

“Nestlé India Limited Financial Analyst and
Institutional Investors Meet”

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LIMITED**

Rumjhum Gupta: Good Afternoon, Ladies and Gentlemen. It is a pleasure to have you all over here, and I would like to thank you on behalf of Nestlé India. 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 Rumjhum Gupta – Senior Manager (Corporate Communications). I have with me today my senior colleagues from the Nestlé India Management Team with whom you will be interacting shortly. We have with us today Mr. Suresh Narayanan – Chairman & Managing Director, Nestlé India; Mr. Shobinder Duggal – Director (Finance & Control) and Chief Financial Officer; Mr. Sanjay Khajuria – Senior Vice President (Corporate Affairs), Nestlé India; Mr. B. Murli – Senior Vice President (Legal & Company Secretary) and Mr. Kamal Kedia – Head of Accounting & Reporting.

Now, before we get started, let me first read out the standard disclaimer, as it is very important for us to go through the same. This Presentation might contain statements which reflect Management's current views and estimates and could be construed as forward-looking statements. The future involves uncertainties and risks that could cause actual results to differ materially from the current views being expressed. Potential uncertainties and risks include factors such as general economic conditions, commodities and currency fluctuations, competitive products and pricing pressures, industrial relations and regulatory developments. Real internal growth and organic growth are basis Nestlé's internal reporting standards. Figures are regrouped or reclassified to make them comparable to current periods. Calculations are based on non-rounded figures. Analytical data are best estimates to facilitate understanding of business and not meant to reconcile reported figures. Answers may be given to non-price sensitive questions only.

The entire proceeding from the session will be uploaded on the 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 Suresh to please take over and make his presentation.

Suresh Narayanan: Thank you, Rumjhum. Good afternoon, Ladies and Gentlemen. It is a real privilege and pleasure to welcome you on behalf of Nestlé India. This is the second Analyst and Investor Meet that is happening in my tenure as a Chairman and Managing director of the Company. Last time we met was on 20th November, 2015, under different set of circumstances.

Now, I want to propose, and I hope you do not mind me coming in front here, because presenting it behind the table is a little bit daunting as far as I am concerned and also want to appreciate and understand the fact that I may be physically fit and mentally also alert enough for you. What I will be really talking about is accelerating our game. And I think this is topical, I mean,

irrespective of the fact of how difficult or how challenging and how much we might appreciate the laudatory efforts that have been put in by our sports women specially. I think the fact of the matter is that like the country is accelerating its game, Nestlé India is also accelerating its game. So therefore, I welcome you to this meet and I do hope that during the course of the next half an hour to 45 minutes I will elucidate some key but simple messages as far as the Company itself is concerned.

The other bit of good news, I hope you will take it as good news is that every single dish that you will be served today at the conclusion of this meet is a Nestlé product. So I want to impress upon you the fact that in Nestlé you can make a meal for yourself, so you do not need to have anything outside of the portfolio, but you can really have stuff made out of Nestlé.

The agenda that I will be talking about is really firstly to go to the last slide that I used the last time, which is really to encapsulate what is it that we were looking at the must win battles for the Company. I will then take you through the MAGGI Noodles rebound and rebuild, it is a story that was not fully told at the time we last met because we were in the phase of reintroducing the brand, but it has been a story that is worth telling from the point of view of highlighting to you not only the fabric of the Company but also what is the kind of effort that has gone behind putting this brand and what is it that we will be doing for the future. The way forward is really in terms of three critical parameters which is what is the new reality, where do we want to go, and finally, how will we get there. So, these are really the outlines of what I will be presenting to you about.

The must win battle. What is that we had put upfront as a must win battle for the Company in the coming months and years? Number one was, of course, double-digit growth. We said we will go for double-digit growth, we will go for insight led innovation, it is not empty innovation but consumer insight led innovation. It is for ensuring that we have execution brilliance and excellence. A strategy does not worth the paper it is written on if it is not matched with execution. So, therefore there is a very clear bias towards ensuring that we get things right and get things right not once but every time.

We are also talking here of responsiveness to the environment, not only as a consequence of the emerging environment but also as a consequence of what the Company has been through in the last 12 to 15 months, as to how we can get ourselves to be more responsive, also to be 100% compliant, compliance has always been the corner stone of Nestlé, the reason why you can trust Nestlé is because it is a compliant organization, how can we strengthen this, are people fit for battle, ultimately the best strategies in this world can be either decimated or elevated by people. So both of these are important facets of what the Company is working on.

Consumer engagement, that is what we are all about. Being a fast, focused and flexible organization, being nimble footed as best as we can, to reward and recognize performance, because that is the only mantra where you can really ensure for continuous and sustained growth.

And last but not the least, Nutrition, Health and Wellness as a leadership framework for the Company. I have mentioned this at the end, so it is a point that goes through the entire fabric of

the organization, Nutrition, Health and Wellness is at the core of what the Company is striving to be in the coming months and the coming years.

It's just to tell you, Ladies and Gentlemen, the saga of what we have been through on the MAGGI brand. I know that all of you are hardworking business people, you are all familiar with numbers, you dream and sleep and wakeup with numbers. But I think there is a very big human story that is behind to brand MAGGI and it also tells you the strength of the Company. Because as a consequence of what happened, which is arguably not the biggest brand as far as the contribution to our business is concerned, but is still a very visible brand, went through the throes of what I would call a dead or alive situation. So either living through or we will be dead as a brand. Now, obviously the whole task was to have a rebound and to rebuild this brand. I mentioned to you last meeting, five out of the eight plants of MAGGI Noodles were closed for a period of almost five months, about 400,000 farmers could not supply their wheat to the millers from whom we were buying, about 15,000 suppliers had almost no supplies to the Company because we were not able to actualize it. Our distributors, some of whom depended on anywhere between about 25% to 40% of their business did not have the business. Our distribution centers were going at far less than optimal capacities and throughput. And obviously, this was a catastrophic situation for any organization. But I think, I am proud to say this, and I think this is the human part of the entire story is that during this entire episode we did not lose a single distributor, we did not have one single industrial relations unrest in any of our factories across the country, in fact, we were praised for the manner in which we handled the labor during this period. This is the spirit of the Nestlé value that we stand for. And last but not the least, every single supplier of this Company remains with this Company.

So, I think in good times, '*Hariyali me tota bahot boltha hai*', but, we have no problem. It is in such difficult times that you realize the value of relationship and I think this value of relationship not only transcended to outside the Company, it transcended to within the Company. And I think, I always keep saying this that crisis is a great opportunity. Because crisis is probably the one time in which you can recalibrate yourself. It is like a human crisis, when you have a heart attack is when your wife stops giving you parantha and you do find a situation where you have to change your life for the better. It is the same in organization, every organization goes through a crisis and I think it is important to understand what the value of the crisis is in terms of people.

So, we had the ability to accelerate, we have achieved things here and I think these are just not right figures or economic profit figures or volume or growth figures, but these are numbers that tell you what a team is capable of doing under an extreme situation of getting back to the market. Packaging material, 42 days on average is what it takes, it came out in 9 days. People were actually travelling in the truck. Raw materials, from 21 days to 5 days, point of sale material from 60 days to 20 days, systems readiness from 21 days to 5 days, campaign from 45 days to 20 days. Ladies and Gentlemen, show me better numbers than this. This is what is being done by the same group of people who went through the enormous crisis and faced probably one of the worst existential threats the organization ever faced.

To galvanize the truth, we went first into about 900 towns, that is where we are in terms of our extension today, which is, I would say, a shade better than where we were. In terms of the total number of outlets we are at about 2.4 million outlets today. I can tell you with confidence that urban India has been covered almost entirely, in fact, better. Where the task remains to be completed is rural India, which is a smaller part of the Nestlé portfolio and that is where the activity extended, because these were all shut and closed for quite a few months.

To take it forward now, this is the MAGGI story. Now, you all are sitting here and must be wondering, okay fine MAGGI has happened now what next, what is this Company going to talk about in the next coming months and years and how is this leader going to define the path of growth for this Company? Three simple points: What is our new reality, where do we want to go and how will we get there.

The new reality of India is an exciting reality. The exciting reality where urbanization is on the move, where, in fact, urban population seems to grow significantly, incomes seems to grow significantly, the roads laid by the Tier-II, III and IV towns, 600 towns of them seem to be significant. And therefore there is a clear indication that urbanization can help an urban biased Company, so it is that the Company is also urban in terms of its portfolio. There is a huge youth boom that takes place, I think India is now evolving in terms of not only the total number of people who are connected on the internet, over 460 million at last count, but also the fact is that it is a society that is very quickly evolving into new modes for consumption, trying out new things, new experimentations, new lifestyles, new cuisines and I believe that doing the same of the old is no longer going to be necessarily valorizing the growth opportunity for the future. Third, there is a lot of indulgence. Today there is not only a focus on health; there is also a focus on indulgence. The role that technology is playing, even for a simple vendor of vegetables, right up the value chain is significant and I think the whole digital revolution that is taking place in the country is a revolution that we would like to embrace as an organization. And last but not the least, there is an increasing consciousness on health, on food and the role of different kinds of foods in valorizing your health proposition as we move forward.

