

# Nestlé India Limited



21st Financial Analysts' Meet - Gurgaon 30th Aug 2012

# Disclaimer

This presentation may contain statements which reflect Management's current views and estimates and could be construed as forward looking statements. The future involves certain risks and uncertainties that could cause actual results to differ materially from the current views being expressed. Potential risks and uncertainties include such factors as general economic conditions, commodities and currency fluctuations, competitive product and pricing pressures, industrial relations and regulatory developments.

*Responses can be given to questions, which are not price sensitive.*

*Calculations in this presentation are based on non-rounded figures.*

*Real Internal Growth (RIG) and Organic Growth (OG) are basis Nestlé Internal Reporting Standards in relation to third party sales only.*

*Figures have been regrouped / reclassified to make them comparable to current period.*

# Excerpts from Recent Analysts' Reports 2012...

Management remains “cautious” in a “challenging” year

Missed revenue growth due to .. insufficient capacity.., channel mix rationalisation

Revenue Growth primarily led by realisations

Amongst the best consumption plays

Slowest growing consumer firm in our coverage

Revenue shock, growth 23 qtr low

Soft Quarter, Volume growth remained muted, highest margin in past 12 quarters

Volume growth continues to disappoint

Unexciting quarter + stretched valuation = Downgrade to IN-LINE

Aggressive Price hike, superior product mix

Nestle continues to optimise its product portfolio by discontinuation of...

Result below expectations

Out of the comfort zone ...

.. long term vision in India

below expectations; disappointing sales, reducing returns

Margin obsession

Volume disappoint, operationally sound

Packaged Food potential intact

Low revenue growth temporary

We are perplexed with Nestle's short term earnings focus at the cost of growth

Underperformer

Bitter Sweet

Just a breather

Volume trajectory - new launches is the key metric to watch

.. would be one of largest beneficiaries of rural opportunity led by growing awareness for nutrition

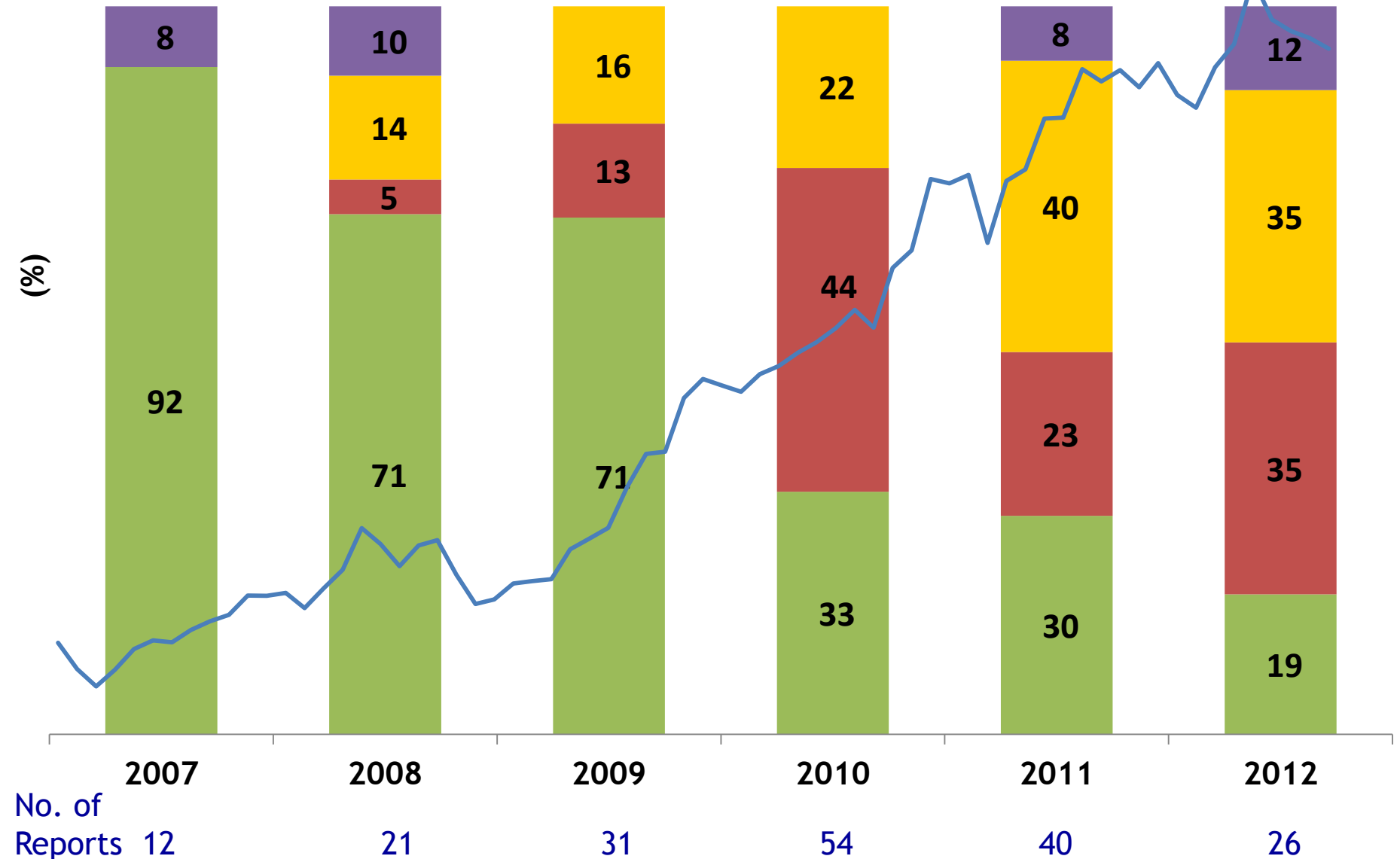
# The critical balance!



# Analysts' Rating on Nestle India

Buy Sell Hold Not rated

— Nestle India's Share Price



# RIG explained...

	Previous Year (PY)			Current Year (CY)			Weighted Sales #
	Volumes	Price	Sales Value	Volumes	Price	Sales Value	
SKU A	1,000	2.0	2,000	Discontinued			-
SKU B	5,100	9.6	48,960	5,300	10.1	53,530	50,880
SKU C	8,050	3.2	25,760	7,400	3.3	24,420	23,680
SKU D	12,700	5.5	69,850	14,605	5.8	84,709	80,328
SKU E	new introduction			200	6.0	1,200	1,200
	26,850	5.5	146,570	27,505	6.0	163,859	156,088

# CY volumes @ price of PY

Organic Growth (OG) 11.8

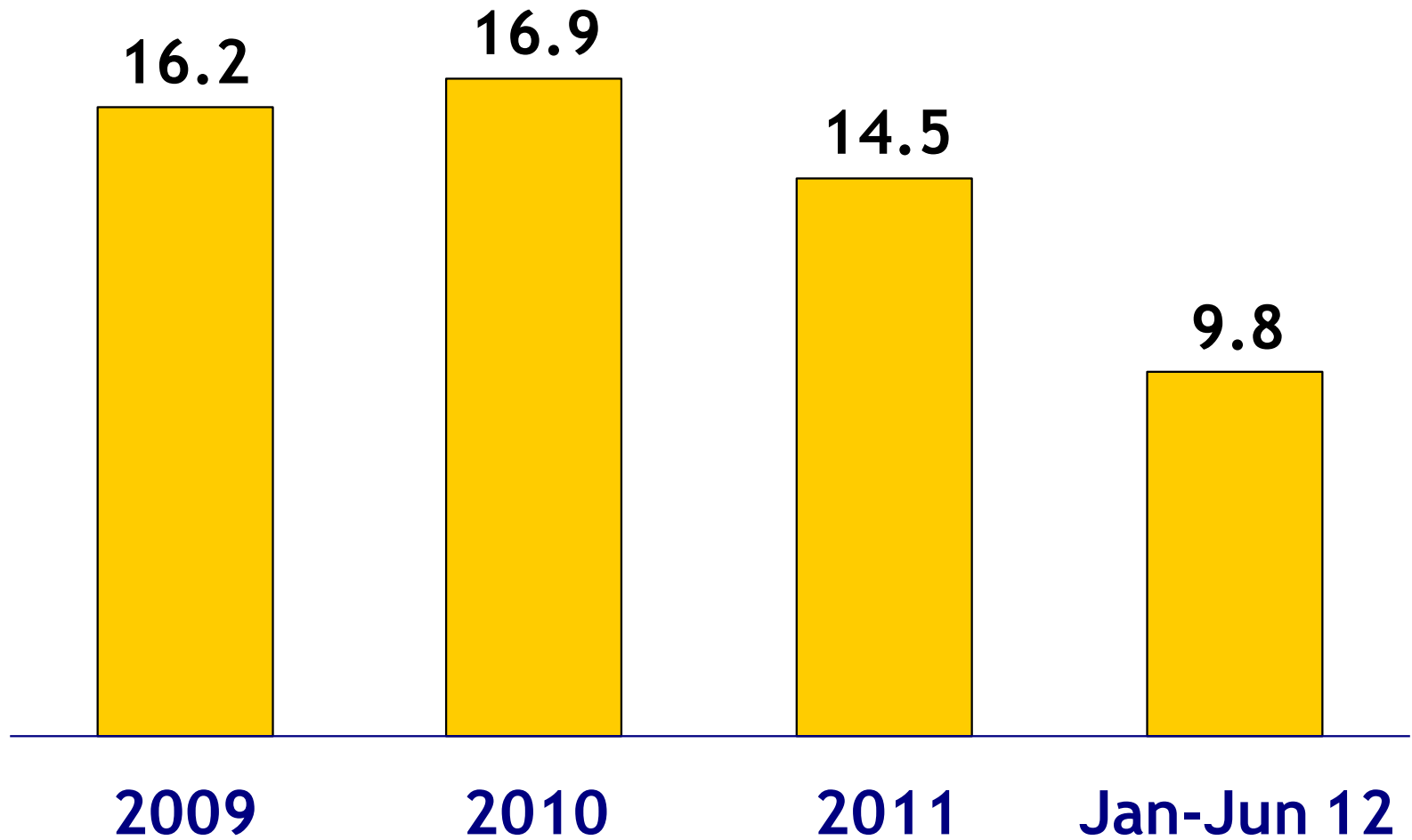
Volume Increase (%) 2.4

Real Internal Growth (RIG) =  $\left[ \frac{\text{Weighted Sales}}{\text{PY Sales Value}} \right] \times 100 - 100 = 6.5$

