we have on the market, noodles, MILO which we have introduced into the market. Again this is a product that is fortified and also has 40% lower sugar as compared to others because one of the other big issues that the country faces is the fact that there is a growing tendency for obesity all across relating to dietary and dietary related issues. And of course CEREGROW which is basically a multigrain cereal meant for children above the age of 2 which is a fortified and nutritionally dense food for kids that gives them the essentials for their growth.

We also, as I mentioned earlier, are getting into fortified milk as well. So the portfolio wherever relevant will be touched upon by the benefit of fortification in order to address larger nutritional issues that we have with our brands. This is one of the ways in which we enhance not only the value of our brands, but also establish the level of trust that consumers have in what we seek to offer.

What have we tried to do, now you will say that look, you come on to a journey, but the journey needs to continue. The journey can only continue if you institutionalize what you do within the organization, otherwise it is not going to be a journey, it is going to be one man does this and one man does this and one of the men does this and there is no continuity of that journey. We are conscious of this and therefore have tried to institutionalize the learning within the organization. And what we have really tried to do is to put together whole initiative of human resources across the organization that we call Rise Together. Rise Together is fundamentally a project that seeks to not only emulate the best practices that we have as far as business is concerned, but also the best practices that we can have on essentials that people have identified is required to take this organization to the next level. The organization succeeds not just because of whatever leadership I provide, but because over 7,000 people bring the hands together each day and their hearts and minds each day together to make the company results happen. So unless we institutionalize it, it is only going to be a small drop as far as performance is concerned. So we are focused on a few aspects which I will not go into the details of in the interest of time, but really what we try to do is focusing on the big themes of learning, of caring, of order and of purpose.

I think what is important is to get the organization a young organization aligned to what the purpose of the organization is not only in terms of the larger purpose, but also in terms of the purpose behind brands, the purpose behind categories and purpose behind growth, purpose behind investments and whatever else we do for society. Order in terms of ensuring that the processes and the structures that we have are relevant, are contemporary and are likely to generate the opportunities for profitable growth as we go forward. Caring in terms of ensuring that the people practices that we have as a company are contemporary, are relevant and are also the best in class. I am glad to tell you that the levels of attrition the Nestlé faces is probably amongst the lowest the industry has. It is no accident, it does not happen because we pay the highest, we probably are not paying the highest, but there is a mix in terms of what people see, in terms of purpose, values, in terms of what they contribute, what they do and what they learn that keeps them going as far as the company itself is concerned. And of course learning because this organization with the multiple brands and with the multiple categories offers probably unique learning opportunities for all young professionals who want to make their impact.

So if I were to summarize what I have said today, fundamentally in terms of a few takeaway points. The organization from its journey that it is undertaking in this last 2 years plus will be driven by the purpose and value that define the organization. This purpose is defined in terms of different elements, be it people elements or business elements or process elements or structure elements, are going to be important to who we are as a company. Growth plus sustained profit, growth seen as volume growth, sustained profits seen as the capability to not only give a decent return on the growth that we are generating, but also to have the funds in order to be able to invest wherever we need to invest behind that growth.

Focus on penetration and volume to drive growth; I come back to the same theme because this is a theme that you will keep hearing as far as the management of this company is concerned because this is the engine that we will use in order to valorize and to increase the bandwidth of our categories as we move forward. Continued efforts towards innovation and renovation, we will not stop at the 43 new products that are being launched. You will see more coming out of the stable of Nestle in the coming months and in the coming years. This will be across brands, it will be across categories, and it could even be across businesses in order to ensure that we increase the footprint of the Nestlé organization. Commitment towards relevant nutrition proposition and relevant nutrition health and wellness, I talked about fortification is being one of the pillars. There would be similar pillars also that the company would be working on.

And last but not the least, it will be consumer centric initiatives on digital, on ground activation, strategy is not worth the paper is written on unless execution happens. The strength of this organization has been execution that has been tested in probably the most difficult times. So we have the capability now to ensure that we have better times that we are capable of executing even better. Route to Market, I talked about a few of the initiatives that we are talking about and really few of the things that we want to do as a company. And last but not the least, people initiatives to internalize change. Ultimately, the success of this organization, the level of participation that you have in this meeting will depend on the robustness and the execution and delivery of the people who manned this organization. I am acutely aware of this as a leader of this team. I have the maturity to understand that this is not one swallow that make the summer, but ensure that people within the organization are geared to the overall objective and challenges that we face ahead. So that is really what I wanted to share with you. I thank you for your time and attention. Of course, we will be happy to answer questions at a later time and pass the floor to Shobinder Duggal for his piece of the presentation.

Shobinder Duggal: Good afternoon, ladies and gentlemen and once again a very warm welcome to you to this analyst meet. I believe it is the 27th Analyst meet in number of counts. Just before I start with my session, I just want to bring a little correction to or an addendum to the discussion which we just heard from Suresh. When he was showing the slide on the growth for April-June quarter, that was slide linked to the value of the business, not to the volumes, just a piece of correction there.

Now, I come to my agenda which is divided into three different chapters. One is that, I would like to share with you what has happened on the transition to Ind-AS. Why it is important because you would have seen figures of 2016 with certain ratios and things like that. And you would see these figures now with comparison to 2017 in a different format. So it is important that you understand for your calculations what has changed on the accounting standards and how some of the ratios have got impacted. Second part is that I will be discussing with you, the first half results. I will not focus too much on quarter one and quarter two separately. I think Suresh has already given you a good overview of quarter two. And secondly, this time we will go to a more traditional way of presenting which we were doing till before the MAGGI issue happened and we had to make the presentation in a manner to make it more meaningful to you. So this is what we are going to cover in the first half results of 2017 and then finally, I will share with you some of the insights on GST because some of you had tried to reach us when this changeover was happening to see what impact is going to be. So this is pretty much the framework of what I am going to be talking to you in the next half an hour or so.

So first thing first that we implemented Ind-AS from 1st of January 2017 and we have reclassified or restated the figures for the previous periods to make them comparable. What you have to keep in mind is that when you look at the growth of 2016, here for example, we had to even restate the 2015 figures to get the growth comparable and that is a little bit important. So the key changes are excise duty which used to get netted from sales in the old standard has now been shown as a separate cost line. I would just want to caution you on one part that keep this piece separate because when you go to GST, some of these things are going to completely go topsy-turvy. So, you will have to kind of bucket it in your head pre Ind-AS, post Ind-AS first half results and then the GST impact. Else by the end of it, you might get confused, so just keep this aspect in your mind.

Incentives to trade, marketing and selling; these were being shown separately as advertising and sales promotions and selling and distribution expenses. These are now being netted from sales. Consequently, the value of sales will be negatively impacted, but the value of the cost will be positively impacted. Then you have actuarial gains and losses on the retiral benefits. These were earlier reflected in the operating cost i.e. they were being charged before profit from operations in the employee benefit expenses line. These now move away to a bucket which is called the "other comprehensive income" which you must have seen with other companies. Consequently, there is a positive impact on the operating margins as well as on the employee benefit cost. This is not really an exhaustive list and what you see out here is the impact for that line whereas when you see this impact here on the profit from operations and net profit after tax, it is a conclusive one which takes all those items which are also not on this slide. Our sales will go up by 2.7% because of excise duty change and netting of expenses. Employee benefit expenses come down by close to 0.8 billion and in terms of percentage, the given improvement is of 120 bps. Advertising and sales promotion was down by 0.7 bio and in percentage of sales, it goes down by 90 bps. But this is netted from sales just as a reminder. Likewise, selling and distribution goes down from 4.6 to 4.4 and gained 30 basis points in terms of ratios again netted from sales.

