Company In-Depth

16 May 2007 | 17 pages

United Spirits (UNSP.BO)

Buy: Whyte & Mackay Acquisition - Positive Surprises Galore

Rating change ☐
Target price change ☑
Estimate change ☑

- **Positive surprises galore** — UNSP's Whyte & Mackay acquisition is full of positive surprises 1) deal value of US$1.2m lower than our estimate of US$1.4bn 2) inventory valuation at US$800m higher than estimates 3) EPS accretive from year-1 and 4) put options on inventory, securing future profits.
- **Good strategic fit at reasonable valuations** — W&M provides access to secure long-term scotch inventory and fits UNSP's aspiration to cater to high-end segments in India, China and Russia. More important, it has been acquired at reasonable valuations at 11.8x FY08E EV/EBITDA, at a significant discount to peer group average and cheaper than recent deals in the liquor space.
- **Over 60% of W&M's future profits underwritten** — W&M has put options for the next 4-5 years on large scotch players for selling its bulk scotch. This will underwrite over 60% of W&M budgeted profits over next 4-5 years and de-risks cash flow profile. Management expects W&M to be debt free over next 4 years.
- **Bullish outlook on scotch** — UNSP management has a bullish outlook on scotch prices. Rising emerging market demand (22% yoy) and resurgence in US markets is fuelling 10% global scotch volume growth and has resulted in 75%-120% increase in bulk scotch prices over the last few months.
- **Incorporating W&M, raising target price** — We are incorporating Whyte & Mackay into our EPS estimates and raise FY08E-FY10E EPS estimates by 13.6%-37%. We raise our target price to Rs1250, not as aggressive as our EPS upgrades, as we now discount for dilution on potential sale of treasury stock.

Buy/Low Risk	1L
Price (16 May 07)	Rs895.20
Target price	Rs1,250.00
from Rs1,114.00	
Expected share price return	39.6%
Expected dividend yield	0.0%
Expected total return	**39.7%**
Market Cap	Rs84,580M
	US$2,086M

Price Performance (RIC: UNSP.BO, BB: UNSP IN)

See Appendix A-1 for Analyst Certification and important disclosures.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	446	7.38	3.5	121.3	6.4	7.9	0.0
2007A	2,418	25.59	246.9	35.0	6.4	22.4	0.0
2008E	3,921	41.49	62.1	21.6	2.9	18.6	0.0
2009E	5,526	58.48	40.9	15.3	2.5	17.6	0.0
2010E	6,728	71.19	21.7	12.6	2.1	18.4	0.1

Source: Powered by dataCentral

Princy Singh[1]
+91-22-6631-9871
princy.singh@citigroup.com

Pragati Khadse[1]
pragati.khadse@citigroup.com

[1]Citigroup Global Market India Private Limited

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	121.3	35.0	21.6	15.3	12.6
EV/EBITDA adjusted (x)	47.5	18.6	14.2	11.2	9.6
P/BV (x)	6.4	6.4	2.9	2.5	2.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.1
Per Share Data (Rs)					
EPS adjusted	7.38	25.59	41.49	58.48	71.19
EPS reported	21.00	53.53	38.17	58.06	70.65
BVPS	139.20	139.92	307.22	357.02	416.83
DPS	0.29	0.31	0.37	0.42	0.46
Profit & Loss (RsM)					
Net sales	21,485	28,674	39,219	53,985	59,833
Operating expenses	-19,988	-24,073	-32,203	-43,847	-48,386
EBIT	**1,497**	**4,601**	**7,016**	**10,138**	**11,447**
Net interest expense	-1,524	-1,418	-1,920	-2,760	-2,360
Non-operating/exceptionals	596	426	506	516	524
Pre-tax profit	**569**	**3,609**	**5,602**	**7,895**	**9,611**
Tax	-123	-1,191	-1,680	-2,368	-2,883
Extraord./Min.Int./Pref.div.	824	2,641	-314	-39	-52
Reported net income	**1,270**	**5,059**	**3,607**	**5,487**	**6,676**
Adjusted earnings	446	2,418	3,921	5,526	6,728
Adjusted EBITDA	1,923	5,064	7,771	11,319	12,678
Growth Rates (%)					
Sales	85.9	33.5	36.8	37.7	10.8
EBIT adjusted	215.7	207.4	52.5	44.5	12.9
EBITDA adjusted	204.9	163.4	53.5	45.7	12.0
EPS adjusted	3.5	246.9	62.1	40.9	21.7
Cash Flow (RsM)					
Operating cash flow	**2,842**	**7,878**	**5,475**	**7,623**	**-1,277**
Depreciation/amortization	426	462	755	1,181	1,231
Net working capital	1,975	2,346	1,093	926	-9,225
Investing cash flow	**320**	**-746**	**-2,726**	**-407**	**-415**
Capital expenditure	-999	-230	-2,716	-407	-415
Acquisitions/disposals	1,319	-515	-10	0	0
Financing cash flow	**14,788**	**4,146**	**45,285**	**-1,354**	**-1,398**
Borrowings	9,692	-2,542	30,610	-4,500	-5,000
Dividends paid	-224	-387	-568	-780	-1,025
Change in cash	**17,950**	**11,278**	**48,034**	**5,862**	**-3,090**
Balance Sheet (RsM)					
Total assets	**32,596**	**37,060**	**91,477**	**93,187**	**95,491**
Cash & cash equivalent	3,611	5,167	212	234	422
Accounts receivable	3,220	4,161	7,530	8,198	8,946
Net fixed assets	4,864	4,936	13,000	12,942	12,860
Total liabilities	**22,893**	**22,553**	**61,170**	**58,173**	**54,825**
Accounts payable	6,311	8,406	15,001	16,336	17,807
Total Debt	15,431	12,890	43,500	39,000	34,000
Shareholders' funds	**9,703**	**14,507**	**30,317**	**35,024**	**40,676**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	8.9	17.7	19.8	21.0	21.2
ROE adjusted	7.9	22.4	18.6	17.6	18.4
ROIC adjusted	11.1	16.8	11.4	10.6	11.6
Net debt to equity	121.8	53.2	142.8	110.7	82.5
Total debt to capital	61.4	47.0	58.9	52.7	45.5

