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Good Food, Good Life

PKR:GA:16:23 **22.02.2023**

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai – 400 001 **BSE Scrip Code – 500790**

Subject: **Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"): Transcript for Earnings Call with Financial Analysts/ Investors on Financial Results for the Financial Year ended 31st December 2022**

Dear Madam/ Sir,

Further to our letter no. PKR:GA:12:23 dated 16th February 2023, please find enclosed transcript of the Earnings Call with Financial Analysts/ Investors on the Financial Results for the Financial Year ended 31st December 2022, in terms of Regulation 30 of the Listing Regulations. The same is also being uploaded on the website of the Company at https://www.nestle.in/investors/analystsmeet.

For your information, the presentation and the audio/ video recording of the aforesaid Earnings Call is already available on the website of the Company at the above web link.

The above is for your information and records.

Thanking you,
Yours truly,
NESTLÉ INDIA LIMITED

PRAMOD KUMAR RAI
Digitally signed by PRAMOD KUMAR RAI
Date: 2023.02.22 20:07:03 +05'30'

PRAMOD KUMAR RAI
COMPANY SECRETARY AND COMPLIANCE OFFICER

Encl.: As above

Nestlé India Q4 and Full Year 2022 Earnings Call

February 16, 2023

Speakers:

- **Mr. Suresh Narayanan: Chairman & Managing Director**
- **Mr. David McDaniel: Executive Director - Finance & Control and Chief Financial Officer**
- **Mr. Sanjay Khajuria: Director - Corporate Affairs and Sustainability**
- **Mr. Pramod Kumar Rai: Company Secretary and Compliance Officer**

Ambereen Ali Shah: Hello, everyone. Welcome to Nestlé India's Full-Year Earnings Call. I am Ambereen Ali Shah, Head – Media Relations, Nestlé India.

I have with me today my senior colleagues from the Nestlé India's Management Team:

- **Mr. Suresh Narayanan: Chairman & Managing Director**
- **Mr. David McDaniel: Executive Director – Finance & Control and Chief Financial Officer**
- **Mr. Sanjay Khajuria: Director – Corporate Affairs and Sustainability**
- **Mr. Pramod Kumar Rai: Company Secretary and Compliance Officer**

Before we begin, let me read out the standard disclaimer:

1. Except for the historical financial information contained herein, this presentation may contain statements which reflect Management's current views and estimates that could be construed as forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which holds only as of the date.
2. The future involves uncertainties and risks that could cause actual results to differ materially from the current views being expressed.
3. Potential uncertainties and risks include but are not limited to factors such as change in general economic, political, or market conditions, commodities and currency fluctuations, competitive product and pricing pressures, industrial relations, and regulatory developments.
4. Significant disruptions in the operations due to unforeseen events including as a result of a spread of any disease
5. Volume and Mix and Organic Growth (OG) are the basis of Nestlé's internal reporting standards.
6. Figures are regrouped / reclassified to make them comparable.
7. Calculations are based on non-rounded figures.
8. 'Analytical data' are best estimates to facilitate understanding of business and NOT meant to reconcile reported figures.
9. Answers to questions may be given basis generally available information in public domain.
10. No person is authorised to give any information or make any representation not contained in and not consistent with this presentation and, if given or made, such information or presentation must not be relied upon as having been authorised by/or on behalf of Nestlé India Limited.
11. Current year and previous year numbers have been restated to include the financials of acquired Pet Food Business as per the requirements of IND AS 103 - Business Combinations under Common Control

As per the agenda today, we will have a presentation followed by the question and answer session.

Once the presentation is complete, I would invite you to exercise the "raise hands" option on MS teams. Once you have raised hands during the Q&A session my colleagues will enable your mic when you are first in the queue. I would request you to please then unmute yourselves and state your name and organization before proceeding with your question. In the interest of accommodating as many questions as possible, we would be grateful if your questions are brief.

As per the process, the entire proceedings will be recorded and uploaded on our website www.nestlé.in.

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

Suresh Narayanan:

Thank you and good morning, good afternoon and good evening, ladies and gentlemen. It is really a privilege for me once again to have this opportunity to present to you, to have a discussion with you, and of course have a dialogue on the Company's performance and where we are today.

The theme of the presentation is **'Consistency in the face of a storm'**

On a lighter tone, if I were to start, it reminded me of a very old Hindi song that was, probably a song of my generation, it went as this – *Zindagi ek safar hai suhana, yahan kal kya ho kisne jana,* which basically, for those who do not understand Hindi, it means life is such a beautiful journey but what happens tomorrow, none of us know. And I think, we live in volatile times. We live in times which are unpredictable, which are surprising, and yet which are offering opportunities for organizations like Nestlé. And that is really what I would like to focus on.

So, this is the consistency in the face of a storm that I will be talking about. This also has shown enormous amount of resilience on part of the team because it is not easy to deliver results in a situation of volatilities and of unexpected events that keep happening around you. I think it is to the credit of the team that we are able to withstand it and to take the business forward and the consumer journey forward.

What is it that we talked about the last time that we met at the investor call? We talked about five essential themes. We talked about continued robust performance. We talked about the fact that we wanted to secure growth which matters, because, all said and done ladies and gentlemen, margins will start to come back, but if growth is not there on the cards, there is no multiplicant. You do not have something to multiply it in order to make that into operating profit or into net profit or into any measure of profits that you would like to have.

The third element was on pet care and offering available opportunities, and of course, we talked about the integration of the pet care business with the larger Nestlé India business. We talked about the confidence and capability of strong brands to withstand, and I think that was a time when we had started this entire journey of volatility and therefore, it was still more that lay ahead, and finally of course the entry of GERBER that we had made in India. Our premium toddler cereal that was launched at that particular point in time.

What is it that we will talk about today?

We will talk about the financial highlights and underlying performance. I will first cover the full year 2022 and then of course, the last quarter of 2022.

I will talk about unlocking our RURBAN potential – we talked about it earlier, what is it that we have done in concrete terms, where are we on our digital journey as an organisation and finally, what is our promise to stand up to the nutrition opportunity which is in the millets category.

So let me take the first part - financial highlights and underlying performance.

This has been a strong decade of domestic sales growth. After 2011, this is the year 2022, when we are seeing the highest organic growth that has been recorded by the Company at 14.8%. So therefore, when we say that this is the highest growth in the decade, this is really what the numbers show.

And to notice the fact that last year too, there was no base effect, so we did not have the base effect of sitting on particularly no base and showing this growth. It was at about 11%, (10.7%) on which a 14.8% growth has been shown. But I will come to the texture of this growth. From a full year basis, the growth has been 14.5% in terms of reported sales, that takes us to a Company, which is about 168 billion INR now.

In terms of profit from operations, and I will come to this a little bit later, despite the overriding compulsions of inflation and cost escalations, we have still managed to keep the profit levels at about 20%. Historically, as you know, the Company has been anywhere between 20 and 21% and that is where we are today in absolute growth terms. It has grown by 4.2% from 32 billion to 33.7 billion. Net profit on a reported basis has had an improvement of 12.8% in percentage terms a small dip for 14.4 to 14.2. There was a one-off charge, as you know, the financing cost of the pension plan that was factored in last year, that green line on top tells you that you should have been normally 15.7 to 14.2, but on a reported basis it is 14.4 to 14.2 and earnings per share on a reported basis is up by 12.8%.

If you look at quarter 4 2022, the growth again has been steady, it has been about 14%. We closed the quarter at 42.3 billion of sales. What is encouraging is that the operating margins actually have turned the tide, have improved from 20.9 to 21.1%.

In growth's terms, that translates to 14.9%. The net profit of the Company, which is reported at 65.5%, has been, as a consequence of this improvement, and of course because of the base effect that we had in the previous year, previous quarter. Earnings per share, again up by 65.5% on a comparable basis by 12.9%.

This has been a saga of sustained volume net growth. You would ask me the question is all this based purely on a price effect? I must say that if you look at the period 2016 to 2022, the Company has recorded an 8% plus volume-led growth during this period. If you deconstruct quarter 4 and if you deconstruct the full year, let us say of 14.8% roughly about 6 to 7% is coming out of volume growth and the balance is coming out of pricing growth and I will come to why that is the case. During the last quarter of the year, the volume growths have come to between 3 and 4% and the rest of it has been pricing-led growth.

What this really indicates to you, is that despite the enormity of the commodity cost escalations that we have faced as a Company and of course returning back to normal, from a pre-COVID situation it now merits consideration of how we will take this journey forward from the growth levels that we have reached and from the volume levels that we have reached and which was the real purpose behind sustaining the growth engine that we had. Because, if you remember, the strategy of this Company has been on penetration-led volume growth, so we have tried to protect it as best as possible even in these very difficult times.

What does that translate into? The value growth has been fairly strong on a CAGR basis, 10.7% on a year basis, 14.8%, which is as I told you, a decade and high and of course on a reported basis, every single quarter of 2022 has been a double-digit quarter – 10.4, 16.5, 18.3, 13.8. So that is where we are in terms of the value growth that has been delivered.

In terms of where has the growth come from?

You know that we have been sharing this data with you, are divided really into five clusters - mega cities, which are cities with a population of greater than 4 million, metros between one and four million, Tier-1 towns less than 1 million, Tier-2 to 6 between 1 million and 100,000 and of course rural India. What this is telling you is that the growth continues to be double-digit in mega cities. You would see a little dip there from 23% to 12%. I think the consequence of some of these small packs is where price increases have been taken, is apparent as far as this is concerned.

On a longer-term basis, I do not see much cause for concern because there has been uptrading that has also happened across categories and you will come to that as far as the overall category growths are concerned.

Metros continue to be strong. The urban story for Nestlé India continues to be strong. You see that 15, 17 and 21, so that is a number that we are quite confident of.

In terms of town class one, which are towns below the population of a million, again the growth has been strong. 14, 16, 19, 19. This has been the consequence of accelerated RURBAN strategy, increased penetration strategy, increased focus on activities and activations in these towns and that is really what has had a positive impact as far as sales are concerned.

Town class, two to six, which are really less than 100,000 population, is where you find that the growth, while still positive, has come down from 13% to 5%. And this is where the pricing impact of some of our small packs, especially in the noodles category has had some impact. The price increase, there has been close to 40% and that 40% has clearly had an impact. But this is not something that has not been anticipated by the Company. In fact, positively on a margin accretive basis and upgrading has happened to the single packs and to the multi-packs and that is really helping the longer-term texture of growth of this Company.

Last but not the least, when there is a big question mark on rural India and rural growth, I do admit, that the rural play of Nestlé is only 20%. But you see the growth has been again fairly strong. 25% going up to 26%. Again, rural India for Nestlé is clearly resonating, and we are on a path to accelerated growth in rural markets as well. And I will come to why that is happening as part of the rural strategy that I will be devolving in a few minutes' time.

Our route to market - I think distribution is key. Whatever we talk about. Analytics and digital and advertising and promotions, the power and the resonance of a consumer food brand lies in distribution, and that is what I have learned in all my four decades in this business. And this is an area where we have been with single-minded focus. In 2022, we accelerated our Nestlé direct reach from about 1.4 million to 1.5 million, overall reach at 5.1 million. You would recall that in 2015 as a consequence of the MAGGI crisis, our distribution had shrunk quite considerably. The build back on these years is now almost complete, in fact, fully complete and we are now exceeding the levels of distribution that we had lost during that particular period. This in part is of course the reason why also our RURBAN strategy is working for us.

We talked about margins and all of you would ask the question, operating margins have moved from 22% to 20%, two hundred basis points. Look at the commodity headwinds that have hit the organization in 2022. If you look at a comparative pricing, this is the pricing chart that tells you in the last six years - milk prices are up by almost 40%, milk powder prices are up by almost 57%, edible oil prices have more than doubled, wheat prices up by 30%, green coffee up by 45%, packaging up by 44%. These are considerably high numbers and if you look at even January of this year, where the consumer price inflation is reported at 6% plus, the food inflation, which is primarily seeing inflation, is reported at 16% plus.

So therefore, food inflation is clearly an area to watch out as far as the Company is concerned. While we are confident of being able to mitigate part of it and while we are confident of being able to take care of some additional opportunities for growth, premiumization and uptrading as we will come to, there is considerably still some pressure under the bonnet as far as the cost factors are concerned.

Here is the chart that I have shown you the last time, eight out of the 13 commodities reported here. Once again, these are latest prices. These are not last year prices. These are breaching the 10-year highs that we have seen. So, there is not that much of active relenting as far as the overall commodity basket is concerned.

To put it in simple terms, if between 2018 and 2020, the Company faced an average commodity inflation of 3%, in 2022, it faced a headwind of six times - 18 and a half percent. That is the kind of enormity of the challenge that the Company has taken on. Now, it is easy for the best of organizations to wilt under a pressure of six times the cheese strings that you are able to take as an organization.

But we did a few things right and I am very happy to share them.

One of the first things that we did. We are a Company of scale. We are a Company of relationships. We are a Company of strong partnerships and also a global bandwidth that gives us the ability to read the markets a little bit better. Accelerated economies of scale and sharp procurement strategies were put in place from day one. We knew this storm was coming. We decided to take the right steps in terms of stocking, in terms of purchase, and in terms of taking positions on a few commodities where we were allowed to take such positions.

One of the intrinsic strengths of the Nestlé as an organization has been the SHARK programme. SHARK is fundamentally a programme that delineates and that deconstructs the entire value chain of the Company. Across product categories, across brands, across SKUs, looking at each element of that value chain and seeing whether it must be allowed to grow, it must be stagnant, it must decline, or it must be eliminated. This exercise has yielded for the Company almost 20 billion rupees of savings in the last couple of years and on an annualized basis, gave us about 1.5 to 1.6% or 150 to 160 basis points of savings in 2022 as well.

Were it not for the SHARK programme, we would have been in even deeper trouble as far as the overall margins are concerned.