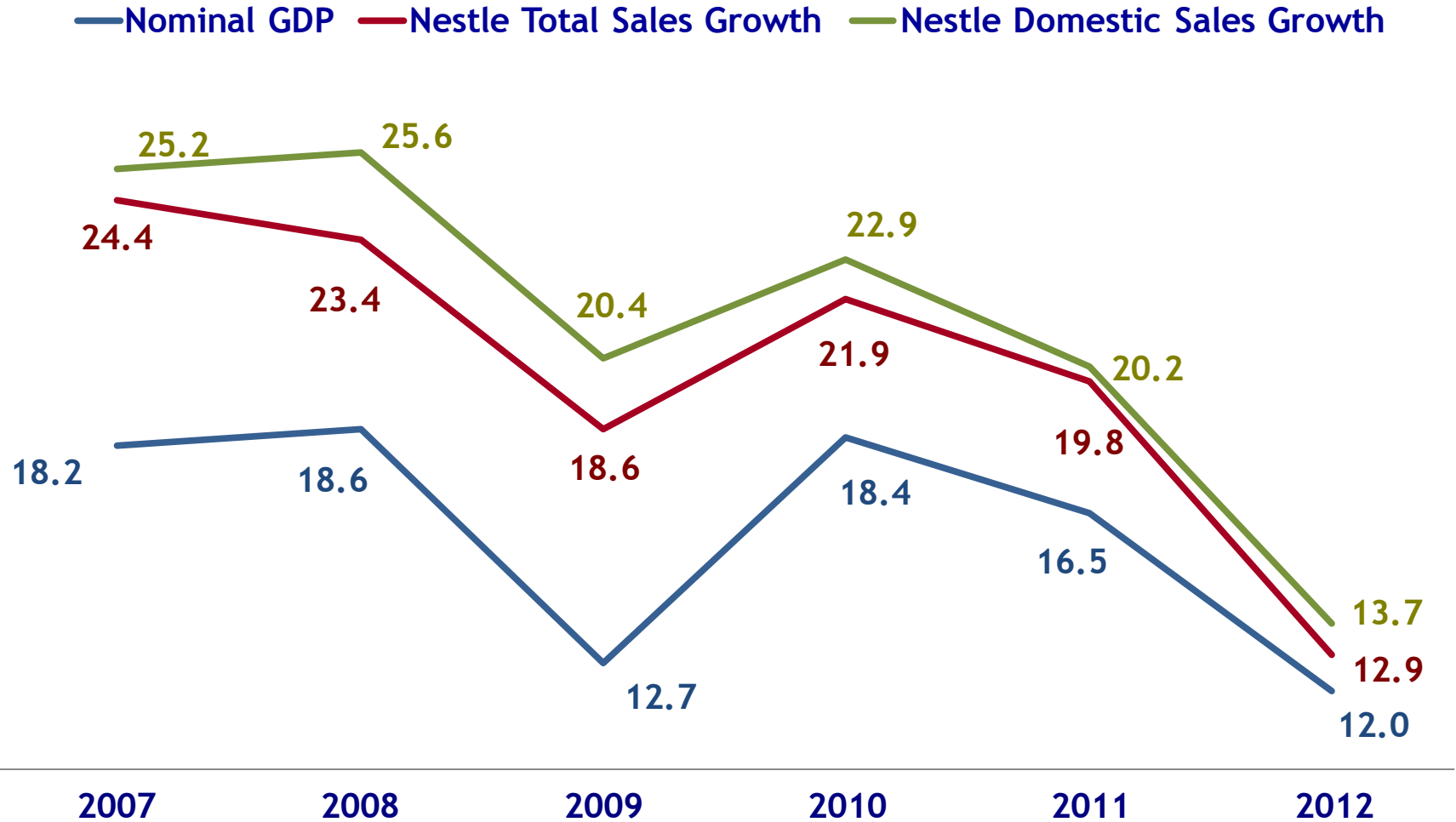
Pricing impact OG - RIG 5.3

..... takes into account product mix as well as volumes

# RIG Evolution

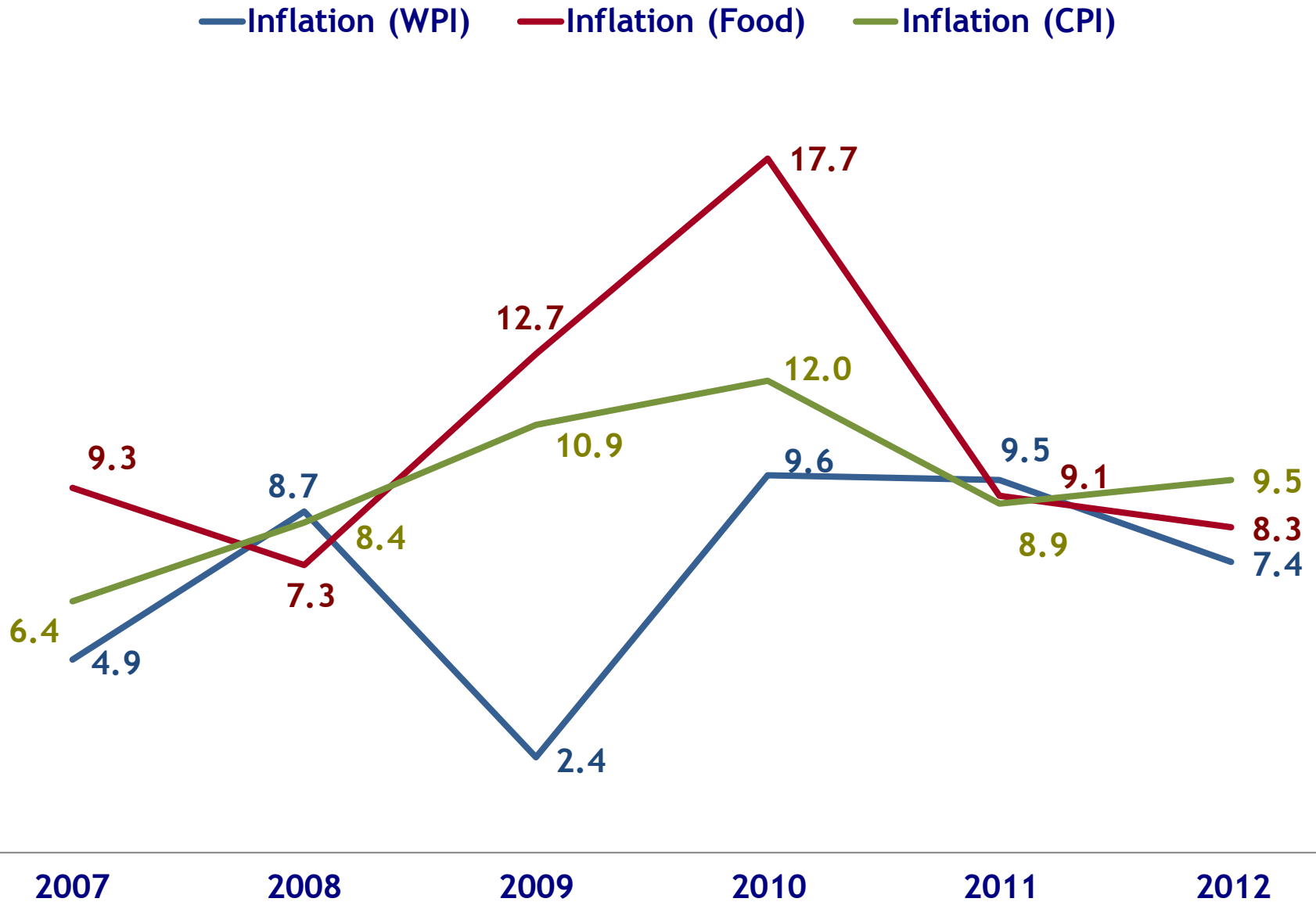


# There is a co-relation between GDP and Nestle Sales growth



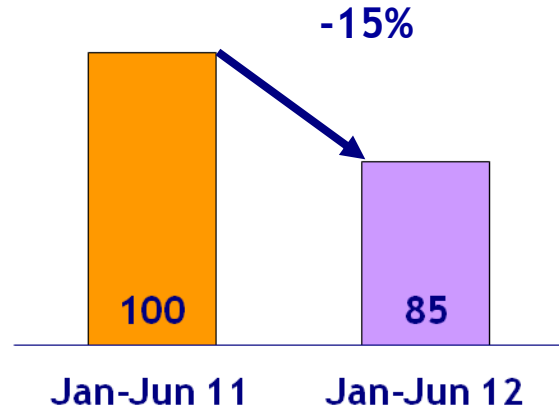


# Inflation trends



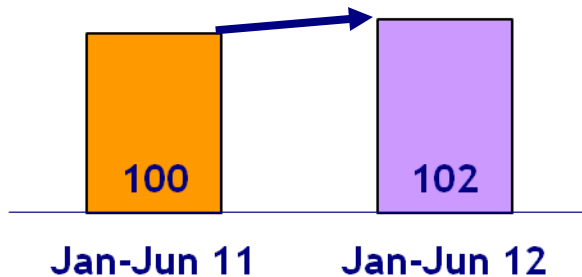
# The portfolio Challenge

Volume

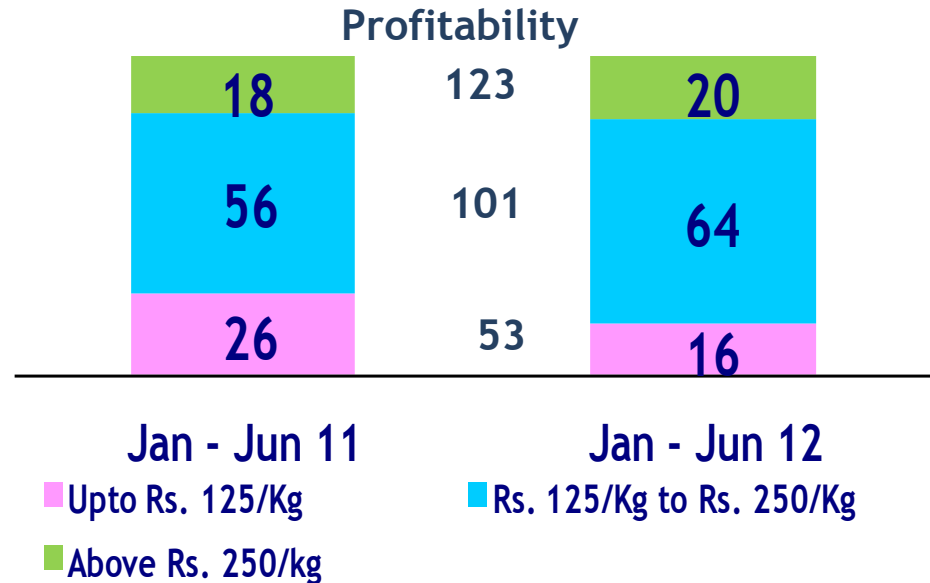


Value

+2%

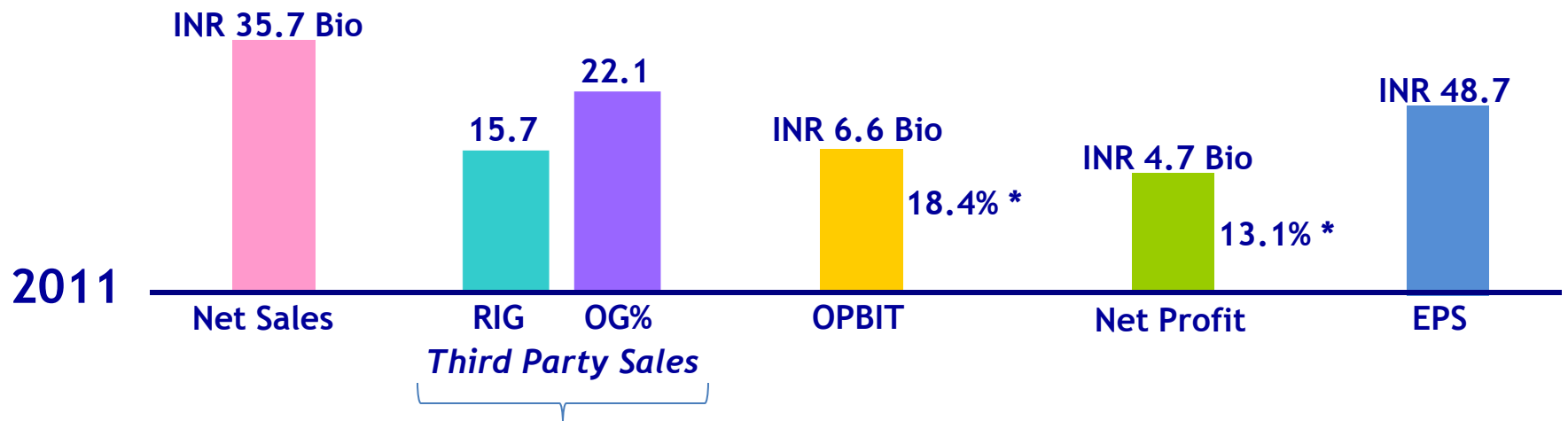
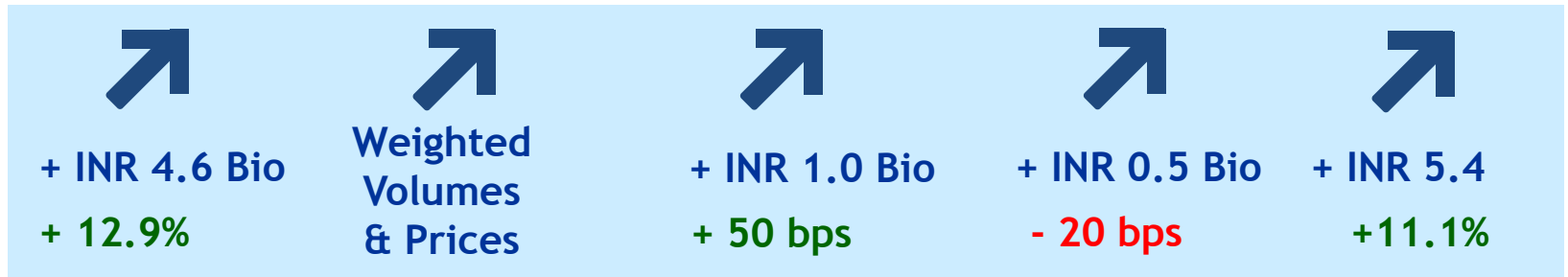
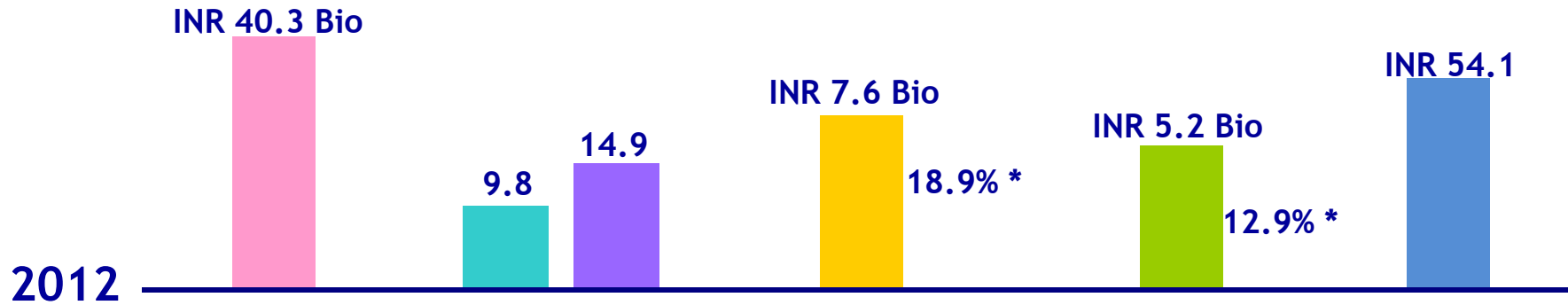


Portfolio mix by realisation/Kg



Profitability indexed to average for the portfolio, taken as 100

# First half highlights



*Basis Internal Reporting Standards*

\* % of Net Sales

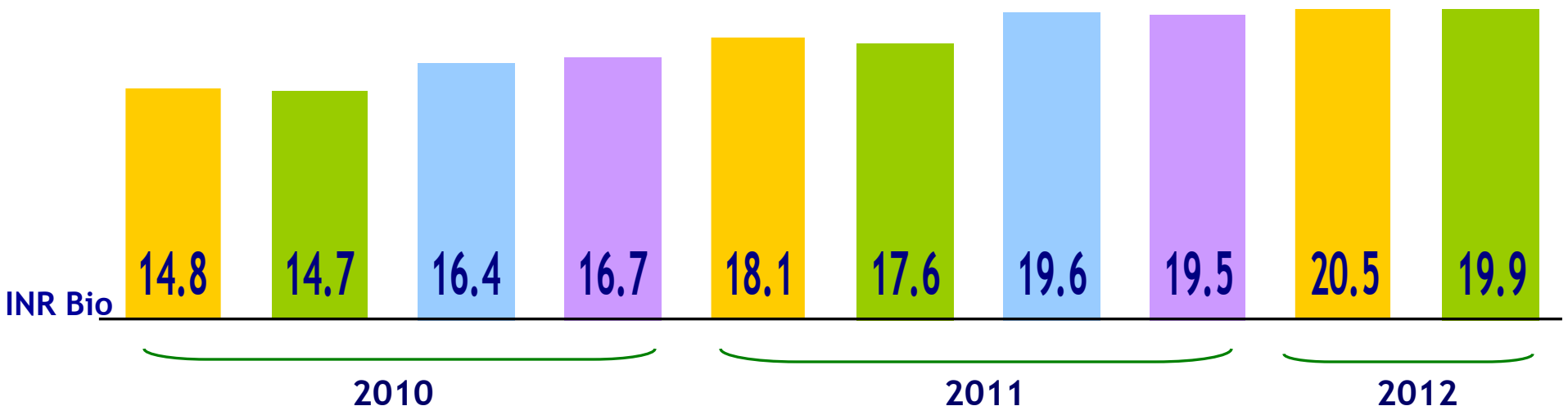
# Quarterly evolution of results

Q1 Q2 Q3 Q4

## NET SALES

% YoY growth 16.9 21.3 25.7 23.6 22.3 20.2 19.9 17.0 13.1 12.7

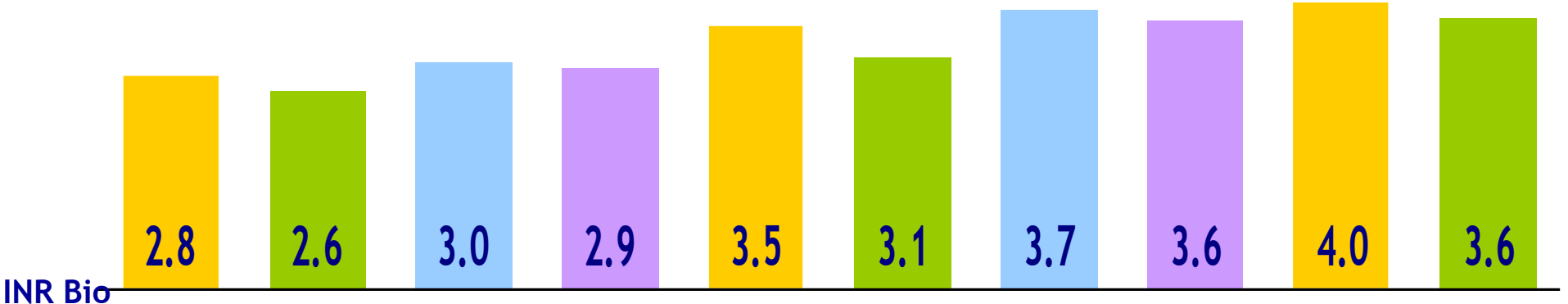
62.5 Bio = 21.9% 74.9 Bio = 19.8% 40.3 Bio = 12.9%



## OPBIT

% of Net Sales 19.2 17.8 18.3 17.6 19.3 17.4 18.9 18.2 19.5 18.3

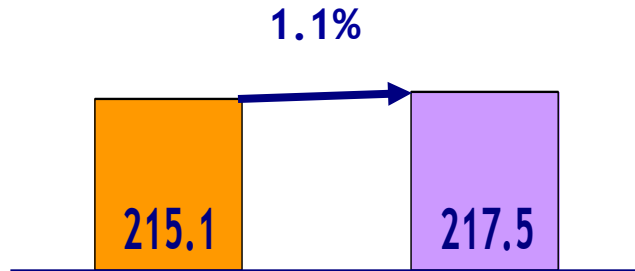
11.4 Bio = 18.2% 13.8 Bio = 18.5% 7.6 Bio = 18.9%



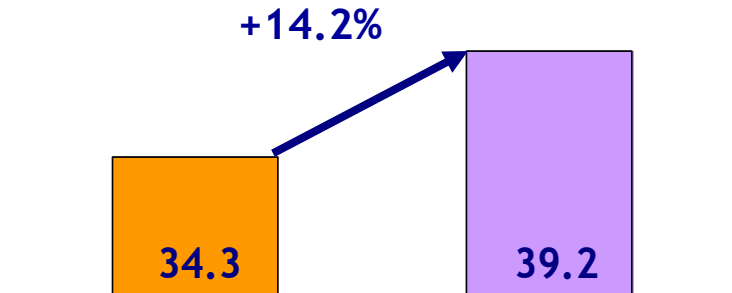
# Mix & Price led growth

## 3<sup>rd</sup> Party Sales

Volume (000' Tons)

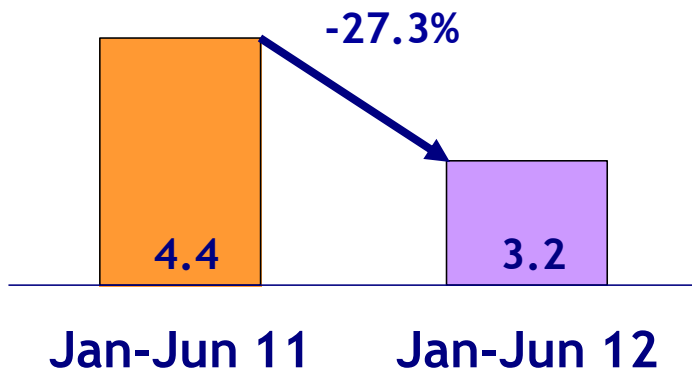


Value (INR Bio)

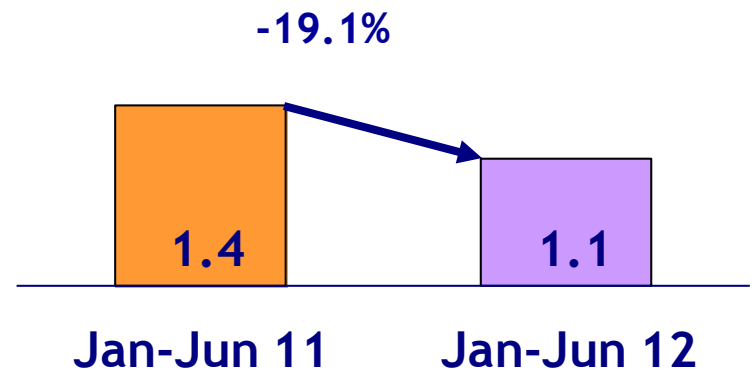


## Exports (Affiliated)

Volume (000' Tons)



Value (INR Bio)



# A perspective on Portfolio optimisation (H1)

## Volume Growth



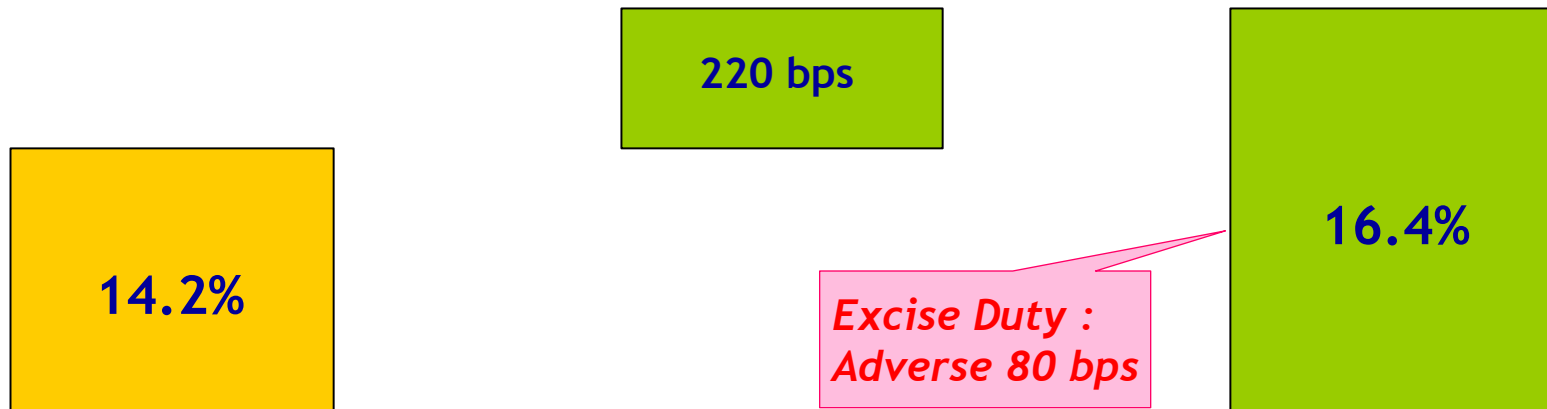
Reported

Impact

Adjusted

*Impact computed basis stripping out discontinued/curtailed businesses from both periods*

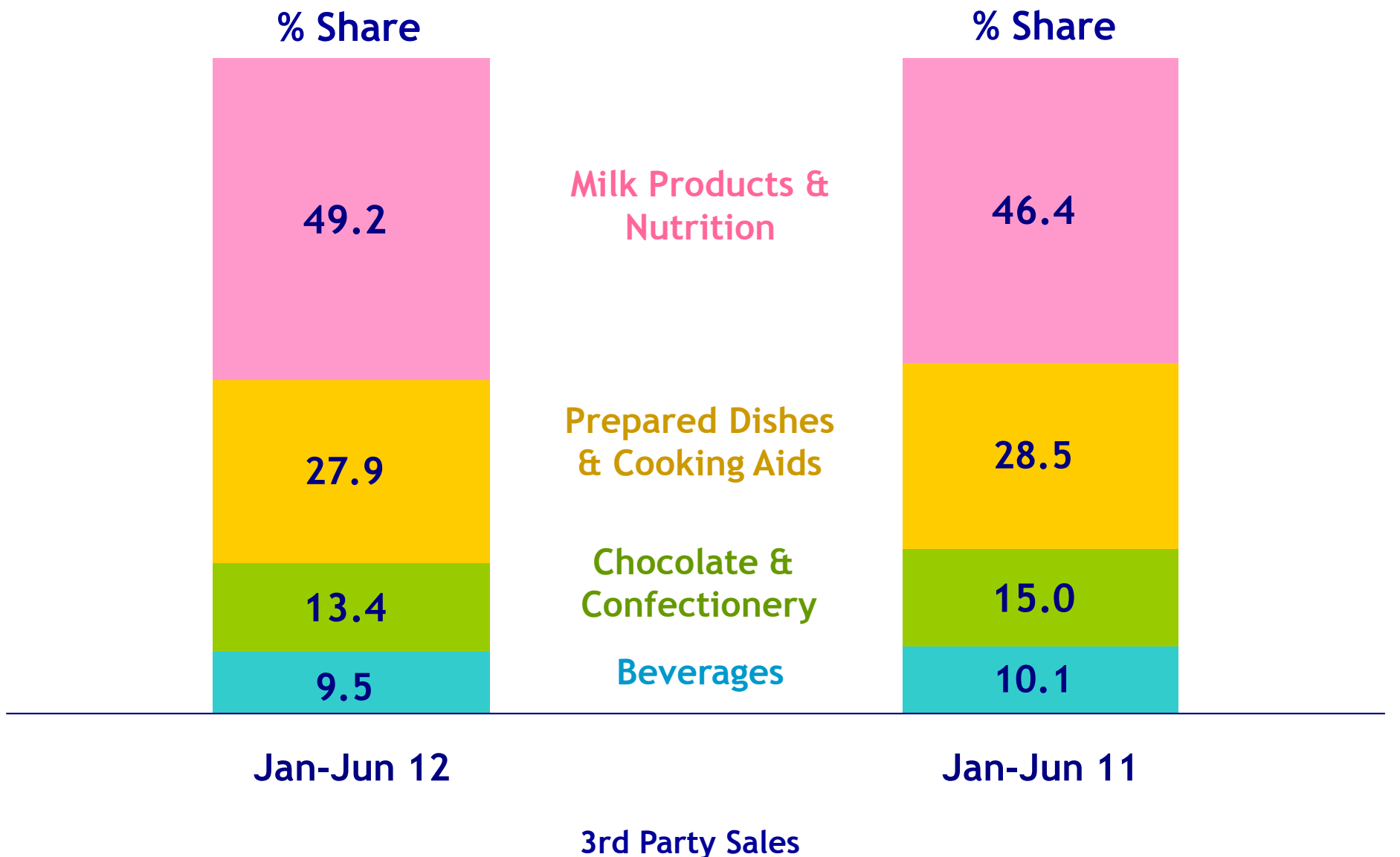
## Value Growth



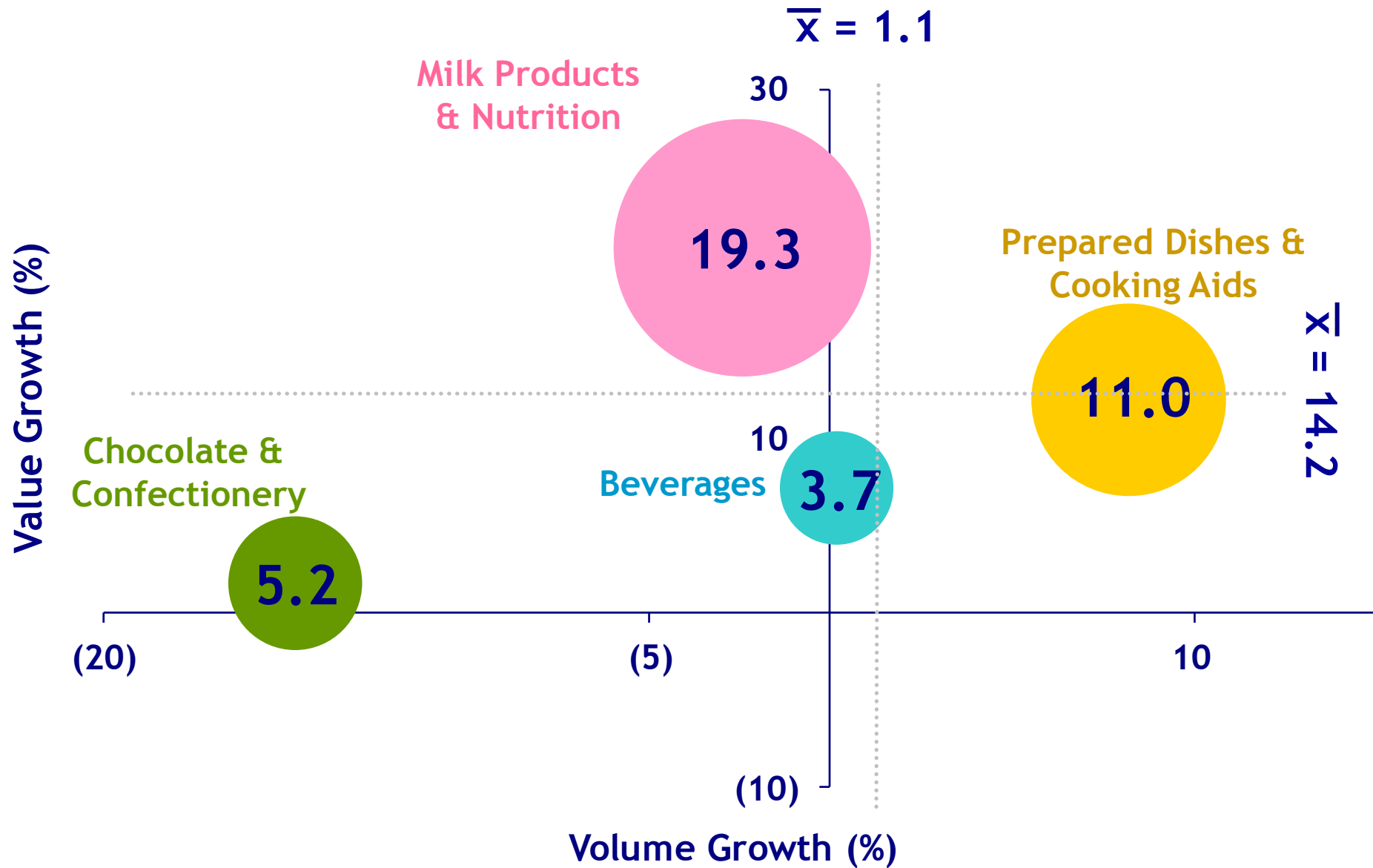
*Excise Duty :  
Adverse 80 bps*

3rd Party Sales

# Contribution of Product categories to Net Sales



# Product categories growth





# Milk Products & Nutrition

## Innovation & Renovation

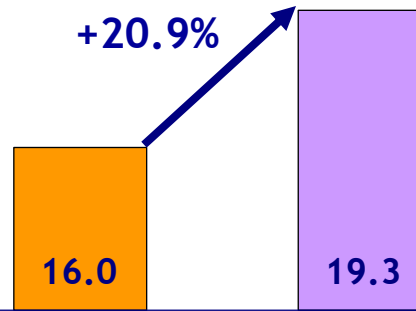
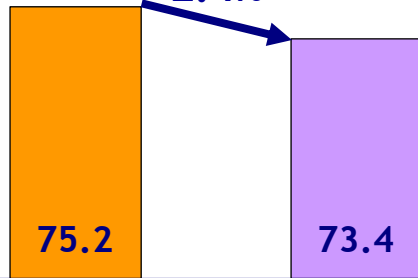


RIG 12.8%

OG 21.5%

-2.4%

+20.9%



Jan-Jun 11

Jan-Jun 12

Jan-Jun 11

Jan-Jun 12

000' tons

3<sup>rd</sup> Party Sales

INR Bio

## Market Position (Value)

- No. 1 in Baby Foods & Infant Formula
- No. 1 in Dairy Whitener & Sweetened Condensed Milk

Contribution 49.2%

# Prepared Dishes & Cooking Aids



RIG 12.1%

+8.2%



110.3

Jan-Jun 11

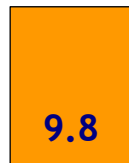
Jan-Jun 12

'000 tons

3<sup>rd</sup> Party Sales

OG 13.9%

+12.2%



11.0

Jan-Jun 11

Jan-Jun 12

INR Bio

## Market Position (Value)

- No. 1 in Instant Noodles, Sauces & Pasta
- No. 2 in Healthy Soups

Contribution 27.9%

# Chocolate & Confectionery



## Innovation & Renovation



RIG 2.8%

OG 2.8%

-14.7%

+1.7%

28.1

23.9

5.2

5.2

Jan-Jun 11

Jan-Jun 12

Jan-Jun 11

Jan-Jun 12

000' tons

3<sup>rd</sup> Party Sales

INR Bio

## Market Position (Value)

- No. 1 in Wafers and Whites

Contribution 13.4%



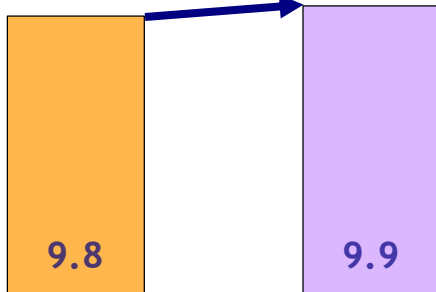
# Beverages

## Innovation & Renovation



RIG 0.9%

0.2%



Jan-Jun 11

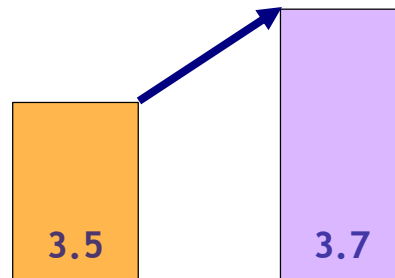
Jan-Jun 12

000' tons

3<sup>rd</sup> Party Sales

OG 7.2%

+7.1%



Jan-Jun 11

Jan-Jun 12

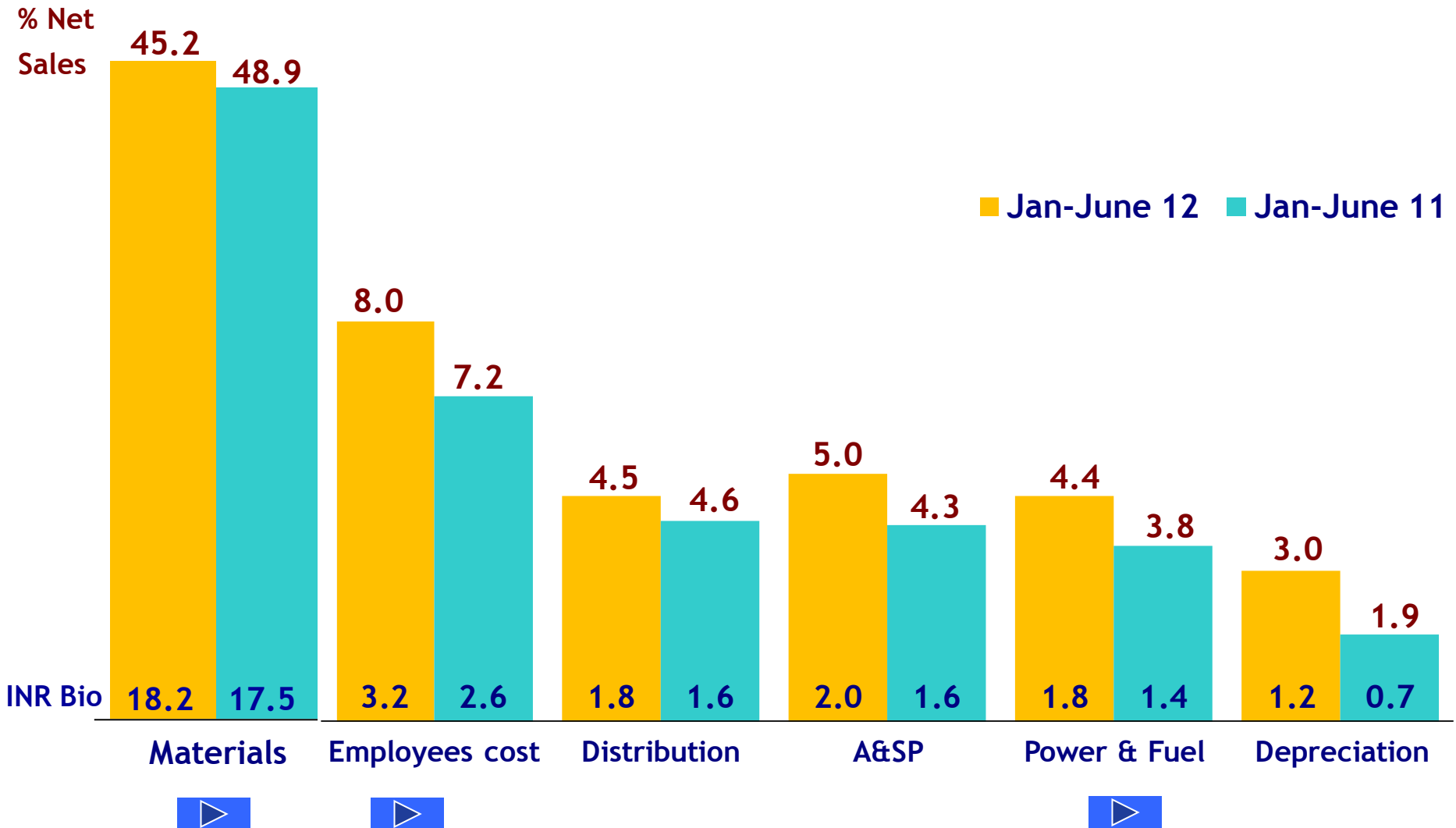
INR Bio

## Market Position (Value)

- No. 1 in Instant Coffee
- Very strong presence in Vending

Contribution 9.5%

# Our Cost Structure

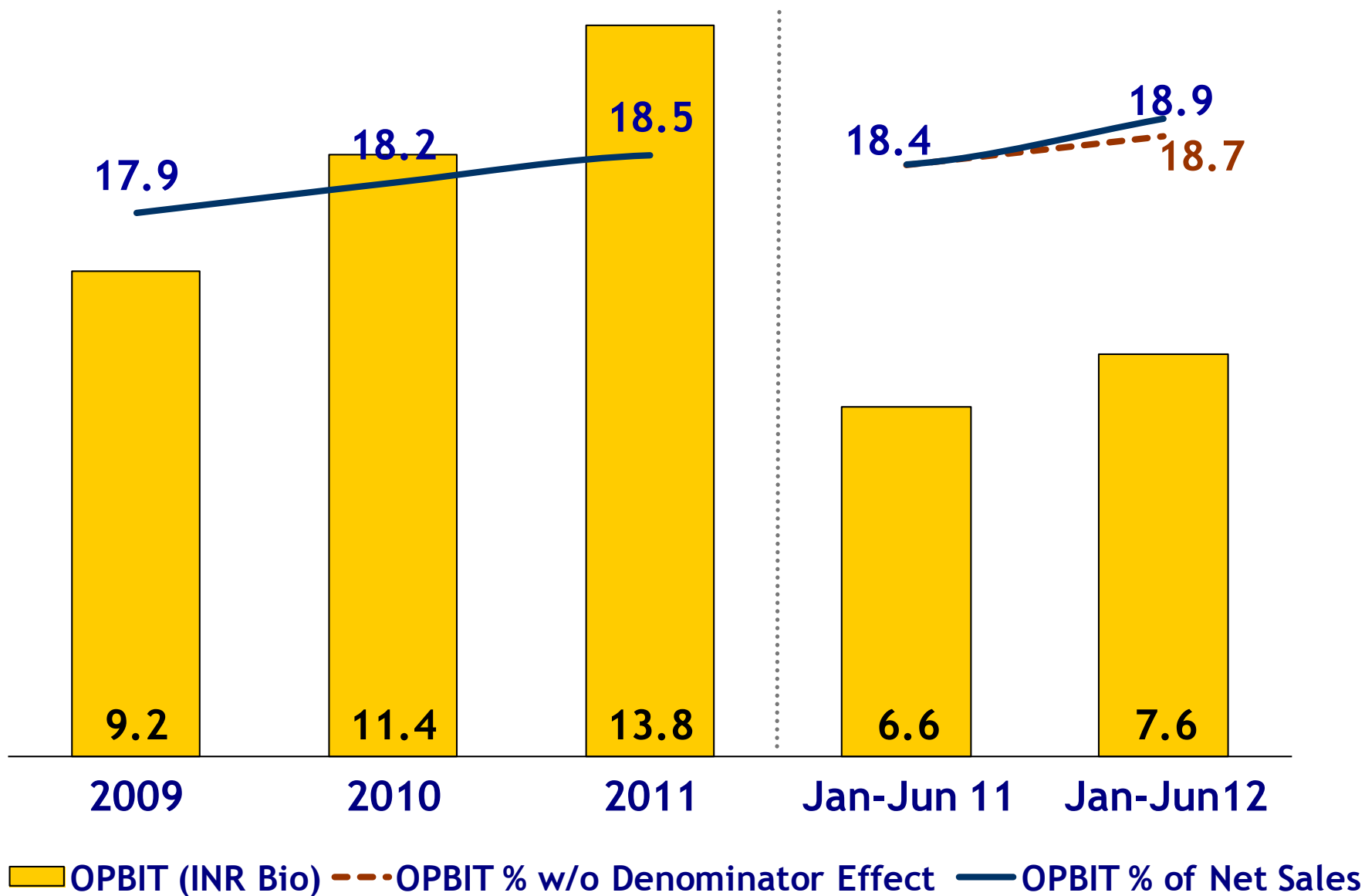


*Height of bars represent absolute value*

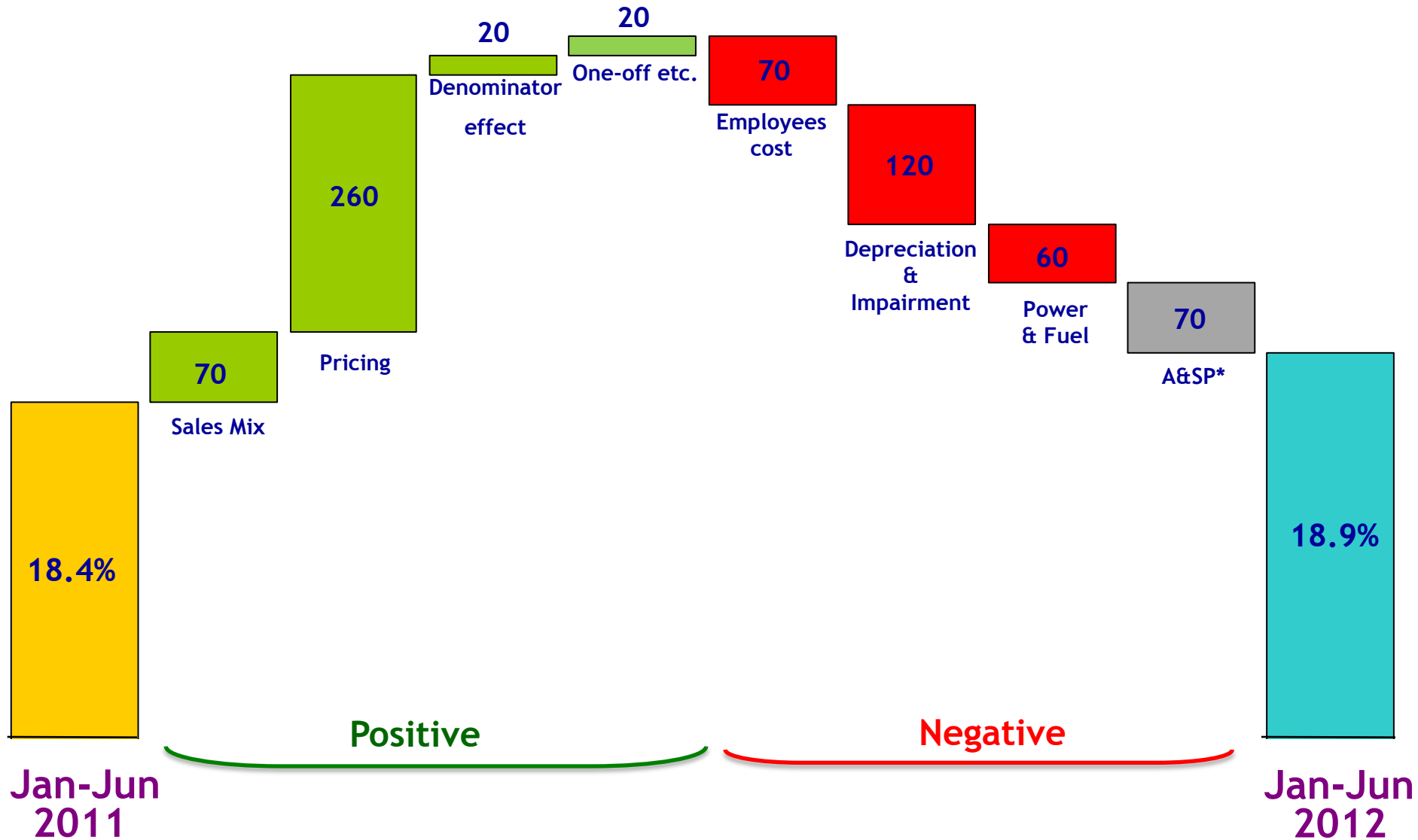
*Materials exclude free goods, A&SP includes free goods*