The profit from operations here which takes into account all these impacts goes up by 40 basis points, but in terms of value, the biggest contributor here or I would say the only contributor here is the delta in the employee benefit expenses. When it comes to net profit after tax, obviously there are some exceptional items which were there in 2016. For example when you are treating the fair value of any equity investments, which was earlier part of exceptional items, have moved to the other comprehensive income and consequently that also enhances the net profit after tax. So this is a situation for the full year 2016 pre and post Ind-AS for you to keep in mind.

Let us move on to the H1 2017. I think you are familiar with this slide which we shared last time as well. What I can say is that the market momentum remained attractive. I think you all know the figures which Nielsen publishes and I do not want to get into the debate of the accuracy of the figures this way or that way, but one thing we would like to reinforce is that the size of the market as well as the momentum continued to be attractive during this period. When we come to the highlights for the first half of 2017, this is the picture. So you see here, total sales have moved up from 46.6 to 50.4 billion, total growth of 8.2%. The real internal growth was 8.1%. This I remind you, are calculated on the third party sales. And the value growth or the realization growth or the organic growth whichever way you want to call it was 8.9%. You can see that in the first half of the comparative period, the figure was 0.8 and 2.4.

Our profit from operations took a dip from 18.3% to 16.2%, close to 200 basis points and 0.3 billion in absolute values and soon I will share with you the underlying reasons behind this movement. The net profit remained at 11.3% and when we come to the bridge for the net profit chart, you will get to understand that despite having a reduction in the operating profits, we still have a flat percentage of net profit. The total comprehensive income moves from 4.9 bio to 5.5 bio and this is also largely due to the movement of certain exceptional items which were there last time and not there this time. So that helps in improving the margin by some 50 basis points on a total comprehensive income basis. Our earnings per share have grown more or less in line with the growth on the topline with an 8.1% movement.

If I move on now, to how the numbers looked and this is where I was telling at the beginning that all these figures have been recasted to have comparable basis from 2015. So we have a -7.8% growth in Q1 of 16, 16.4% in Q2 of 16, 34.6% in Q3, 15.9% in Q4 and a reminder here that this was impacted by the demonetization which was announced in November 2016. And then, we have a growth of 9.1% in quarter one of 2017 followed with growth of 7.3% in quarter two of this year. And ballpark, we lost close to 200 basis points on growth in the quarter two because of the subdued trading conditions just a little ahead of the GST implementation which was primarily noticed in a few channels including some customers like CSD and things like that. So for your purposes, you could assume that close to 200 basis points of growth was shaved off because of that which is like a one-off and if you were to quantify the impact on the first half, this would be close to about 1% give and take a little here or there.

The operating profit margins which were 19.4% in Q1 of last year, 17.1% in Q2, 16.6% in Q3, 17.2% in Q4 and 17% in Q1 of this year and 15.4 in Q2 of 2017. Obviously, the impact which we had on the topline growth of about 200 basis points in quarter two also had an impact on the profit from operations in the second quarter and ballpark this is estimated to be close to about 40 basis points for Q2 and about 20 basis points for H1. So this is a little bit the picture of the quarterly evolution of our results and if I could now move onto decomposing the sales.

So let me first talk to you on the export sales because we have a few slides to discuss on the domestic sales. So our export sales are down by 5.7% in value and in terms of volume, they are up by 2.4%. So let me just clear this thing off that there are categories which have grown for example prepared dishes and cooking aids over this period which was seeing less traction in H1 2016 because of the Maggi rebuilding, exports had not started fully and that has happened later on and therefore H1 17 sees the full impact. Therefore the volume growth which you see here is essentially a product mix issue and the value growth which we have is essentially due to the fact that the milk products in nutrition business had some hits; 1) because of some opportunity sales in our nutrition products in H1 2016 to the Middle East. Secondly that like we had the GST implementation here in India and you know what happened to some of the stocking issues in the trade. Likewise, in another country there was a planned VAT implementation, so they did not purchase as much as they would normally purchase and that also impacted the growth for H1. Lastly, there was turbulence in Nepal. So these three countries more or less putting their whole combination into Milk Products in Nutrition category are what have impacted the export sales growth for the first half.

As far as domestic sales is concerned, you see the value growth is 9.3% and the volume growth is 9.5%, and I think I would still like to underline here the real internal growth is 8.5%. Considering the configuration of the portfolio and you will see that more clearly in some of the categories, it is important for us to keep these three figures always in the mind when we are evaluating the growth performance. If I now move onto the domestic sales and peel the 9.3% growth in terms of value, 2.8% of the 9.3% is coming out of MAGGI noodles rebuild, 2.4% of this growth of 9.3% is coming from new products and balance4.1% is coming from the rest of the portfolio. In order not to have any confusion, I just want to underline the fact that, there are no overlaps in this analysis, so with MAGGI noodles it is basically the core portfolio, the classic noodles and those which are being rebuilt. It does not include the value of portfolio like Hot Heads and things like that, they fall under new products, and likewise from the rest of the portfolio, the same principle has been followed so that you get the levers of the growth in the first half.

Just to give you a little bit more insight, this is how the rebuild of the MAGGI noodles business has been happening, so if Quarter-1 ‘16 was 100, Quarter-1 ‘17 is at 124, and Quarter-2 ‘17 is at 132. Naturally, Quarter-4 ‘16 also has a little bit of impact of what happened with the demonetization. It is important to understand that as we move up, it is getting steeper and more challenging to grow at a faster pace out here, you can see that from this graph.

New products which were contributing 0.7% to the turnover in H1 ‘16 and this is the contribution to turnover and not the contribution to growth just to clarify, moved up to 2.2% of the turnover in H2 ‘16 and are at H1 ‘17 with 2.8% contribution. This also has helped the growth coming out of new products in the overall 9.3%.

If I now move on to the categories contribution, Milk Products and Nutrition which was at 51.2% in H1 ‘16 is at 48.5% with a growth of 3.4%, Prepared Dishes and Cooking Aids which was at 25.6% has moved up to 27.6% with a growth of close to 18%, chocolate and confectionery moved 20 basis points up from 12.8% growing at close to 11%, and beverages moved 50 basis points up in contribution with a growth of close to 15%.

I will now give you very briefly, the overview of each of these categories, so if I start with Milk Products and Nutrition, first thing just to get the numbers right, while the reported growth in terms of value is 3.4% and volume is minus 0.2%, these have been impacted because of the availability of surplus fat. We have been talking about this issue a number of times here and frankly speaking, we are not going to chase fat to buy fat and sell it to get the turnover, but it has impacted our value growth by 60 BPS, volume growth by 120 BPS, and real internal growth by 90 basis points.