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Asia Pacific at CitiResearchDataServices@citigroup.com or +852-2501-2791

Powered by: dataCentral

Whyte & Mackay Deal Full of Positive Surprises

We are enthused at the final out come of the Whyte & Mackay deal. United Spirits has been able to acquire Whyte & Mackay at 11.8xFY08E EV/EBITDA, cheaper than its own valuations and at almost a 20% discount to the global peer group average. At an enterprise value of US$1.18bn and estimated FY08E EBITDA of US$100m, deal valuations are almost 50% lower than our expectations. The enterprise value also accounts for pension liabilities of about US$50m (Rs2050m) that Whyte & Mackay has on its books. We estimate that the deal will be 15% accretive to UNSP's EPS from year-1 (pre-exceptional profits), against our earlier estimates of an 18% dilution. On top of that, management has stated that the scotch inventory is valued at US$700-US$800m. However, the biggest positive surprise from the deal is the put options for its inventory that Whyte & Mackay has over it buyers – large global scotch players. According to the UNSP management, part of Whyte & Mackay's scotch inventories are underwritten for the next 4-5 years, which will secure over 60% of projected profits of Whyte & Mackay. Whyte & Mackay is expected to make EBITDA profits of US$100m (Rs4.1bn) in the current year (year ending September 2007, consolidated with UNSP's FY08E accounts). Management has guided at growing the EBITDA profits by 20% per annum over the next 5-years.

Figure 1. Global Liquor Valuation Summary

Company	Ticker	Price	Country	Market Cap (US$m)	P/E (x) 2007	P/E (x) 2008	EV/EBITDA (x) 2007	EV/EBITDA (x) 2008	Div. Yld. (%) 2007	RoE (%) 2007	RoCE (%) 2007
Luzhou Laojiao (1M)	000568.SZ	39.1	China	4,435.5	62.3	36.3	37.3	24.4	0.9%	23.6%	32.6%
Wuliangye Yibin (2M)	000858.SZ	24.2	China	12,929.1	58.5	41.1	31.8	25.9	0.2%	17.5%	27.8%
Kweichow Moutai (1M)	600519.SS	90.9	China	11,494.9	43.5	28.0	24.3	17.6	0.8%	30.1%	118.2%
Shanxi Fenjiu (3H)	600809.SS	34.5	China	2,085.3	40.4	28.0	20.0	16.3	1.3%	30.7%	52.1%
C&C Group Plc (2M)	CCR.I	12.6	Ireland	5,567.4	23.2	19.4	19.3	16.3	2.1%	69.0%	27.0%
Davide Campari-Milano SpA (1L)	CPR.MI	7.7	Italy	3,049.0	17.4	15.9	11.7	10.5	1.3%	15.2%	11.6%
Diageo PLC (2L)	DGE.L	10.7	UK	56,328.8	19.8	17.9	13.6	13.0	3.0%	36.7%	17.4%
Pernod-Ricard SA (1L)	PERP.PA	156.9	France	23,277.8	20.4	17.5	16.1	14.4	1.6%	13.2%	6.9%
Constellation Brands Inc (2H)	STZ.N	23.8	USA	5,603.8	14.2	17.5	7.9	9.2	0.0%	12.7%	8.5%
Thai Beverage (3L)	TBEV.SI	0.3	Thailand	4,471.2	12.2	11.5	7.0	6.2	4.1%	20.5%	17.2%
United Spirits (1L)	UNSP.BO	837.6	India	2,086.3	32.7	20.2	18.2	11.9	0.0%	22.4%	20.2%
Average					**31.3**	**23.0**	**18.8**	**15.1**	**1.4%**	**26.5%**	**30.9%**

Source: Citigroup Investment Research

Structure of the Deal

United Spirits gets 100% control of Whyte & Mackay at an enterprise value of US$1.18bn. The deal will be funded entirely through debt, though we expect UNSP to sell its treasury stock soon to part repay some of the debt. Whyte & Mackay will have total debt of about US$650m, which won't have recourse to United Spirits. The US$650m also includes earlier debt of about US$350m on the books of Whyte & Mackay that has been refinanced. Whyte & Mackay will not have debt repayment obligation on US$350 portion for 3 years, after which the debt is payable over 5 years. For the remaining US$300m, the payback structure is back-ended as well. The debt in Whyte & Mackay has been raised against its scotch inventories and brands. Similarly, United Spirits will raise US$620m in its books against its treasury stock and stock of UNSP held by its parent UB Holdings. There will be no repayment obligation for the first 2.5years, after which the debt will need to be retired over 4.5 years. We, however, believe that UNSP will be able to retire its debt significantly earlier. We expect it to sell its treasury stock sometime soon, and it may potentially sell a minority stake in Whyte & Mackay (possibly through a listing on the LSE), that can result in accelerated debt repayment.