I pay tribute to the fact that, this is translated into over 7500 projects across Nestlé India. Cost reductions, enhanced efficiencies, speed, looking at elements of the value chain, what can be eliminated? What can be removed? What can be accelerated? What can be combined? - involves more than 3 to 4000 people working on this project, in addition to what whatever work they have what to do in the organization. It also demands, ladies and gentlemen, and I know that you all look at the numbers. But please do also look at the mindset. I am very proud of the mindset of the 3- 4000 people who worked on these projects because they have looked at what used to be traditionally called zero-based budgeting is what they have tried to look at in their own value chains and their own part of their value chains to make these savings happen.

Next, calibrated consumer insight-based pricing decisions. As the Company in 2022, we faced almost 810 basis points of commodity and cost headwinds, against an average of 200 to 250 basis points at best. Do not go to the mitigating all of that by looking at SHARK. It is very difficult to get 800-900 basis points of savings. You have to look at pricing. If I am looking at pricing, you can do it in two ways -one is what is called intelligent guessing. Taking a few risks and the other one is a more calibrated response by looking at the portfolio, the strategy of the portfolio, the premiumization opportunities, the geographic and SKU mix that you need to do and finally, of course, what your studies of consumer insights and consumer research tells you as far as what the elasticity of demand can be for your category and for your product?

This was done across all the categories. Almost 80-85% of the portfolio in a sense has been touched in one way or the other. But I think this has led to a strategy where impacts have been measured and responses have been calibrated. So, it is a two-way process. It is not just one way that it has to be done.

And finally, of course, I pay tribute to the alignment, courage, and exceptional teamwork. Those of you who are aware of the Nestlé organisation, many of our business leaders are very young people. The people probably who face this kind of onslaught for the first or second time in their careers or people like me, who have been in the trenches for a very long time. So, it takes a lot of courage as well, apart from the analytics, and apart from all the data work that you can do to take the decisions that you take. But I am glad that you took the decisions that we took and therefore you are here to see us deliver the performances that we are delivering. So, these five measures really helped us to take our journey forward in a terrible storm that we faced.

So, the profit from operations, as I said from 22% to 20% on average, and you could see from the chart before that 21.7, 21.1 and 21. So we are getting back into the pen as it were of the kind of profitability that we would like to work with. CAGR 12.6%, what is encouraging is the V shape that you are seeing - 20.9, 18%, which is the low point that we hit, 20.1% which was quarter 3, 22.1% quarter 4,22.

There are no guarantees, ladies and gentlemen, in life. But what I am happy to report is that the tide seems to have turned for us, at least in the last couple of quarters. So, the net profit, I think the reason why you give us the valuations that you give us, is also not only because of the operating margins, but also because of the profitability that we are showing as a Company and of course return on invested capital, which is arguably one of the highest in the industry that you see.

Again, here the return on the sustained net profit has been on average about 15.6% in the last six years. And once again, as a profit ratio 14.9 to 12.7 to 14.5 to 14.8. Again, both operating margins and the net profits are moving in the right direction.

What has this meant? Business has been strong, almost double-digit across all product groups. If I were to give you an idea, ladies and gentlemen, of quarter 4, 2022 - every single category, all these four categories and the business that I am talking about has delivered double-digit. Every single category has delivered double-digit, and I think all of them have had semblance, or a reasonably good semblance of volume growth. So, it is not that, you know everything has been ruined and everything is all because of pricing. It is also because of some strong volume growth. Confectionery business for example, has had superlative volume growth.

Liquid beverages, NESCAFÉ has had the best year in 2022. Best year. We are hitting market shares today, which are amongst the highest we have ever touched in this category. So, there are things here that seem to be going in the right direction, as far as the business is concerned. Milk products and nutrition 40% contribution growing at about 9.5%. Strong performance by both the nutrition and the dairy part of the portfolio, prepared dishes and cooking aids, despite - and I repeat, despite the difficult situation that you would like to take as far as some of these small packs are concerned, still a 15.6% growth and a contribution of about 32%. Confectionery, a growth of 25% and this is the second year in a row that we are getting this kind of growth, 16% contribution. Coffee - I just talked about it. 19.2% growth, 11.4% contribution.

I have received in the past questions on the Out Of Home segment, which is relatively a smaller business for us. I am delighted, that once the pandemic clouds have lifted, the Nestlé Professional business has clocked a 39% growth in 2022. And what is more important, ladies and gentlemen, is today almost 20% higher, I repeat 20% higher than the pre-COVID level of sales that we have achieved. I think, a huge tribute to the team for the manner in which they have come back and restored the business model, and this is going from strength to strength.

Innovations, while we have launched about 110 new products in the last seven years, I must admit that in the last two years the focus has been on the core. The focus has been to ensure that the bread and butter of this Company - the core 12 to 15 brands of this Company are sustained, are nurtured, are taken care of, are operated upon, and are made to deliver the best results that they can. No point in talking about 20 new innovations, if I cannot secure the one big pillar that I have got. So crumbling edifices is really not what the strategy of Nestlé India is. It is to secure the growth platforms and then to keep adding on an incremental basis. What that has led to is from 1.5% in 2016, today we are at about 5.4%. Albeit, you could have the comment and rightly so, that from 2021 to 2022 it has moved from what 5% to 5.4%. I would say this is encouraging, but this is a sign of the consistency that we want to show on the core of the business rather than fritter our limited resources away on different parts of expansion; all of which needs resources to make them happen. Significant value for investors, I think we continue to be looked at very favourably in terms of the investor community, in terms of what we have been able to deliver transparently and consistently.

I have said this before, and I repeat Nestlé India is about the Company that is boring consistently, by its consistency, it may be boring but it will never be erratically brilliant. Because an organization develops and grows and thrives not by yoyos of growth, and yoyos of activities, but by building on foundations, building on infrastructure, building on people, building on brands, building on channels, building on analytics, building on digital, building on societal capabilities, building on equity and therefore, building for growth. All this takes time, takes systematic effort, and it happens only when you focus on all these aspects. We are trying to, under the circumstances. I would have wanted to do more, let me be very honest. We have had a very consistent strategy in terms of media support, strong investment behind the pillar growth brands, focusing on the core, improved efficiencies in buying media, targeted communication by leveraging consumer clusters, accelerating the digital spend and finally, of course, investing in building brand equity versus short-term promotions.

One of the strategies that we adopted as a Company is to move away from considerable dependence which we never had but we had it a few years ago of strong consumer promotions, at all points in time to building equity for our brands and for our categories over a period of a time. And that is also paying off for some of the major brands of the Company.

The e-commerce business has grown very handsomely. It has gone up by almost more than 10 times in the last six years from 0.6% to 6.5%. It has grown by 41% in 2022 vs 2021. But I hastened to add, ladies and gentlemen, e-commerce is an important vector for growth, but it is not at the sacrifice of other channels of growth that we have, which is modern trade or organized trade and of course - 80% of the business that still comes from the traditional mom-and-pop stores. My Company has thrived, has lived and has achieved synergies by a balanced and judicious relationship between the different channels that operate in the market. I pride in my sales organization and my customer organization to be able to maintain that relationship and this is the way we would take it forward in these volatile times. Consistency is a hallmark of an organization that is clear and has a clarity of purpose of what it seeks to achieve.