The two products which really stand out to contribute heavily to this growth is NAN and sweetened condensed milk with the brand of Milkmaid. If we now see Prepared Dishes and Cooking Aids, the rebuilding of MAGGI noodles, I have already shared that slide with you which shows how it has grown over the quarters, and valuing up of the portfolio as clearly demonstrated by the data, which you see in the volume growth which is 16.1% and the real internal growth at 18.8%, so the attempt is not only to value up the noodles category, but there is an attempt also to value up the other products in this category. Strong growth overall.

Moving onto chocolate and confectionary, it has grown by 10.9%, the volume has grown by 5.7% and the real internal growth is at 12.4%. This could be well explained by the two messages which you see right below, which is, first that growth is very heavily, dominated by KitKat and Munch as well as by other products largely because of the focus which the business has had on valuing up and on the mainstream part of the segment in the overall chocolate business, so it is clear from here that obviously the growth on our confectionery business has been soft.

If we move onto beverages, please note that this 24.7% volume growth is positively influenced by the fact that Nescafe and Milo RTD are sitting in this and they came in H1 '17, but if you look at the RIG it is only 14.7%, so that is where I suggested to you right in the beginning that always keep these three figures in mind. I think what is important to understand is that the 15% value growth is still a very decent growth by all stretches of measure and has been driven to a large extent by the strong growth in Nescafe classic besides the positive influence which the new products have had in this category, so that is a little bit the story on our top line.

Now, if I move onto the profit from operations, you see close to 200 basis points erosion. I think the first and foremost for us to keep this in mind that we had a very high, very sharp increases in the commodity prices, which have not been totally passed on to consumers and how this commodities prices have moved, I will share with you some of the slides which will give you a better insight. So if you look at our material cost as a percentage of sales, there was a negative price variance from commodities actually of 290 basis points. Because we had done some stocking at old price stocks, we got some benefit of 20 basis points because of that and the net hit to us because of price inflation on commodities was 270 bps. We made 110 basis points out of it through realizations and by improving our product and channel mix. You saw that the exports sales have de-grown and that was largely also coming out of the affiliate business, so that also has helped in getting this 110 beside the product mix.

Now, what has happened is that the price index of our commodity basket which you see here shows an evolution from 2011 onwards had a nice dip from 122 to 115 in 2015, and it was more or less flat in 2016. I think when we met last time, I had given you signals about the fact that this had started hardening and you will see that in the charts to follow, but it has now gone up in H1 '17 by 7.5% and to bring some more substance to this graph, the fresh milk which we buy, this is how the price index of this has moved, so you can see already in the last quarter of '16, this has started to inch up and has moved onto 117, 121, and this has been one of the largest impact on the material cost. If you look at MSK, the story was not very different and I would like to quickly add that the MSK prices in India are still more expensive than globally. They continue to be like that for the last few years.

The green coffee the way it has moved very sharp increase, 96, 107. Wheat flour is a little bit soft now, but it moved up quite sharply. Sugar, I think you have been reading enough about it and I can go on and I have several other slides for each of these commodities but this was the tradeoff which we had to make to see whether we should take a knee-jerk and go through the entire cost increases in the pricing or we wait and watch and try to do selective price increases in a calibrated manner and use some of the other levers. Just before I come back to talk to you about excise and things like that, let me complete picture which relates to commodities, because there are some 45 basis points of a negative hit largely coming out of power & fuel and selling& distribution cost, and here if you have a look, you can see how the Brent Crude was moving in H1 '16 and how it has moved in H1 '17, and more closely, if you see the furnace oil which has impacted our power and fuel, see how sharp has been the increase in the prices of furnace oil, which I know you all have been reading about it, but this is just a quantification of that. You look at the diesel cost, you can see for yourself how the curve has been moving.

Excise duty is largely due to the impact of the conclusion of the tax holiday at Pantnagar as well as the fact that our portfolio sales were more in favor of products which were excisable, but that is a nice thing to have because the margins from there are actually better. Employee benefits is a consequence of essentially, we restructured our blue-collar compensation package taking up more long-term approach to salary increases which was quite in line with what the rest of the industry is doing. A part of this is also coming because of the rebuild of the MAGGI noodles business, of course the intensity lacked the total increase and the white-collar compensation was also there to catch up to bring it in line with the industry norms. As far as depreciation is concerned, we have got a positive and this is essentially scale and the replenishment of new assets being far less than what they were in the past, you remember what we have been through a huge CAPEX cycle earlier and now we are trying to sweat the assets.

The last part of the bridge which is 40 basis points is essentially coming from net provision for contingencies and there are two key elements here, one, that some of the cases for which we had made these provisions finally settled in our favor and a certain element of the risk which was being provided ceases to exist in this quarter, so this has how movement has happened over the first half of 2017. If you look at the marketing spends, they have gone up by close to 6%, but I would say that they have remained at close to the 8% level of sales. The fact is that we kind of re-casted or rolled up the slide for you as some of these costs, as I mentioned earlier, has been netted off from sales. There has been some gain in the efficiency of marketing spend especially between the ratio of working and non-working spend, the ratio has moved in favor of working spends as compared to non-working and there has been a diversion of the spends towards new products to give them enough support. We have also accelerated the spends on our digital platform.

The tax rate has been favorable by about 250 basis points and this is essentially due to the fact that in the first half of 2016, we had some one-offs which were tax inefficient and this year we have had higher tax holiday and tax-free income coming largely from our treasury operations. I just want to remind you that tax holiday of the Samalkha factory unit II has ended on March 31st 2017, which was giving us tax breaks at 100% and now it is going to be applicable for the next five years at 30%.

Now, if you look at the net profit, you see here the 11.3% of first half of 2016 has been sustained for first half of 2017 and the underlying reasons for this is that most of the negative which got caused because of the operating margins has been made up by either a better tax rate, better Treasury income and due to some of the exceptional items which were sitting in the results of the first half of 2016. If I now move onto the cash generation from operating activities, this is a little bit complicated chart, but I thought it was important to share because this has already some change impacts because of GST which we will be talking in a few minutes, and I thought it is important for you to get a little visibility on what is in this chart itself, so this negative of 327 million is coming from the profit from operations. We have less depreciation, so less to add back on cash accruals.

Now, as far as other costs are concerned, this is important to remember that I just talked about exceptional items in H1 '16 while talking about the net profit and in the key highlights, so we had something like 574 million which was sitting in the H1 2016, and they were sitting in the other costs, so when you look at the other costs now this becomes green and what you have to read here is 574-70, so you actually have a green of 504 that is the net impact of the two, but the fact is that this 574 was also sitting as a payable in the other elements of working capital, so what you see positive at one place becomes negative on the other side and that is why we drew these boxes to get you an understanding that this is a contra impact and one should not get carried away that why your other elements of working capital are so deeply red and without understanding this reasoning because they are netting of each other here, either they were settled or there has not been an equivalent replenishment in the other elements of working capital in H1 '17.