Raising Estimates, Target Price

We are incorporating Whyte & Mackay into our earnings estimates for United Spirits. We are raising our EPS estimates for FY08E-FY10E by 13.6%-37%, building in the positive impact of Whyte & Mackay. Our EPS estimates are post minority interest and associate share, but are before one-time exceptional items. We are raising our target price to Rs1250 from Rs1140 earlier. Our increase in target price does not reflect the aggressive increase in our EPS estimates. This is so because our 25xFY08E target P/E is no longer adjusted for the 18% treasury stock on UNSP's books, given that we are assuming a sale of treasury and subsequent dilution into our FY08E EPS. Our target price is therefore based on 25x mid-FY09E P/E fully diluted for the treasury stock. We also roll forward our target P/E multiple from FY08E to mid-FY09E, given that we are already nearing mid-FY08 and the market is likely to increasingly start discounting FY09E into valuations.

Figure 2. Earnings Revision Summary

	Net Profit (Rsm)			EPS (Rs)			DPS (Rs)		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
FY08E	3,451.5	3,921.1	13.6	36.5	41.5	13.6	0.4	0.4	1.2
FY09E	4,160.3	5,526.2	32.8	44.0	58.5	32.8	0.4	0.4	0.2
FY010E	4911.4	6,727.8	37.0	51.9	71.2	37.0	0.5	0.5	(0.7)

Source: Citigroup Investment Research

Deal is EPS Accretive From Year-1

According to our estimates, Whyte & Mackay is accretive from year-1. We estimate 15% accretion to pre-exceptional EPS in FY08E, increasing to 36% in FY09E and 40% in FY10E. Our estimates are based on UNSP management's guidance of GBP50m (Rs4100m) EBITDA (pre restructuring and acquisition related expenses) for Whyte & Mackay. We would also like to highlight that our estimates for Whyte & Mackay for FY08E (Sep '07 year end for Whyte & Mackay) are only for 5 months (May-Sep), pro-rated against full year estimates. The deal will become effective from May, so for FY08E, we expect only 5-months of Whyte & Mackay's earnings to be consolidated. However, we estimate that if we were to account for the restructuring costs and acquisition-related expenses (one time), the acquisition will likely be accretive in FY08E only to the extent of 3%.

We expect UNSP to be able to aggressively pay down the debt raised to fund Whyte & Mackay. The company is likely to sell its treasury stock (15% of equity) soon. We assume a selling price of Rs900 per share in FY08E, which should allow for significant debt repayment. In addition, the combined cash flows of Whyte & Mackay and UNSP will accelerate, which should allow the further debt repayment. Our analysis is enumerated below:

Figure 3. Whyte & Mackay – Deal Economics

	United Spirits			Whyte & MacKay			Combined		
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Sales	**32469**	**36651**	**41286**	**16200**	**17334**	**18547**	**48669**	**53985**	**59833**
EBITDA	**6083**	**6986**	**8041**	**3362**	**4334**	**4637**	**9445**	**11319**	**12678**
EBITDA Margin (%)	*18.7*	*19.1*	*19.5*	*20.8*	*25.0*	*25.0*	*19.4*	*21.0*	*21.2*
Interest	-945	-765	-675	-608	-482	-326	-1553	-1247	-1001
Depreciation	-487	-511	-536	-644	-670	-695	-1131	-1181	-1231
Other Income	500	500	500	16	24	24	516	524	524
PBT	**5152**	**6209**	**7331**	**2126**	**3206**	**3640**	**7278**	**9415**	**10970**
Tax	-1700	-2049	-2419	-425	-640	-910	-2125	-2689	-3329
Net Profit	**3452**	**4160**	**4911**	**1701**	**2566**	**2730**	**5153**	**6727**	**7641**
EV of Whyte & Mackay (Rsm)	48380								
Equity value of Whyte & Mackay (Rsm)	41090								
Treasury Stock Sales (@Rs900/share)	12758								
Free Cash Flow of Combined Entity (Rsm)							5093	6709	7674
Incremental Debt on books to Fund Acquisition (Rsm)							23239	16530	8856
Incremental Interest - tax adjusted (@ 8%)							-1301	-926	-496
Other Adjustments							70	-292	-625
Combined Net Profit post acquisition (Rsm)							3921	5526	6756
Combined EPS (Rs) - Pre-exceptional items							41.5	58.5	71.5
Current United Spirits EPS (Rs)							35.8	43.2	50.9
(Dilution) / Accretion (%) - pre-exceptional items							*15.9%*	*35.5%*	*40%*

Source: Citigroup Investment Research; assuming exchange rate of 1GBP=Rs81

Whyte & Mackay Has Secure Cash Flows

Whyte & Mackay's cash flow profile has been significantly de-risked based on its bulk scotch supply contracts that it has with large global scotch players. According to the UNSP management, the put options that Whyte & Mackay has on its scotch inventory will secure over 60% of the projected profits over the next 4-5 years. Management has indicated US$100m (Rs4100m) of EBITDA profits for Whyte & Mackay for FY08E (Sep '07) and guided at 20% EBITDA profit growth over the next 5-years. Whyte & Makcay's options significantly de-risk the business profile and give us comfort over UNSP's ability to service and pay down debt that is has borrowed to fund the acquisition.