Indeed, there are seven important things that you see in India that is going to become important for us as we move forward with our portfolio and with the growth drivers that we are talking about. Urbanization, I talked about; technology tide I talked about; women role, and I think the role of women not only in terms of their enhanced role in terms of participation in the workforce, in terms of increasing literacy but also in terms of increasing participation in the whole decision making process as far as food on the table is concerned. In fact, an estimate shows that almost 90% of the decisions that are taken to buy a Nestlé brand for the house is invariably taken by the women in the house. So therefore, there is an important element that is being played by the women in the task of not only consumption but also in terms of decision of what is to be consumed. Propensity to premiumize, very clearly the market is moving in the direction of increasingly valuing up and also premiumizing offerings. This is a journey that Nestlé would like to be part of as we move forward. Valorizing value, very clearly consumers today and Indian consumers today want value and that value is defined not just as a price but what is it that you get for it. So you can charge from me Rs. 20 lakhs or Rs. 50 lakhs for a car but you better give

me the car of the right value. Similarly, you can charge Rs. 10 for a product but you better give me value for Rs. 10, otherwise that proposition does not stand. Quest for goodness, I think there is an increasing balance that is taking place in terms of not only factors that are affecting, we have as a country both the first world and the third world diseases as you call it, the opportunity for a company like Nestlé is to address some of these in a more consistent and in a more secular manner. So whether it is issues of vitamin deficiency, whether it is issue of iron deficiency, whether there is issue of stunting whether it is issue of diabetics, this country has got today 63 million diabetics going up to something like 80 million, maybe 100 million diabetics in the next couple of years. This is could be a serious health issue as far as the country is concerned. Now clearly, a Company that is based on Nutrition, Health and Wellness with a valorized nutrition sign for it is the kind of company that should be exploiting the opportunity that comes the way in terms of alleviating some of these issues as far as the country is concerned. And last of course, shifting the sweet spot, so there is very clearly a sweet spot that is taking place between taste, indulgence and health and I think this quest and this balance can definitely be exemplified.

So, Ladies and Gentlemen, the starting point, the building block of Nestlé starts with the consumer, there is no two ways about it that the Company survives or sinks on the strength of what the consumer is looking for and where the consumer is moving. And the purpose of putting up these seven trends to you is to really give you our take on where the consumer is moving and why is it that the strategy that we put together, we hope valorizing some of this as we move forward.

So therefore, we are in an environment that is clearly defined by competitive intensity, because there are number of players. You guys as analyst probably attend a number of meetings of FMCG companies to understand the nuance for each one of them. There is a strong competitive intensity that is out there in the market place and it is my role to understand, appreciate and to secularize it within the organization, but there are also clear upside opportunities and this is really what we would like to emphasize upon as we move forward.

So, where is it that we want to go? Our simple vision, and this is a global vision and this is what we want to be as far as India is concerned to be the leading and most trusted Nutrition, Health and Wellness Company placing consumers and customers and shoppers at the heart of all that we do.

Our ambition and our growth drivers are put very simply:

As I mentioned to you last time, my thinking process is very simple and I always believe that if the salesmen in front cannot understand what I am talking about then it is a complete waste of time. For you to understand, we are all very-very intelligent people, but for the person in the front needs to understand something that is very-very simple. So what I am trying to put together is a very simple model that says that the only purpose and the significant purpose for what Nestlé can contribute is to grow. You all know it as analysts, almost 70% of total shareholder return in this country comes out of companies that contribute to growth. So, growth is a key dimension of an organization moving forward, we look at it as consumer led growth, so double-digit

growth. Consumer insight led, so it is not going to be just innovation for innovations sake, so when I come to the new product it is not just the products that are being launched simply because we feel that we need to add another flavor and another variant, it is the logic of the consumers that determines why we should be launching product. And third, that we look at it secularly across the portfolio of the Company. I think this is a point that has been addressed to and which you all have been addressing for a long time, same way can we see secular growth on the Company across the portfolio. So that is one of the task that we have set for ourselves. The winning edge, any organization has to be fast, focused and flexible and we believe that we have to be that way.

If you look at organization, the ratio of capital inadequacy versus organizational bureaucracy, the ratio is 1:100. Companies face the hurdle rate on capital much lower than they face a break on organizational bureaucracy. The reason why you become slow and creepy is because you have inherently set for yourself a DNA that makes you slow and creepy. But if you are looking at an organization that is fast, focused and flexible, where they embrace powerful ways of working, where they enable and empower and engage and energize our colleagues and where there is very conscious step being taken now, and somebody remarked to me at the beginning of the meeting that you have had a full slew of launches that we never thought Nestlé was capable of. Incapacity and incapability are not inherently in your bloodstreams, if that was the case we would not have Olympic champions and we would say that I am sorry but my genetic potential is to run only a 25 seconds for 20 meters and that is the way I am going to be for all my life. So there is a very clearly process in order to reduce, time, decision making, empowerment, structure and this is what I reviewed last time in order to make our self a more powerful organization as we move forward.

The size of the opportunity:

I think I want to put this upfront to you all that everyone looks at 1.3 billion and multiplies it by a per capita consumption and says you should be a \$50 billion company. My friends, I think we have to look at the reality of where we are and what portfolio we have to offer. At Nestlé, we believe that our target group is really in the aspiring, seeking, inspiring and the global consumers. These are not insignificant, even today if you see it, it is almost 57% - 58% of the total population, what we are addressing ourselves to as a total target base for consumption and for doing the activities of both penetration and increasing the frequency of consumption is roughly 315 million people. It is better to be intensive and relevant rather than to be extensive and irrelevant. That is the simple message on strategy that we would like to put together. But it is good news there that the middle class is definitely going to expand in this country, look at any study that you do, you clearly find that there is an improvement that has happened as far as the aspiring, seeking, inspiring is concerned, that is going to grow by almost a third in terms of the numbers between 2015 and 2020, and of course, the degree of deprivation and the poverty ratio in this country is also going to come down. This does not mean, Ladies and Gentlemen, that Nestlé is going to be clearly urban Company with no rural contribution, we do have a rural contribution but I think the growth vectors are defined more towards the urban markets and what we can do with urban markets in order to increase our footprint.

In a nutshell therefore – simple terms, we need to understand that the Company seeks to drive volumes and to sustain its profitability. How do we get there? Three simple strategies, no rocket science here but stuffs that we should be doing day in and day out, in sequence, drive penetration, consumer centric innovation across categories and capture the potential of many India's Within India.

Let me come to driving penetration and frequency:

In the next couple of years, almost half of our contribution is going to come about by increasing penetration and frequency, how boring you say but how exciting it is. Because the levels of penetration for many of our brands and categories is still relatively new, these are not high penetration categories. So some of the drivers clearly are going to be in our Culinary portfolio, our Food portfolio, some of it is going to be in our Dairy portfolio, some of it is going to be in our Chocolates and Confectionary portfolio and of course we will also have Coffee and Beverages that is going to be a key contributor as far as this is concerned.

How are we going to base our innovation and renovation, what is the criteria that we will be using as a Company? There are simple five criteria's that we use in order to determine what is relevant innovation and renovation for the Company. Number one is the Consumer Insight around Nutrition, Health and Wellness, we have something to offer. Is that differentiated, does that stand the test in terms of technology, competence and capabilities or is it something that is off the wall? So, if you were to ask me am I going to launch a strawberry flavored milk into the market place, the answer is no, because there are enough strawberry flavored milk in the market. So what do I do, I look at what is the discriminating proposition that a milk can offer to a growing child, that is protein. So we launched a product called NESTLÉ a+ Pro-Grow which is just out in the market which has 20% extra milk protein. Protein related to muscle growth, related to nutrition capabilities, related to overall growth of the child, that is what we speak off.

So, the connect of innovation is really going to be on what consumer insight and what consumer relevance the brand plays as far as the portfolio is concerned. Number two is to Value Up and Premiumize, we talked about it. I think we have taken initiatives around it and we will see more as we move forward. Size of the opportunity and our competency, clearly size of the opportunity for a company of our scale is important, we cannot be getting into segments that are a couple of million rupees because it is really not relevant, not scalable as far as the company is concerned. Sustainability and innovation to be of an accretive nature. Does it add to the portfolio not only in terms of revenue and in terms of margins, but does it add to the portfolio in terms of being the building block for something else? Can I use this innovation to be coming out with a new category at a later stage? Is there a benefit of that? As I told you last time the issue in front of Nestle is not the shortage of brands. The question is, what can we bring in? What can we sustain? What we can we support? What is our competency? How do we modify our competency in order to be able to sustain it over a period of time? Last but not the least of course building capabilities to expand to new categories.

So in Prepared Dishes and Cooking Aids we already have some launches that have taken place MAGGI Cuppa Noodles. I do not know if you all have tried it, but these have been introduced into a few markets, four variants of them.

MAGGI HOTHEADS is a completely different concept as far as Noodles is concerned. It is a spicier one, has got a spice meter to it too to boot, and it is very clearly youth-centric, it is very clearly a snack, it is very clearly something that is targeted at a particular segment and that is a growing segment of the consumer profile, and, of course, MAGGI No Onion And No Garlic because clearly there are people who might be interested in a product which does not have onion, does not have garlic, it could be religion-neutral in that sense, it could be people who just like it simply because they do not want to have it in that particular form every single day.

Chocolates and Confectionary, NESTLÉ BARONE Charge which has got up to a good start. NESTLÉ MUNCH Nuts, Gift Packs and of course we will be out with Premium Chocolates soon as well.