If I look at trade net working capital, actually if you see in the reported results, the trade net working capital is positive by 729 million the 300 million out of the 729 million has another contra which is sitting in the other elements of working capital, so if you take the net-net, we should just look at the figures without them, why is it so is because of the fact that the taxes and duties which were sitting in finished goods or in raw and packing materials, just a little ahead of the GST implementation, we had to take them out from there and put it as other receivable because these are going to be available as an input tax credit, so I just thought it was important for you to know this because these things are going to happen as we move onto GST and you may see some figures which are incoherent or some ratios which do not make sense to you, so keep that these things are going to be playing a role.

As far as the 100 million from taxes is concerned, we had some assessments done and despite having a history of winning those litigations till a fairly high level, we were asked to pay up some demand and we paid a part of that demand, this is what is causing that negative, so all in all the

13.5% of sales cash flow from operations has come down to 11.4% and I think I have tried to explain to you the reasons behind it.

If you look at our capital efficiency and value creation, which dipped in 2015 has been recovering little by little and now the ROIC is sitting at 39.4%, this despite having a dip on the margins is not a great story, but is also not a bad story to have still the 90 basis points improvement here. Economic profit improvement has also come because of the fact that you all know what has happened to the long-term interest rates and that has helped in the cost of capital coming down, but our turns have also been improving of the invested capital as you can see on this chart here.

Finally, you must have realized that our dividend payouts have increased. In 2014, the effective dividend was 53, which had just come down to 48.5 in 2015. We increased it to 63 in 2016 and so far for H1 2017 compared to H1 2016, there has been an improvement of Rs. 6 per share. How it will evolve, we will wait and see.

Now, moving on to the third part of my presentation, which is the impact of GST on key financials. Let us take first what happens to sales. Until now we all know that sales were registered gross of excise duty and excise duty used to be a separate cost line, which I just talked about and the VAT which we are paying on sales that was netted from sales. This is the standard which we all are used to. What is going to happen when we go to post GST is that we all know the excise duty has got subsumed in the GST rate and GST like VAT will be netted from sales. What will be the exact impact I will come to that in the next slide, but what is important to understand is that this is giving the details of the point which Suresh had already made in his presentation.

The other point to note is that our overall GST rates are higher than the VAT rates and the range of our GST rates for each of our categories are between 5% and 28% for Milk Products and Nutrition, 5% to 18% for Prepared Dishes and Cooking Aids, and 18% to 28% in the case of chocolate and confectionery. Beverages ranges between 12% to 28%. Why is this important because when we will see this growth charts by categories next time, you will see some aberrations in the growth figures and I want to bring that to the table upfront. Now, there is also an implication on the way we are going to register the cost. So far, the taxable cost was registered in the books inclusive of taxes, if they were non-cenvatable. If they were cenvatable obviously to the extent that was available, it was treated as a tax credit to be set off. In the case of GST, most of the cost is going to be sitting without the taxes, so you will have the basic cost, and the taxes are going to be sitting in the input tax credit recoverable with the exception of those costs which are not eligible for input tax credit, so all these things are important to remember because they will have implications, which I will come to.

Now what happens, the reported sales will be lower by around 525 basis points. The range could be between 500 to 550 basis points, it will all depend on the product mix which we will eventually have going forward, but if I was to take it on the historical mix it should be closer to 525 ballpark. However, product group level, this impact is going to range between 150 to 1250 basis points and this was also one of the reasons, we shared the table of the GST rates with you. The domestic growth rate will be adversely impacted till June '18 till the time the base becomes comparable and just to give you an example, if I was to retroactively apply the GST accounting to our H1 2017 domestic sales growth, it would look more like 3.6% and not 9.3%. Of course, volumes do not change, but value growth and to a certain extent, the real internal growth will also change especially for products which are being launched, so it is just for you to remember that when we meet next time, when you see some aberrations in the figures, please bear with us. Finally, ratios like cost in percentage of sales, which all of you do quite frequently when you are modeling profit margins, asset and working capital turns etc. will undergo a change and remain impacted till June 2018. That is all what I wanted to share with you and if there are any questions, we will take it in the Q&A. Thank you very much.

Abneesh Roy: Sir, this is Abneesh here from Edelweiss, my question is on the pricing strategy, your raw material market is up sharply from 115 to 124 bps, but pricing growth is hardly 1% to 2%, you said both volumes and profitability both are important, so clearly margins have dipped, so which timeframe are you seeing in terms of both objectives being met, so just wanted to understand because you want to give more money to advertising, but you do not take the price hike, how do you get that?

Suresh Narayanan: I think it is a very good question, as Mr. Duggal showed the direction of the commodity price increase is very clearly northwards and there is very clearly an increase in the evolution of this over a period of time. As an organization, if you would look at for example the GST benefit in the case of milk powders, the GST rates have come down and we have passed on the commensurate benefit to the consumers though it goes contrary to the flow of the commodity cost, so I believe that we will have to over a period of time, recalibrate the prices. I do not see that it is going to happen immediately, but certainly in the next couple of months, we will be having to recalibrate the prices of some of our products. If the capability to absorb them in the context of whatever efficiencies we are able to bring to bear, on the economies of scale is inadequate to do that, so I think at this stage we have followed the letter and principle of GST, which is to offer the commensurate benefits to the consumer wherever the GST rate is lower than the rates that we have had for the products in the past, but if the commodity trend goes the way it goes then the recalibration is something that we will have to do in order to get to the model that we talked about which is growth together with sustained profitability.

Abneesh Roy: My second and last question which is in fact related is, you have done 43 new launches, only 6% growth in ad spends that looks extremely low, you are saying most of that is directed towards the newer products, but again is this not too less and does it not impact the success rate of those new products, so just wanted to understand why such a low advertising spend?

Shobinder Duggal: Abneesh, can you repeat the second part of your question which is where you are trying to quantify how much is input behind?

Abneesh Roy: I do not know if these numbers are exactly comparable, so you had mentioned 6% growth in the ad spend year on year total, so I do not know if it is exactly comparable so I wanted to know the comparable number. In either case, it looks quite low for 43 new launches, so wanted to understand why such a low number?

Shobinder Duggal: Let me get the numbers right here, 6% growth is total to total, but there is a redirection out of the total towards new products, so it is not that it is only 6% growth on the new products, there is a sizeable portion out of the total ad spends which have been redirected to the new products.

Abneesh Roy: Overall should also increase much higher, I understand it is overall?

Shobinder Duggal: Yes. It is a rejig between existing and new products, but the total has only increased by 6%.

Suresh Narayanan: I think to take your point Abneesh here, the fact of the matter is that as an organization we look at two sets of strategies, one strategy is what is the minimum maintenance level of advertising do we need to do on some of our products in order to have a positive evolution in their volumes and growth, and second is how do we in cases where we believe that the levels of investment are not commensurate with the kind of growth objectives or the growth in actually that we are getting, how do we redirect some of this growth, some of these resources behind the new categories. To give you a rough indication almost between a fifth and fourth of investments have been put behind the new product initiatives of the company, some more, some less depending on the category and depending on the salience of this categories, but in some sense the level of investments that are being put have been kind of disproportionate at this stage, so while the overall numbers as Mr. Duggal says shows the 5% to 6% increase, within that there has been a recalibration of resources behind the categories where we have got a growth that is commensurate with the maintenance level of investments, where we do not have it, we take some resources out and we put the resources behind the new products, between a fifth and fourth of investments have gone behind it, so I think that is the way we have tried to balance the equation so that we do not have a serious kind of debility on one side at the cost of the other, and now we will do second exercise which is to see that out of these 43, which are the ones that we can support for the future and which are the ones that we will need to either replace or we will need to rationalize because obviously some of them would not be working the way we would like it to work.