Whyte & Mackay a Good Strategic Fit for United Spirits

We view Whyte & Mackay as a good strategic fit for United Spirits. It will significantly enhance UNSP's plans to expand its presence in the Indian premium whisky segments, as well as expand into fast growing Chinese and Russian markets. In addition, Whyte & Mackay will provide UNSP access to the European market, though we expect UNSP's focus to remain on the Indian market. UNSP is well positioned to enhance the value of Whyte & Mackay's inventory of scotch whiskey, by providing access to a ready and fast-growing market for premium whisky.

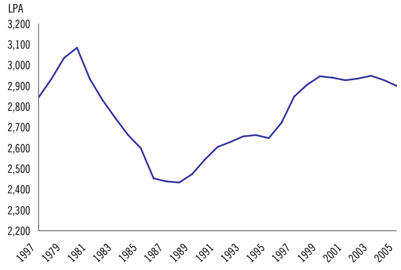
Figure 4. Acquisition Synergy Analysis

● Favorable
○ Unfavorable

Critical success factors	Global Competitors in India	USL	USL W & M
Ownership of premium scotch whisky brands	●	◔	●
Access to scotch assets	●	◔	●
Distribution strength	◔	●	●
Manufacturing set up	◔	●	●
Portfolio strength	◑	●	●
Understanding of Indian consumers	◑	●	●

Source: Citigroup Investment Research; United Spirits

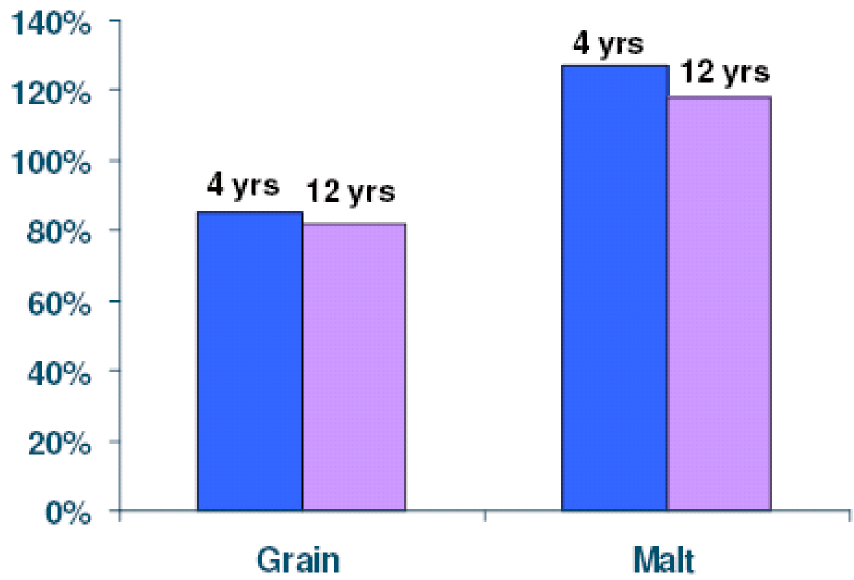
Figure 5. Scotch Whisky Inventories at Bonded Warehouses (LPA)



Source: Scotch Whisky Association

The primary benefit to UNSP from Whyte & Mackay will be instant access to a large inventory of scotch and secure long-term scotch supply. According to the UNSP management, the total scotch inventory held by Whyte & Mackay is about 140m litres. The inventory has varying age profile, which oldest inventory having matured for 65 years. The inventory is valued at almost US$700m-US$800m, based on its current broking price. Value could be enhanced through bottling and branding this inventory. Access to this inventory makes UNSP self sufficient for its scotch requirement, which is likely to increase significantly, as demand for higher-end blends and scotch whisky in India increases. Globally, scotch prices have started to increase, mainly driven by strong demand from Asia and pickup in consumption of single malt whisky in the US and declining inventories of scotch. According to the management of UNSP, scotch prices have increased by 75%-120% over the last few months.

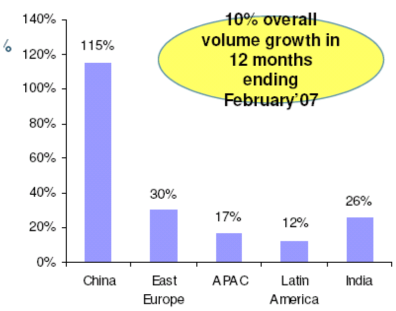
Figure 6. Increase in Scotch Prices Since August 2006