*Not to scale*

# Maintained Healthy Margins



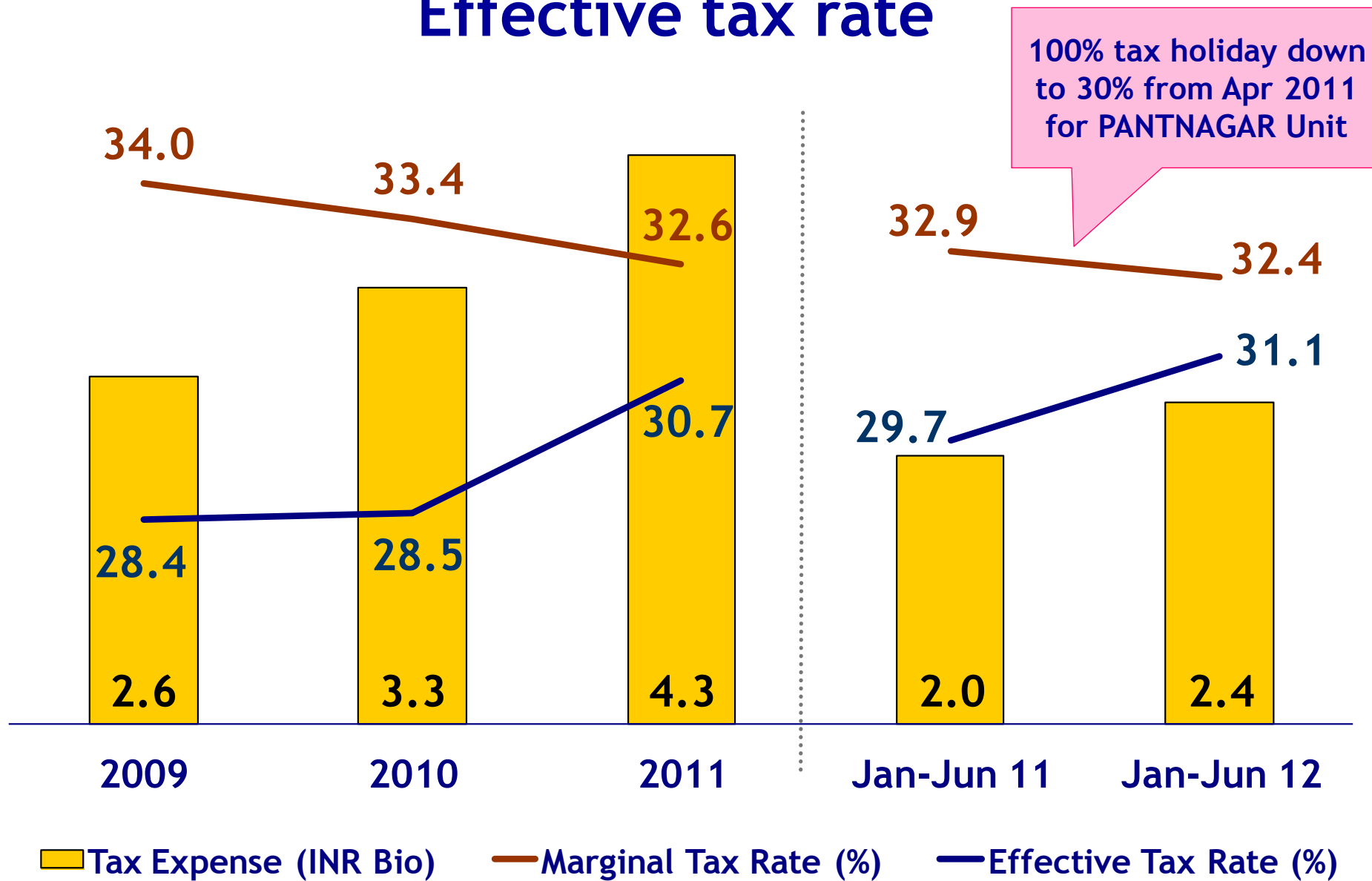
# Key factors influencing OPBIT%



% & basis points in boxes are with reference to Net sales

\*Including free goods

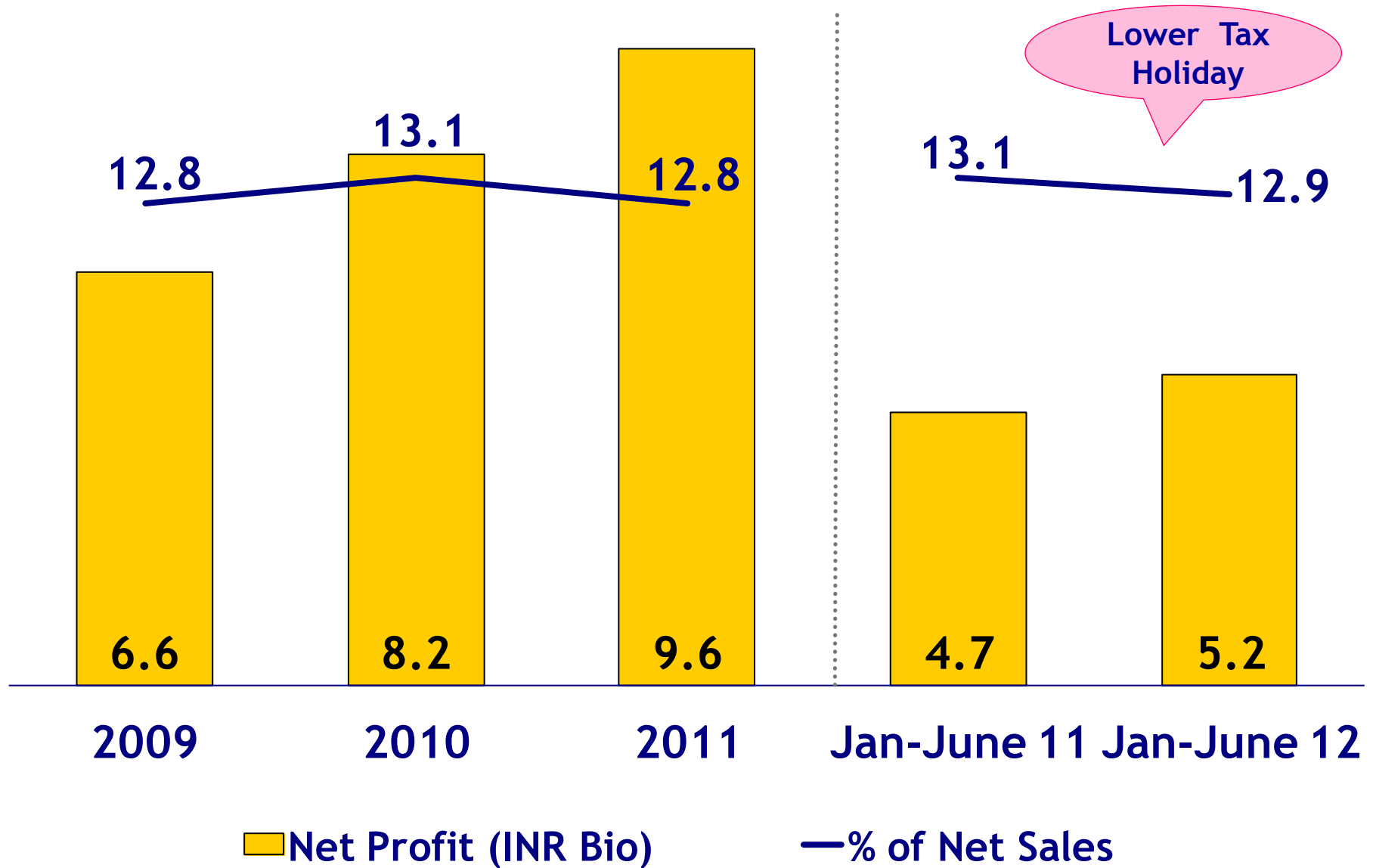
# Effective tax rate



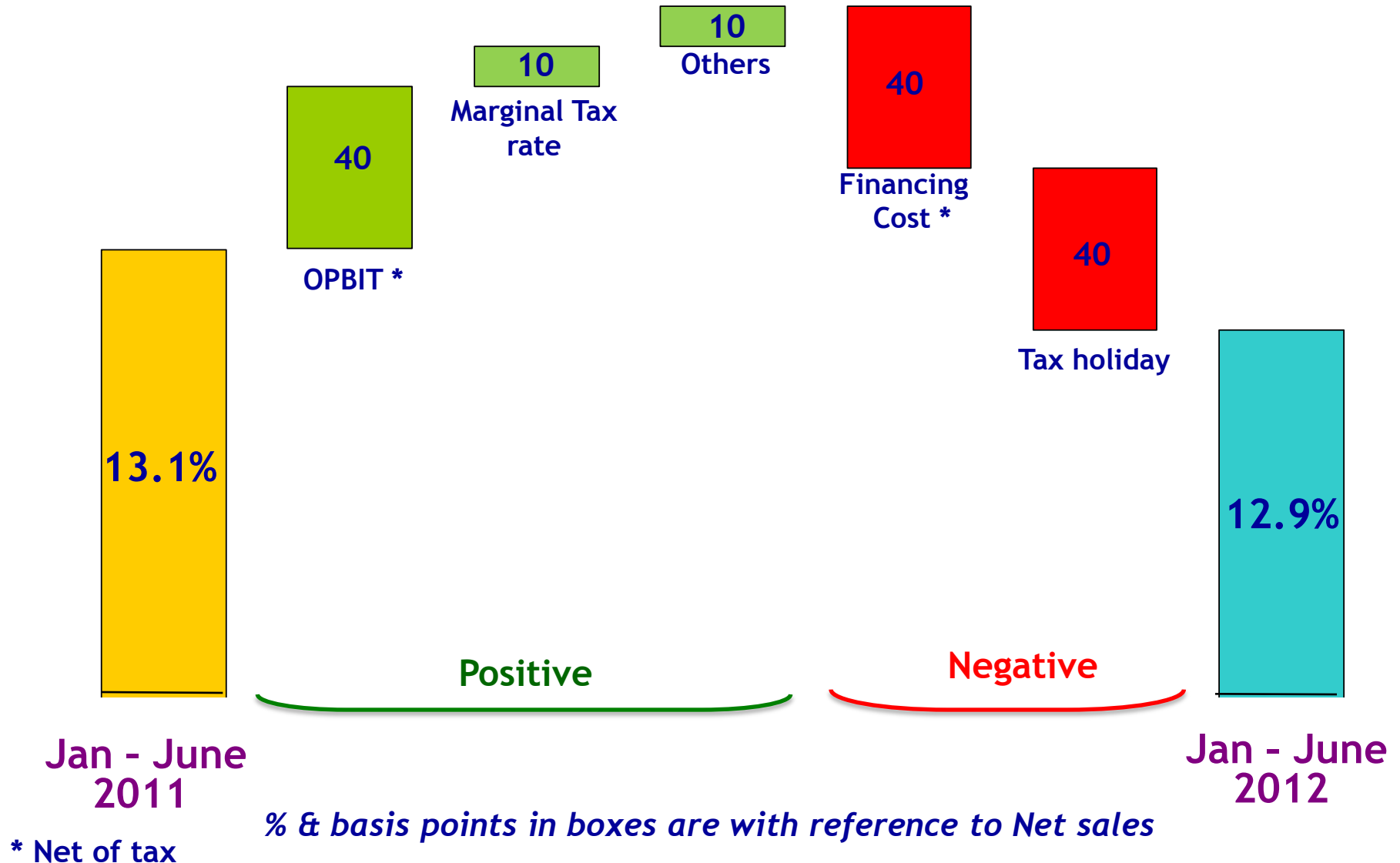
*Excludes Fringe Benefit & Dividend Distribution Tax*



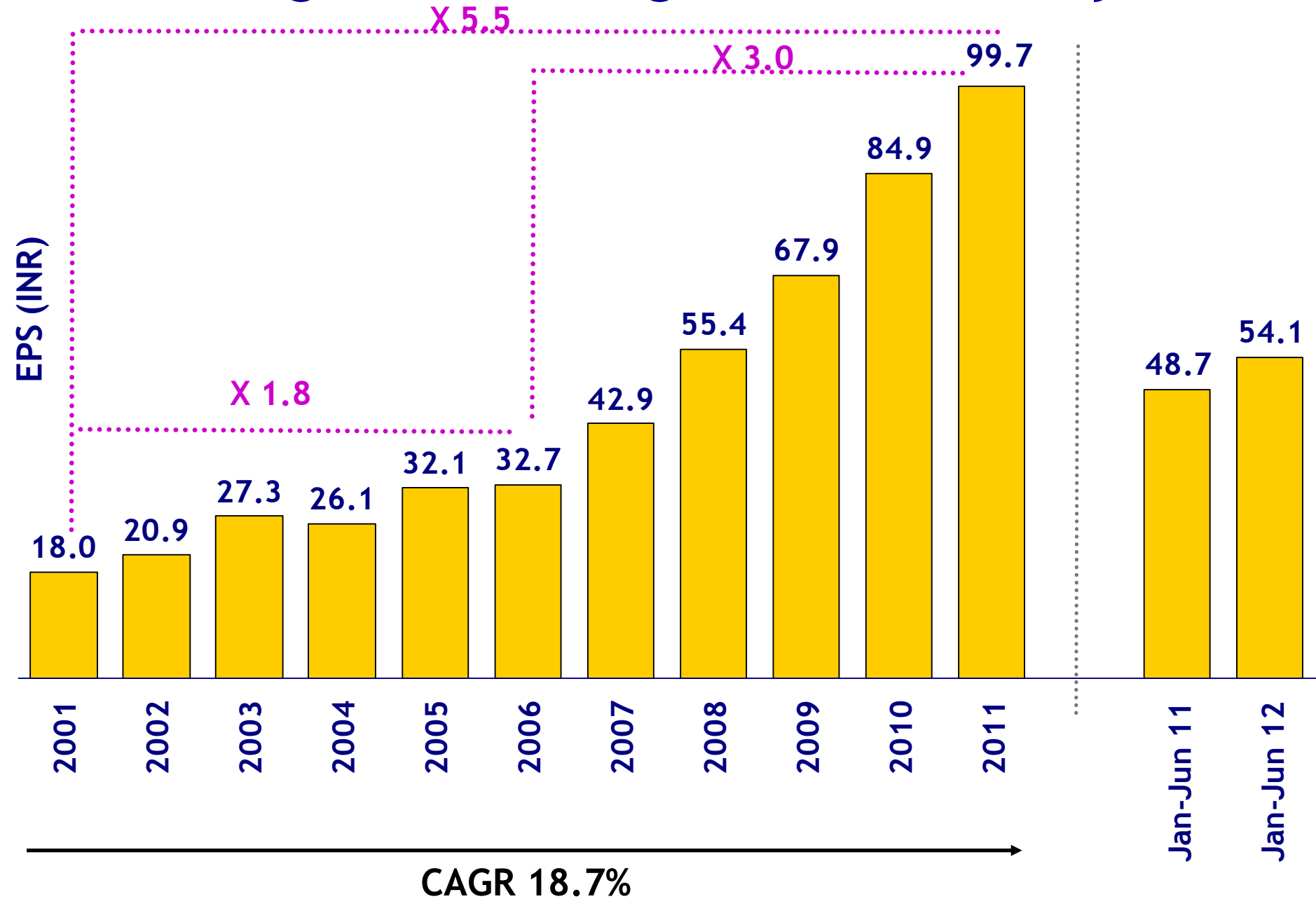
# Net profit



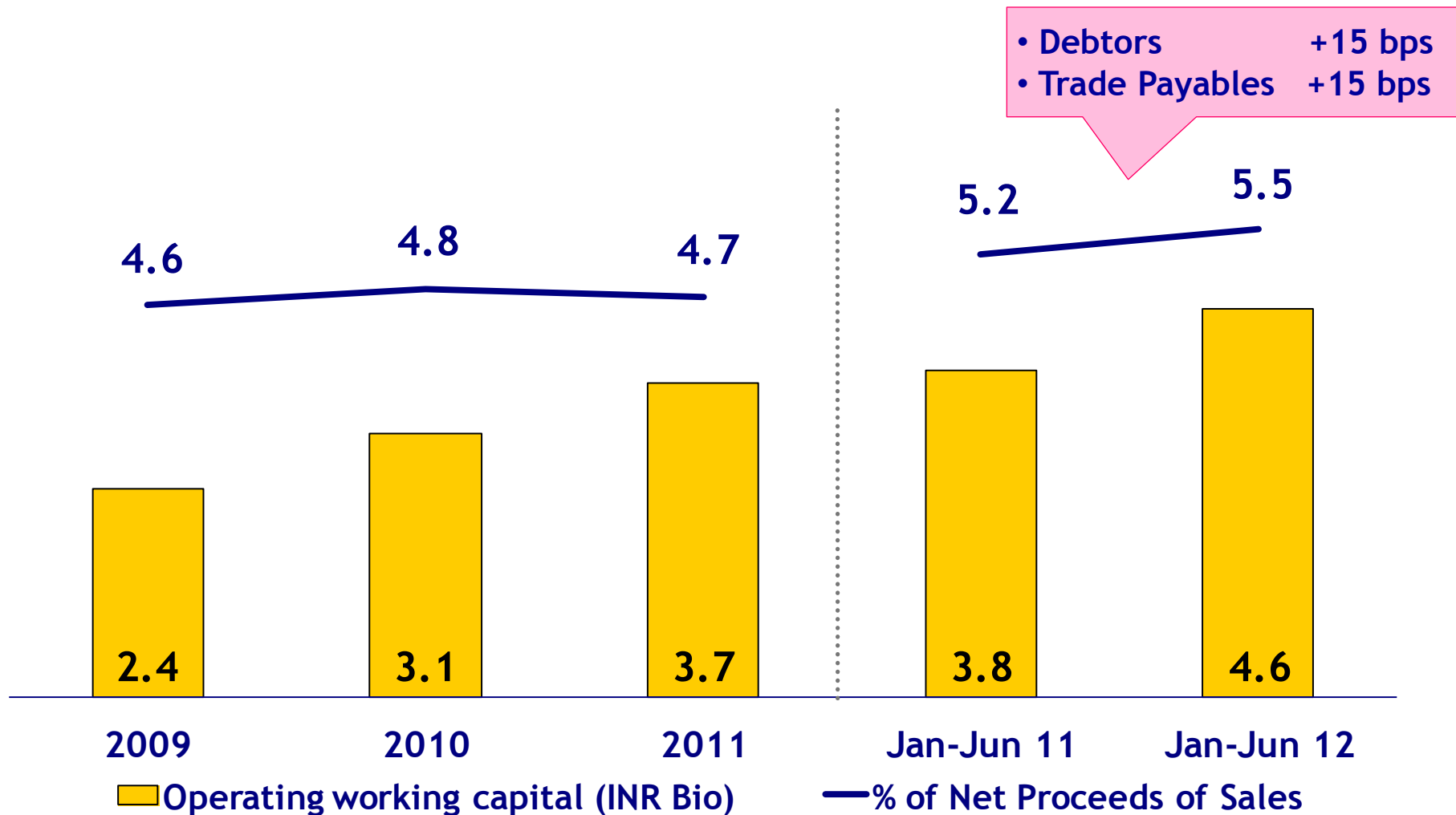
# Key factors impacting PAT%



# Earnings Per Share growth over 10 years



# Operating working capital...



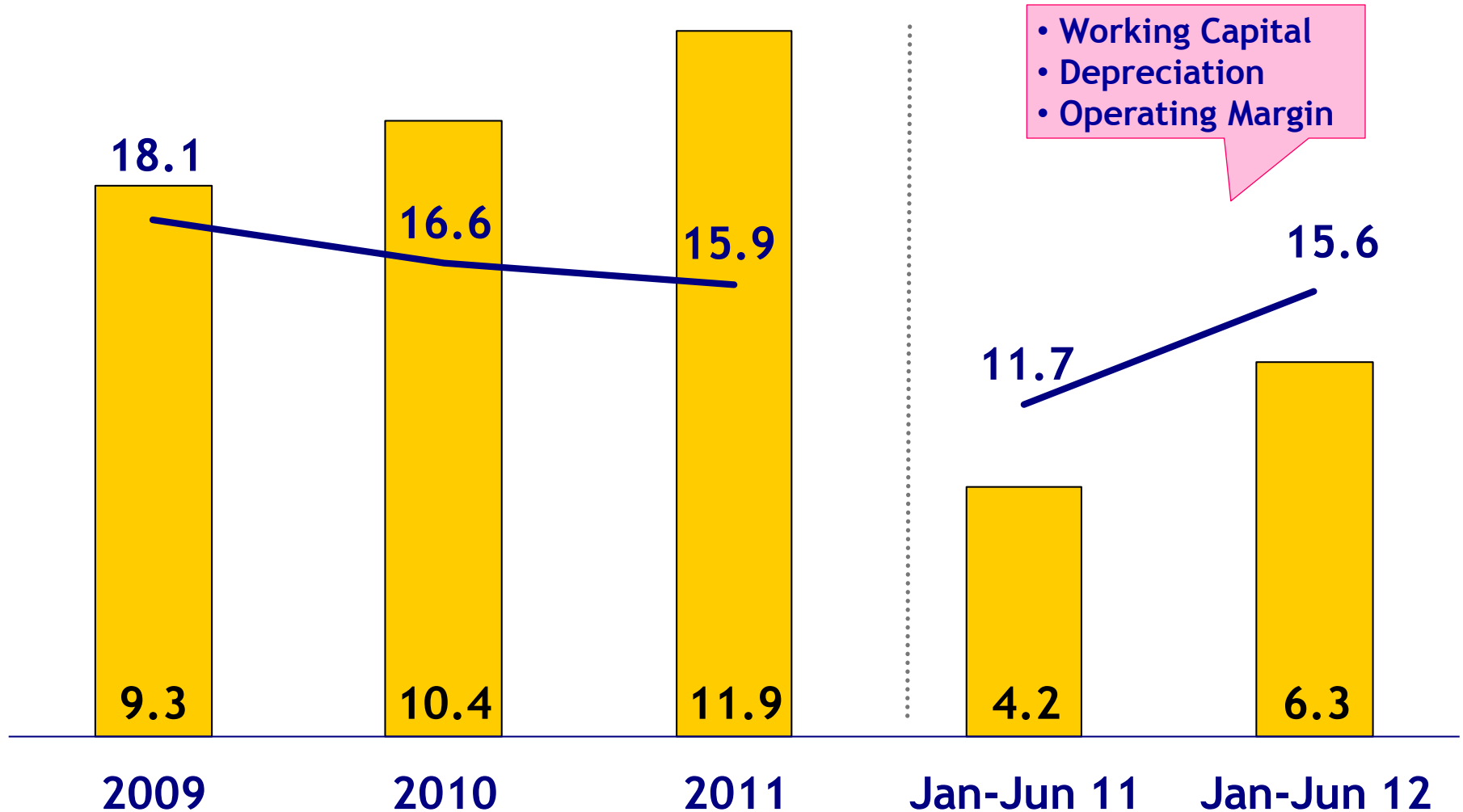
## Operating Working Capital

= Inventories + Debtors - Trade Payables (except Staff Costs, Contingencies, Capex & Taxes)

= Average for 5 quarter end data

*Basis Nestlé Internal Reporting Standards*

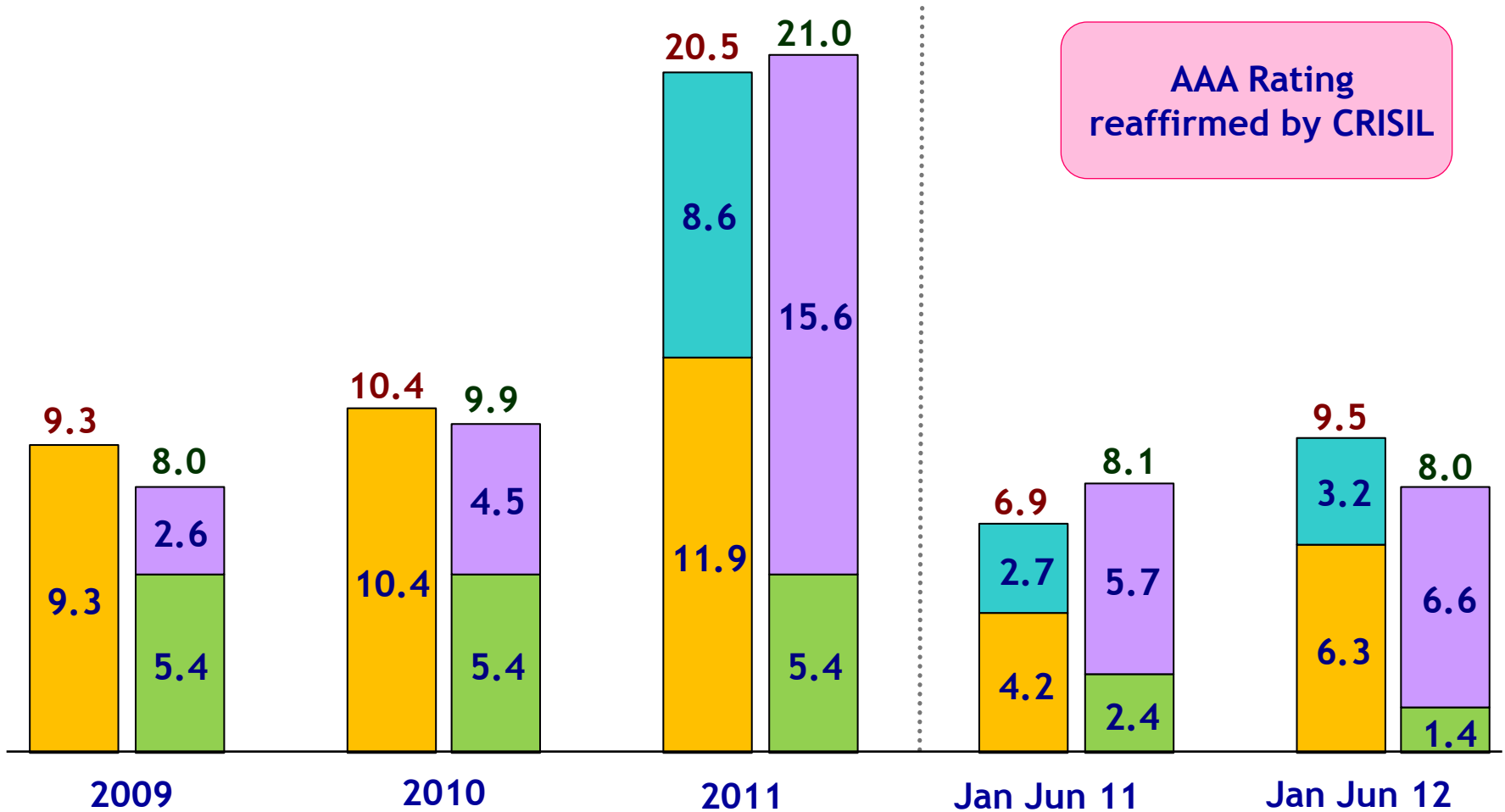
# Operating Cash Flows



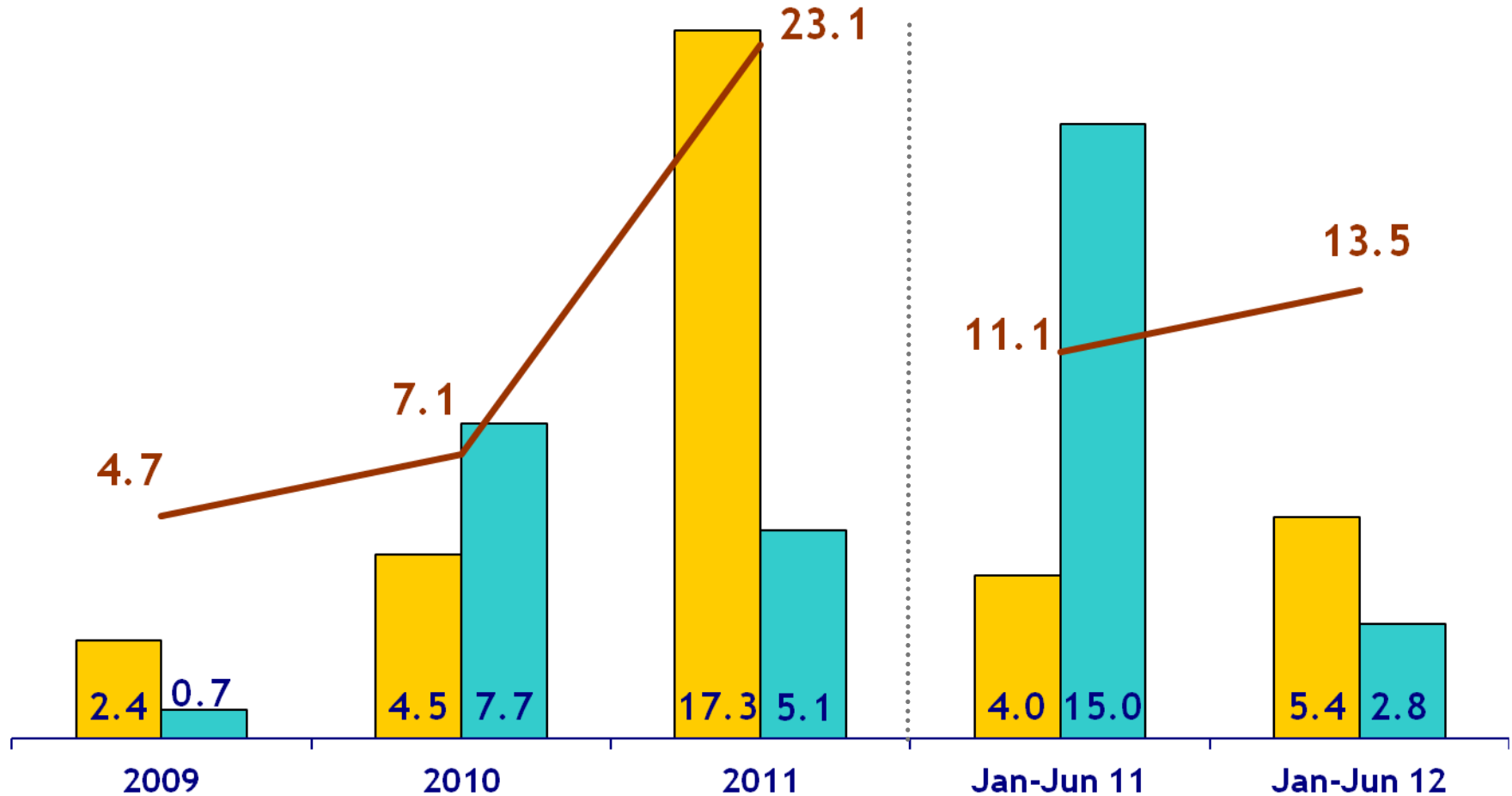
Operating cash flows (INR Bio) — % of Net Sales

# Sources & Utilisation of cash

Operating Cash Flows   Borrowings   Dividend (including DDT)   Capital Expenditure



# CAPEX



Capex (INR Bio)

Commitment

Capex as % of Net sales

Fixed Asset Turns

5.7

5.6

3.6

5.6

2.6

Depreciation

1.0

1.2

1.5

0.7

1.2

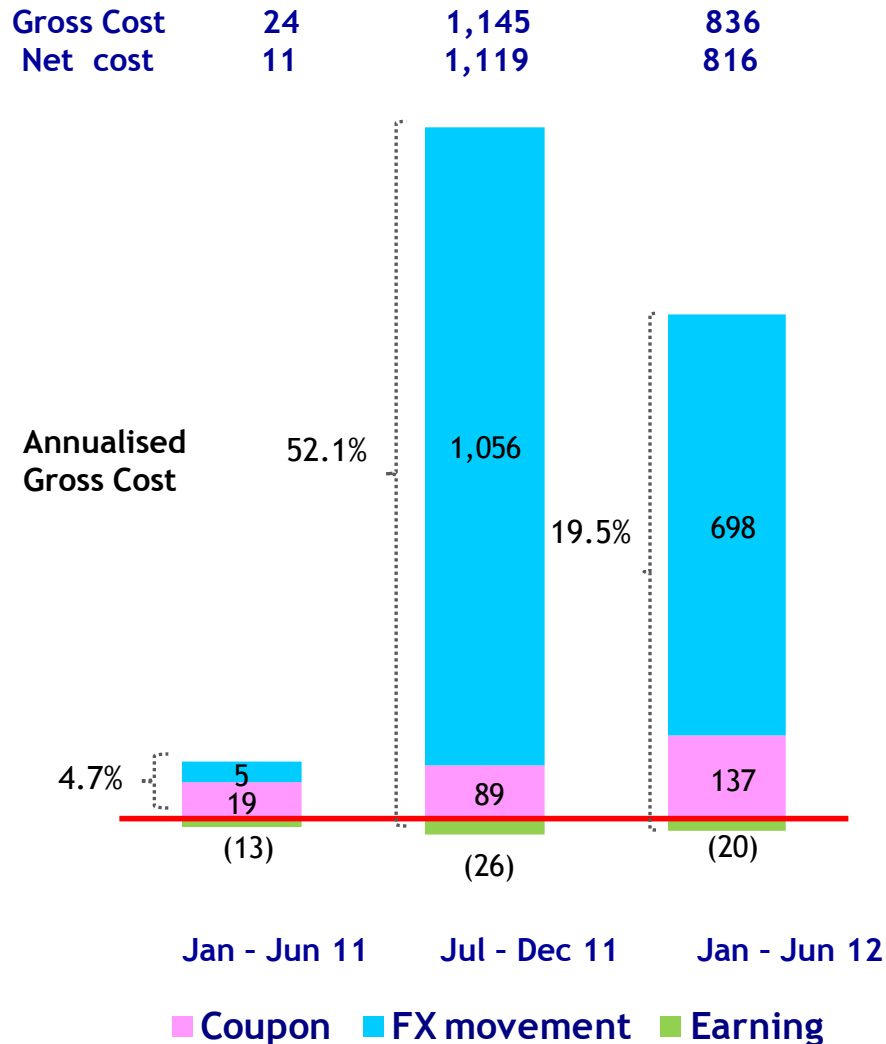
(INR Bio)



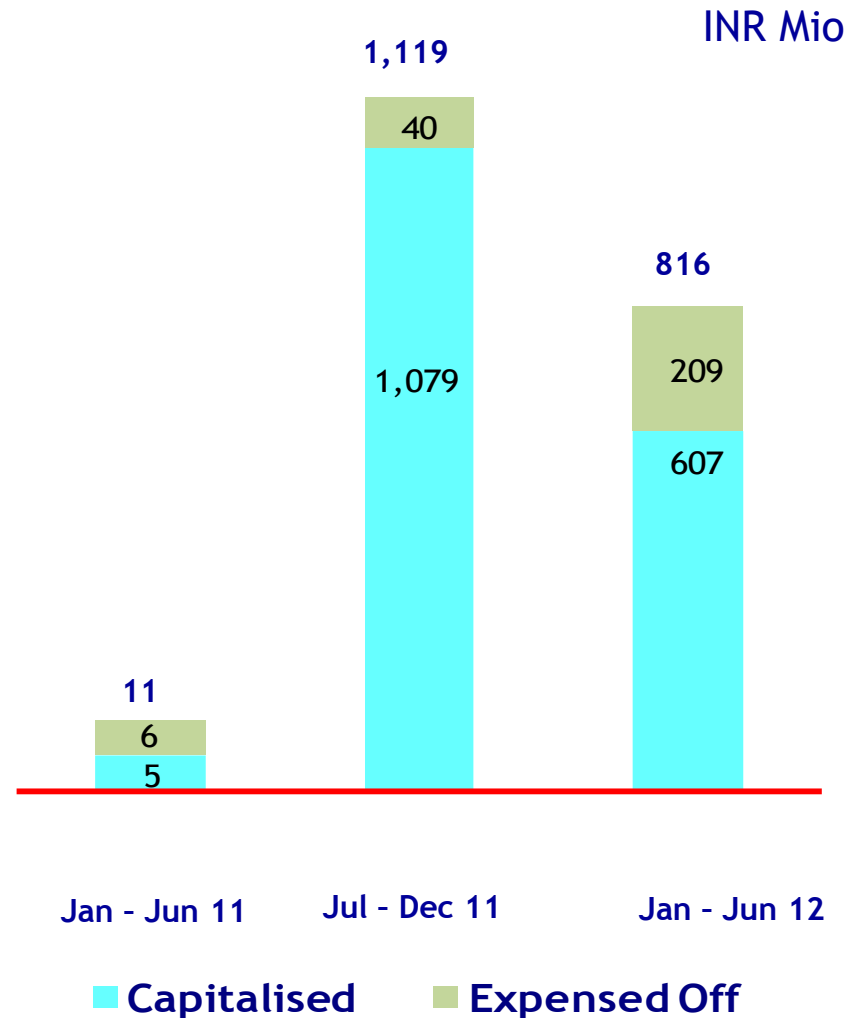
CAPEX/Fixed Assets exclude Intangibles. Capital advances are included in commitments

# ECB Cost & Accounting Treatment

## Financing Cost



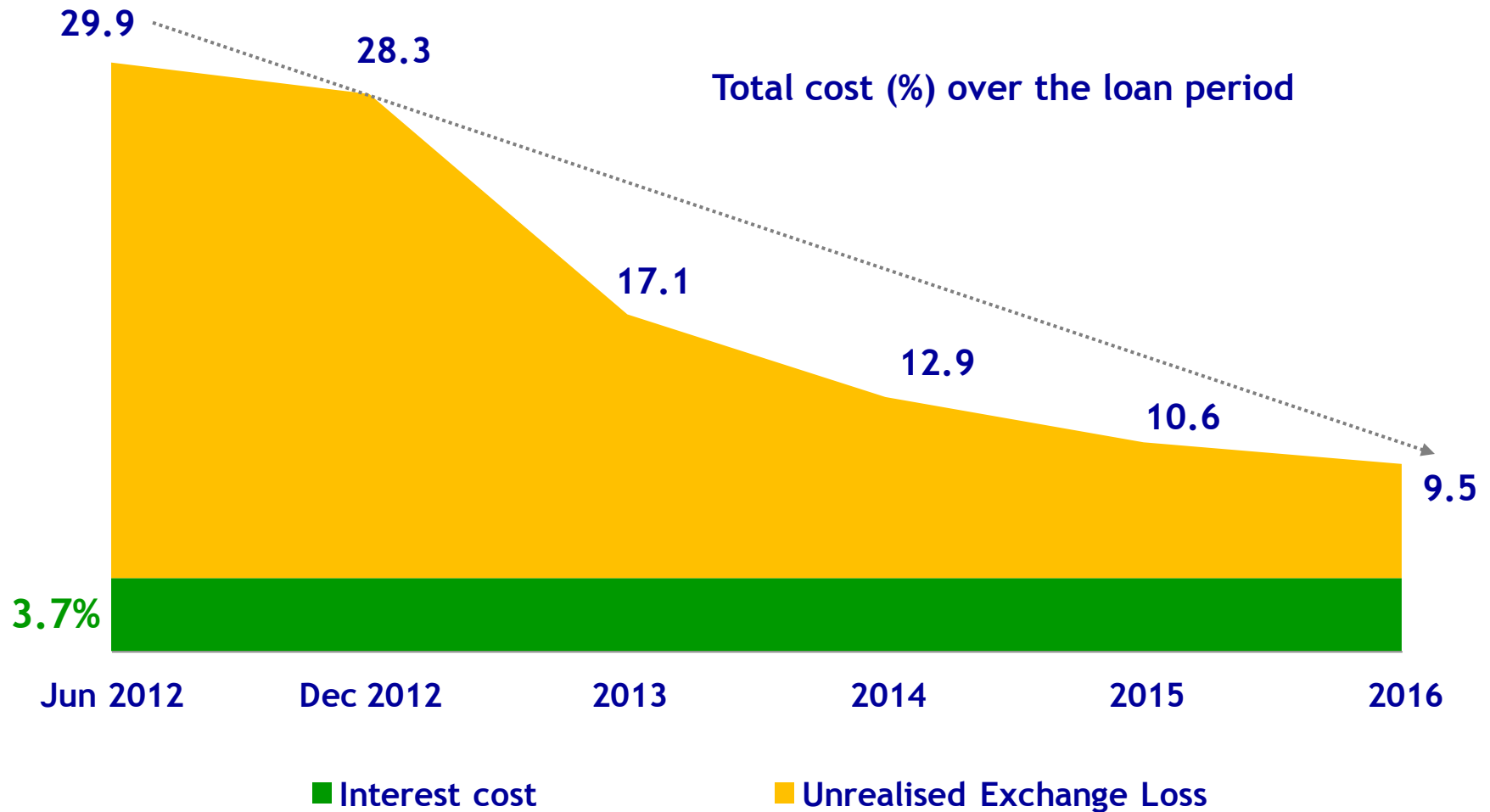
## Accounting Treatment



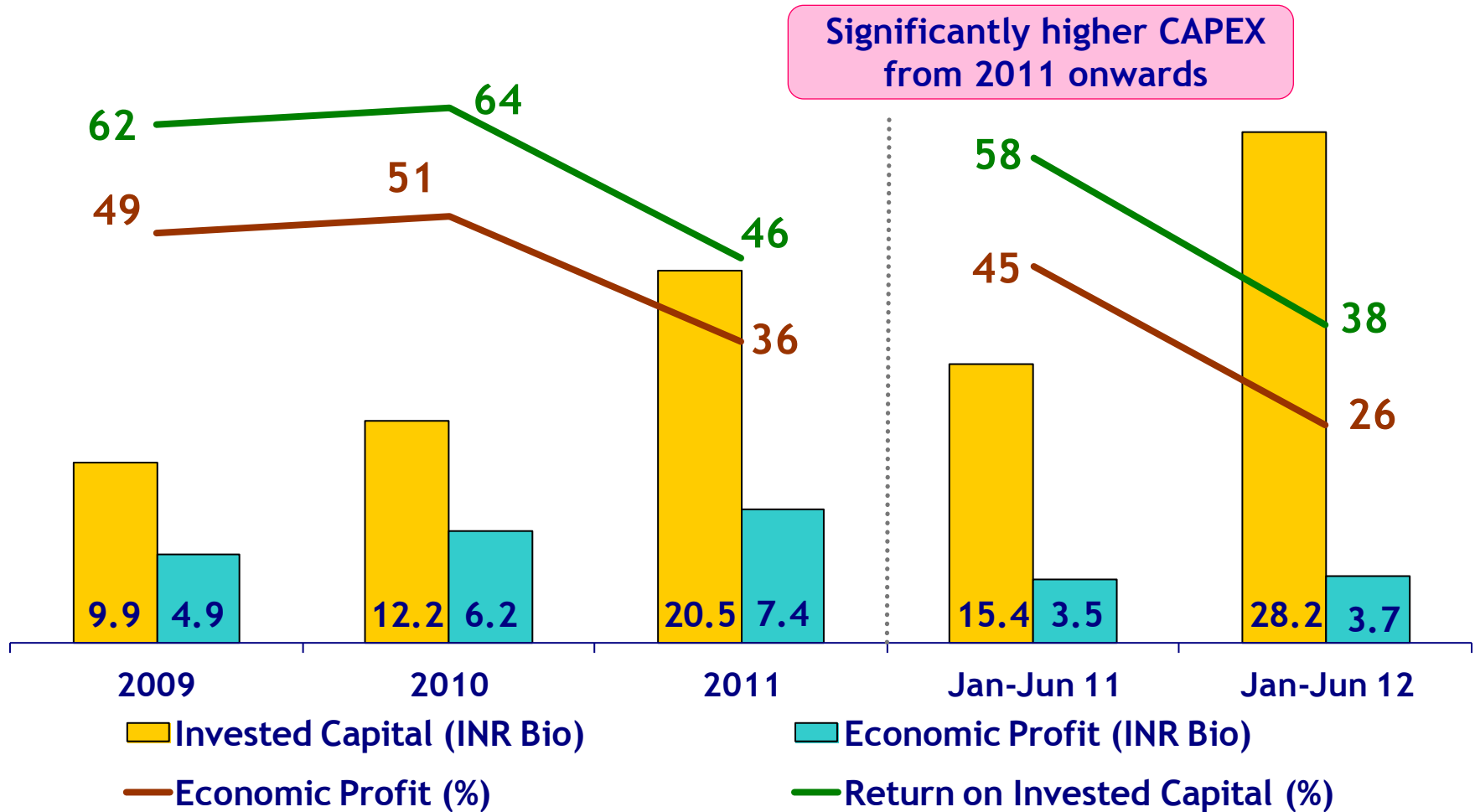


# ECB Cost

If INR depreciates from 56.2 (Jun 12 closing) to 62 by Dec 2012 & stays there till the maturity of loan



# Return on Invested Capital

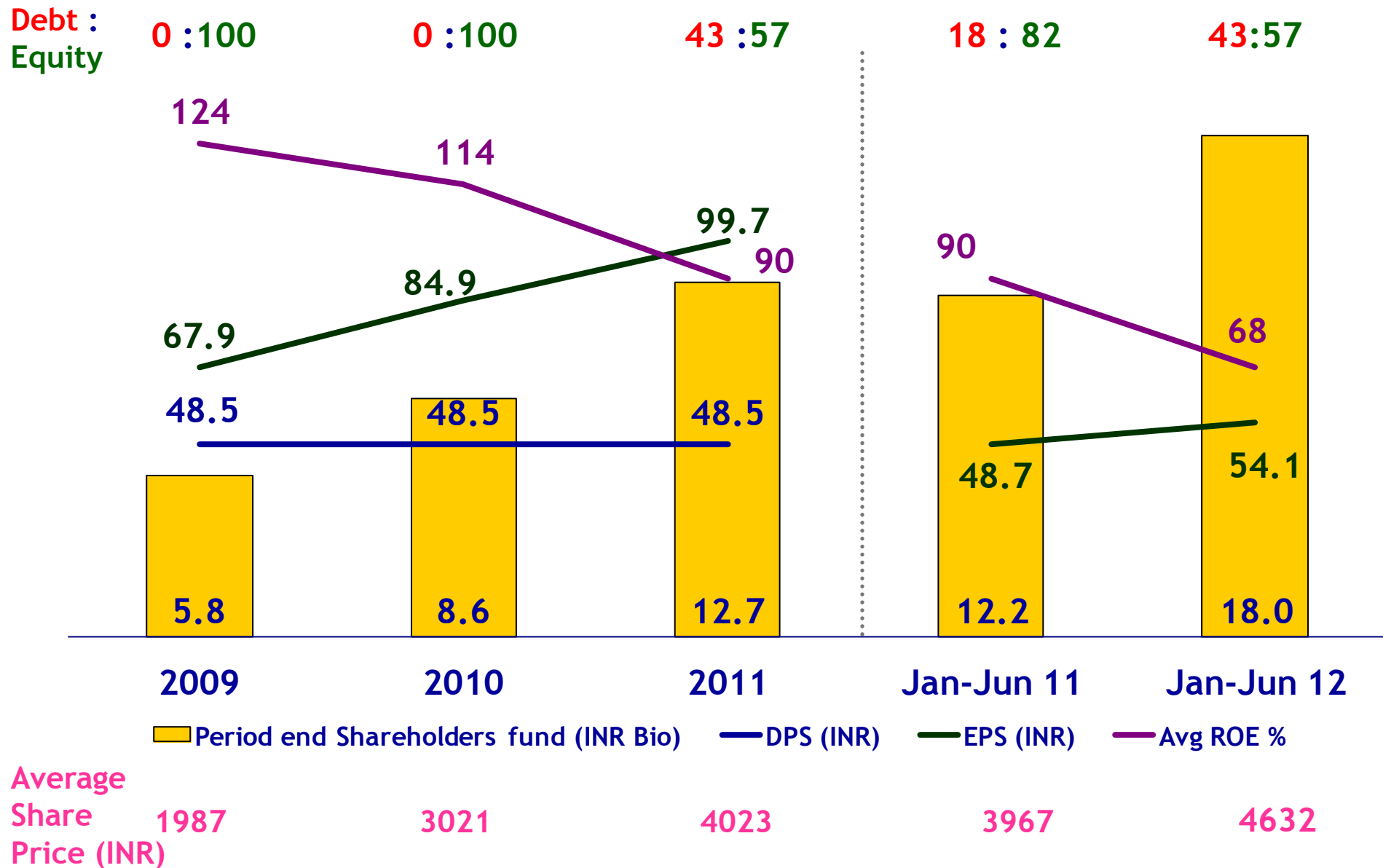


ACC %	12.8	12.9	10.2	13.0	11.4
Risk Free rate %	8.5	8.0	8.0	8.0	8.3
Group risk Premium%	3.0	3.5	3.5	3.5	3.5

Invested capital is average for 5 quarter end data.