Vivek Maheshwari: This is Vivek Maheshwari from CLSA, continuing from the previous question of A&P bit, if you are spending let us say fourth on new launches that means the existing portfolio is not getting as much support as it should, I have not seen any other FMCG company launching 40+ products and having only 6% A&P growth and you kept mentioning that this is one comment I had for nearly a decade now about margin obsession, profitability is important but what is the right number, 15% is also profit margin, 20% is the robust profit margin, you have one of the most profitable companies alongside Colgate, so where do you draw a line that if you want to be in investment mode, what is the right number in that context or is there a pressure from parents that you cannot go below particular threshold and that is why some of the attempts are half-hearted and you will pull out of some of the new launches that you have done?

Suresh Narayanan: Very good question let me be very upfront on this, I do not think there is any kind of diktat that I have to do X or Y percentage in terms of operating margins, while growth model of the company has been growth with sustained profitability. The call that we have taken in the entire debate is to calibrate at three levels, one is the kind of innovations that we believe are giving us traction and we are putting money behind those investments. The kind of pressures that we have on pricing because one way I can do is that I can increase the prices to such a level and then start supporting the brand which is not going to get me the volume growth that I want, so penetration and keeping the prices affordable is also a form of investment which you would agree is something that we need to do in order to increase the investments, so it is both in terms of identifying out of these 43 which are the heavyweight ones which need disproportionate investment, where we are investing, some of the brands where we believe that the threshold levels and this is where the optimization exercise goes between calibration, between press and between digital. Digital for example is 35% to 40% cheaper than a television campaign. Now for the same amount of money that I have spent on digital, I can get a much bigger bang for the buck as compared to putting it behind television, so some of these efficiencies and media rationalization is also part of the expenses that you see, but I want to put it upfront to you that we do not work with certain number on the operating margin that we have to deliver and then work backwards on it. We say that out of this 43, for arguments sake let us say 20 of these are going to be heavy hitters for the future, they will get a disproportionate part of the investment wherever possible and some others might therefore have to take the back seat, that is the overall approach that is being taken.

Vivek Maheshwari: Second question, you mentioned in last let us say 15 to 18 months you have launched seven products under PPP, can you name which were those products and is there a rationale to accelerate PPP more given that, a lot of companies like Britannia, Unilever are moving from lower margin product to higher whereas you are sitting on high margin, is there a case of launching some product at PPP level or accelerate that portfolio?

Suresh Narayanan: Look PPP level, the products are fundamentally in the confectionery area and also in the prepared foods area, this is where the PPP launches have been done. Why are we just continuing to do PPP launches because if you look at the consumption grid that I showed you, you still have something like 30% to 35% of all consumer expenses that is in the segment where people are price seekers and value seekers, part of the strategy of increasing the penetration and salience of product is also to introduce PPP offerings that convert people to come into that category and then to later on look at ways at which you upgrade them. For example, we have a Rs. 5 MAGGI Noodles which is a price point led phenomenon, it is a PPP initiative, from Rs. 5 we moved to Rs. 12, from Rs. 12 we moved to Rs. 40, 50, 60 and you go up the value chain. So you need in some categories the PPP in order to be an invitation to enter the category.

Vivek Maheshwari: Sorry, my question, is there a case to accelerate that to have more PPP to gain bigger consumer base or you think you are satisfied with current PPP strategies?

Suresh Narayanan I do not think there is anything that again is limiting us from launching more PPP initiatives. The call that we have taken is what are the opportunities that the company confronts in the market place. There is a significant premiumisation that has been taking place. I think last time I shared with you in some categories the kind of premiumisation that is taking place. We were not squarely there in that journey. So we had to put ourselves into that journey so therefore 14 out of the 43 came in that particular segment in terms of premiumisation. Mainstream continues to be important and we believe that our mainstream also needs strengthening. On PPP, which has really been one of the core strengths of the organization, what we felt was in terms of prioritization of growth, we would be looking at the midstream and the value up as key focus areas for driving innovation and renovation and looking at PPP in those categories where we need an entry invitation to be given to the consumers. So it is not that it will stop, but it will be strategy where we will supplement what we have unless we come up with an offering that is truly path breaking in terms of consumer relevance in which case that might happen. But as of now, the PPP will be a topping up strategy. The mainstream will be a strong participation and the value up will be an accelerator.

Vivek Maheshwari: Thank you. And if I can just make one request. Like you said Shobinder until June 18, the life is going to be difficult on disclosure, only request is if in your press release you can include the comparable number and Nestlé India is the only company at least in my coverage which does not give volume growth on a quarterly basis which is a very important metric. You were on CNBC and after the result, you mentioned this in media why not give that to analyst as well at the time of result, if you can consider this request. Thank you and all the best.

Suresh Narayanan Okay. We will look into it.

Punit Saraogi: Punit Saraogi from Bay Capital. I had two questions. One was around what you mentioned in your strategy, you said that our strategy is of continuity, so what is worth we will keep doing it, what is not worth we will fix it. It will be very useful to understand what is not worth, how you are fixing it? The second piece is around sort of what Nestlé is doing globally. So we have heard the global CEO talk a lot about focusing on three categories which is pet care, coffee and water. So when I mapped that with what is in India, only coffee is there, nothing else is there. So how do I reconcile those two? And related question is that there is a big focus on driving cost. So 200 basis points of improvement, it will be useful to understand what you are doing in that space in India in terms of driving cost. So those two questions.

Suresh Narayanan: In terms of focusing on the core elements or identified core categories of growth that our global CEO has done, you are right that he has identified the three bigs in terms of water, coffee and in terms of pet care. Now I think as far as this is concerned, it is more a global statement of intent across markets and not necessarily something that is translated in terms of each and every market that we have to be in these three businesses. Here, we have interest in coffee, very clearly coffee and beverages and over a period of time, you will see enhanced presence of the company also in this category. Regarding the other two categories, I think it is fair to say that as I have mentioned to you last time these are very much in the radar of evaluation in terms of increased strategies. If there is clearly an opportunity and if it makes sense, I think the company will evaluate it reasonably well. Now what is it is not working well, I think the mix between trying to be on one end of the spectrum either on the end of PPP or on the other end of the spectrum is something that we are now seeking a balance in our portfolio and that is to answer the question of my friend from CLSA that we are trying to balance that over a period of time to be able to launch more mainstream and value up products and reinforce the PPP part rather than focusing a lot on the PPP part of the journey. Our second is as a result of the rapid innovations and renovations that we have done, one of the things is that we are looking very seriously at the kind of development times that we need and the lead times that we need in terms of making product launches which is today much faster than what they have been in the past and that is a source of great impetus and inspiration to us in the organization to accelerate. So can I be slow, deliberate and allow the market to kind of soak in what I am launching or do I have to be fast and paranoid about what the opportunities are and therefore to be able to put that to bear. This is also linked to the institutionalizing of the learning that we are looking at. So wherever we have made the sharp departures either in terms of organization speed, fast focus and flexibility or in terms of portfolio, are clearly learning lessons that we have taken. Regarding cost, I think there is a continuous exercise that is on to look at both our sweating of our assets wherever the case for that is to look at our organization structures. I think there is a massive exercise that is on globally and that is also we are part of it called Nestlé Business Excellence. That is looking at really recalibrating and reevaluating each of the business functions and business imperatives and to see whether they need to be done the way they have done or they could be done differently with higher levels of throughput, but with lower structure and this is also something that is really what Mr. Mark Schneider, our CEO also has been talking about leveraging the power of business excellence to sweat assets and also to reduce cost. And I think this would be something that is a journey that is way beyond and you would see some of this being shared with you as we go forward.