Source: United Spirits presentation

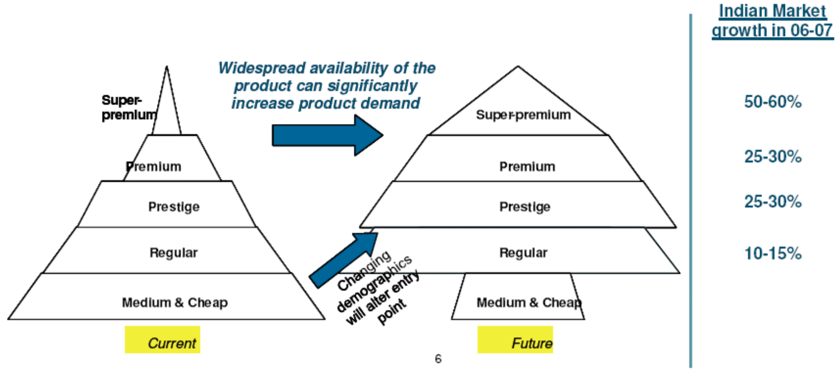
Overall, global demand for scotch has picked up to 10%, with demand from emerging markets at over 20%. China, India and Russia are the key emerging market demand centers. In terms of volumes, Indian whisky (manufactured and consumed predominantly in India) constitutes 19% of total global whisky volumes (although a much lower value contribution due to lower per unit selling price). Whiskey consumption in India is growing at almost 12% per annum, though consumption of scotch whiskey is likely to grow at almost 30% per annum; albeit from a very low base. As such, Indian whiskey manufacturers import bulk scotch to blend with locally manufactured spirits. Demand for high end liquor in India is rising rapidly and scotch requirements for Indian manufacturers are increasing as a result. Last year, UNSP imported almost 18 million litres of bulk scotch to blend with its Indian whisky brands. Overall bulk scotch imports to India grew by almost 90% yoy in 2005. We expect the scotch requirement to increase substantially, as Indian consumers migrate toward higher-end whisky, which typically has a higher percentage of scotch blend.

Figure 7. Scotch Consumption Growth



Source: Scotch Whisky Notebook

Figure 8. Changing Mix Profile of Indian Whisky



Source: United Spirits presentation

UNSP has set up joint ventures to distribute its brands in Russia and China, other important and fast-growing scotch-whisky markets, besides India. We believe that Whyte & Mackay's brands will provide a significant leg-up to UNSP's growth strategy in these markets. Like India, China is also an important market for scotch whiskey and its consumption of scotch grew by 115% yoy for 12 months ending February 2007. Overall global

Whyte & Mackay also has an array of about 140 brands positioned across various segments. Whyte & Mackay has of-late focused only on about 6-7 of its top brands. We believe that there could be tremendous potential to exploit the potential of some of the dormant brands, especially in the Asian markets.

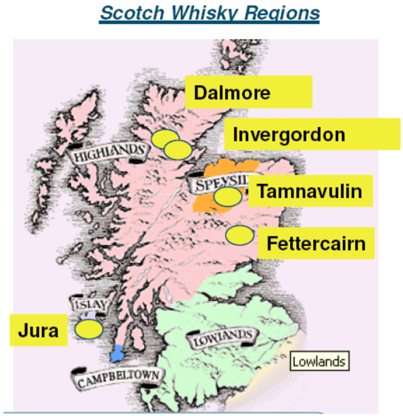
Figure 9. Whyte & Mackay's Brand Segmentation

Source: Citigroup Investment Research

We also view the potential acquisition of Whyte & Mackay pre-emptive to the impact of likely reduction of import tariffs on imported liquor in India. Currently, total tariffs on imported liquor in India are over 250%. The European Union has been lobbying with the Indian government for a reduction in import duties, and has also taken this up with the WTO. We believe that chances of import duty reductions are fairly high. Duty reductions would make imported liquor more competitive, and it is likely that imports of bottled scotch into India will increase significantly. UNSP would look to pre-empt rising competition at the highly profitable top end of the market through entrenching its own scotch brands into the market and creating brand loyalty before foreign imports start to increase. Whyte & Mackay has a wide array of brands that UNSP can market in India.

We believe that UNSP will be able to enhance the profitability profile of Whyte & Mackay. We estimate that of Whyte & Mackay's total scotch sales almost 70% is sold as bulk to bottlers / private label retailers, at relatively lower margins compared to branded sales. UNSP will be able to drive a shift in product mix favorable toward branded bottled whisky by driving sales in India and China.

Figure 10. Whyte & Mackay Distillery Map



Source: United Spirits presentation

Whyte & Mackay's Assets

Whyte & Mackay is a scotch whisky manufacturer with a 9% share of the total global scotch market. Its key brands include Whyte and Mackay Scotch Whisky, Dalmore Single Highland Malt, Isle of Jura Malt Whisky, Glayva Liqueur and Vladivar Vodka. The company is also the world's leading supplier of own-label, private label and branded Scotch Whisky. Whyte & Mackay owns five distilleries in each scotch whisky region in Scotland. It owns 1 grain-based distillery (Invergordon), which has a capacity of 40m litres per annum, and can be expanded to 80m litres with an investment of about US$20m (Rs820m). It also has four other malt based distilleries and a bottling facility in Grangemouth with a capacity of producing 12 million cases per annum.