Milk Products and Nutrition, NESTLÉ a+ GREKYO 4 Variants. We did not just launch another Yogurt. We said what is the concept that we can offer? Greek Yogurt. What is the benefit of Greek Yogurt? Thicker product, more protein, more and better Nutrition, Health and Wellness as far as the consumer is concerned. That is also a product that is Premium. I can tell you one thing that in all these products we launch we ensure that there is a key consumer benefit, it is not just me too or not just a copy of someone else. NESTLÉ a+ PRO-GROW I talked about the logic for it. NESTLÉ EVERYDAY Masala Fusion, I believe it is an interesting product and you can taste it around here, it is an interesting product because it is a dimension that it offers is a Dairy Whitener of impregnated spices that actually give you Masala Chai, and it tasted actually much better than homemade Masala Chai when the testing was done. So it is not just our belief but it is also the test procedure shows it and of course NESTLÉ CEREGRW which is really the entry into the segment of the 2 to 5-year-olds as far as young kids are concerned in terms of a breakfast product or a nutritious product that they can have any time of the day that improve their total nutrition profile and nutrition content.

Beverages: NESCAFE SUNRISE Insta-Filter, NESCAFE 3 in 1, NESCAFE (RTD) Ready-to-Drink product, three variants and of course NESTEA also has been revamped and three new variants have been put in.

In all Ladies and Gentlemen, we have launched in the last 3-months 25 new products that is higher than we ever launched anywhere in our history. Now, you will say suddenly the gastric capacity has gone up. Yes, the gastric capacity has gone up because we believe that there are opportunities out there, some of these will be widely successful, and some of them will not be widely successful. I think future analyst meets will tell us which are the ones that have done really well and which are the ones that are not doing as well but that is the luck of the draw. But you do not even try, then do not complain because there is not very much to complain about. We have many more that are coming on. So this is not a journey that has stopped, this is a journey that is ongoing, this is a journey that will continue.

Capture Potential of Many India's Within India. This is an obvious statement to you, but it is an important statement for an organization. Calibrate our launches basis geography, brand, category and channel potential. Very clearly resources to be placed behind national and regional winners. So some brands will be national, some brands will not be national. So if you come back to me saying, "Look, I was going to a particular place, I did not see your brand there." You may not see it there simply because we believe that where the traction is, is where the resource should be. Do you all not invest in companies that you got hope rather than divide up your companies or divide up your monies in a socialistic balancing; I need to have 1%, 2% etc. It is the same principle. Third, organizational capabilities to be fast focused and flexible, helping to excel in execution.

E-commerce very clearly is an area of focus for the Company. I talked about it. I think here the ambition that we have is really to grow our business further in this sector in line with the kind of progress has been made. In fact, there have been a couple of firsts: Nestlé has never re-launched or launched a product on eCommerce. MAGGI Noodles was launched or re-launched on SNAPDEAL. MAGGI HOTHEADS has been launched on SNAPDEAL, okay. So there are similar parts of the portfolio and many parts of the portfolio that are finding itself in terms of the relevance of the digitally connected consumer and in fact in the next 3 to 5 years we estimated that anywhere between 150 to 200 billion consumers would actually be buying off e-commerce if all goes well across different product categories and certainly Nestlé would like to be part of the beneficiary in this.

Out of Home: it is an opportunity that clearly beckons this Company and we have got strength as a business in this. You can see that in terms of eating out share of fund spending is almost more than half, 70% of consumers are eating out of home at least once in a week and in fact the store growth that have taken place not necessarily the business growth, the store growth have been fairly significant for at least some example of companies where you have got some information which is like Domino's and McDonalds where there has been a progress. Irrespective of this, there have also been of course local players who have had a significant increase in footprint, but the fact of the matter is that if we have today a portfolio, whether it is MAGGI, whether it is Chocolates and Confectionary, Yogurts, Ready to Drink, Premium value-added products put together into a cycle of just kind odd into an outlet of this kind and we have got a hot spot that you can talk off your own. I do not need to go outside and start getting in from other fellows in order to validate it. That is the benefit that I see in the portfolio going forward and that is the orchestration of the portfolio as we move forward.

In terms of the Regulatory Environments, I know that I am coming to a topic that clearly was the topic that was contentious some time back, but I believe that in terms of the food regulatory environment there are positive winds of change, today they have more than 11,000 additives that are actually allowed. The reason? Ladies and Gentlemen, why we are able to innovate the way we are able to innovate is also because the food laws have permitted us to do it in that manner. If you still had the old processes in place, you would not have been able to get this level of traction as far as renovation, innovation is concerned. Harmonization with Codex which is clearly a step in the right direction. There are some areas that still need to be focused – Infant

and Special Medical Foods -- the regulations are under review and of course ingredients that are approved by the FSSAI are the only ones that can be used. As a Company, we are fully committed to work with the FSSAI and in fact right after this event I am going for the 10th year celebration of the Food Safety Act that has come into place, and I think one of the things that we have said as a Company very clearly is that we are fully on board in terms of initiatives on Food Safety for food business operators and setting up of Food Safety Institutes as we go forward.

Changing Face of Consumers: This is again to tell you how a company needs to be more nimble footed than it has been. This is CES; we say 24X7 for 24 hours a day, 7 days a week Consumer Engagement Services that is CES across channels in India. I believe we are one of the few companies to have this 24X7 across every single channel available in this country. In 2012, to give you an example, we have a total number of 2500 contacts, that is it, the team structure was four people and the response time used to be in the first 24-hours. Today, we have got in place a contact mechanism that already has something like 450,000 contacts that come in through multiple media, we have a team structure of almost 60 people who work on this full time and the response time that we have set for ourselves is in 30 minutes. That is what we want to do. So you give a call at 2'o clock in the morning, you want a response on something, 30-minutes is the response time. This is not a favor we are doing Ladies and Gentlemen, this is what the consumer wants and this is what corporates need to be ready for as we move forward. In society I believe that we have had a strong role that we have played on Nutrition, Water and Environment Sustainability and Rural Development. Some of the initiatives that I will really talk about are around the Healthy Kids Program, the Nutrition Program almost benefitting 46,000 beneficiaries. MAMTA, which is the program really for young mothers or mothers who are expecting in terms of nutrition for themselves and for the child, 100,000 milk farmers that we deal with, clean drinking water facilities across 15,000 beneficiaries, over 2000 coffee farmers who we work with across the country and this is an initiative that we will be out very soon is called NANHI KALI which is really working with the NANHI KALI Foundation in order to promote the education of the girl child, and you will see some of this as we go forward.

What more relevant for you apart from the social initiatives that we do is the commitment to this Company in terms of sustainability. In 2015 we had 54 energy reduction projects that were on this company and 40 water reduction projects. In that the achievement that we have had from 2000 till 2015 has been for every tonne of production, 47% reduction in energy, 55% reduction in water, 61% reduction in terms of waste water that was generated and last but not the least 57% reduction in greenhouse gases. Nestlé as a company is committed to Sustainability and this is one of the platforms of growth that we have ensured moving forward.

In terms of Packaging, almost 35% of all packaging that we used in 2015 is in fact recycled material. 800 tonnes reduction in packaging materials and of course in terms of consumer awareness we have had increased efforts and increased initiatives around the whole area.

Our People indeed are our Stars and that is the reason why we have seen Nestlé looking more confident, it is not because of me, because of all the 7,200 people who work in this great company, we live through example – Credibility, holding ourselves to the highest standards of integrity and always trying to do

what is right. What makes Nestlé attractive to people is the fact that we work on some iconic brands. There is the feeling of involvement for the society. I think feeding our people is a key act that you all perform, culture of ethics in performance. In all that we have been through I think the one single element that has kept us together is the values and ethics of this company and last but not the least continuous upgrading of skills and competencies not only through a program of continuous training but also exposing our people at different stages to different opportunities overseas. So that is what we are as a part of a global company.

The Key Takeaways today that I would like to leave you with is a priority on growth across the portfolio, is a strong commitment to Nutrition, Health and Wellness, is a key role of penetration, frequency and insight led innovation. If you look at what Nestlé would be doing this is what we will be doing. In terms of tapping into the “Many Indias Within India” the emerging channels and the emerging consumer trends and last but not the least responses committed to Indian society we have been here for 104-years. Whatever people might say Nestlé has served society in India for 104-years and we will be here for many-many more 100-years. To be nimble footed because that is going to be the , so it is going to be increasingly more nimble footed, and, of course, what binds us all together right from my lapel pin to everything in this Company is a pride to belong to the Nestlé organization. So I thank you very much for your time and attention and I do hope that through this I have been able to give you some idea of the direction that we are taking, the strategies we are putting in place.

Like everything, Ladies and Gentlemen, what I would like to tell you most with all the courage that I can muster is the fact that this is a journey, Nestlé is a long-term company, these are all steps that take its time and duration to come into full fruition. So it is not a quick fix, it is not something that we do in 1-month or 2-months, and as the leaders of this company, and as a person who faces you, it is my role to present the picture as it is not as rosy as you would want it to be, but all I can tell you is that the commitment to some of these basic principles and basic strategies and basic approaches and the aggressiveness with which we can do this is fully there. Okay? Thank you very much.

Shobinder Duggal:

Ladies and Gentlemen a very Warm Welcome once again to this meet. Just before I start I thought like to remind you that we are yet to move on to IND AS. Since our accounting year is calendar year, it is going to be only applicable to us from 1st January 2017, so all the numbers which you will see are on the erstwhile standards and rules, because some of you had raised this question after the results I am just clarifying upfront.