Punit Saraogi: Just a follow-up. Do we also have a target here?

Suresh Narayanan: Well, we do have. I think there are internal targets that we do set for ourselves, but these are also I think evolving targets, evolving based on competitive intensity, evolving based on the kind of evolution of commodity prices that happened and also evolves basis the growth versus profitability equation that we constantly take a look at in order to see whether we are meeting this equation. So it is a moving target, but I can only assure you that there is definitely a target. So it is not that there is a randomized kind of hunt for growth margins and profitability. There is a hunt in different scenarios and sometimes we have to balance that scenario to say okay, I will take a hit on margins in order to go for growth or I might decide that growth is hard to come by might as well get the margins.

I think on the cost and targets, let me tell you that close to 1% of sales both in H1 '16 and H1 '17 specifically in reference to cost of goods, has been saved. Since their saving levels and percentage of sales were same, therefore it did not come in the bridge, but these are the things which he is talking about.

Percy Panthaki: This is Percy from IIFL. Sir my first question is on the new launches you have done. If you can give us some flavor on which of the ones have worked very well, which ones have not lived up to expectations and which one are just about tracking expectations that would be helpful. Secondly, before GST was introduced, there was this entire school of thought, which said that there will be a benefit to the organized trade from the small or local players. So just with respect to your business, do you call out any such benefit that you are currently seeing on the ground given that two months have passed and thirdly, there was a chart for the GST rates minimum and maximum. It would actually help if you could tell us what are the price actions, I mean you could also tell us what are the average rates because minimum and maximum does not tell the picture or you can tell us what are the price actions you have taken in different categories post

GST implementation in terms of which category have seen a weighted average increase of how much and so on? So these are my three questions sir.

Suresh Narayanan: Whatever I answer will be clearly supplemented by Mr. Duggal, should you want more details on exactly what we have done. On the pricing strategy, what we have really done is quite clearly there are categories where the total of the VAT and other pre-GST indirect taxes and as compared to the GST, there has been a benefit. In our case, there has been a benefit as far as milk powder is concerned and there has been a benefit as far as sauces is concerned and there has been a benefit as far as baby cereal is concerned wherein the prices have been reduced and this is to take back just the question as well. The view that we have taken as a company is that whatever is the commensurate benefit will be passed on faithfully and transparently to the consumer. So in milk powder for example, roughly 8% has been the decline in price. In cereal, it has been about 1% to 2% I believe and a similar number has also been the case as far as sauces are concerned. I can have the exact number that is shared to you. So that is the result on the pricing front. These are the three main categories. In those categories where we have had an increase in the overall GST like for example in the case of chocolates or in the case of instant coffee, we have chosen for the moment not to touch the pricing as a strategy. Again, as I said as time evolves, looking at the kind of cost pressure that are clearly building up unless there is a mitigatory effort efficiency that we are seeing, we will have to clearly look at pricing as a vector as we move forward. But today mainly in these three categories, there has been a pricing reduction. In other categories, the price has remained the same. Now as far as the trade arbitrage is concerned between organized trade and the traditional trade, honestly so far we have not seen a dramatic shift that has taken place. There is still some reluctance in wholesale behavior that I must admit. There are still pockets where there is reluctance of the wholesaler to pick up stocks because they still are fighting their own knowledge of GST versus the advise of their chartered accountant’s on GST versus what they think is likely to happen. So there is a bit of kind of cautious behavior on taking in stocks. Our own exposure on wholesale is relatively low and so far it has not been a huge kind of impact, but the trade shifting that was being talked about, as of now we have not seen it being apparent, may be it will happen over a period of time. I do not know, but at least in July-August, August till what I speak there has not been a dramatic shift.

Percy Panthaki: Not only in trade, but like especially in categories like dairy whiteners, are the producers themselves feeling the heat of the new compliant environment and therefore do you see a market share gain in percentage?

Suresh Narayanan: I think the big players have very clearly announced reduction in prices. If you look at the dairy whitener category, Amul and Nestlé are the two big players apart from other local players as well. Both have announced a reduction in price. So it is kind of, you would say that this is something that the consumer expected, the consumer has got. Too early to say whether this is going to spurt them to buy more of milk because it is fairly a big impact on prices, but I can only say that I think the players by and large have played the compliance game of saying this is the benefit we pass it on. I hope it does translate into improved consumptions because if I get something which is 8%-10% cheaper, then it should spur me to consume more of it especially with milk powder, but only time will tell. As of now, I am not in a position to indicate to you that there has been a big shift as far as this is concerned. And you had a third question, sorry.

Percy Panthaki: That was in terms of your launches, if you could give an idea which ones have worked and which have not

Suresh Narayanan: Let me be clear about it. I do not think there is nothing which is a write-off in terms of launches. But if I were to just look at some of the launches that have done well, I think some of the launches in confectionary have done well, brands like MUNCH Nuts, KITKAT Duo, MUNCH Trio. These have done well. In prepared foods, we have got MAGGI Hot Heads that has done well. We have had MAGGI No Onion No Garlic which is also in its own manner in a relatively smaller market done reasonably well. We have had for example MAGGI Masalas of India which we have now put into the market which has also done well. In the RTD segment, we have got MILO which has got off to a good start. NESCAFE RTD has also got off to a good start. Where it has not worked as well, to be honest has been the EVERYDAY Masala Fusion. I think there we still need to do a lot of effort in order to get the business up and we are also looking at Insta-Filter to really restage it because I think there is a bit of confusion on what the product really is and what it is expected to do. So that is where the thing is. On the part of milks and nutrition, I think CEREGROW has got off to an encouraging start. Mr. Duggal talked about NAN, there was also NAN, new product that was launched which also has met with a good start. CERELAC was also kind of enriched with iron that also has met with an encouraging response as far as the overall business is concerned. So that is where we are. So many have worked positively, some have not worked as positively and it is those some that we are going to address in terms of whatever we bring out, we will either answer these questions on whether these will continue or not, bring in new ones or these will go out and something else will come.