What is our RURBAN approach and what have we done here? I have talked about this earlier, but I would just like to put some numbers to it. In the last couple of years, we have looked at a renewed thrust on RURBAN. Why RURBAN? Because the media reach, digital reach, the brand reach along with the equity build up, the resonance and the kind of aspirations that consumers have had across have enabled this journey to happen. The growths have accelerated gradually from 10.6%, 11.9%, 12.5%, 15% in 2021, 13% in 2022 - still very positive. But of course, there is an impact of loss that we have faced because of the small pack trading opportunities in this environment. Short-term but nevertheless reflected in the numbers.

What is our ambition? RURBAN is not just about having nice apps in the hands of your salespeople. RURBAN is about building the nuts and bolts of distribution. For us, it has meant taking an ambition of covering 1,20,000 villages above the population of 2000, where I am happy to report that in 2022, we covered a little over 91,000 villages. And as of today, we are covering a total of around 165,000 compared to what we were covering two years ago, which was just about a half of it. So, there is considerable merit in building the rural reach in terms of villages, of course focussing on the 2000 population, which is where the potential is as we measure it happens, but in also accelerating the journey. So, what have we done? Those villages have happened because of strengthening distribution infrastructure in terms of distribution touch points. Two years ago, we had about 10,000 distribution touch points, which is wholesale hubs and redistributors as we call them - small distributors and wholesale hubs in selected markets. This exercise, ladies and gentlemen, is in about 13-14 states of this country, that today has become about 14,000. So fairly significant build up of numbers. Why? Because you must have a plan, in terms of distribution points, number of brands, number of SKUs, number of outlets, size and scale of activation and a methodology of identification of where you will move forward and why will you move in that direction, and I will come to all of this because this is important for the organization.

Scaled up HAAT activity - HAAT very simply for those who are not from India is village fairs. The country hosts millions and thousands of such fairs, and what we have planned is to start that journey of having activations that include simple advertising by voice promotions and sales of our brands in some of the rural heartlands and the rural markets as we have defined them from 2502 to 20,600 - is what we have done. We have scaled up the activities almost 10 times in these cases, all this pays for results. Be it up there in the mountains in Ladakh or other parts of the country, we have tried to make this activity happen.

Improving shop visibility - all the fundamentals of distribution. What I would like to emphasize here is that we are trying to do is Copy Book Distribution Strategy 101. But again, sometimes in this age, we forget that it is not going to be about software packages that are going to deliver sales. It is going to be hard work, discipline, and a huge amount of credibility with the trade that is going to make it happen. Improved in-shop visibility is the key. Again, what we have developed is called RURBAN smart stores, which are stores identified for specific visibility activities from 3500 to 16,000.

We started this project called Project Swabhimaan, which is empowering rural women. This is not new to the country, but certainly new to Nestlé. We have looked at particular geographies, starting from East UP and extending now into about five or six states, scaled up to 19 states in 2022. With more than 600 plus rural women entrepreneurs, these are self-help groups that we are generating in order to ensure that they have a livelihood, and the brands also have a pride as far as consumers are concerned in these rural markets.

How do we do all this? One thing is to do what we used to call in the old days, pray and pray – let us go around, walk the markets, and decide which one is better, check with the distributors, check with salesmen and check with whoever else you can. Today, it is all about increasing category relevance through segmenting the portfolio. So, you have segmented the portfolio and here are some of the brands that are a part of that segmentation exercise. More importantly, the back-end of the RURBAN strategy is powered by data analytics and digital. MIDAS, that I will talk about in a second, will provide us information because of the data crunching that it does. In terms of where to go, what to go with, what to sell, what not to sell, what kind of activities to do, and how to make and close the call successfully as a Company. That is the power of analytics that you can bring to the table. So, a distributor salesman going out into the shop will actually be able to know here are the four outlets, or here are the five SKUs that are a must sell in these outlets.

This is what I need to do in terms of offering to the retailer. This is what are the touch points that I need to establish. This is the power that is able to establish a must sell SKU by the PIN code of operation.

This is part of the sales automation (photo on the slide) where the back-end is powered by the power of analytics and digital and the front-end is powered by people and infrastructure. That is the way this model has moved forward.

Local campaigns have been run in Hindi -"*Swad ke saath, quality ka bhi bharosa pao.*" There are numerous fakes in the market and therefore this is a way where we have used real people in real voices from rural India. There are no celebrities out here. They are all real people and this has really worked extremely well for us in rural geographies (and this one comes from Uttar Pradesh) to establish the credibility and equity of the fact that the consumer wants MAGGI but are you really getting a MAGGI, is a question you need to ask.

Our digital analytics journey is not a nice to have but is an absolute mandated to have. Today, when I look at analytics, there are different elements that you operate with - D2C sales, automation, e-commerce, NESCAFÉ, the E-mug campaign, marketing consumer insights and brand.com. Numerous initiatives are being taken to integrate and enrich the power of data, the power of analytics, the power of digital, the power of commercial decision-making and the power of outcomes. All of this really has made the use and the integration of MIDAS into the business, and in fact a renewed and a revamped structure for analytics and digital within the organization. Whether it is martech, or whether it is digital or MIDAS, all of these are now business integrated to make the entire value chain hum for us in terms of business.

In addition to that, we have looked at as a market on how we can manage transactions at scale, so that we are able to release time of the operating management, of the operating parts of the business to interact and deal with customers and consumers as the case may be.

So, the Nestlé Business Services has been set up a few years ago. It has almost 190 people who work there. They are looking at financial services, HR, business services, procurement support services, talent acquisition services, tax support services and customer management services. What is the icing on the cake is the fact, that they have the best gender diversity that I have at any of my operations; at almost 48.7% women and the leadership is almost 2/3 women. This is an initiative in the last three years, but the cementing and the solidification has happened more in the last two years in order to make this a clear competitive advantage as far as the Company's operations are concerned.

Coming to the last bit, 2023 - The UN Year of Millets, I think this is an important milestone for the country. As you know 20% of global millet production happens in India. It is a smart food with a high nutrition content. Prior to independence, this was the major form of cereal consumption in this country. With the coming in of wheat and rice in large quantities and the green revolution, obviously this has lost its charm. Climate resilience and also of course, water economies because it consumes a fraction of the water that is required by any of the mainstream cereal crops that we have in the country.

What I am very proud is that, this is where the power of Nestlé R&D comes in. You know, we are a science-based Company. We are a Company, where science is translated into nutrition, is translated into products, is translated into propositions.

Therefore, it is science that takes the calling and not commercial interest that takes the calling. An MoU that has been signed by the Nestlé R&D Center India, which is a subsidiary of Nestlé SA and Nutrihub which is part of the ICAR - Institute of Millet Research. We are working with them quite closely on millet processing, health and nutrition benefits, millet sustainable regenerative agriculture practices, start-up collaborations, etc. Millet processing is something that is of a priority because millet while it is attractive as a source of protein, vitamins, minerals and is also one of the more difficult crops to process.