Let me start with the slide which is depicting the market dynamics in the last two quarters. On the left hand side where you see the market size you will see the market size of the total FMCG is close to US\$40 billion and that keeps filtering down to the total Food and Beverage at US\$21 billion, Process Foods at about US\$14 billion and finally the Nestlé category is close to US\$4 billion. There is a big delta between F&B and Process Foods and that is the commodity oriented kind of products like Packaged Atta, Iodized Salt, Oils, etc., many more.

Now how has the market moved? Q1 '16 FMCG grew by 7.2%. The growth rate came down to 4.4%. So as a proxy H1 is about 5.8%. F&B H1 is 6.3% and growth rate from 7.4% in Q1 dropped to 5.3%. Process Foods dropped from 5% to 2.7%. I think it is very interesting to note that the only category

which has grown in double-digits both in Q1 & Q2 are actually the commodity-oriented products which I just alluded to. The Nestlé categories were growing at 1.3% in Q1, came down to 1% in Q2, of course this is very severely impacted by the Noodles de-growth, and just to give you a sense if you excluded Noodles the Q1 category growth was around 7%, which came down to 2.5% in Q2, so approximately H1 without the Noodles category would have been close to 4.5%. This gives you a little bit the context or the landscape in which we are operating so that when you see the numbers of the figures which are going to be presented in some granularity, not in total granularity, you will be able to relate the performance better.

This is a little bit picture of our brands. You still see that in almost all the brands barring two, we have a leadership position which we have been sustaining for quite some time, and the gaps with the #2 on those leading positions is quite significant, of course, into Ketchups and Sauces and in Chocolates, we are #2, in Sauces the gap is not big, but in Chocolates, yes, it is and it also depends on how you would like to see the overall category in terms of Chocolates.

Just to give you a sense of how we are doing on MAGGI Noodles, let me take you through the slide. How you read the slide in November '15 index is 100, if you recall we re-launched on 9th of November 2015, and we got a share of about close to 11%. This share has steadily climbed to 57% in June '16 and the index sales which were in November at 100 have reached 171. So, a fairly good progression since the launch.

Let us look at the 6-months Highlight. The first 6-months of 2016 we registered turnover of 45.5 billion, which is adding 1.1 billion to a base of 44.4 billion, which as you all know was very severely impacted by the MAGGI issue and it was Q2 to be more precise last year. Our organic growth is at 2.4 and backed with a real internal growth of 0.8. This pricing which you see of 1.6, there are some categories in which there are pricing pressures for example Dairy and Beverages and it has also to do with the way the commodity markets are operating and there have been some opportunities like Foods for example where we have been able to shift the portfolio more towards value-added, the channels are better, the PAT mixes are better, so it is a net result of several of these things which makes the pricing, but we will come back to this on the quarterly splits a little bit later. Our operating profit was reported at 18.9, but in reality the operating profit which was reported suffered from an accounting treatment which was very correct as per the accounting standards, but from a comparability point of view it brings a little bit of impairment. So I would say that we would compare 18% which is like-to-like with the 18.1% operating profit and therefore there is an expansion of 10 basis points on a relatively very-very modest growth. The net profit has climbed up from 5.8% of sales to 10.8% and a very good addition to the absolute amounts of 2.3 billion, fully realizing that the base was very heavily impacted by the exceptional item last year, and this flows down to earnings per share which have crossed the 50-mark and they were almost at half in the last year.

This slide will give you a little sense of how the quarters have been moving. It shows from Q1 of 2015 that we were clocking the 25 billion sales mark and that was before the crisis hit us in Q2 when the sales came down to 19.3. They further came down to 17.4 after the aftermath of the crisis MAGGI was still out of the market and then it started to climb in Q4 of last year at 19.5 billion, and part of this quarter if you remember it was when we re-launched MAGGI first about 6 to 7 weeks of sales out here. Q1 this

year has gone to 23 billion which have been sustained in Q2 more or less. The growth rates are on the top, you can see for yourselves, and of course I think I would like to still draw your attention to the fact that year-on-year growth here in the situation in which we have been means a little, I think we should still focus a little bit more on the sequential growth. Likewise if you look at the operating profit it was 20.6% in Q1, Q2 reported was 16.7% but actually if you do the like-to-like comparisons it was 14.7%, down to 11.4%, up to 15.3%, 19.4% in Q1 '16 and now at 16.8%, but it is not abnormal to see this trend from Q1 to Q2 if you go back to our history the quarters have been because there are seasonalities and different cost cycles and so on and so forth with each quarter.

Looking at the domestic sales, the volume growth is at 7.3% for the first half of this year and value growth is at 2.6% and the contribution remains more or less at 93%. Exports is a flat growth at 0.8%. If you exclude MAGGI Noodles from both sides in '15 and '16 the exports growth would be close to 4.5%.

I will come to now the information which you all have been seeking for and are wanting to see and that is here. So the reported volume growth is 7.3%... do not worry, you do not have to take note. So all these slides are going to be on our site, they are not going to be changed or deleted. The comparable growth is that 0.5%. What is comparable growth here is that if you take out the Noodles sales from both sides, if you take out the surplus fat which is the Ghee sales from both sides, and if you take out still the tail end of the portfolio initiatives which we have been doing for the last several years, example is 50 paise Eclairs, then the portfolio has grown in volume terms 0.5%. Likewise, you do the same thing for value against the reported sales of 2.6%, the values degrown by 0.7%.

The more important part is to see how is it happening over these in the first half. So, in the first quarter, you had a reported growth which is negative at (-8.7) and the comparable growth which I have just explained was (-2). This has now improved to 17.5 on reported which is helped by the base but the comparable growth has also improved not great but still positive. That is how the quarters have moved. So if I was to really look at our portfolio in Q1 of 2016, I would see a lot of red cells. If I look at the portfolio cells in Q2 of '16 I see more green cells. So, there is a shift which is happening which is for the positive and this is also aided by the innovation and renovation which Suresh has talked in detail across categories. Most categories are showing some signs of recovery towards the positive trend.

If you want to look at the pricing side, this is how it is – our pricing on the overall portfolio was 130 basis points on reported basis which improved to 210 basis points on the reported portfolio and lot of this is coming back to the point which I was making earlier that the shift which is happening in the portfolio in some categories have been positive towards more value added growth. But if you look at the pricing in the rest of the portfolio, it is hovering at around 90-odd basis points, and I think that is a little bit important because the traditional inflationary trends where you had a lot of pricing power they are being put to challenge both by competitive intensity and as well as by the commodity markets to a certain extent. So, that gives you the complexion on the pricing and the organic growth.

Now, I may just come back to the slide which I skipped. That is how the contribution of the various categories – Milk Products and Nutrition has inched down to 52.8, Prepared Dishes and Cooking Aids have moved up, Chocolates and Confectionary are more or less stable and Beverages has moved down

by almost 90 basis points. In general, we have seen better growth rates in Tier-A and Tier-B towns compared to Tier-C and Tier-D. Also, if you see the tracking of the growth on the smarter cities, they are outperforming the growth in the rest of the geographies. So that is a little bit geographical complexion of the growth. I am not going to go through the categories because I think I have given you the growth with Noodles and without Noodles and it gives you a fairly good complexion of how the other portfolios is growing. Yes, sure, amongst all these, I would say, Prepared Dishes and Cooking Aids have shown a better growth, Chocolates and Confectionery follows that and Milk Products and Nutrition, Beverages are the ones there growth is a little bit soft.

Let us go to the material cost: I am still back on the way as I presented the numbers to you last time, because I believe that the time is yet not ripe to move to a traditional way of presenting by categories and so on and so forth because the basis are distorted, there are lot of intricacies in the figure, so it is better that you get a total insight into this rather than going into the old method of presenting. So if you look at our material cost as a percentage of sales, I think the figures to watch are 42, 42.3, Q1, Q2, it is a pretty flat and year-on-year improvements here is 30 basis points in Q1, 100 basis points in Q2 and 70 for H1, of which I think the bottom part of the table shows you that commodities gave 100 basis points in Q1 which has started to come down, it is now only 20 basis points. Realizations which were in the 'red' in the first quarter ...red means it is not that we took price drops and so on and so forth, but there were certain pricing pressures and certain promotions which were operated which brought the realizations a little bit less, and they have improved in the second quarter also because of the mix of the portfolio which is better in Q2 compared to what it was in Q1 and finally, the ratio of contribution between third-party sales and affiliates is also positively impacted. But the point to note here is that the favorable commodity prices which have lasted for a while are showing some upward trends and I will just take you very quickly through those slides not in detail, this is the index of the commodity basket of NESTLÉ India. So you see the improvement in '15 which is still there for the first half, but not great as things seem to be turning the other way round. This is how milk is down '14-15-16, not so bad till date but trending to show up a little bit. MSK still very soft compared to what it was but slightly inching up. The other important thing is this is what I shared with you last time that there is still a very big difference on the milk solid prices internationally and in the domestic market and that is reflected in the MSK prices, the Ghee prices and the Full Cream Milk Powder prices. So, quite a substantial difference between international and domestic.

Coffee has been very soft but now if you see of the last few months, things are looking upwards. Wheat Flour has gone up, continues to be firm. Palm Oil remains soft, probably will go up a little bit but not that much as we see it today.

I am skipping the slides on the exchanges, because they will be on our website and you can have a look, I think Sugar is a very different story, has taken a very-very steep jump. That is most of our big commodities which are taken up here.

On the other variable cost, essentially while you see on H1 basis there is a flat movement but the first quarter gains have been netted off in the second quarter gains and this has got to do with the product mix and if I may remind you on the price of the barrel where it is going, that tells the story to a certain extent, it has moved up already in the second quarter.

This is our Advertising and Sales Promotion Expenditure. You might say that we have cut Advertising and Sales Promotion in 2016 to make our margins. From the face of the numbers that look, your statement is right, but in reality there are many things behind the scenes – One, that the base of Q1 of last year is not fully comparable; Secondly, we did plan the spends in a manner where we wanted to step up as we launched the new products and then some of the campaigns were in the work-in progress and they started to roll in now. So all in all, here I would say that if you look at figure you should look more at (-8%) if at all you should look at that and that I would like to highlight the fact that sitting below this is the marketing mix of Traditional versus Digital where the Digital spends last year were lower than the Digital spends this year, and because of that we also get some cost efficiencies and that could be at least around 1.5% out of this 8.1. That is a little bit picture on the Advertising and Sales Promotion.

On fixed cost, some of you would have asked a question that why the fixed cost gone up so much. I want to bring the reminder here that last year we had reclassified fixed cost from above the operating profit to below the operating profit in the second quarter to comply with the accounting standards; I think the amount was 570 million if I am not mistaken. So when you see the reported figures, you see here the figures are depressed of H1 as well as for the second quarter. If you make them comparable with those 570 million which were reclassified, then in reality our growth of fixed cost is 5.2% H1-to-H1. Q1 looks 2.6% very low because there was an impairment charge in 2015. If you pull that out, the growth was close to 4.5% in Q1 which is around 7.8% in Q2 and of the 7.8% close to about 200 basis points are coming because of money which was spent in all these programmes for launching of the new products, traveling, conferences, etc., in addition to that some other activation activities which are built in here and naturally the salary cycles move in April and that makes a little difference out here. So that explains you fixed cost movements.

Profit from operations more or less the story of the exceptional items; last year, they were two, one I have explained you of the 570 million which was moved, second is that we had to destroy the MAGGI Noodles stock on 30th of June last year. Because of that all the fixed costs, which was sitting in the closing stock had to be charged off. So that had also impacted the results. These are two main explanations to show you the movement and therefore if you do an apple-to-apple comparison, it is 10 basis points improvement which I talked to you earlier.

This is the summary: We were at 18.9 points when reported, the one-offs are 130, materials at 70 basis points, advertising and sales promotion 65, fixed cost have taken away 55 bps and exports incentives is really an accounting issue because we account for exports incentives on cash basis.

I think it is important for you to note that the effective tax rate has jumped 550 basis points, which is huge. Normally, you would sit up and say what is going on here. Now, I would like to bring you back to the discussion which we had last year here. Last year's effective tax rate was in fact artificially low because in the year in which we were, not that there were any accounting treatments or aggressive tax positions which was taken, it is simply the profit mix. You can see in the past we never had 30% effective tax rate. This was due to the profit mix, because the profit from the non-tax holiday units was low, the ratio of profit from the tax holiday units became bigger and we got a benefit of that. Likewise, there were tax holidays last year for one, the second is that the investments allowance schemes were

such that they were operating on a compounding basis and last year we got the benefit of two years in one year, which is not the case this year and even the quantum of investment allowance is lower due to lower CAPEX. We have had some exceptional items in 2016 which have been reported and that has had a hit of 140 bps. MTR has changed last year giving us a positive of 30. Others are giving a positive of 60. So it is getting more close to MTR or a little bit higher.

If you look at the net profit, the story is very similar to what I have explained. The only thing is treasury income which is giving us a benefit both on tax as well as on profit, coming out of liquidity and investment strategy, the rest points I have already explained to you

The cash generations from operations, we have added close to 1.9 billion or 41% of the cash. The key movements here is , the big ticket items here are the exceptional items which is giving us green and next to the exceptional items was the situation where our working capital last year was artificially depressed. There were no stocks on 30th of June of MAGGI Noodles and we had a huge payable on account of the exceptional cost. Those two red buckets which you see 750 and 1,000 and 4,400 are all MAGGI Noodles related. At 14%, I do not think it is a bad number at all, but yes, far away from the normalized figures which used to run at 16-17%. Just to give you a little assurance that we do not have any problems with the working capital. You see here average trade net working capital which was at 4.1% in June 2015 is now at 3.8% in June 2016. But please do not fall for this number at 3.8%, this is still carrying a few months of lower working capital benefit of last year and that will go away as we go forward in the year. The more normalized levels for your calculation for you to take could be between 4 to 4.5%.

Return on Equity is coming back... or has come back. EPS has come back, share price has come back, shareholders' funds are improving. I think you should not be too dissatisfied with the recovery and your ROICs are recovering and your economic profit is also recovering. Yes, the speed of recovery may be challenged but the fact is that all these indicators are in the right direction and finally even the dividend starts to come back from the low base.

Ladies, and Gentlemen, that is all what I wanted to share with you. Now, we can move on to the Q&A.

Rumjhum Gupta:

The floor is open for Question-and-Answer. I can have my colleague Shashank also help you out. Please remember to state your name and your organization. That is important.

Abneesh:

This is Abneesh from Edelweiss. My first question is you have done so many new launches, some of those are re-launches but quite a few new launches also. So normally companies like to phase out the launches. In your case, in three months so many. So my question is how do you really support that in terms of ad spend? So is it possible to put behind all those new products? If no, if you could tell us what is the priority list? In terms of geographic also, is there some demarcation for the new products are getting launched in all the TCVs? In terms of Digital, what the ratio now versus say three-four years back?

Suresh Narayanan:

Good question, Abneesh. What was the reason for the number of launches that we had? I think two things – one is that very clearly that when the regulatory framework also became a lot more enabling

for the company, we took a decision as an organization saying that we need to now fast track. Some products had been in the anvil for a while, but some of these products really were concept to launch within three to four months. So, what we said was that this is the opportunity when we go with MAGGI and when we go with rebuilding some of the brands. They need to also try and accelerate the pace of innovation in the other than Noodles category as well... I think Shobinder shared with you the numbers. I think the focus is very clear to look at the other than Noodles categories as well and to see what is the injection that we can provide there, that is going to be forming the sustainable basis for growth for the future. So that is really what we have done. Secondly, I think you know it well, Abneesh, like any business proposition, the amount of support is directly basis the size of the pie. So we do not say that all 25 are going to have exactly the same size of the pie. There are some that are likely to be bigger wherein we try and put in more of our resources. We also prioritize on a geographic basis. There are two approaches in traditional brand launches – One is what I call “Credit Sale Approach” which is you go across all geographies, spread it thin and see what happens. Sometimes it works, but sometimes it also leads to disaster because you start having stock returns and other issues because the brands and all have not picked up traction or so. The other thing what we have chosen however is to take a few identified geographies to do some amount of special testing there, so we put resources behind those special test. If they work out well, then the time between launch and assessment which will typically be a couple of months, we will make it a couple of weeks. So really speaking as a leadership team we do hide our bets and say, look, some of them are selling right because of the trade response we are getting, the consumer response we are getting or the kind of resonance that they are picking up in the market and then we act a bit. So really speaking it is not that we go with everything across the country, we choose the geography, basis the kind of traction on the category, basis our own market research that we do, our own consumer insight as to how these brands can do and that is how we take it forward. Now, obviously, as I mentioned in my presentation, some of these are going to be big ticket items, some of these will not be big ticket items. Now, shifting out which are the ones that we need to support, will again be a task. That will be crashed in terms of timeline because I cannot allow millions of rupees to be put behind something that is ultimately not going to become a big opportunity for the company. So I think that is where the whole process of sensing, of responding and of allocating resources and decision-making therefore needs to be much sharper and smarter and really what we have been trying to do is really to do that today. Every process of Nestlé has been followed because we stand for food quality and safety. That is the whole context why people buy our products. But what we have tried to do is to cut the timeline in terms of the views and revisions that are taken. That needs to be driven from the top. So, if I am going to drive it in that particular manner, the chances are that it will get implemented across the organization.

Abneesh: Digital, what is the share of brands A&P?

Suresh Narayanan: Digital, as Shobinder also mentioned, I think it is now becoming an increasing part of our spend, I would say in the region of about 12% to 15%, in some brands it will actually be even higher, we would even take it up higher in some of the brands but clearly, the opportunity we see today is a digital connection has become the first point of contact. People get to know you on the social media and on your digital channel but before they get to know you on the shelf. That is the realization that the organization is working towards. So it varies by brand.

Abneesh: My second question is on the innovation front. Specifically, CEREGROW, so how large is the opportunity for that 2 to 5-year old, what are the impacts there and how do you see the success from a longer-term perspective? You also said that innovations have to be of accretive value. So if this becomes successful, will it be logical to assume that Breakfast Cereals is a broader adult breakfast that is also obvious confusion is there?