Manoj Menon: This is Manoj Menon from Deutsche Bank. Two questions and an observation. The first question is on the distribution part, distribution including merchandising channel, prioritization etc. If you could talk a little more about actually the work which you have done in the last couple of years, may be a continuation of something which has been happening earlier, the reason I am asking you is because in a downturn companies do dial upon different ways of growing actually, you have to create growth and at least there are a few examples which I have observed in the last 10 years actually in the market of few companies actually doing that. The recent example being McDonalds**.** If you could actually talk a little more about the distribution in numeric part, the productivity part in terms of how are we improving it differently and the merchandising part.

Suresh Narayanan: I think you are right, Manoj. I think distribution merchandizing is a very key element of the overall execution strategy of the company and there, I am happy to tell you and in fact proud of the fact that I think over the years, Nestlé has established certain excellent standards for merchandizing for channel presence and for channel execution. What we have tried to do as an organization are fundamentally three things in the overall channel and merchandizing strategy. Number one is clearly on the comeback of MAGGI Noodles, there has been a strong focus on getting back the outlets that we had lost in MAGGI noodles and in fact go beyond. I mentioned a figure of about 600,000 outlets that we have gained and that is something that was a clear strategy behind the brand to get back the distribution levels that we wanted. Number two is with an expansion of the portfolio, the focus of the company both in organized trade and in the traditional trade has been to get the new products of the company either together or as separate focal items on the shelf and there has been a large focus on that across geographies and this has also been part of the reason the new products have met with reasonably good response in whatever channels that we have put in. Equally, there has been on the third side only a separate kind of organization structure that we have setup behind activation and sampling. This is something that is an inherent part and inherent strength. The fact of the matter is NESCAFE and the MILKMAID have been built on the strength of enormous activation and sampling. That is how these brands became what they have become. So we have really reenergized that part of it. So there is a huge amount of both activation and investment behind sampling and presence at the point of sale in terms of promoting some of the new products that we have engaged in and that continues to happen as well. In addition, there are focus behind two channel initiatives. One is what we call the alternate business channels which is focused on out of home consumption. Out of home is probably one of the strongest growing [inaudible] of consumption in India in the food and beverage space and that space that we are looking at aggressively in terms of whether it is NESCAFE corner, whether it is presence at railways, whether it is a MAGGI Hotspot. There are different channels that we have used in this and I think there has been a fair amount of progress. Again, these are not yet reached the stage when they start making a big impact on the growth of the company, but the consumption movements for the brands is clearly enhanced and as I mentioned to you the last time when you were here, I think as a company now we are confident of actually opening an engagement point for consumers where we offer you from the portfolio of the company, you can have a snack, you can have a confectionary, you can have a yogurt, you can have a ready-to-drink, you can have tea, coffee and NESTEA**.** So there is a full portfolio rather than depending on having a coffee, then having a Vada Pav somewhere and having something else somewhere else. So this is the concept we are looking at to federate our brands together and make this trust on the out-of-home as well.

Manoj Menon: Just help us with some numbers in terms of what is your direct reach today and when you say today, it could be a steady state number, could have been what it was 18 months back or 24 months back without the MAGGI impact and what in your view it should be today and if you could talk about in a roadmap, if you can provide that?

Suresh Narayanan: Look, I think as of now we have an overall as I said distributor base of something like 1,700 distributors and also we have close to 6,500 smaller distributors or re-distributors as we call it. So the distribution infrastructure has almost about 8,200 entities that are involved in the distribution for the company. In terms of total outlets, we cover more than 4 million outlets, right. We make about 160,000 calls per day. And in that 160,000 calls, there are almost 50% of them which would be what we call visibility outlets. So those will be the ones where we focus on specific visibilities as well. Where should the distribution be? I think the distribution is a function not only of the capability of the organization or the channel, but it is also a question of the portfolio of the organization. So I think with the portfolio that we are also doing now to expand, clearly I see this number going up quite significantly in the coming years.

Manoj Menon: What is your direct reach today in terms of the number?

Suresh Narayanan: Direct reach is over a million outlets.

Suresh Narayanan: Our direct reach is over 1 million outlets, almost 1 million and 300,000.

Manoj Menon: So, the question here is do you think it acts the appropriate number for today and is there a target without a timeline, if you can?

Suresh Narayanan: Look, I would say direct coverage again, is a question should I be in every single outlet directly? No. Because what is important is to look at the total cost itself and when you look at total cost itself most companies have a model where the indirect coverage as a proportion of the total coverage is always a higher proportion. So, we have for example, almost 3 million on indirect coverage and a one million on direct coverage. Now, this ratio if I am going to be launching more products that are going to mainstream and value added. I might in certain geographies decide that the direct distribution needs to be higher. So, there the objective will be higher. If I am putting in more mainstream and PPP then for me the strategy is to leverage the auxiliary distribution channels. So, we look at it really by brand and we do not sort of put a number that says it has to be by company. So, I would say NESCAFE has x target, next year should be 20% higher. And that should be indirect coverage. There will be the following packs that will be on direct coverage higher. Some packs which are mass consumption, PPP based, I will say the objective should be Y number of outlets on indirect coverage. So, there is no right or wrong number to this Manoj. I think it is a question of where am I able to give a reach, a frequency, a presence and cost to serve that is most optimal. And I think that is done by brand, by geography, by channel, rather than just putting a target for the company saying that one will become 3 or one will become 4.

Manoj Menon: Yes, just quickly on the second question actually on the Chocolates category, would it be fair to say that by focusing on niche for a very long period of time, relevance of that category from a consumer point of view, it will be much lower from Nestlé point of view because at 40% share you actually are focusing on a very small subset of the actually consumption opportunity in Chocolate, so what is your thoughts on Chocolate? Because like as usual thought process at least in my view it may not be appropriate for that particular category currently.

Suresh Narayanan: Well, it is interesting you say that but the niche that you talk about which represents KITKAT and MUNCH. MUNCH is probably the most distributed brand in the country. So, we might take it as a niche, it is actually not a niche and this is because the value per kilo is much lower than the pure Chocolate. So, it looks to you that it is a much smaller share of the pie. In volumes terms, it is actually fairly large. However, I do take your point that I think the opportunities in chocolate and confectionery is clearly much bigger than the wafer and chocolate that we have today and indeed part of the foray into brands like ALPINO has been to capitalize on that opportunity. You will see more of these kinds of initiatives being taken by the company. But will I really go even lower in terms of trying to come with an offering, chances are probably less. Because you will not be then able to give experience to a consumer that is a worthwhile experience. So, we would really look at how we can strengthen KITKAT and MUNCH and MILKYBAR substantially and then look at how we can use one of these brands in order to come up with value added offerings. That is really the approach that we will take.

Manoj Menon: Understood. Just one small statement I have probably felt and I sought an answer from you actually. There was statement made by Vivek earlier about your margin, at least I would view that your margins are actually not very well because when I think about your segmental margins there is one category which you do not advertise, if I exclude that and if I look at the rest of the portfolio at least your margins are probably mid-teens of probably high-teens sort of a margin which considering the quality processes which are Nestlé follows with start to the gross margin profile itself, so it may be actually you are not really profiteering, yes or no.

