

The Maggi controversy...

Quick Note

Nestlé's popular brand of instant noodles, Maggi, has been on the regulatory scanner for the past few days due to allegations that the products contain higher-than-permissible levels of lead and traces of monosodium glutamate (MSG).

Essentially, in mid-May 2015, the Lucknow Food Safety and Drug Administration came out with a report based on a sampling of Maggi products at Kolkata's referral laboratory which showed excess quantities of lead and added MSG. The test results showed that Maggi products contained 17 parts per million of lead, as compared to the permissible limit of 0.01ppm. Nestle, on the other hand, countered that its records show negligible lead content and less than 1% of the fixed limit.

The issue has since snowballed with several state governments proactively ordering sampling and lab testing to screen for violation of food safety standards. The state governments involved so far include Delhi, Karnataka, Haryana, Kerala, West Bengal, Bihar, Uttarakhand, Maharashtra, Tamil Nadu and Goa.

While the results are pending from most of the state labs, initial reports so far are quite conflicting. Goa announced that the brand is safe (after testing five samples, four manufactured in Goa and one in Punjab), while Delhi yesterday said that it has found the brand to be unsafe.

Nestlé, on its part, says that it had 1,000 batches of the product tested in an independent lab and this found the product to be safe. According to Nestlé, it has tested samples in-house from 1,000 production runs of the noodles. Separately, it asked an independent lab to test samples from another 600 production runs. Together, it said, the tests covered 125 million packets of noodles, all of which were found to be safe.

We expect the issue to reach a proper conclusion over the next few days as reports of the national food-safety regulator come in. The national food-safety regulator issued a statement on Monday saying that it has already collected noodle samples from all of the country's 29 states. The regulator expects to receive results on Friday.

Our take on the issue

We believe the issue is yet to reach a logical conclusion, with conflicting reports out each day. We expect more clarity on the subject in the next few days and await a definitive conclusion before taking a call on the issue.

We expect sales to take a hit in the near term due to the issue. Maggi accounts for ~20% of the company's revenues and until the issue is conclusively settled, the brand's sales are likely to be hit. For instance, Kerala has already ordered a temporary withdrawal from 1,500 state-run retail outlets.

However, from a longer-term perspective, the franchise remains intact, in our view, given its nearly three-decade old presence and considerable size (INR15bn). We would wait for the final results before taking a long-term view. Also, much will depend on how Nestle addresses the issue.

Global Markets Research

3 June 2015

Rating Remains	Buy
Target price Remains	INR 7400
Closing price 2 June 2015	INR 6803

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India Consumer Related

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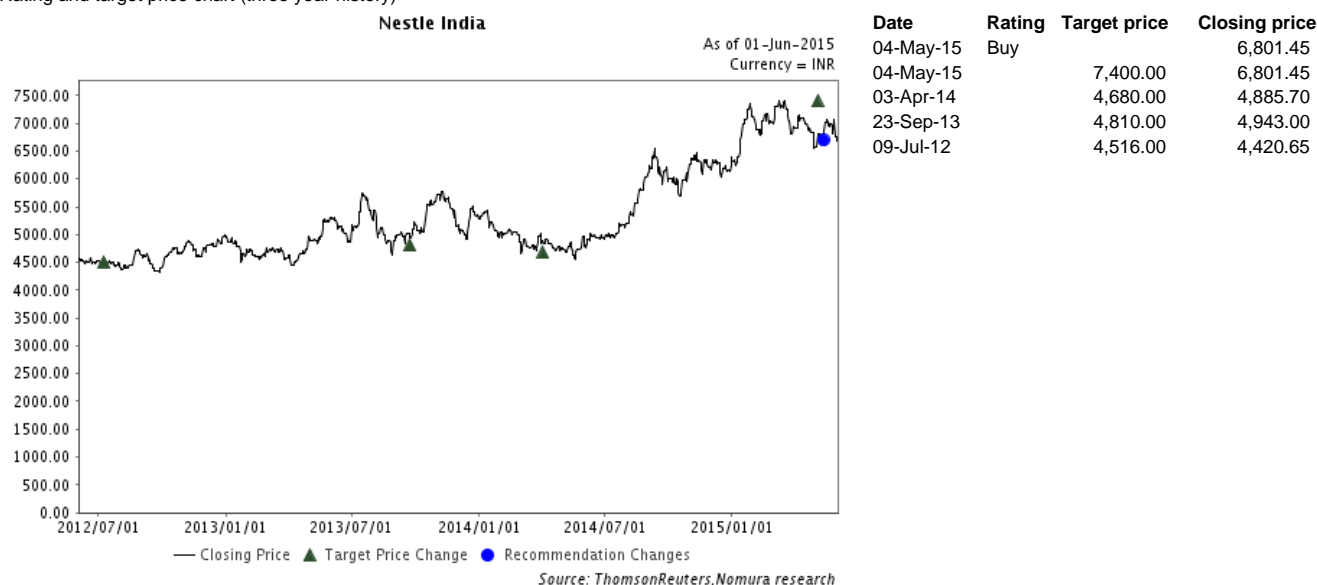
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Nestle India	NEST IN	INR 6803	02-Jun-2015	Buy	N/A	

Nestle India (NEST IN)

INR 6803 (02-Jun-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of INR7,400 is based on P/E multiple of 40x on our four forward quarters earnings estimates of INR 185. The benchmark index for this stock is MSCI India

Risks that may impede the achievement of the target price Negative risks arise from increases in input prices and higher A&P spending. Positive risks come from better volume growth and price/mix improvement vs our expectations.

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STOCKS

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