Suresh Narayanan: No, Abneesh, I think let me make a clarification; CEREGROW is not a breakfast cereal. One of the challenges we have on nutrition in the country is the fact that the nature, the tenor, and the balance of nutrition that we provide to young children is not uniformly the same. In some households, it is fairly uniform, in some households you think it is balanced but it is not. So CEREGROW is trying to address it in the 2 to 5 years segment by providing a balanced food that is rich in terms of the nutrients and also of the micronutrients that children need and it is tasty, it is offering nutrition and taste because the kids will otherwise spit it off very quickly. So it is really that is an opportunity. In terms of timing, Abneesh, I would say that some of these are creating noises. This is where a little bit of the pioneering spirit coming, this is what probably we did when we launched MAGGI Noodles...we never knew what the segments would be because it is new, this is a new segment. This is a segment that needs the knowledge of nutrition and credibility and time in order to make it happen. That is what Nestlé brings to the table. So, I would say that we certainly look at it with some degree of promise. It has just been launched. It is too early for me to say whether it is successful or not successful. I think the consumer logic is very clear. Now, the question is how much of traction do we see this happening, because this is also a shift as far as the consumer mindset is concerned between a homemade preparation that you are able to give to child versus a more balanced form of nutrition that we are able to offer.

Amit Sachdeva: This is Amit Sachdeva from HSBC. Sir, you made a presentation remark that there is half the growth will come from penetration led gains, which is a great thing to hear where if I recollect the numbers, you would be reaching perhaps 3.9 million outlets for MAGGI, if that is broadly correct. Then can you give us some indication of how much other products such as Dairy which require maybe cold chain and things like that. What is the penetration level and your own reach within the 3.9 million outlets where these products are sold and where your growth opportunities are, if you could map this up for us that will be very helpful?

Suresh Narayanan: Basically, it is like this; the penetration level for most of our brands varies quite significantly, for example, more mature categories like Noodles, it is very high double-digits, categories like Coffee, it is very high double-digit. Some of the other product categories like for example, Chocolates and Confectionery by nature of being an impulse product, the penetration levels are low muted. So, what we are really trying to do is not only to take the opportunity to target and through this third strategy of "Many Indias within India" to try and target consumer segments, geographies, towns, Shobinder talked about the fact that Tier-1 and 2 is where the performance levels for the company are relatively stronger, now, there is 3 and 4. That is clearly those 600 towns are going to account for something like 48% of total consumption as per the CII-BCG Report. So obviously there is an opportunity. What we are saying is that you are talking of a company where there is still the potential to getting more consumer and there is still the potential for increasing the depth of consumption with consumers, one through the current portfolio that we will be operating with and the other will be with the innovations that we are able to add to this. So that is really worked.

Amit Sachdeva: If I maybe little more specific so that I understand, so for example, let us take Yogurt, which has been recently launched, can I ask what percentage of outlets which you are generally available say the max universal, Yogurt is available in what percentage of outlets?

Suresh Narayanan: Firstly, Yogurt is not present pan India, it is present in basically five or six towns and cities, because of the nature of the cold chain that it has. There again, the total universe for Yogurt is fraction of the total retail universe because of the need for a cold chain. So roughly the Yogurt universe would be about 5% of the kind of total universe that we are talking about in any particular geography. We would be by and large present in probably 60-70% of these outlets. So, Yogurt is for us more than the opportunity as a big volume driver, it is the signature of Nutrition, Health and Wellness. That is what it gives us its important.

Amit Sachdeva: Milk does not require cold chain. Milk would be how much percentage?

Suresh Narayanan: Because what we have today in our portfolio, we have got UHT Milk and we have also got Dairy Whitener. Dairy Whitener is basically a specific usage product, it is not consumed like a regular milk, because it a Dairy Whitener. Dairy Whitener penetration would be possibly somewhere in the realm of high single-digit to starting double-digits relatively. But again it is a specific product. There the strategy is to expand the salience of this product in a liquid market by providing products like for example Masala Fusion, if you want a good masala tea, you cannot get it out of the liquid milk, you need to put a liquid milk and then you need to add your masala and all that to it, this is a product that will give you that.

Amit Sachdeva: On MAGGI, the journey since December has been pretty obviously impressive the way and the new launches are also clearly looking to premiumize the portfolio, and trying at a 12-piece price point, but can you give us some indication what percentage of the portfolio is Rs.20 plus and what is the Rs.12 and is the Rs.12 poise hindrance in accumulation because most of the price points are available at Rs.10 price points, are you finding some challenge there in terms of going to the pricing of Rs.10 rather than Rs.12?

Suresh Narayanan: I think we were prior to the crisis also at Rs.12 and we continue to be Rs.12. Rs.12 is probably still a significant part of the portfolio because Rs.20 plus is really today products like our Vegetable Atta Noodles and HOTHEADS Noodles and things like that which is coming up. But these are speaking in portfolio size terms relatively small; they are not a big ticket items. The reason for premiumizing and upgrading is really for that. So you get a more significant balance in our portfolio rather than depending on the single pack or the multi pack format to start upgrading into cups which is an opportunity in the segment especially on the go, it is a significant opportunity segment and also to add some of these new flavor offerings like taste offerings, which is also more premium. So, the hope is that with this there will be a good acceleration of premium products that we are putting in. However, I think it would be incorrect to say that these will suddenly start dominating over the plain masala that we sell because that is still a pretty significant part of the portfolio.

Shobinder Duggal: I think it is very good and very important to track the numbers, how many outlets you are in, what percentage you are covering, but at the same time do not lose sights of the fact that how is discounted

and not lose sight of the weighted distribution. So there is a numerical distribution and there is a vary distribution. You cannot completely leave that sight out while running to business. You may reach 200 outlets and you may only sell 1, 1, 1, 1 piece there and you may actually reach only 60 outlets but your weighted distribution is high. Because the way it is defined in the industry it is a little bit soft. So I just wanted to remind you that.

Amit Sachdeva: (Inaudible)

Shobinder Duggal: That is why our focus would be more, our numbers have been coming as you know from Tier A, Tier B and smart cities and the small cities and so on and so forth because this whole weighted distribution also has a role to play, you can reach wherever you want to reach but it is one piece in two weeks and get the outlets. That is not how you get your numbers.

Suresh Narayanan: That is why 5% let us say for example the Yogurt outlets that is a numeric percentage, the weighted of those 5% would be 90% of all you got itself. But thanks for giving me that little reminder in an old profession I was in which is Sales.

Percy: This is Percy here from IIFL. Sir, three questions from my side: One is you gave the Noodles market size in 2014 at about Rs.327 billion. If you sort of annualize the June sales for the industry, how much would the annual size of the Noodles industry be currently? That is one. Secondly, you mentioned in reference to Abneesh's question regarding all your 25-launches and you will put differing amounts of money in it, in that context you did mention that you are sort of crunching the timelines in terms of gauging the response from two months to two weeks. So just wanted to understand, because all these...

Suresh Narayanan: But basically where we take a couple of months to a couple of weeks.

Percy: So basically now you are gauging the response in about 15-days. Is that understanding correct?

Suresh Narayanan: 15-days is not necessarily for every product, typically, test market read would take you traditionally about 5-6-months. But if you can do that 5-6-months in 2-months or 3-months, depending on the category in which you are in to crashing the timeline.

Percy: So let us say if it is anywhere between 1 to 2-months and most of your launches have been around for that time, so if you could give some idea as to which launches are doing better than the others? Then the third question is, we spoke a lot about new launches and what we are doing on that side. But what exactly are you doing to rejuvenate your current portfolio, if you could spend some time on this? So, three questions from my side.

Suresh Narayanan: Firstly, the size of the Noodles market, I think if you look at the industry estimate and the latest one has been given by Techno Packs and they make the estimate of the market somewhere around Rs.2,200 crores that has been put. I would not like to give an estimate of the market because we are still in the comeback phase. So therefore I cannot multiply myself into certain percentages that is what the market is like, that is what the market estimate is today. We work with that estimate as a working estimate today. I think as we move forward it is probably likely to expand not only with what Nestlé is doing

but also with what other competitors also are doing as far as the market is concerned. Now, you talked about the new launches. Look, Percy, I think the fact of the matter is that these launches that have been done are basically in some cases we are now fundamentally with two-to-three months kind of timeline with maybe a couple of them we are still kind of sure that we would now extend them and roll them out with some of them we have also had I would say looking at them from the point of view of probably giving them extended times, because most of these are staggered, everything does not go into the market at the same time because for a field force to handle 25-new products at the same time is going to be one challenge plus selling also the current portfolio. So for some of them, we have also looked at and there the size of the price we calibrated it were slightly lower are still probably in the process of getting rolled out, for example, the NESCAFE Insta Filter that they have had, obviously has in terms of priority, the HOTHEADS, the Ready to Drink and some of the others would get higher priority in terms of the launches that have been put together. Some of these NESCAFE Insta Filter has been more regional launches. Now we are seeing that regional launches are doing fairly well, so now they are okay to put them into more geographies and see how these work out. Some of them also have had the seasonal affect, and Insta Filter it is not really the time for a hot cup of coffee, so that again will be worked on. So, what I can tell you is that I think all these launches, I put them really into two real buckets, buckets where we can roll further and we have already got some brands where we roll them further and a small bucket which we put together saying that we will need to watch them a bit more before we either, (a) put in the investments, or (b) decide to pull the plug.

Percy:

Is it possible to classify which of these brands are coming into each of these categories.

Suresh Narayanan:

Look, I think it is a dynamic list. For example, I would say the response that we have had on the Masala Fusion has been very good in the geographies in which it has been launched. The response we have on MUNCH Nuts has also been very good in the geographies in which we have launched. And so some of these are clearly working out and will accelerate, some of these we will have to put in more efforts or recalibrate where we are currently in order to make it happen. Good question your third one, it does mean that the rest of the portfolio we are doing nothing. I think as I speak to you in the coffee portfolio we have made significant progress with NESCAFÉ SUNRISE, it has been a re-launch of SUNRISE with an even superior blend than we have had in the past, hopefully that should give us traction. We have had new initiatives on NESCAFÉ , we have had new initiatives on NESTLÉ KIT KAT, we have had new initiatives on MUNCH, we have recalibrated our confectionary portfolio and come up with new launches there as well, MAGGI Noodles we talked about what we are already doing, so there is clearly a traction that has been there. We have plans now coming on in the sauces portfolio, we have plans for example in the nutrition portfolio, CERLAC which has been iron fortified has been re-launched in the market, similarly we will introduce some other nutrition products as well. So those are also there, I have talked of them in the context of the innovation in the sense that these are ongoing brands but it is fair to say that we know that we have to ensure that the dal-roti on the plate has to be first taken care of as well before we start adding the appendages across the plate. So there have been efforts, there has also been a good build-up of traction. Look, all I want to say is it is up to you guys to take a call on that. Anybody can always say, look I want it much faster than what it is, I want it three times faster, four times faster, five times faster. What we are trying to do as an organization is to try and change the wheels of the organization where the organization is on the move. So you have a crisis to come through from, you had collateral damages, the collateral damages have been fixed, the crisis

has to be overcome, new innovations have been put through, new process we are working out have been put through, the sources have to be found for it and traction has to be built up in a hyper competitive environment. So to me the question is, as Shobinder rightly said, you can always talk about the pace of whether I want it faster or slower, all I can tell you is that I think there is a determination and there is a capability to make it happen. And I think, that is the energy that we would like to provide as far as the organization is concerned, both the current portfolio and whatever we add. And what we add, as I mentioned to you, has a clear consumer logic to it, there is no pressure from something saying I have to launch it in order to match somebody else. We say, look it does not make consumer logic, we do not even commit it. That is what the company is all about.

Manoj:

Manoj from Deutsche Bank. Sir three questions, one, while lot of details on the marketing part of the products and innovation, one question on the sales vector specifically. Now that there is absolute clarity that you want to focus on the urban part of the market, anything on the merchandizing plant, any changes to that on the feet on the street or simply in terms of numeric addition of outlets in urban specifically, can you just talk about the sales part of initiatives what you are actually doing. That is one.

Suresh Narayanan:

I think couple of things are, number one is, in terms of focus of portfolio on channel, geography opportunity and on merchandizing. I believe the fact that we have expanded the portfolio way also gives us a lot more of muscle and traction as far as the trade is concerned so that has been leveraged across wherever we have launched it. Some other brands, for example, the traction that we are seeing in organized trade has been pretty strong where we had x now we are having 2x and 3x. We have seen the same traction with ecommerce for some of the launches, albeit on a small base. I do not talk about the small base because we have just put them there and therefore we have multiplied is not a big deal but it gives you a sense of what we are doing. The other thing is, we are also calibrating as far as our distribution strategies are concerned. Now suddenly the number of SKUs get increased by 50, 60, 70, you cannot distribute to the same man in the same manner. So for example, split distribution, new models of distribution, new models of coverage and frequency. When we have launched ready to drink, it is a totally new business for the company, we did not have a ready to drink. So now we are recalibrating our distribution, now is selling to 20,000 grossers important or do I need to calibrate myself on what the cola business might make. That is the opportunity that is there for me in order to get out of home. It is a significant opportunity there which today by selling a NESCAFÉ I can but it never is the same as selling something like a ready to drink. So, I think these are also aggressive projects that are on, I am just looking at a merchandizing point of sales, I am an old salesman, I always believe that what we feel will sell. So there is a significant focus on that, our significant focus on activation, what is sampled is sold. If I put it to your tongue you can bite if I just show it to you on television screen you will say nice ad but you would not be compelled to necessarily go and buy. So that is being done. And third is recalibrating the root to market which is the real significant part. The fourth part is also to try and improve the connect between the head and the foot, which is between the organization structure between here and the guys at the front end, because I have been at the front end so I realize that the generals can keep shouting out strategies but the guy in the front if he does not get the armory to work he is not going to be very-very successful. So, I think we are trying to do that as well, crashing the timelines, the old structures, making it simplified in order to ensure that people are much more flexible and dynamic and fast in the way we do things. Obviously, all this is a transition, it takes time, it is a human behavior takes a while but then if a leader and his team are behind it from day one and it does

not matter if we make a mistake, it is better to make a mistake and ask for pardon rather than not try it at all, then the message goes down differently. So, it is an important dimension, sales and room to market and competence is there. As a company we have, I believe, a fair amount of muscle and capability is there. But with all this and with more to come we are really looking at recalibrating our organization as well.

Manoj: So if I understood it correctly, you are essentially saying that quantitatively it is all status quo, it is lot of qualitative and behavioral changes is what you are trying to basically say?

Suresh Narayanan: Well, quantitatively also there is, for example, the merchandizing team are being enhanced depending on channel, depending on geographies, depending on categories they are being enhanced. When I talk about split coverage, automatically the number of vans and feet on the ground also changes, so that is also a dimension that has been taken. Activation, if I was sampling 1 minutes, today I am sampling 4 minutes. So, what I am trying to suggest you is that there are a few big hits that I want to get the organization right, rather than talking about 20 things which nobody understands, three things, point of sales, coverage and distribution activation. That it, get these three right.

Manoj Menon: Just sir, quickly any comments on the infant nutrition portfolio, particularly I am referencing at presentation which was made Binu Jacob probably three years back on the NESTOGEN part of it and the doctor contact programs and on let us say Bihar market, etc. So just trying to understand the volume growth part in that particular category, how does that look for the medium term?

Suresh Narayanan: Look, Nutrition has clearly been a position of expertise and excellence as far as the company is concerned, so that is where science and nutrition and technology comes together. I think the growth numbers are looking now more encouraging than what they were. But again, it is too early for me to take the call whether the re-launches that have been done have been successful because they have all been in the market for the last couple of month. And nutrition, unlike some of the other products needs a longer time to read the market because you have to go through a cycle in order to establish whether the brand is working out or not. But I think there is traction building up and I think I am personally quite optimistic about what we might be able to generate not only with the current portfolio but also with some of the new additions that we are doing.

Manoj Menon: And lastly, if you could talk about any changes to the managerial composition structure, I am not talking about the board, I am talking about actually the operating management in conjunction with the new targets, the way I understand which you are driving, let's say, in division or SKU or it could be at various levels actually, any changes to incentivize structure if any, if no change no change.

Suresh Narayanan: Look, I think the intent is certainly for frontline sales structure for undergoing a change, there is a lot of focus now on getting volume growth. On getting the new products that we have put in the market on the shelf, on the performance of new products. There is also for people in the organized trade an incentive platform in terms of activation and merchandizing that we are doing. So what we are really trying to do is address, because there is a difference between strategy, execution and incentive, you cannot work as an organization without strategy. So what we are doing is we are driving the strategy and we are also trying to ensure that where it matters today gets addressed first, and I am really looking

at it from the frontline. But we are trying to do it in a manner that you can always calibrate it, because in India we are not likely to suddenly change from X to Y because you will have lot of unsettling thing, but this in most cases has been changed and probably there will be more changes to come.

Vivek: This is Vivek from CLSA. My first question is on the urban markets, while you have highlighted that as an important one, but with the rise of players like ITC, Patanjali and number of regional guys, is there a risk of you losing out on that opportunity then?

Suresh Narayanan: I would say we would not be losing out.

Vivek: My simple point is, say MAGGI for example Rs. 12, the moment you launched ITC took down product prices by 20% moving it from Rs. 12 to Rs. 10. So, obviously competition is playing their card but you have been a margin obsessed company for long and while you mention double-digit volume growth, also in the same breath say margins are important for you, so why shouldn't there be a change in strategy to look at perhaps more launches. Again, if I look at 25 products that we have launched, everything is broadly premiumization be it HOT HEADS which is a premiumization for MAGGI or EVERYDAY Dairy Whitener, again premiumization. So how do you think about this issue?

Suresh Narayanan: Look, every company has to calibrate itself to the business model that it is able to sustainably sell. Now, I am not here to comment on what any of the other competitors will do, it is a fact that price point is important and the price point will be taken cognizance of by the company. So, we will certainly launch things that are bigger returns of price points. Wherever we need to support it and we need to defend it, we will for sure. As I have said, the strategy for the organization's privilege is growth which does not mean that I am going to be only looking at margins and not looking at growth. If I get a Rs. 100 out of selling Rs. 1,000 or Rs. 1,000 and getting a Rs. 100 I would privilege getting Rs. 2,000 and probably getting Rs. 90, if I can. But that does not mean that margin suddenly goes out of the window, let's say, look I launch everything that just goes to be the price point. So, I think that is not the only opportunity. Where we need to fight head-to-head, on a price point relative strategy, I think the Company will be prepared to and we will fight that battle and hopefully we will win the game with that. What the company is seeking to do is what can Nestle bring to the table, what Nestlé can bring to the table is a benefit of food science, food technology and the global muscle of brand leverage that we have across the world and bring together offerings that are appealing to the aspiring Indians and we are not talking about 10 million, 20 million people, we are talking about 200 million - 300 million people. So, if you make a sustainable business model out of it and you manage to get the kind of growth that you are aspiring for, I do not think it is a bad business model. The problem with organization is when you try to be both.

Vivek: And in that context, I think the second video there was one equilibrium that you have shown where 78% was tilting towards domestic companies and 22% was MNCs. I mean, could you elaborate on that point, does that worry you that if domestic companies are rising at a steady pace? Thank you.

Suresh Narayanan: No, it does not worry me for the simple reason that I think it will only tell everyone that you need to up your game in order to attract the consumer. So the consumer has become, today, agnostic as far as the source and route of a brand is concerned. If I can get a perfectly acceptable product or a great product

that has got a Indian brand name, I will buy it. And I think the contra is also true. Say if there is a great Nestle brand that seeks to offer the same benefit to the consumer, the consumer is not going to say no to it. So, I think the question is, why do I even mention it? Because it is for me recalibration of the way in which the market is being looked at by consumers. Some year ago you had a blind faith in a particular brand, particular company, today you have become more secular in that and you have probably become more socialistic in that, does not matter, I can try out x, y and z, if it does not work out I move to somebody else, that is the competitive scenario that I am talking about. So when I look at it in terms of the brand strength, I look at more of the need for organization including us to recalibrate it, that is why I am putting it up in a video that I am sharing with you. I am not trying to say that look I am the muscle man who has to win every battle, I have to fight that battle with a lot of other people who have also bought compelling proposition. And therefore I work to my strengths and my strength is not to be selling cheap. So, if you come back to me saying there is 1 million tons of noodle opportunity for selling at Rs. 2, why doesn't Nestlé do it, I cannot do it because it is not a journey to the way in which the Nestle model works.

Vivek:

In pouch milk?

Suresh Narayanan:

In pouch milk, you can sell tons and tons and tons of it if you want to, but it is not our business policy.

Amnish Aggarwal

Amnish Aggarwal from PL India. Sir, my question is regarding two specific categories, one being dairies. Where today Nestlé is present in a few segments which are very niche, but at the same time we have lot of regional dairy players now starting their branding exercise, even in some of the products like sweetened condensed milk, etc. So, how does Nestlé plan to continue its journey in the dairy business in the light of the constituents in the milk sourcing and the branding initiative by the new players and what is the size of the dairy business as a part of our total milk and nutrition portfolio today?

Suresh Narayanan:

I think the size of the contribution in the business was shared by Shobinder on the total nutrition and milk business, which is what 52% odd.

Amnish Aggarwal

Dairy as a part of the total milk?

Suresh Narayanan:

We club it together. So, at the moment I would leave it to you that both of them are milk business, so milk sourcing is applied to milk products and also to nutrition products that is the way we classify today. Today the challenge for the company is really three fold, number one is to validate products in the dairy segment that we have got with making offerings that are more contemporary and that are more relevant to the consumer apart from whatever we have to offer. So some of the initiatives like the Masala Fusion of the world are indeed to improve that. The second is, I think the Company has got clear plan and I think we have seen that in the ready to drink, in NESTLÉ ProGrow and brand like that to expand the portfolio of the company using milk in a liquid form. But not just selling it as milk to compete with the cooperatives because that is not the game again that we are in. So, when I look at participating in the milk segment when I come with ProGrow it is with a benefit proposition. When I look at RTD it is with a benefit proposition. More products in this area, we talked about issues on health, cardiovascular health, diabetes, osteoporosis these are all areas that are still open to this company and I believe that we have the competencies to address ourselves with that. So, is not that tomorrow morning I will be

launching a product in this but it is around active areas of working for the company to bring together the strengths that we have in the market and the way it is evolving.

Amnish Aggarwal

And sir, finally my question is regarding the chocolate segment, Nestlé is known for the milk chocolates and wafers, these are the two strengths globally. But if you look at the Indian market over the years now you have all the major global brands coming over here and they are operating in their niches some of them they got very strong points of their own. So in this context how does Nestlé plan to play in that particular segment because the niches which they are having globally they will get their share as such over here. So do you plan to get into some of those segments, what sort of innovation is required from your end you think so that you can again be back on the growth path?

Suresh Narayanan:

Look, I think the first thing is that our portfolio today is very clearly biased in favor of wafer and wafer technology, that will continue and I think there are still opportunities for innovation therein. KITKAT as a brand has probably got some of the strongest innovation platform globally. If you look at a country like Japan, you have varieties of KITKAT and you start wondering whether actually I am eating something different. I think there are opportunities for upgrading and for updating with wafers itself. Then there is MUNCH, there is others. We already have some other smaller brands, I mean, what are we doing with the MUNCH for example, getting into MUNCH Nuts, there could be something else following that as well if it is possible. Am I going to launch a product that is going to be suddenly a competitor look alike or a competitor tasting product? The answer is no, because why would I go and put myself into the mouth of the shark by launching something that is exactly equal to what somebody else is launching. What I have got and you will see soon enough, some differentiators there which we will be able to put through in the presence of this area as well. So, we will participate but we will participate with our core strength in mind, we are a wafer, KITKAT, MUNCH Company which is a segment that we have built, that segment is still growing. The task of growth again is not only with us, and again, we will not be going into price war down trading game over there because of course there are opportunities to sell at Rs. 2 and Rs. 1 and Rs. 3, can I sustain it as Nestlé? No. Can I give the quality that satisfies me? No. So, I think we will play it but we will play it to our strength in technology where still there is enough room for innovation and that is what we will be doing.

Amnish Aggarwal

Munch Nuts is an example?

Suresh Narayanan:

Yes, as I said. Okay, maybe one last question. My apologies, Ladies and Gentlemen, I would have loved to stay longer with you but today we have the 10th Commemoration of FSSAI Act, I have been invited there. So please, excuse me, it is not the lack of desire to talk to you.

Shyam:

Shyam from Arisaig, Sir, just about the Nutrition, Health and Wellness space. A lot of the categories that you are in are impulse product, probably high sugar content and maybe not the most healthy, although a lot of it is in that direction. What trade are you seeing because you mentioned that you are seeing that shift, but at the same time a lot of the population cannot even get basic nutrients? I mean, how can a company like Nestlé position itself in that Nutrition, Health and Wellness by introducing a lot of these chocolates and things like that which are not particularly healthy? And just on that context with MAGGI, are you seeing with MAGGI taken away from the shelf, have you seen mothers moving away from providing noodles and into more healthier things like oats and fresh foods in terms of

snacking, is a category which is going away for instant noodles from that Nutrition, Health and Wellness perspective.

Suresh Narayanan:

Firstly my friend, I will take probably a different point of view as far as Nutrition, Health and Wellness is concerned. This company has made some significant progress in the reduction of salt in the products that we make. This company has also made efforts on reduction of sugar in the products that we sell. So it is not to say that the organization has not leveraged its capabilities, and in fact we have a mandate and a pledge as an organization to ensure that we reduce the levels of sodium and salt and sugar in our products progressively as we go along. Now, the question is, nothing is bad as nutrition, what is bad is the amount that you consume. So, if I decide to have 10 bars of chocolate a day and 10 packets of noodles, like I would like to have 10 packets of oats, you can have a similar deleterious impact as far as your health is concerned because there is going to be no balance in the nutrition that you take. So, I think the approach very clearly is not that we are going to be launching more and more chocolates and not anything else, we are looking at a balance in our dairy business, we are looking at a balance in our chocolates business. Here again, how do you manage it, you manage it with not only products that are probably managed in terms of the levels of sugar but also in terms of portions. So what kind of portion control products are we able to introduce into the future. We also, as you know, as a company and as Nestlé Health Science globally has been working on this and I think it will get accelerated more, working on particular lifestyle and other diseases that is affecting human beings. For example, the whole segment of whether it is diabetes or cardiovascular health or osteoporosis, the fact of the matter is that the majority of death in this country are because of non-communicable diseases. So that segment is still open to this company and there are few players who have the expertise to be able to come out with these products. So we will be taking a balance approach in this. I do not think the approach is that it is unidimensional, we will have some products for indulgence and indeed life must have a bit of indulgence. So it will be balanced and I think we are conscious of it, it is an area of intense work. I mean, the fact of the matter is that the company has access to about over three R&D centers and 31 product technology centers just focused on improving the quality of nutrition that we offer.

Shyam:

MAGGI off the shelf?

Suresh Narayanan:

Look, I think let me be upfront with you. The fact that unfortunately this stigma was cast on the brand has indeed I think taken a toll as far as the trust is concerned. In fact, our approach for the communication was to address it upfront. Now, some of it will work, some mothers might be saying that look I am sorry but I have other options and alternatives now for my child. So, clearly this incident has had an impact on the category, because that is why you are seeing that the category is coming back into the game but it is coming back more slowly. Because people have also in the meantime looked at options and some people might decide not to come with it. So, yes there will be an impact. That is why I am saying that the pace of recovery and the question of whether we will get that with old 80% or not is still in the realm of ambition because you still have to overcome not only the issues on trust that people unfortunately have got into their heads for something that was ultimately not found at all, but that is the way unfortunately it is played out. And also the fact that the degree of competitive intensity across the whole snacking space has become much more intense than what it was.

Rumjhum :

We shall now conclude the session please.

Note: The transcription has been edited for the clarity or where it was deemed necessary for making the text contextual.