Figure 11. Key Distilleries owned by Whyte & Mackay

Distillery	Location	Capacity	Key Brands Bottled
Dalmore	Highlands - North	3.2m litres	The Dalmore 12 Year Old
			The Dalmore Cigar Malt
			The Dalmore 21 Year Old
			The Dalmore 50 Year Old
			The Dalmore 20 yo cask expression
			The Dalmore Black Pearl and Black Isle
			The Dalmore Stillman's 28yr Old
Fettercairn	Highlands - East	1.6m litres	Fettercairn 12 yo single malt 1824
			Fettercairn Single cask bottling 15 yo sherry wood
			Fettercairn Single cask bottling 15 yo American oak
Invergordon	Lowlands	40m litres	The Invergordon Single Grain 10 Year Old
Isle of Jura	Jura	2.5m litres	Isle of Jura 10 Year Old
			Isle of Jura "Superstition"
			Isle of Jura 16 Year Old
			Isle of Jura 21 Year Old
			Isle of Jura 27 Year Old
			Isle of Jura 33 Year Old
			Isle of Jura 36 Year Old
Tamnavulin (closed)	Speyside	NA	Tamnavulin 12 Year Old
			Tamnavulin 25 Year Old (distilled 1966)

Source: Scotchwhisky.net

Financial Analysis of Consolidated Entity

We have consolidated our earnings estimates and balance sheet for United Spirits with that of Whyte and Mackay. We expect Whyte & Mackay to significantly enhance the earnings profile of United Spirits. We have consolidated Whyte & Mackay starting FY08E, so comparisons with FY07 may not be like-to-like. Also, for FY08E, we have only consolidated 5-months earnings for Whyte & Mackay, given that the acquisition is effective from May (year end for Whyte & Mackay is September; September 07 will be consolidated with FY08E of UNSP).

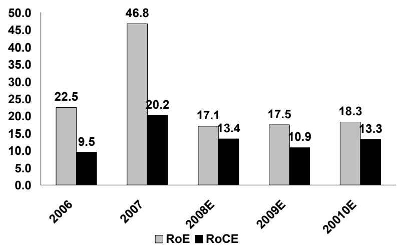
We forecast a Sales CAGR of 30% over FY07-FY10E for the combined entity, although we are estimating like-to-like sales growth CAGR of 13%, which we believe is conservative and does not take into account potential upside from pricing, and sales to China and Russia. We expect EBITDA margins to expand, driven by the changing mix profile of Whyte & Mackay (from bulk to branded) and operating leverage from scale. We forecast net profit CAGR of 41% over FY07-FY10E. We expect UNSP to be able to pay down its debt rapidly, driving a progressive decline in its interest costs.

Figure 12. Income Statement (UNSP + Whyte & Mackay) Rupees in Million, Percent

Year to 31 March	2006	2007	2008E	2009E	2010E
Net Sales	**18,994**	**25,311**	**35,351**	**49,654**	**55,069**
Growth (%)	*74*	*33*	*40*	*40*	*11*
Income from brand franchise	774.3	1045.4	1202.2	1346.4	1481.1
Sale from tie-up units	1716.7	2317.5	2665.1	2984.9	3283.4
Total Income	**21484.7**	**28673.9**	**39218.8**	**53985.1**	**59833.1**
% YoY	*85.9*	*33.5*	*36.8*	*37.7*	*10.8*
Expenditure					
Materials	-11331.9	-14623.7	-20784.2	-29775.9	-32905.1
As % of Sales	*52.7*	*51.0*	*58.8*	*60.0*	*59.8*
Manufacturing and other expenses	-8230.0	-8986.4	-10663.6	-12889.8	-14249.8
As % of Sales	*38.3*	*31.3*	*30.8*	*30.4*	*30.0*
Total expenditure	-19561.9	-23610.1	-31447.9	-42665.7	-47154.9
EBITDA	**1922.7**	**5063.8**	**7770.9**	**11319.3**	**12678.3**
EBITDA Margin (%)	*8.9*	*17.7*	*19.8*	*21.0*	*21.2*
Interest and finance charges	-1524.2	-1417.9	-1920.0	-2760.0	-2360.0
Depreciation	-425.6	-462.4	-755.1	-1181.0	-1231.4
Other Income	596.1	425.9	505.8	516.2	524.3
PBT	**569.0**	**3609.4**	**5601.6**	**7894.6**	**9611.2**
Provision for taxation	-122.9	-1191.1	-1680.5	-2368.4	-2883.4
Tax Rate (%)	*21.6*	*33.0*	*30.0*	*30.0*	*30.0*
PAT	**446.1**	**2418.3**	**3921.1**	**5526.2**	**6727.8**
Growth (%)	*21.0*	*442.1*	*62.1*	*40.9*	*21.7*
Exceptional Items	0.0	2656.7	-286.9	0.0	0.0
PAT & Exceptional and other items	**446.1**	**5075.0**	**3634.3**	**5526.2**	**6727.8**
Associates	-4.8	-6.0	-7.5	-9.3	-11.7
Minority Interest	828.7	-10.0	-20.0	-30.0	-40.0
Profit after associates and minority	**1270.0**	**5059.0**	**3606.8**	**5486.9**	**6676.2**

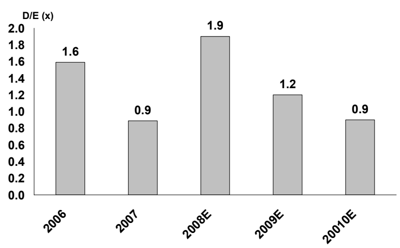
Source: Citigroup Investment Research

Figure 13. RoE and RoCE Trend (%)



Source: Citigroup Investment Research

Figure 14. Gearing Trend (x)



Source: Citigroup Investment Research

On the balance sheet size, we estimate the debt level for the combined entity to go up significantly on FY08E, though we expect part of old debt on UNSP's books to be retired in FY08 itself through sale of treasury stock, which is built into our estimates. We expect debt to equity ratio of about 1.56x in FY08E (post sale of treasury), manageable in our view. We expect the company to retire its debt aggressively (management has hinted at making Whyte & Mackay completely debt free in the next 4 years), which should result in gearing declining to about 0.9x by FY10E. We expect near-term capital efficiency profile to decline as a result of increase in debt, but expect it to pick up going forward.