Creating our millet moments – we are launching some new products. One of them we will talk about, but there are three brands that will be involved in it – Nestlé CEREGROW, Nestlé A plus and of course MAGGI. And as I speak to you, there is a very active journey in terms of new product development that is taking place to really look at placing millet in the nutrition map of consumers and also placing India on the millet map of the world. So, we have started the millet journey with CEREGROW grain selections. This is meant for toddlers. This is made from ragi. It has got off to a terrific start and I must say that it has been a very encouraging start. It is a product that is at a mild premium. But it is a product that has got a proven nutrition credentials and therefore, it is also seen resonance as far as the consumers are concerned.

So, what are the key takeaways that I would come to at the end of this presentation?

First, strong and sustained almost double-digit growth across all categories. We said, we will secure the growth engine. We are securing the growth engine. And this is an important aspect. The foundation of this Company are on the growth engine that we have created. And that is what we will focus on in quarter 2 in order to come out of whatever difficult situations that we find ourselves in. Strong comeback of Out Of Home. We talked about it. I think it is an encouraging sign for us. Business and contributions from here would start to improve. Acceleration in e-commerce entry into D2C, exploring new channels of growth and unleashing our power of SHARK methodology for cost effectiveness, efficiency, and speed, accelerated digitalization, analytics and building scale competencies. Next invested to unlock RURBAN opportunities, it is a good growth journey. It has been a good story. We do not intend to take the leg off the pedal. It is going to only accelerate as we go forward. We are seeing signs of encouraging responses and we will go that way even more resolutely in the coming months, in the coming years. Pragmatic, bold, insight-based decision on pricing. This is not randomized; this is not kneejerk. This is thought through in order to see how we can balance the books in terms of the growth versus profitability story that we are able to make as a Company.

Part of people and partnerships – I am delighted to have an organization of more than almost 8000 people where there is enormous amount of resonance, enormous amount of unity and enormous amount of alignment in what we seek to do, how well we seek to do, taking pride in what we stand for as a Company and what we can deliver as a group of people. And finally, of course, the excitement and opportunity of millets - both locally and globally.

All I can say, ladies and gentlemen, is that storms will come and go. Volatilities will come and go. It is the strength of teams, the strength of brands and the strength of conviction that is going to matter at all points in time. That is really my simple message at the end of my presentation. Thank you all very much for your very patient listening.

Ambereen Ali Shah:

Thank you. Mr. Narayanan, we now open the floor for questions. I would request all of you to please exercise the raise hands option on MS Teams and we will enable your mic and you can unmute yourself and ask your question. Abneesh Roy please go ahead.

Abneesh Roy

Firstly, Suresh, Congrats on very good set of numbers in the current scenario. My first question is on the key category which you highlighted last two years, good growth in confectionery is very strong. My question is not on the Nielsen because in Nielsen normally we see that almost every brand claims their market share gain. In your case with the kind of growth you have seen, obviously Nielsen, you will see gains. My question is what would be the growth of the confectionery and chocolates market in the last one year? What would be your sense and where exactly gains are happening? And how could you accelerate further because the gap with the number one player is still extremely high. So does such strong growth open new avenues for you in this category?

Suresh Narayanan:

Thank you very much for that question. Look, our estimate of the growth of the market is about 10 to 12%. That's the kind of ballpark growth in the confectionery market that you have seen in the last one year. We have clearly grown much higher than that. We saw the number 25%. We have had therefore market share gains not only in overall chocolates category, but also in the white wafers category. And it drove wafers category that we operated, where again the market share gains have been significant. In fact, we are aware and seized of the opportunity and if you look at the forthcoming capex, the two big areas where big investments are being put up, one of them of course is the noodles category. And the second one is confectionery - chocolates. So, there is a lot of putting the money where our mouth is and not just allowing it to come by us and not do much about it. So, I just do not go with the Nielsen figures. I have my respect for Nielsen. But we have our internal measures of brand performance, brand salience, brand equity, brand of choice etc. and also capacity utilization. And the second largest you know for a category that contributes number therein terms of overall category sales for the Company to be at the second place in terms of investments says a lot.

Abneesh Roy:

Sure, Suresh, that is helpful. My second question is on the data point, which looks a bit weak. So, when I see the tonnage data that has slowed down meaningfully in Q3 versus Q4 and you also highlighted that in metro, the growth rate in this quarter has slowed down and you referred to the price hikes, etc. in the LUPs. So, could you elaborate on this, which categories and is there an issue of market share loss? You did say that this does not impact. Medium, long-term, but in the past, we have seen that in LUPs whenever a price hike happens, there is a customer who shifts very quickly to the competition. So how? How are you addressing both these aspects?

Suresh Narayanan:

I think it is a good question. Honestly, the loss in momentum in the highly priced sticky categories has been more a volume share that has been depleted during this period and not necessarily a value share for the category. So, we have tried to do the balancing between we knew for example, when we took up the price of the chhotu pack (small pack) that there will be an impact on volumes. You do not need a genius to figure that out. But we were able to able to use consumer insight, calibrate it quite well on what we would be dropping by and what we need to do in the other parts of the portfolio. There are two or three actions that have been taken. One of course is that the mainstream and the premium parts of the portfolio have started to grow better. Secondly, the small packs are not necessarily the best margin packs. Some of them are packs that we could do better in terms of the margin deliveries. This in a sense, because of the commodity situation, has improved our mix a bit towards better margin and better consumer value proposition SKUs over a period of time. And if I were to index the growth, if for example the mainstream grew at let us say 100, the PPP has grown at about 110 and the premium has grown at 140. So, that is the other way in which we try and mitigate. So, using portfolio, using channel geography, using selective activation, is how we try and mitigate the kind of impact that we have had. But yes, I must be honest, in some of the SKUs that we have done, there has been a volume loss, but I do not believe and the business does not believe that these are permanent losses. These losses we will recover as time goes by.

Abneesh Roy:

My last question, quick question on the e-commerce. When I see other companies in terms of percentage or domestic sales, you seem to be a bit lower - not a big gap but a bit lower that seems a bit strange given the very high premium positioning, more urban focus. So, could you relate both of those? And second is now we are also seeing drying up of funding for a lot of these start-ups in terms of e-commerce. So, would you be worried on that medium long-term aspect not on the historical numbers but medium long -erm?

Suresh Narayanan:

I think this is a good question. If you go back to my presentation, one of the remarks I made, was that e-commerce is being looked at as an important channel, but not the only channel for business. You can take a strategic view of e-commerce, or you could take a tactical view of e-commerce. Tactically, if I put in pumping more promotional money, I will get more sales. But the fact of the matter is, I will destabilize the equation in terms of trading terms between e-commerce, between modern trade and between traditional trade. This is something that we have been very careful about as a Company. Each Company has its own philosophy, Abneesh you know it. You cover all the big companies. Some companies are a little bit arrogant but a little bit ballsy about it. They say fine, it doesn't matter. We take a punt on this, and we do a greater investment in e-commerce, find some of it leaking back into the trade of course, because not everything can be digested by consumers. What we have taken is a more prudent strategy, that the training terms are defendable in e-commerce, defendable in traditional trade and defendable in modern trade. And that is why, if I have a higher sacrifice or for example 50 basis points in terms of contribution, I am okay with it because I know that the overall pace of the business has been picked up by other channels as well. Defensibility and long-term sustainability of trading terms is an important aspect in this market. I mean, some people might choose to disbelieve it. I can tell you with all my years, that it is probably one of the central pillars of accelerating growth in the market like us.

Abneesh Roy:

Sure Sir, thanks. That is all for me.

Ambereen Ali Shah:

Thank you, Abneesh. The next question is from Tejas.

Tejas Shah:

Hi, thanks for the opportunity and congrats on good set of numbers given the backdrop. Sir, since you started engaging with the investor community and in the current role, you have shown fearless commitment towards NPD strategy. But in our last two interactions, the last time you mentioned NPD as an outhouse example and today also you said that you will focus on core. So, should we think that there will be some strategic pause on the NPD thrust that you created in the initial part of the tenure?

Suresh Narayanan:

Good question. No, I do not think. See everything depends on the circumstances in which you are operating. When you are operating with the 800 basis points of commodity headwinds. When you are operating with a portfolio that needs to be defended in terms of both growth and profitability and needs resourcing, where is my priority as the CEO of the Company going to go? It is going to go towards defending the core. Nurturing the new will happen only when I defend the core, because otherwise my resources for the future will not be able to be generated by spending you know, 50% of my money that I have on A&SP behind new brands because the core brands will start wobbling under the circumstance. So it is more because of circumstance that we have taken a more prudent strategy on innovations. I can assure you that that has not stopped the plans in terms of the pipeline. So, the pipelines are quite full. The minute we see a relenting happening, you will see your speed and certainly apart from millets, there will also be other launches from the Company that will come up. Just give me a quarter or two to stabilize the situation in terms of the overall impact of inflation and you will see the engine coming back again.

Tejas Shah:

Very clear. Sir, one noticeable point on your P&L for last two years has been on the employee efficiency part. Now we all talk so much about inflation which has been hurting everybody. I was just wondering how do you keep your employee motivated with 2% and 7% kind of employee cost in last two years' inflation? Is it largely around efficiency that we have worked or is there any insight that you can share there?

Suresh Narayanan:

No, I think some of it, of course, has been some economies as well. I mean, as you know the pension plan having off that we have done has had benefits for the future in terms of the cost of servicing the kind of liabilities that we have got. That certainly is one of them. The other thing is that because the strategy of the Company has always been to attract good talent, to give them good opportunities, to remunerate them well, but we are not, and we do not say that we are at the top of the market. I think any job has a combination of what you do, how you do it and where you do it. And I think this combination seems to be working quite reasonably well for us. Not to say that we do not have attrition, we do have attrition and not to say, we do not have retention issues, we do have retention issues. But on balance, I think this is an organization where there are more people who are willing to stay than those who are getting out of the door.

Tejas Shah:

But Sir, the current run rate, which is roughly 9.7% as percentage of sales, is it sustainable on employee cost?

Suresh Narayanan:

Well, employee costs, you know the math very simply. If I am able to grow my business faster than employee cost, I will show you a declining percentage over a period of time. So, the magic mantra, my friend has always been, that growth hides everything.

Tejas Shah:

Perfect. Sir, Last question. Sir, in your opening remarks and even in your press release, you spoke Nestlé SA's contribution on developing science-based products and I believe as the economy is evolving, Nestlé SA's contribution will grow further. So, I just wanted to understand how should we think about the general license fees or royalty agreement going forward? And just to refresh our memory, when is it coming for renewal?

Suresh Narayanan:

It comes for renewal in 2024, I believe. Let me be very, very clear. I think the logic for the royalty has not changed one bit.

The 2000 brands of Nestlé are owned by Nestlé, they are accessed by Nestlé India. The science, technology, and the operating capabilities that they are getting knowledge and inputs on has been a significant part of our journey. The logic has remained the same between the last royalty agreement that we had negotiated and that we had agreed with the shareholders and today, the logic has not changed one bit. In the quest, for example, for the millet project. More than what Nestlé India is able to leverage in terms of science, technology and operating capabilities, Nestlé R&D is able to do it. Why? Because Nestlé R&D has got a facility in Abidjan in Ivory Coast which works on millets exclusively.

So, if I need the technology for this, am I going to be sitting with my factory fellows and saying now come on, let us look at a way of processing millets or am I going to tell the Nestlé R&D centre, my brother in the market, who is part of the Nestlé SA investments to access capabilities from Abidjan and from the center in order to make these technologies happen. So that is a simple logic for it my friend. It is not a question of gifting away money. It is a question of having a rationale and a clear-headed logic for what we are doing as an organization.

Brands, R&D support, operations support are intrinsic parts of what we have as an arrangement with Nestlé SA.

Tejas Shah:

Very clear. Thanks and all the best.

Ambereen Ali Shah:

Thank you Tejas. The next question is from Avi. Please unmute yourself and ask your question.

Avi Mehta:

I just wanted to better understand the comment that you made in the press release about the domestic demand environment being very robust. This is especially because you know in the entire presentation, the LUP price hike impacting volumes, this three-year CAGR kind of moderating. Would love to better understand your comment.

Suresh Narayanan:

I think it is very clear and if you look at our last couple of quarters of growth, all the quarters in 2022 have been double-digit and with an underlying positive volume growth. The issue has been more quarter 4 where we know the reason for that. We are coming out of it, and I think there is always a relativity in the manner in which we look at the market. But today, there is no reason to believe that we are having massive storm clouds in terms of the portfolio, the equity, the salience, or the relevance of our brands and that is the simple comment that is being made.

Avi Mehta:

So, it is a more a medium-term comment, is that the right way to understand it?

Suresh Narayanan:

Well, you can nudge me whichever way you want to, I will never give you guidance for the future. Read it the way you want to, but all I am telling you is that the focus, relevance and salience of our brands has not diminished despite the kind of commodity inflation and the volatility that we have seen.

Avi Mehta:

Fair point. Sir, the second bit is, as know what the LUP price hike that you have mentioned - Do you see that in any way hurting the rural expansion because typically, the understanding is that they are the key drivers or they typically lead the increase. Would love to know your thoughts on the same.

Suresh Narayanan:

The numbers show it all. 26% has gone up to 27% in the quarter, when the price increases have happened. So, it is not to say that the MAGGI chhotu pack (small pack) has not been impacted, but there are other parts of the portfolio, where we have managed to maintain the prices reasonably even and those are the ones which are also tending to accelerate. The overall requirement in terms of NESCAFÉ small packs, MAGGI small packs, MAGGI MASALA-AE-MAGIC small packs, MUNCH , KITKAT all of this, as a bouquet is going up in semi urban and rural markets. So, what you are seeing is a compound result of that, which is in terms of growth, moving up from 25-26 to 27%.