*Basis Nestlé Internal Reporting Standards*

# ROE decreases as earnings retained in line with financing strategy

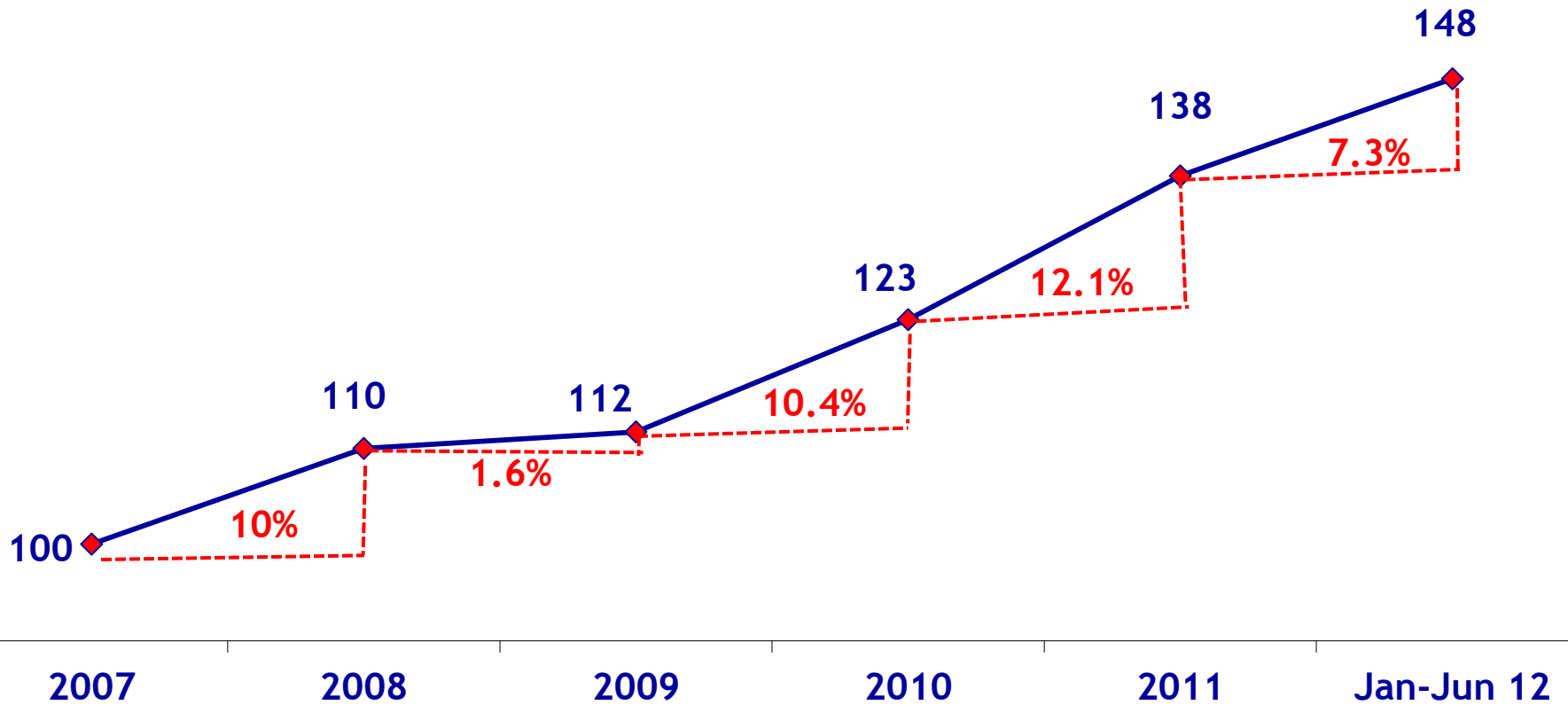


# USD:INR

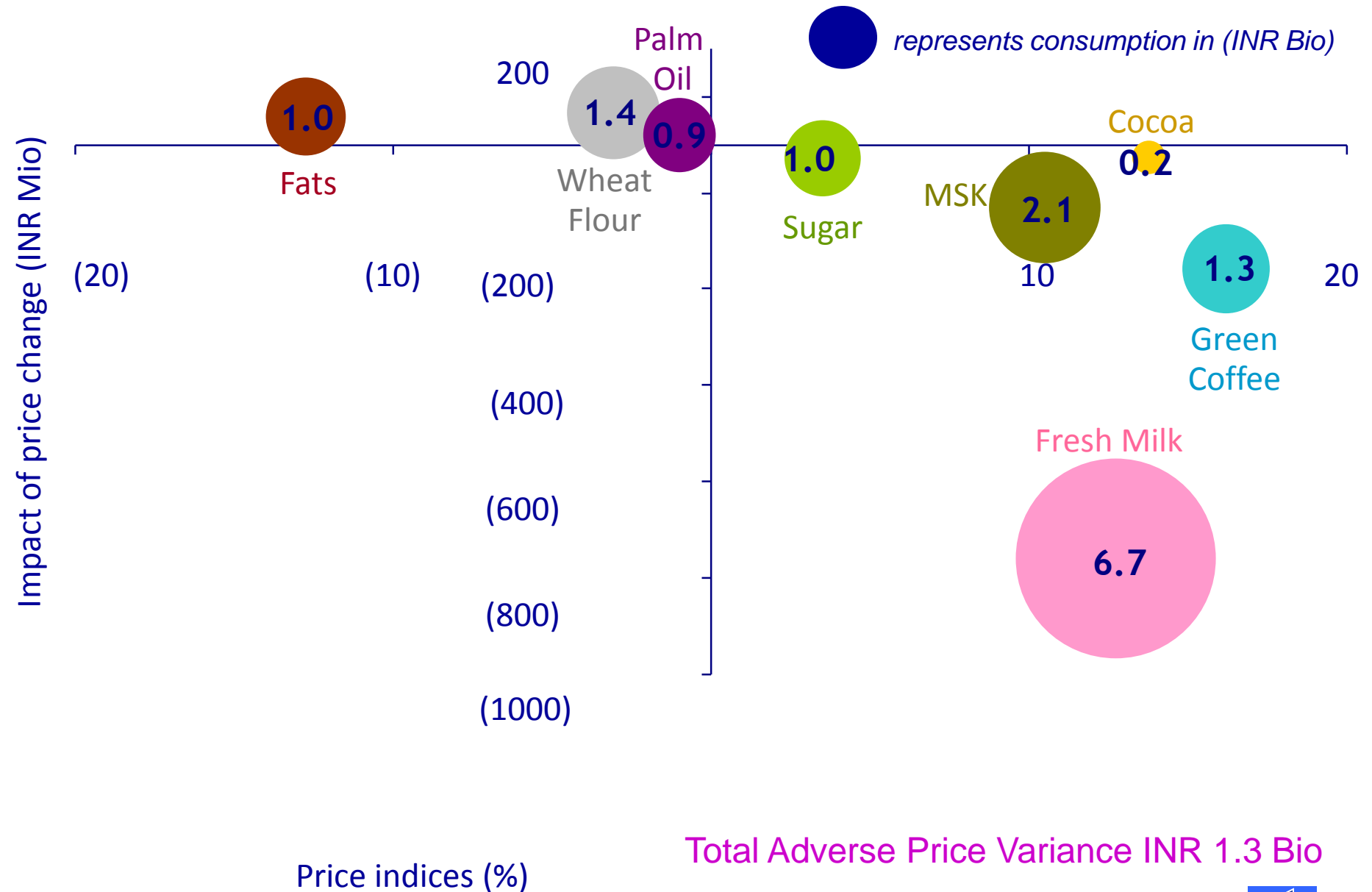


# Nestle India Commodity Basket

Price Index

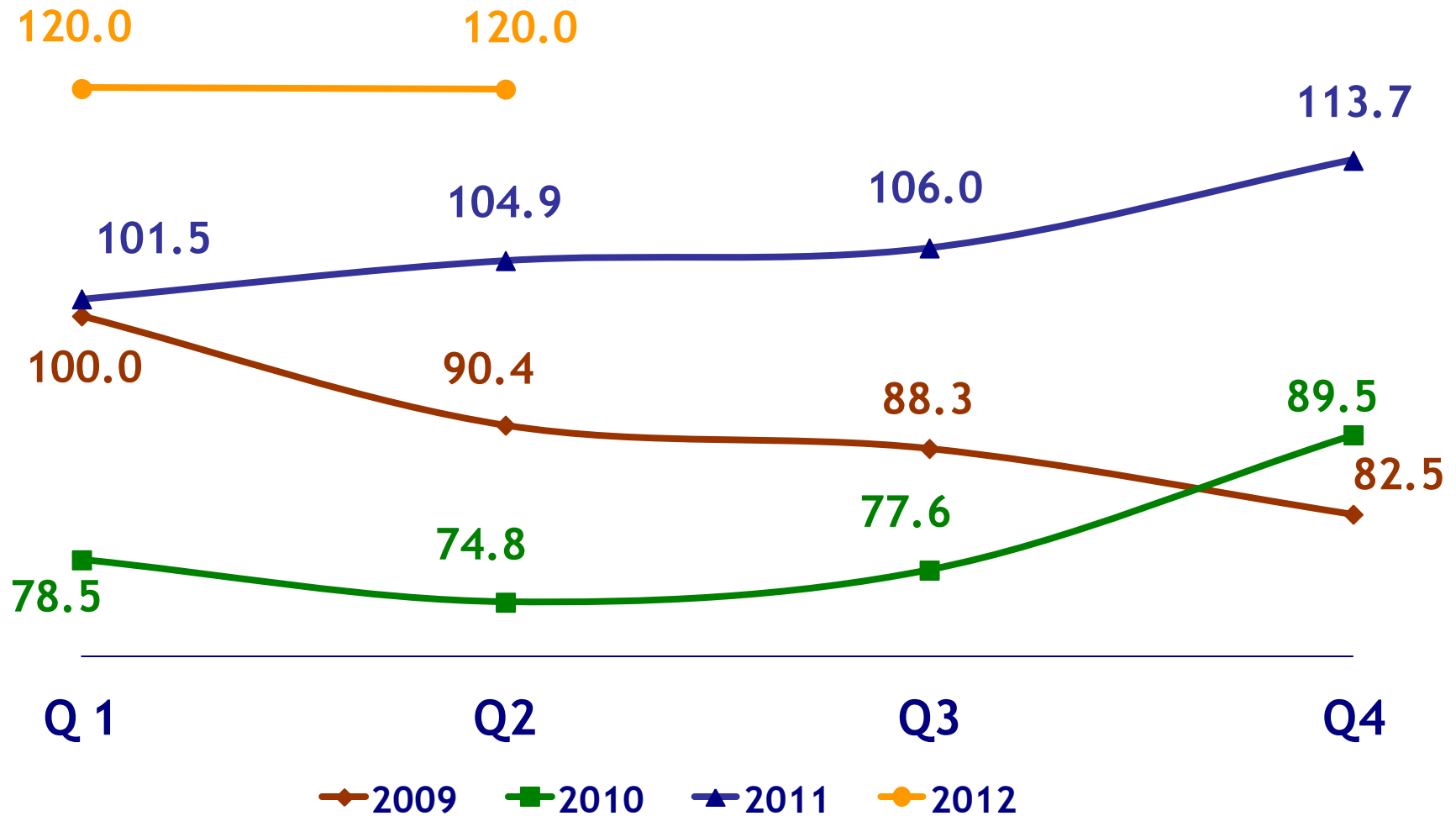


# Key Raw Materials Jan-June 12

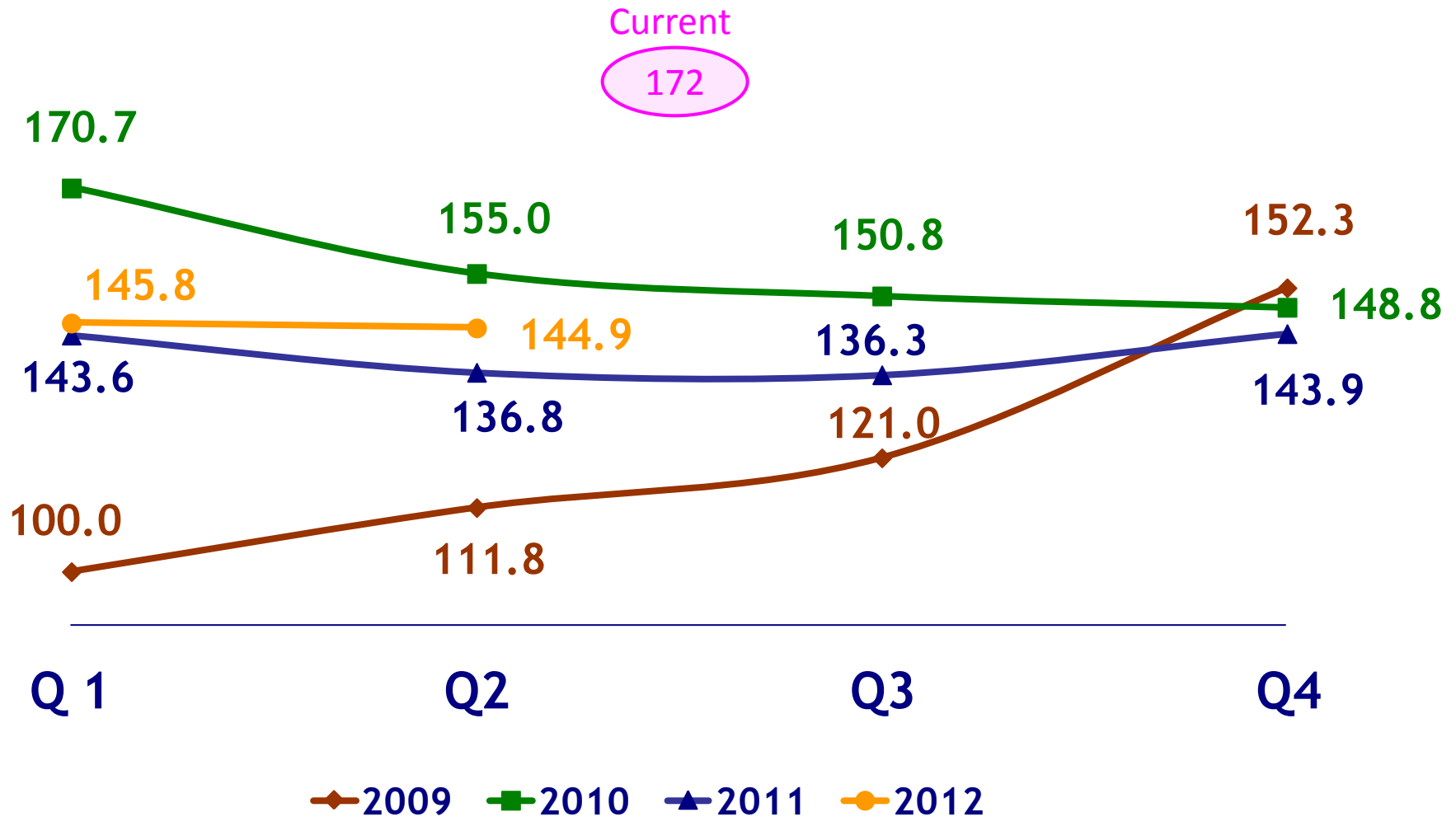


# Green Coffee prices ↑ 14.4 % over 2011

Current  
161

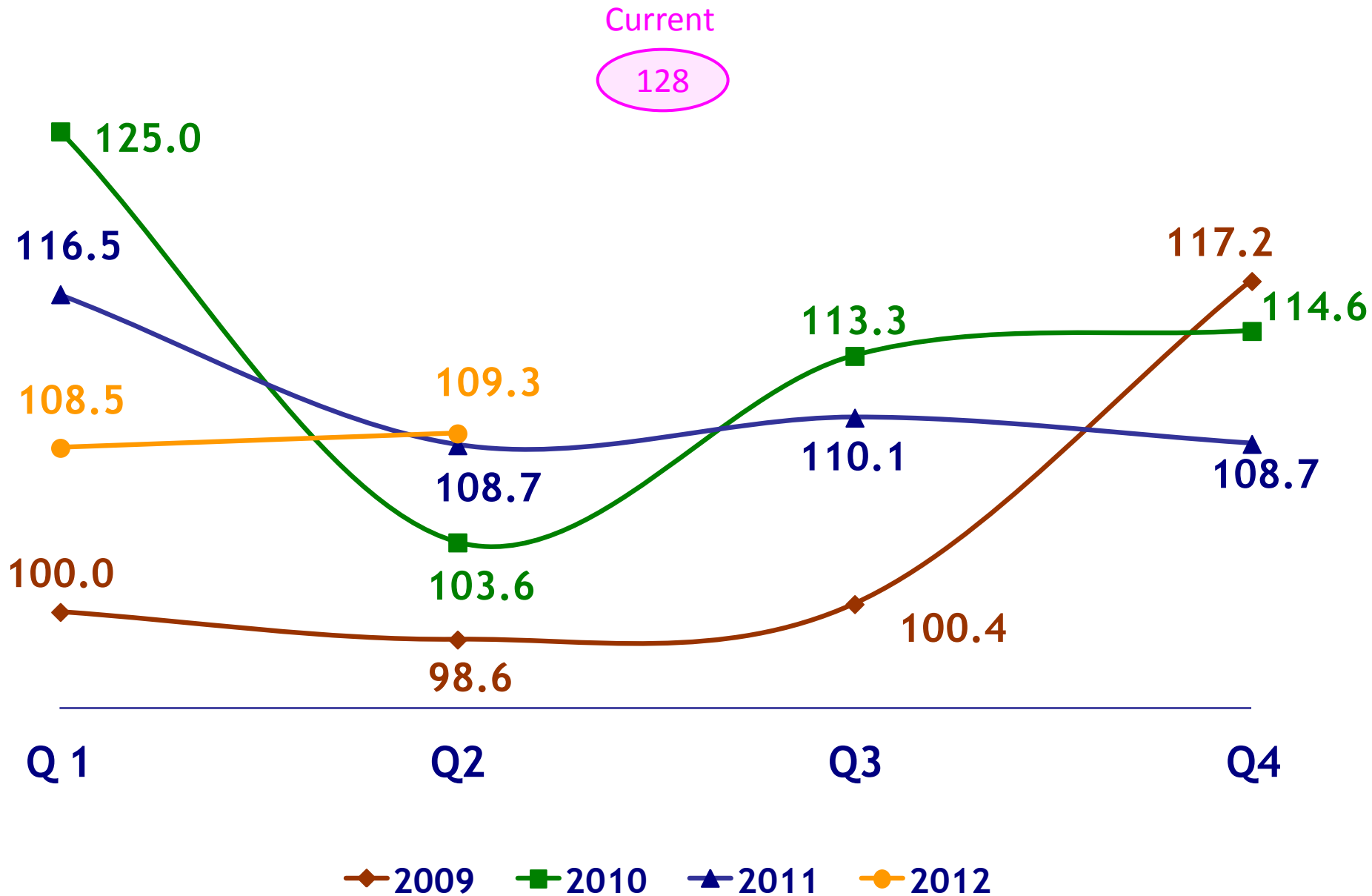


# Sugar prices ↑ 6.0 % over 2011





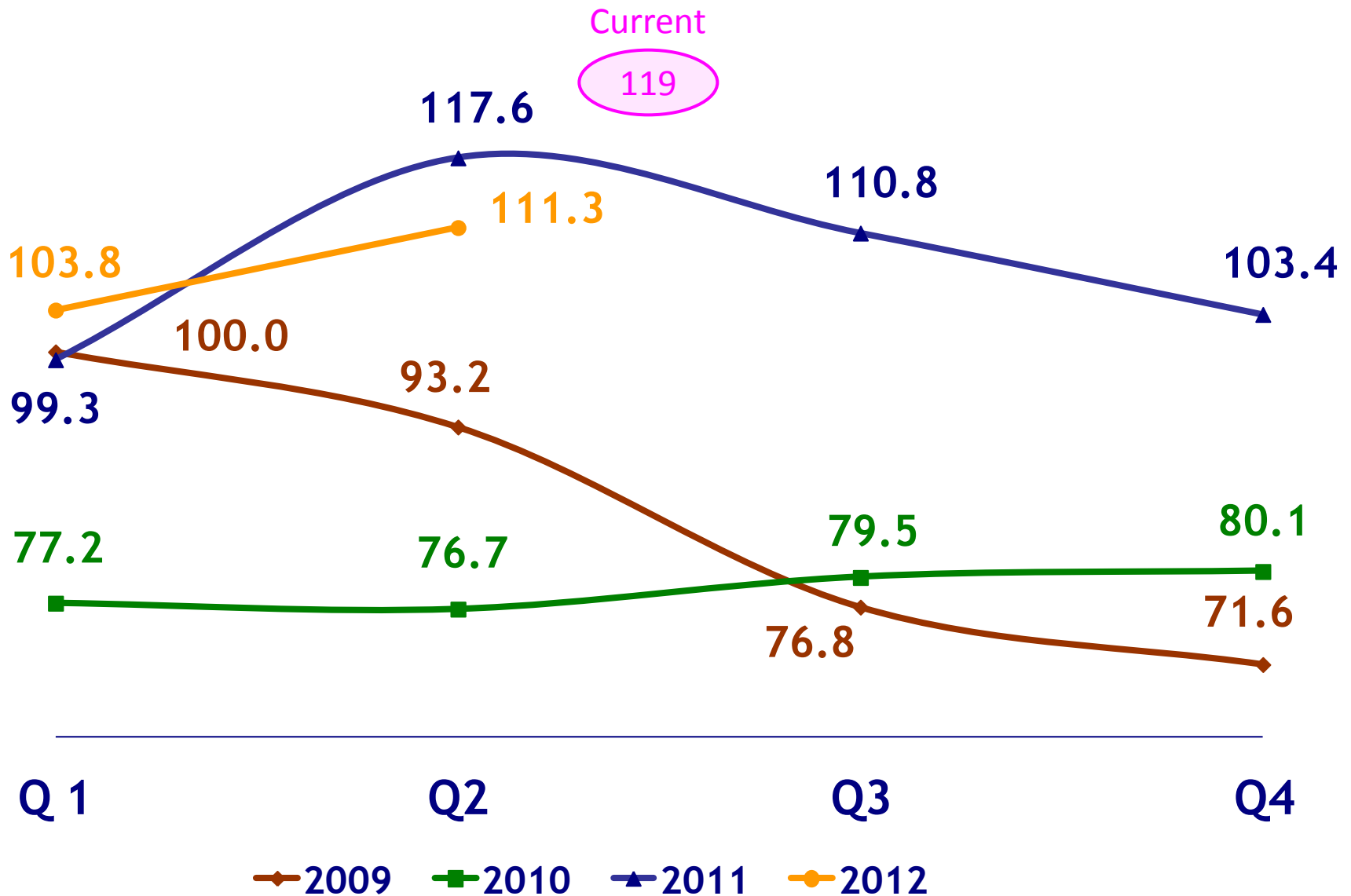
# Wheat Flour prices ↑ 0.6% over 2011



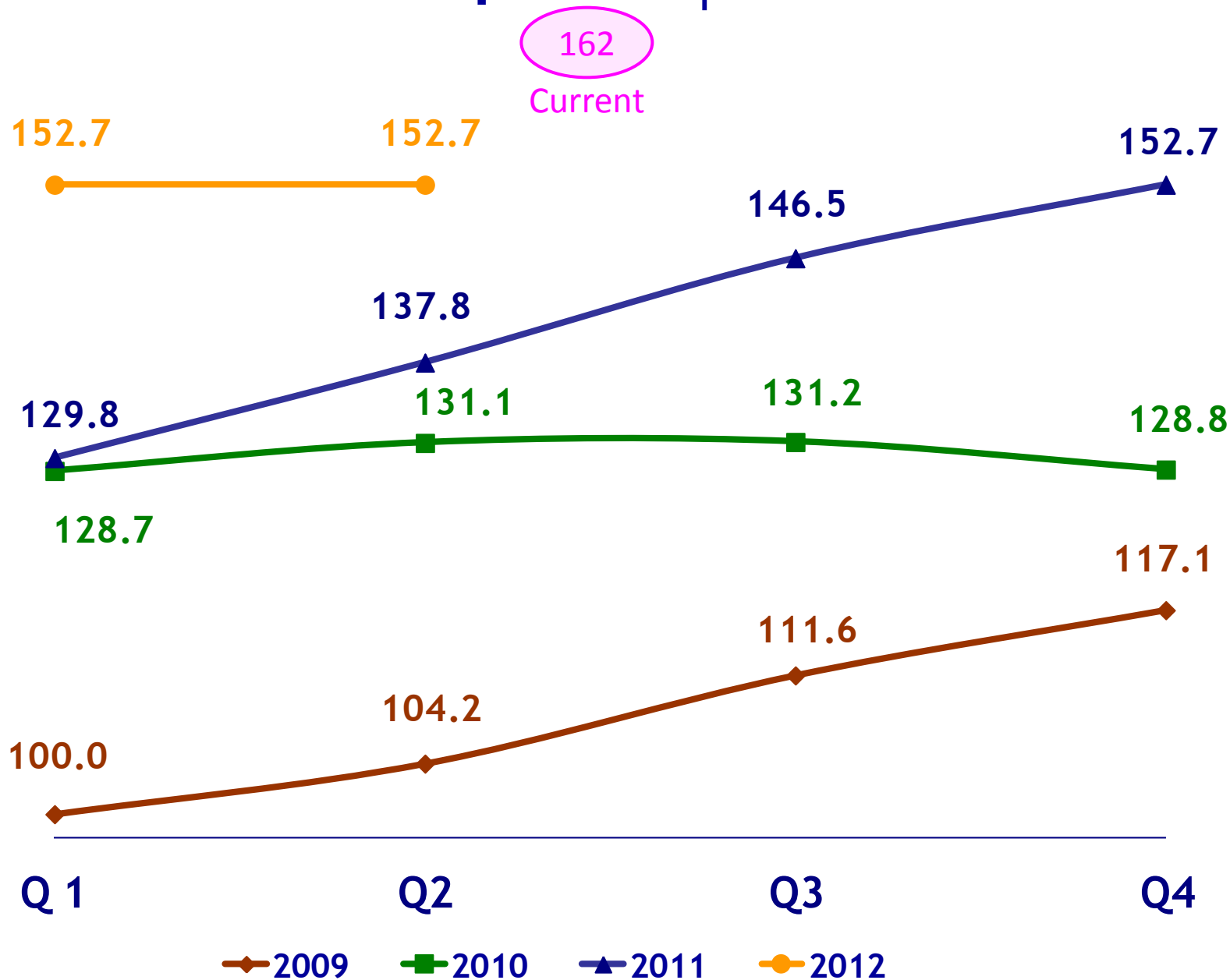
Indexed with base Q1-09



# Palm Oil prices ↓5.4% over 2011

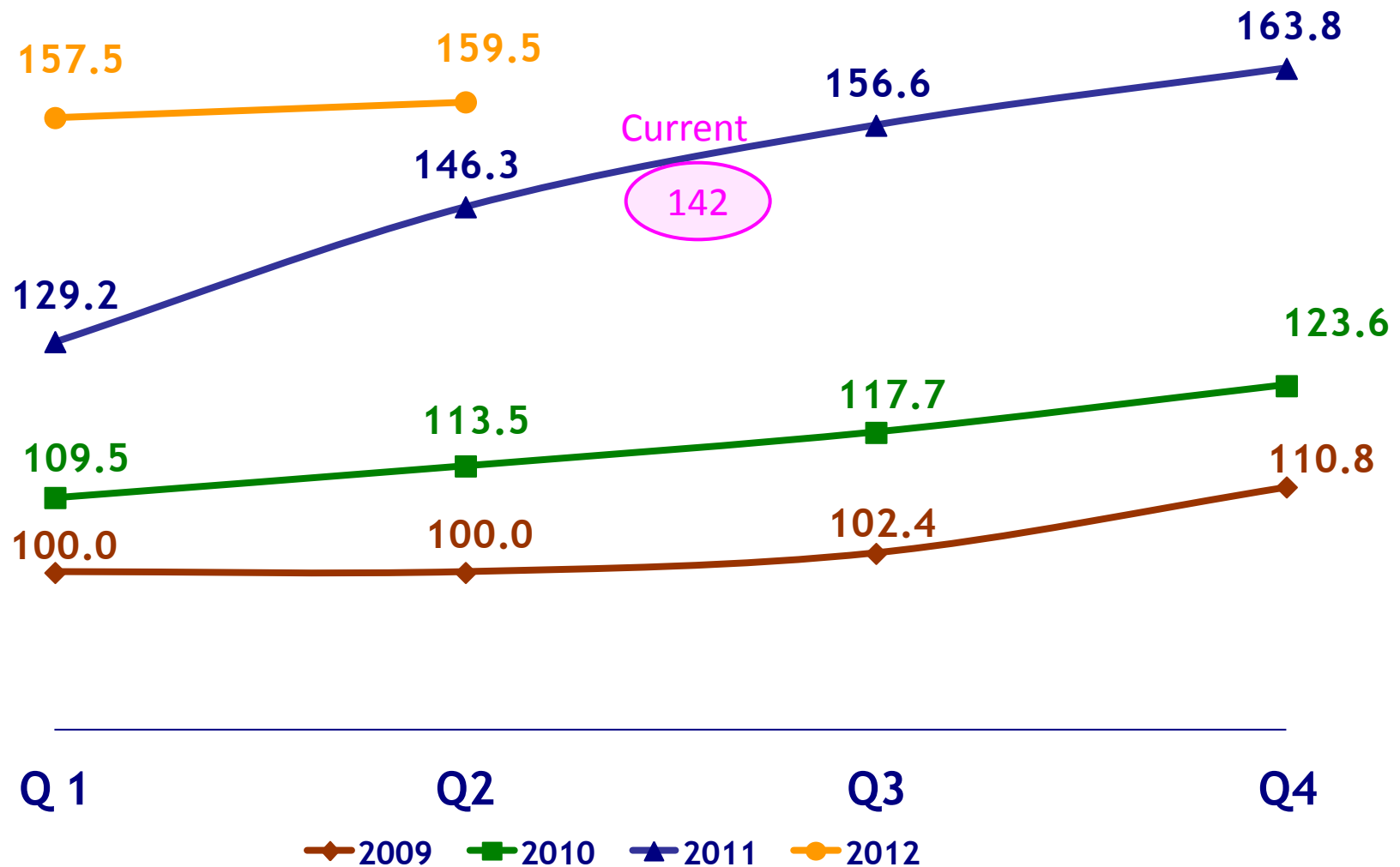


# Fresh Milk Fat prices ↑ 10.8 % over 2011



*Indexed with base Q1-09*

# MSK prices ↑ 9.1 % over 2011





## London International Financial Futures Exchange

# COFFEE - ARABICA [ICE]



Inter Continental Exchange

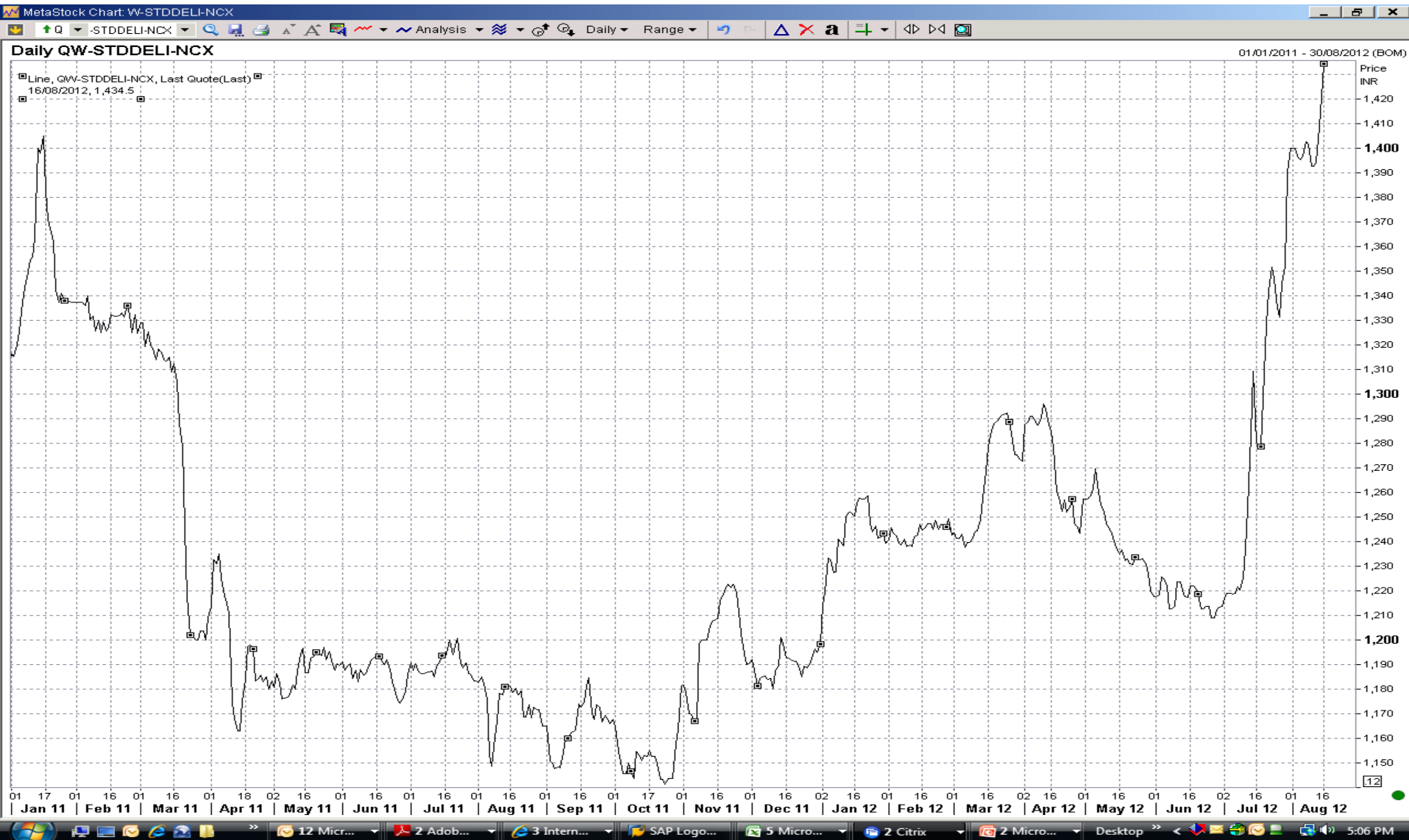


# SUGAR - [NCX]



National Commodity Exchange- Muzaffarnagar-Sugar

# WHEAT - [NCX]

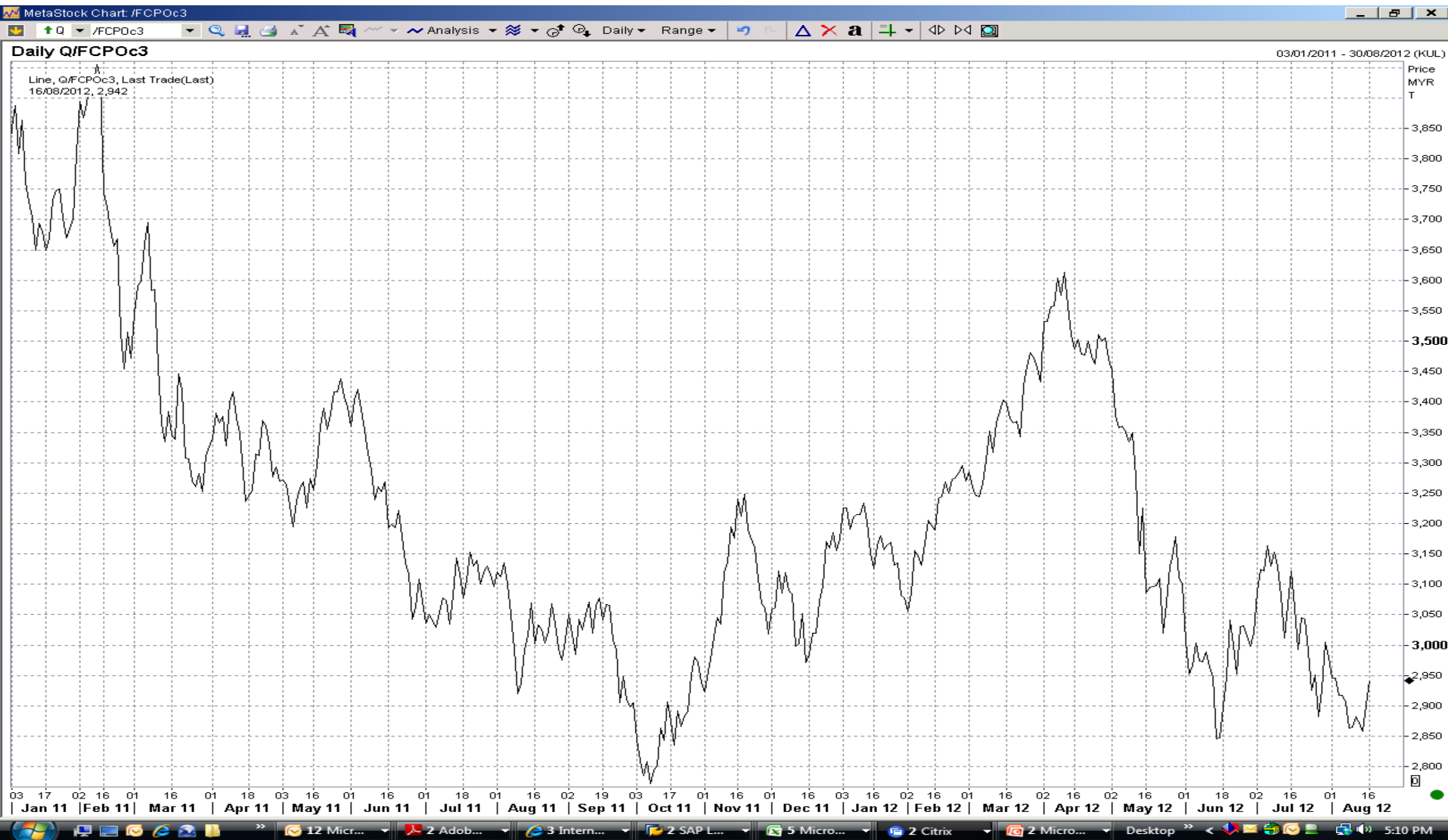


NCDEX Wheat Spot - Delhi





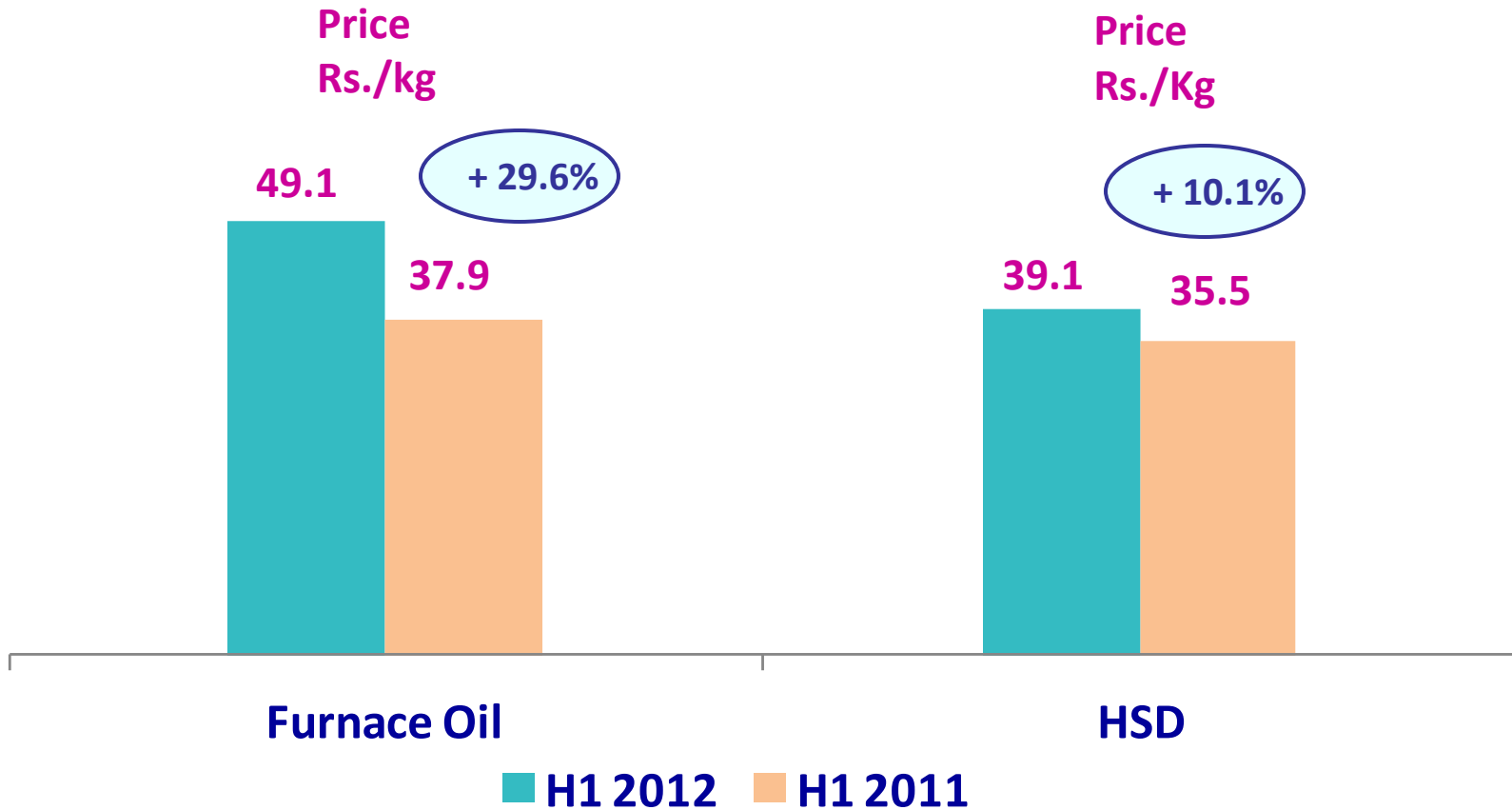
# PALM OIL - [BMD]



## Bursa Malaysia Derivatives



# Power & Fuels



## Share % in Total Power & Fuel cost

Furnace Oil ~ 54%

HSD ~ 11%



# Impact of Union Budget 2012

Basis 2011 actual

**BUT without factoring mitigating measures**

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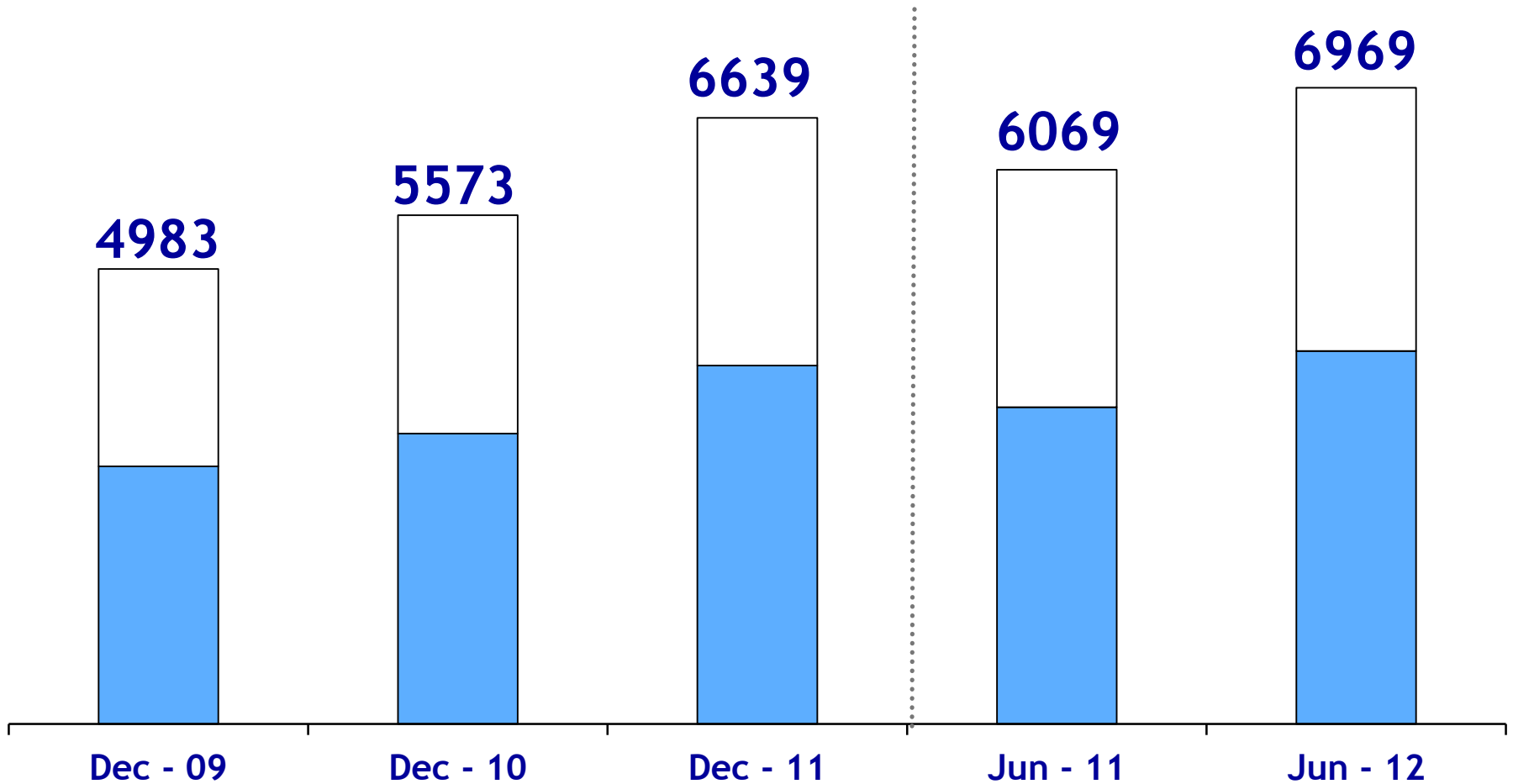
**Negative impact on OPBIT** ~ **100 bps**  
*(Excise Duty & Service Tax)*

**No change in Direct Taxes**

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**Negative impact on PAT** ~ **70 bps**

# Employees



Headcount at the period end