Figure 15. Balance Sheet (UNSP + Whyte & Mackay) Rupees in Million, Percent

	2006	2007	2008E	2009E	2010E
Capital	605	945	945	945	945
Share Capital Suspense	224	0	0	0	0
Reserves and Surplus	7,589	12,277	28,087	32,794	38,445
Shareholders Funds	**8,418**	**13,222**	**29,032**	**33,739**	**39,390**
Minority Interest	1,285	1,285	1,285	1,285	1,285
Loan Funds	**15,431**	**12,890**	**43,500**	**39,000**	**34,000**
Secured Loans	10,081	8,390	39,000	34,500	29,500
Unsecured Loans	5,350	4,500	4,500	4,500	4,500
Deferred Tax Liability	86	86	86	86	86
Total Liabilities	**25,220**	**27,483**	**73,903**	**74,110**	**74,761**
Fixed Assets	**4864**	**4936**	**4799**	**4637**	**4451**
Gross Block:	6056	6606	15157	15611	16065
Less: Depreciation	1218	1680	2167	2679	3215
Net Block	**4838**	**4926**	**12990**	**12932**	**12850**
Capital Work in Progress	26	10	10	10	10
Goodwill on Consolidation	**10835**	**10835**	**49887**	**49887**	**49887**
Investments	**2485**	**3000**	**3010**	**3010**	**3010**
Current Assets , Loans and Advances	**14414**	**18290**	**25591**	**27358**	**29744**
Inventories	2945	3606	11819	12140	12736
Sundry Debtors	3220	4161	7530	8198	8946
Cash and Bank Balances	3611	5167	212	234	422
Other Current Assets	728	801	881	969	1066
Loans and Advances	3909	4556	5148	5818	6574
Less: Current Liabilities & Provisions	**7376**	**9577**	**17584**	**19087**	**20739**
Liabilities	6311	8406	15001	16336	17807
Provisions	1065	1171	2583	2751	2932
Net Current Assets	**7037**	**8713**	**8007**	**8271**	**9005**
Total Assets	**25,220**	**27,483**	**73,903**	**74,110**	**74,761**

Source: Citigroup Investment Research

United Spirits

Company description

United Spirits is the largest player in India's branded spirits market. It pursues an inorganic growth strategy, with its latest acquisition being the second-largest Indian liquor manufacturer, Shaw Wallace. The acquisition has significantly enhanced its competitive position, increasing its market share in branded spirits to 53%. It is also exploring international growth opportunities, and recently acquired French winemaker Bouvet Ladubay — the wine arm of champagne major Taittinger. It has also recently concluded a leveraged buy out of Whyte & Mackay, the fourth largest scotch whiskey company in the world.

Investment thesis

We rate United Spirits a Buy (1L), with a target price of Rs1250. India's organized liquor market is growing at a rate of 13%, driven by rising disposable incomes, favorable demographics and a shift in consumption patterns. Being the market leader, United Spirits looks well positioned to benefit from this growth rate. Its acquisition of Shaw Wallace has strengthened its competitive position. It has a 53% share of India's organized liquor market, which is characterized by high entry barriers. United Spirits is exploring international acquisitions to fuel growth. It has recently acquired Whyte & Mackay, the 4th largest scotch company in the world. The acquisition is EPS accretive and is a good strategic fit. It will significantly enhance UNSP's plans to expand its presence in the Indian premium whisky segments, as well as expand into fast growing Chinese and Russian markets. In addition, Whyte & Mackay will provide UNSP access to the European market, though we expect UNSP's focus to remain on the Indian market. UNSP is well positioned to enhance the value of Whyte & Mackay's inventory of scotch whiskey, by providing access to a ready and fast growing market for premium whisky. Steady sales growth, margin expansion and lower interest costs should drive an EPS CAGR of 40% in FY07-49E. United Spirit's capital efficiency is looking up amid strong earnings growth.

Valuation

Our target price of Rs1250 is based on 25x P/E for mid-FY09E. Our target multiple is at a 10-15% premium to the global 2008E average in recognition of 1) United Spirit's dominant position in India's liquor market, 2) strong demand growth of 13%, driven by rising incomes and market-share gains at the expense of the unbranded sector, 3) high barriers to entry, and 4) a 40% three-year EPS CAGR, almost 2x higher than the global peer group average. Our target multiple is at a 10-15% discount to the average 2008E multiple for the Indian consumer universe in view of the company's much higher gearing (vs. net cash for the Indian consumer universe) and lower capital-efficiency ratios. We use adjusted EV/EBITDA as our second valuation methodology and ascribe a multiple of 15x FY08E EV/EBITDA, which equates to Rs1230. Our EV/EBITDA multiple is almost at par with the 2008E global peer group average multiple, which we believe is conservative.