Avi Mehta:

Lastly, just a book keeping on the 2600 crores capex that we had announced two years back. Could you help remind us of the timelines of the same when it is it broadly done and how much is remaining?

McDaniel, David:

Thank you, Suresh and thank you for the question. The 26 billion announcement was some time ago now and this number will be exceeded in the coming years. We see, that we know we spent 5 billion in 2022 and we see that the next two years will double and then grow further in 2024. So, the large amount of capex is coming in the next two years. It is very clear we need this now. Many of our plants are at very, very high levels of capacity utilization. It has been planned for a long time as Suresh says the investments are primarily foods and chocolates, but there are others as well. Next two years is a peak of the spending.

Avi Mehta: Alright, Sir. Thank you very much.

Ambereen Ali Shah: Thanks, Avi. The next question is from Anand.

Anand:

Thanks for taking the question. The first question on the LUP part, it is down 1%, but in your opening comments you have mentioned that the volume is up 3-4% so you were referring to VMG?

Suresh Narayanan: Yes, I was referring to the volume and mix growth.

Anand:

Got it. And the drag on LUP is largely on the chhotu pack (small pack) or this has been across the other parts of portfolio as well?

Suresh Narayanan:

It has been primarily in that category. If you look at the growth in the last quarter, all categories other than noodles in tonnage terms, have been quite strong. Our noodle has made up in value terms, has made up in terms of the single packs and the multi-packs, but has lost out in terms of the LUP pack.

Anand:

On competition terms, does the chhotu pack (small pack), have any competition reacted to the pricing or are they still check in to five rupees.

Suresh Narayanan:

Not really, I think most competition has stuck to five rupees in the hope that this would give an opportunity.

Anand Shah:

Temporarily, you would be losing share in your LUP on volume terms as you said, but medium-term, as you rightly said, will structurally be the right move.

Suresh Narayanan:

Yes, I think obviously you do not like it when something like this happens. But this is the reality when you move up the price points, looking at the inflation level, so it might have been a division that would have happened a couple of years down the road. But with the kind of impact that we saw between 3 and 18.5 is something that we could not have. When the small pack is an important part of our portfolio and we did not choose to cut grammage and to sort of make it virtually anorexic as far as the product is concerned. We would rather give a product that has got some meaning to the consumer.

Anand Shah: Can you share any salience in the share, with an overall MAGGI noodles?

Suresh Narayanan: MAGGI noodle overall value shares are up.

Anand Shah:

Can you share some insights on the salience of the chhotu pack(small pack) within overall noodle with the ₹5 pack.

Suresh Narayanan: It is about 15- 20% of the volumes.

Anand Shah:

One last observational texture of growth, as you have seen growth dip in mega cities and down class two to six, but it has held up pretty well in other parts and even in villages and in metros. Any different trends you are seeing in any of these towns?

Suresh Narayanan:

As far as I am concerned and as far as the business itself is concerned, the trends are fairly secular. We are seeing growth happening across town classes. And as I mentioned two to six, there was an impact because of specific circumstances in the last quarter. We will see and I am reasonably confident, and we will start seeing this also bounce back because there are other packs as well. I mean it is not that we are only operating with one LUP pack. There are LUP packs across categories and all of them are starting to fire back now and hopefully, that the trend that you have seen in the last couple of quarters with the energy and determination that we are having on RURBAN strategy, we will be able to help us come out of the situation sooner or later.

Anand Shah: Got it. Thank you.

Ambereen Ali Shah:

We would request everyone to restrict their question to one because we want to accommodate everyone. The next question is from Alok.

Alok:

Thank you for the opportunity. My first question is in continuation to the question on capex. So recently the global Nestlé CEO made a remark about investing about 50 billion in India. So just wanted to get your views on the same, is it incremental, would it be completed with the plant or how do we read into this statement?

Suresh Narayanan:

It is a very clear statement that was made. He talked about investing 5000 crores or 600 million Swiss francs in the coming three years. Between 1960 and 2021, we have spent 8000 crores of investment, and he has been very clear that the next three years will be spending 5000 crores of investment. This is excluding any mergers and acquisitions that we might choose to make.

Alok:

Correct! So just to follow through that, so when Daniel answered to the point that this year the capex has been about 5 billion and the next two years the capex would be significantly double of that. But if I were to combine that with the global CEO statement, it seems that there is much more capital which will be given towards X of the capex. Is that understanding then correct, then maybe the capex over the next three years would be? Maybe in the ballpark of about 3000 crore and the rest 2000 crore could be for other investments. Can you please elaborate?

Suresh Narayanan:

Only the capex alone and as David mentioned about 5 billion in 2005 billion in 2022 but 2023-2024- 2025, that cycle itself will cover the 5000 crores that you are talking about, and the next two years is likely to be substantially higher than what we have spent in 2022.

David McDaniel:

Yeah, If I can be more specific. The plan right now looks like ₹13 billion in 2023 and ₹20 billion in 2024 and the balance thereafter. So, I said doubling in 2023. It is a little bit more than that and then it goes up further in 2024. So that is the shape of it.

Ambit Alok Shah:

OK, perfect. And just a small bit directionally, when you talk about your RURBAN strategy, and you know the number says it all, it is working quite well. Just wanted to pick your thoughts on specifically on the nutrition portfolio in the overall RURBAN strategy. You know here is my thought process that you know the price points are where they are. Is there a thought to improve the penetration to reduce the price point and the pack size architecture, which may momentarily reduce the tonnage, but it helps improve the penetration structurally and which can help you. So, can you share your thoughts on the same? Thank you.

Suresh Narayanan:

I think the short answer is yes. I mean, it is not going to be a single pack strategy. I think milks and nutrition both have got a salience in smaller towns and in rural markets. And I think, the business is working towards kind of affordable packs, let us say relatively affordable packs as far as the business is concerned, which will be rolled out during the course of the year, if not already rolled out.

Ambereen Ali Shah: Thank you, Alok.

Ambit Alok Shah: Great. Thank you very much for the clarifications.

Suresh Narayanan: Thank you.

Ambereen Ali Shah:

Thank you. And we will now take the last question. Rishi, please go ahead and unmute yourself.

Rishi Mody:

Hi, so Mr. Narayanan - Pre 2012, we have seen milk and nutrition grow well in double-digits. Post 2016, we have not seen double-digit growth in milk and nutrition. Now, given the structural change that is happening in terms of increase in women workforce participation, increase or deterioration in terms of lifestyle and an increased penetration of junk food in the diet. We should ideally be having more adoption of infant nutrition in the Indian market. So, could you explain why we have not seen that double-digit growth in the last 6-7 years and how do you see this going forward? Then I will have my follow up questions on this.

Suresh Narayanan:

No, I think it is incorrect to say that there has not been strong growth. The texture of the growth is different. Part of the growth in the past has also been largely price-led at lower in terms of volume. We have today got us a strategy that is a bit more balanced in terms of volume and price, in terms of the penetration. The business itself is much better placed in terms of penetration and in terms of getting in more consumers; provided they are not able to breastfeed their child but that is always the best and the most efficacious recommendation that we have as a Company. The second part is that you know nutrition itself is vastly more exciting than just the category in the branch you are talking about. Some of our fastest growth has been in toddler brands. CEREGROW has been our fastest growing brand - it is in the nutrition category. NANGROW, LACTOGROW, GERBER are all in the same range and there are greater plans to in fact expand that portfolio quite dramatically. I mean, the CEREGROW. What was the first product I showed you in the millet stage? CEREGROW grain selection millets.

So, you can see that this is still a very attractive and a very robust area of Nestlé's engagement where which benefits from incidentally from the R&D expertise that we talked about and also from the fact that with an expanding opportunity base that we see, there will be expanding horizons as far as the category is concerned. The category not just defined as the traditional nutrition products that we talk about, but in a more extended manner into new and more emerging categories of nutrition that we see. So, I think that s where we are. So, it is not a question of growing faster or slow. It is a question of recalibrating and re-energizing the whole category and that is what our goal is.

Rishi Mody:

Right. So just to follow up on your strategy of prioritizing volume over pricing growth that had happened historically, could you give me what would be the volume growth for milk and nutrition for the past year versus what was the pricing growth?

Suresh Narayanan:

Well, if you look at last year's growth, which is about 9.5%, you will have a volume growth of 2.5% -3% and a pricing growth of about 6%.

Rishi Mody:

One last question, it is a book keeping one rather. So, in and my guess is that the volume growth, which is only 2.5% in this category, given that we are combining milk and nutrition, I am guessing our milk would be nutrition would be much higher-so if you could just give me what was the mix, how much proportion of the milk and nutrition would be milk in 2016 versus what it would be today?

Suresh Narayanan:

I am sorry, I do not give a segment split up. It is milks and nutrition. Then we will have questions on each brand, how much are you growing and not growing. My apologies to you. It will be milks and nutrition that we will talk about.

Rishi Mody: Alright. That is it from my end. Thank you.

Ambereen Ali Shah: Thanks Rishi. And the last question from Sheela.

Sheela Rathi:

Hello, Mr. Narayanan. My first question was on the rural growth. Just wanted to understand how satisfied you are with the rural growth trend which we have reported over the last three years versus what we thought? Yes, there were headwinds you know, in terms of a slowdown, but at the same time we were expanding our distribution. So just wanted to get a sense on, your satisfaction level there and a follow up on that. Also, is what is the share of overall LUP now versus say where we were three years ago and where do you think it could go in the next three years?

Suresh Narayanan:

Good question, Sheela. Let me tell you on a lighter note, I am never satisfied with anything. You know the day the CEO of the Company starts getting satisfied with everything, then the period of complacency and stagnancy happens. But let me frame it in the context in which we are in; the context in which we are in and the overall trend of FMCGs and rural markets. I am quite enthused and encouraged by the growth that we have been able to record in rural markets. I mean last couple of quarters have been strong double-digit growth, and yes, okay, the base levels are lower but then that is always a root cave that on a comparable low base. If you can also still have declines if your brands do not have the salience rule to justify the pitch to the consumer. So, I think the growth itself has been fairly encouraging. We find it on a secular basis. It is despite the kind of issues that we have had in terms of, are the headwinds that the Company has faced, and they come out of it. So, I think that is a positive. If you look at our PPP is roughly about 1/3 of our portfolio or the rest of the two. Third is between mainstream and the way I see it is that going forward, the share of PPP will probably start to come down over a period of time. And that is how I would look at the ideal evolution of the market. It will still be not an insignificant portion, but it will probably be not near the third that we talked about today.

Sheela Rathi:

A final one. You know, you have shown how the share of NPD has gone up in as a percentage of revenues? There was also a point which was made that there are 30 new projects in the pipeline. Are these more pertaining to millets or is there more which we could see in the coming quarters or so?

Suresh Narayanan:

Good question you asked. Yes, these are projects in the pipeline apart from millets, there are projects across categories. So, it is not just exclusively to millets. Millets is one part of it. It just got focused because it is one of the important projects for the Company. But yes, as I dovetail it with the earlier answer that I gave, I do not think the Company is running dry in terms of ideas on what to launch. But the question is how do we calibrate it in the context of the overall A) cost pressures, B) portfolio pressures, and C) gastric capacity of the Company to be able to manage the core and also to manage some of the new product launches that we are doing. Based on all these three, you will see the rollouts happening in the coming months.

Sheela Rathi: Also, I was checking on the details if possible because it is part of the slide?

Suresh Narayanan:

Well, details as I told you, it applies across categories. So, we have to make some nutrition which was my friend's earlier question on why we think that is not a particularly great category. We think it is a particularly great category. Speaking to the core strength of this Company, there are products there. There are products in the confectionery space, there are products in the MAGGI space and there are products in the coffee space as well. So, all these categories are being represented in terms of the 30 projects that are talking about. It is not 30 projects or millets and zero and everything else, it is not in terms of that.

Ambereen Ali Shah: Thank you, Sheela.

Sheela Rathi: Understood, thank you very much.

Ambereen Ali Shah: So, Mr. Narayanan, any closing remark from you?

Suresh Narayanan:

Well, let me let me firstly take the opportunity to thank each one of you. I cannot offhand say how many people are there, but looks like there is a reasonably decent quorum. I thank you all for your patient listening of my presentation and of the answers that I have given in large part. And that David has provided too in the course of this presentation.

I think just three messages that I would like to leave with you for your consideration.

1. *The growth engine of Nestlé India is important. Nothing that we will do will compromise on the growth engine of the Company. What is the growth engine of the Company? Penetration-led volume growth. We might be delayed, but we will never be denied. And whatever pressures we have, this is an aspect that we will not allow ourselves to slip on because if you do not have growth, you do not have very much else to celebrate.*
2. *Innovations would be calibrated. Innovations would be launched depending on the capacity of the organization to be able to secure the foundations of the core, to be able to support the new launches and also of course to be able to take these forward as an organization.*
3. *The RURBAN journey of the Company is strong, continues to be strong, is invested in with dedicated resources and is an area of increased opportunity and growth for the Company.*
4. *The Company seeks a balanced channel strategy as far as its growth is concerned.* We will not be having undue preference, privilege unless salience demands it between

any one channel and the other channel. This is the strength of the organization. And this is something that we will deliver over a period of time.

Last point, the mindset of seeking efficiencies, value rationalisations wherever possible, and efficiency improvements wherever possible, is a mindset of this Company. The SHARK projects that you are seeing are not one-off projects. They have been in this Company since 2011. So, they have been here for a long time and every year they have delivered for the Company. We keep finding new opportunities where you think that opportunities are exhausted. So, this would be one of the key levers and strengths of the organization to combat once again a situation that we have in the market. We are more confident as a Company of being able to combat it, but nevertheless, we will be able to face the situation as it comes and as it happens.

So, to repeat again *Zindagi ek safar hai suhana, yahan kal kya ho kisne jana.*

Thank you all very much.

Ambereen Ali Shah: Thank you so much and thank you everyone for joining in.

****ENDS****