Suresh Narayanan: Well, again, it depends on what is the right level of margin and what is not the right level of margin and what is the kind of price value that the consumer sees in your brand. Now, one of the things that the company does not endeavor will compromise on, is the level of quality that we offer. So, that is something and that is why when you get into a category, we only get into it if I am able to have a sustainable quality and food safety offering that is of the best possible standard that I have got. Now, clearly the categories in which we are in are categories where there is a fair amount of competition both local and global and also thirdly emerging. Now, the call that the company therefore takes, again the equation between growth and profitability to see what is the optimal mix that we can do in order to sustain our business proposition going forward. In some categories, we do privilege growth over profitability in the categories that you are talking about. In some of them we actually take the call saying that look if the growth prospects are not particularly strong then you might go for a better strategy on profitability. I would not say anything Manoj is low or high. It is the blend that you put together, it is a bit like the meal on your plate. You do not look at the one part of it and say this is high or this is low, it is the mix that counts. I think we are privilege as a company to have a mix and that is why we are who we are but if you were to disaggregate us and say this particular one is good or bad, I think that will be a little short-term view of things, I know you are entitled to take it but it might be a very short-term view of the potential that could be unleashed by the organization.

Prasad Deshmukh: This is Prasad Deshmukh from Bank of America. The question is about a slide that you had on "Simplify to Energize". There were certain targets like 30% to 40% reduction in processes, 50% reduction in meetings and zero tolerance on non-compliance. Actually, how it work in practice and are there any cost implications to this?

Suresh Narayanan: Well, of course, there are very clearly, why have I said, you would say why is it even put on a strategy slide, right because you may think it is very trivial when you measure the fact that anywhere between 30% to 60% of the time of some of our people spend in either a process compliance or in attending the meeting rather than doing the major act which is important in the organization of being consumer or customer facing? And I think it is that view point that is being articulated here. Now, it does not mean that everything goes by 30% - 40% what you said, on these kind of things you need to have ambition and that ambition needs to be supernatural. If I reduce it by 5% it is not a big deal it will be done in 2 minutes and people will be back to it. And this is also linked to the Nestlé Business Excellence, which will really look at how we can improve the quality of our processes. So, not have 200 processes have 50 processes but they do the job that can be done by these 200 processes. So, for us, I think challenge has been to increase the level of empowerment and engagement by cutting down the processes. Sometimes these processes is as trivial as getting 6 approvals for a Rs. 1,000 expenditure. I am not saying this is necessarily true but this is the kind of triviality that you will get into. So, how can you cut some of this so that (Inaudible) runs ahead and do it and not of our launches if you look at it, did not happen because we violated any compliance procedure of the company on the contrary, we followed every single bit of it. It is just that people we empowered to run and say look you do not have to keep going to Suresh Narayanan to get every damn thing clear. You do it, you think is right, you got back into it, go ahead and do it, if it fails, he takes a rap for it, he faces the investors and answers the questions why did the innovation not work. But you go ahead and do it. Similarly, on meetings and I think these are you may think that these are symbolisms but this is important in organization because it sets a tone because then people realize that what I need to do is customer facing, internal customer, external consumer, consumer facing, I need to be fast and this is the meaning that I do things in three months from concept to launch. And I do not take 30 months which might be perfect but it is just too late. So, these are some of it and some of it will translate into cost aspects. It is very difficult to because these are not kind of man power related. We have not cut a process by 20% and therefore add 3 people out of job that is not the objective. But making them more efficient and thereby making the structure and the processes a lot faster. That is the way we have looked at it. And hopefully over a period of time this will translate into cost elements as well.

Prasad Deshmukh: Second small question, there was some discussion on digital advertising, so in terms of TV what was your share of spends say 5 years back, today and where it will go from here?

Suresh Narayanan: Look, I would say let me take it the other way around, I mean if I look at digital for example, digital would have been less than 5% a few years back, today our digital expenditure ranges anywhere between 15% for a brand to 50% for a brand. So, I can tell you that for those brands in fact the level of television exposure will be very-very small. Again, it depends on brand because the fact of the matter is that many of our brands have core target groups that extend to the millennials and I do not think a single millennial is today barring few exceptions even looking at the television screens, they do not look at it, I think it is all on your phone or on your laptop or whatever, right. So, it is evolving and that is why we have created the expertise within the organization because the digital content that we need to generate as a company has ballooned, has become huge with every campaign. When we launch Nutrilicious MAGGI on Amazon, the campaign on digital. It does not go on television anymore. So, I think this is the journey we are on and this is the kind of transition that we are taking.

Amit Sinha: This is Amit Sinha from Macquarie. Just wanted to understand was is the lower price hike in the portfolio also was also on account of the higher competitive intensity which we are seeing across our products?

Suresh Narayanan: Sorry, the lower price hike in which?

Amit Sinha: In the first-half essentially and we were not able to pass on the increase in the raw material prices in terms of the pricing, is it also because of higher competitive intensity or was it only GST timing issue?

Suresh Narayanan: Look, any pricing decision has got 3 elements to it, one is how strong is your brand, is your core proposition and how elastic is your price value relationship. And the third one is, how intense is the environment around you and your capability of taking a price increase at a point in time to meet the overall objectives. I think our decisions on all these brands is a combination of these three. What is the intrinsic price value that we believe the consumer is willing to pay for it, what is the elasticity that we see sometimes, we do take a price increase, we know that it is highly elastic, we know things are going to drop. We say fine, we will take it because the pressure is outweighing the benefit. Some cases we swallow it because there is a better growth trajectory that you could get. And also because there is a certain threshold that you look at the overall profitability as well, you cannot get into a situation where a brand starts making loss and you still do not take a price increase because you want to surviving in the market then you look at the proposition and say, is this brand worth it or is my brand worth it? And the third one of course is competitive intensity which is I can be honest about it, it is healthy, it is robust, it is sometimes inspiring, sometimes perspiring but it is there. And I think we have to be real as marketers and not burry our heads in sand and assume that we are going to be walking away from competition. So, these three factors really weight in our mind and whatever decisions we have taken are the best judgment factors on this. I can put it very clearly, we neither time the market nor do we time announcements because that is not our strength because that is not what we are paid to do. We are paid to ensure that our brands reach consumers with the price value relationships and the integrity that we seek to offer and hopefully get their franchise, if they buy it well and good, if they do not buy it, we go back to drawing broad and improve our self.

Amit Sinha: Okay. So, essentially what you are seeing is on a relative basis it is compare to 2016 the competitive or basically the intensity from the competition remains the same?

Suresh Narayanan: It is one of the factors and again, it is a little bit like saying that the level of the water in the seas is exactly the same at all points in time. It is same for us. In some categories, the competitive intensity is higher, some categories it is lower, some categories our propositions have been considerably strengthened and therefore as a corollary the intensity looks to us lower, it is a combination of that but I can tell you that competitive intensity is one of the features that is important in a pricing decision not the only reason why we do it.

Management: We will now conclude the session. Please join us for some light refreshments. Thank you.

Suresh Narayanan: Thank you, guys. Thank you very much for your time, for your attention, I really appreciate your participation today.

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