Risks

We rate United Spirits Low Risk based on our quantitative risk-rating system, which tracks 260-day historical share-price volatility. The key downside risks to our rating and target price include: 1) the liquor industry is highly regulated. Any change in policy (like increase in taxes, further control on distribution or an outright ban on liquor sales in some states) could adversely impact growth and profitability. 2) Easing the norms for entry of foreign players could increase competition and hurt growth prospects. 3) The company is looking for international acquisitions. Any bad buyout would result in further pressure on gearing and interest costs. 4) A general slowdown in GDP / income growth could lead to slowdown in market growth and sales 5) Post acquisition of Whyte & Mackay, gearing has increased significantly, increasing cash flow risks 6) UNSP will also need to successfully integrate Whyte & Mackay.

Appendix A-1

Analyst Certification

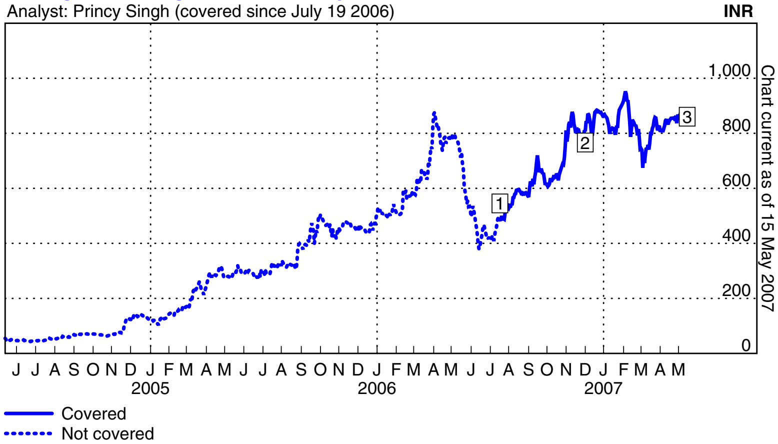
I, Princy Singh, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

United Spirits (UNSP.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh (covered since July 19 2006)



#	Date	Rating	Target Price	Closing Price
1:	18 Jul 06	1L	694.00	486.65
2:	1 Dec 06	1L	*1,080.00	807.65
3:	15 May 07	1L	*1,114.00	NA

*Indicates change.

Customers of the Firm in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at http://www.smithbarney.com (for retail clients) or http://www.citigroupgeo.com (for institutional clients) or can call (866) 836-9542 to request a copy of this research.

A seat on the Supervisory board of Davide Campari-Milano SPA is held by one or more employees of Citigroup Global Markets or its affiliates.

Citigroup acts as corporate broker and is acting as financial adviser to Britvic in relation to the potential acquisition of C&C Group Plc?fs soft drinks business

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Constellation Brands. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Constellation Brands.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Campari, Constellation Brands, Diageo, Pernod Ricard and Thai Beverage.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Diageo and Pernod Ricard.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Constellation Brands, Diageo, Pernod Ricard and Thai Beverage in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as investment banking client(s): Campari, Constellation Brands, Diageo, Pernod Ricard, Thai Beverage and United Spirits.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Constellation Brands, Diageo, Pernod Ricard and Thai Beverage.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: Constellation Brands, Diageo, Pernod Ricard and Thai Beverage.

Citigroup Global Markets Inc. or an affiliate received compensation in the past 12 months from United Spirits.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

The Firm is a market maker in the publicly traded equity securities of C&C Group, Constellation Brands and Diageo.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citigroup Investment Research product ("the Product"), please contact Citigroup Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citigroup Investment Research Ratings Distribution

Data current as of 31 March 2007	Buy	Hold	Sell

Citigroup Investment Research Global Fundamental Coverage (3215)	45%	40%	15%
% of companies in each rating category that are investment banking clients	45%	42%	32%
Beverages -- Europe (11)	18%	82%	0%
% of companies in each rating category that are investment banking clients	50%	67%	0%
Beverages -- North America (8)	25%	50%	25%
% of companies in each rating category that are investment banking clients	100%	75%	50%
China -- Asia Pacific (88)	72%	15%	14%
% of companies in each rating category that are investment banking clients	44%	46%	42%
India -- Asia Pacific (130)	58%	14%	28%
% of companies in each rating category that are investment banking clients	42%	50%	42%
Thailand -- Asia Pacific (41)	49%	20%	32%
% of companies in each rating category that are investment banking clients	20%	25%	23%

Guide to Fundamental Research Investment Ratings:

Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citigroup Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citigroup Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citigroup Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citigroup Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://www.sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 16 May 2007 04:00 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Diageo and Pernod Ricard. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Citigroup Global Markets Inc. or its affiliates acts as a corporate broker to C&C Group.

This Product has been modified by the author following a discussion with one or more of the named companies.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citigroup Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citigroup Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citigroup Wealth Advisors Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. If the Product was prepared by Citigroup Investment Research and distributed in Japan by Nikko Citigroup Ltd., it is being so distributed under license. Nikko Citigroup Limited is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Akasaka Park Building, 2-20, Akasaka 5-chome, Minato-ku, Tokyo 107-6122. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citigroup Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. Advice in the Product has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST