

# India Macro Flash

## Modi Momentum: State Elections, Fuel Reforms, Labor and More

- **What's New** — Two key developments over the weekend include (1) The BJP gaining in key state elections and (2) Fuel price reforms. Both of these are positive, adding to the ongoing macro momentum.
- **State Election Results: BJP Gains, Modi Shines Again** — In the state election results (Maharashtra, Haryana) yesterday, BJP emerged as the single largest party in both states. While anti-incumbency was a factor, the popularity of PM Modi and his development agenda have kept the momentum going for BJP.
  - **Implications:** We believe the state election results are likely to embolden reform momentum and improve BJP's representation in the Rajya Sabha over next two years. Note that non-BJP parties continue to dominate Rajya Sabha. (see pg 5)
- **Fuel Reforms Structurally Positive - Diesel, Natural Gas, LPG** — Immediately after state elections, the Modi government swung into action on the fuel front. Key decisions were (1) Diesel prices now market-determined, similar to Petrol (deregulated in Jun 2010) (2) Natural Gas prices raised from US\$4.2 to US\$5.6 per unit on GCV basis and US\$6.2 on NCV basis (3) Roll out of modified direct benefit transfer for LPG in 54 districts in Nov and all India from 1<sup>st</sup> Jan. Implications include:
  - **Subsidy:** The de-regulation of Diesel is likely to lower fuel subsidy by ~ 0.5% of GDP from FY15 onwards. Further, implementation of direct cash transfer could lower leakages in LPG and Kerosene subsidy (see p 3).
  - **Inflation:** With de-regulation of Diesel, the pass through of global prices would ease inflation directly / indirectly (10% lower crude to reduce CPI by 20bps). However, the release of suppressed inflation in LPG / kerosene could lead to upside risks on inflation in the near term (see p3, fig 5 for details).
  - **Investments:** The revised gas pricing, de-regulation of auto fuel, and premium for deep gas is aimed to spur investments and competition in the energy sector.
- **Labor Reforms** — As an enabler for "Make in India", PM Modi made further inroads on labor reforms last week that aim to ease compliance and improve transparency e.g. online portal for labor laws, non-discretionary inspection etc. (see p2).
- **Bottom Line** — With state elections done and key bureaucratic appointments in place, we expect reform momentum to continue. Going forward and heading into the budget next year, we expect progress on GST, coal block allocation, resolving labor sector, clarifying monetary policy objectives etc. Overall, as mentioned in our [Macroscope](#), while pace and timing could be debated, we remain confident that India is heading towards 7% growth and 6% CPI inflation.

---

**Rohini Malkani**  
+91-22-6175-9876  
rohini.malkani@citi.com

**Anurag Jha**  
+91-22-6175-9877  
anurag.jha@citi.com

*With thanks to  
Abha Agarwal*

---

### WHAT'S INSIDE

- Reforms Announced – p2
  - Impact of Fuel Reforms – p3
  - Impact of State Elections – p4
  - Statistical Snapshot – p5
- 

**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.**

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Certain products (not inconsistent with the author's published research) are available only on Citi's portals.

## Reforms – What's Announced and Pending

### REFORMS ANNOUNCED

Immediately after state elections in Maharashtra and Haryana, Modi announced key reforms on the fuel front.

These include deregulation of diesel prices, hike in gas price, and direct benefit transfer of LPG.

The government also recently announced reforms on the labour front.

Figure 1. Measures Announced

Area	Action/ Decision	Status
Energy*	Diesel price has been de-regulated	Done
	Gas Price increased to US\$5.6 per mBtu from US\$4.2 per mBtu on GCV basis and to US\$6.2 on NCV basis	Done
	Roll out of modified direct benefit transfer for LPG in 54 districts in Nov and all India from 1 <sup>st</sup> Jan	Done
FDI	Railways: 100% FDI in railway infrastructure	Cabinet approval given
	Defence: Increase in limit to 49% from 26%	Cabinet approval given
	Make in India: aggressive campaign to get FDI	Operational
Labour*	Changes in 3 important labour laws	Cabinet approved
	Eased norms for labor laws compliance - Shram-Suvidha Portal to allow single online return for 16 laws	Done
	Transparency in Labor inspection – decided by computer draw, reports to be uploaded within 72 hrs	Done
	Universal account number for EPF accounts	Done
Mining	Increase in royalty rates for iron ore and other minerals	Cabinet approval given
Finance	Banking Financial Inclusion plan	Launched
	Expenditure management commission	Committee announced
IT	1bn enrollment target for Aadhaar (UID)	Underway
Rural Development	Integrated project-based infrastructure development	Pilot projects launched
Environment	Clearance process (environment and forest) online	Done
Food Inflation	Hoarding made non-bailable offense. Rs5bn price stabilization fund	Done

\* Recently announced; Source: Govt, media reports and Citi Research

### REFORMS PENDING

Given that the key state elections are over, we expect reform momentum to continue.

Highly anticipated measures include the GST, retrospective tax amendment, coal allocation judgment.

Figure 2. Measures Pending

Area	Topic	Status
Finance	GST	New deadline 2016
	Retrospective amendments to tax laws	Addressal through Committee, not reversed
	Increase in FDI limit in insurance sector to 49%	Decision, but sent to Committee
Energy	Modification in incentive regime for hydrocarbon exploration (from cost-recovery to revenue-sharing model)	Work in progress
Mining	Coal Allocation Judgment	Awaiting details of Govt's plan of action post cancellation of coal blocks by the SC
Land acquisition	Making the recent law less onerous	Under discussion
Economic planning	Planning commission scrapped	Replacement institution/ framework to be announced
Food	National common market for agricultural produce	Contingent upon reforms by state govts in APMC
Investments	Single-window clearance for capital intensive steel, coal and power projects	In the works

Source: Govt, media reports and Citi Research

## Fuel Reform Impact: Fiscal, Inflation

### IMPACT ON FISCAL DEFICIT

Diesel de-regulation is likely to reduce fuel subsidy by Rs 600bn annually (0.5% of GDP).

In addition, the leakages in kerosene and LPG subsidy could be plugged with implementation of DBT.

### NON ADMINISTERED FUEL – INFLATION IMPACT

Recent decline in crude prices to US\$86/bbl bodes well for non-administered fuel, where the pass through is immediate.

As per RBI study, 10% decline in crude could reduce CPI by 20bps, WPI by 30-90bps

### ADMINISTERED FUEL- INFLATION IMPACT

LPG and Kerosene continue to be subsidized while Diesel have been de-regulated.

Based on earlier calculations, suppressed inflation in CPI could be higher than that in WPI

Figure 3. Trends in Oil Under-recoveries/ Subsidies (Rs Bn)

Year Ending Mar 31	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
<b>Gross Under-Recoveries</b>	<b>782</b>	<b>1,385</b>	<b>1,610</b>	<b>1399</b>	<b>837</b>	<b>681</b>	<b>675</b>
- Diesel	347	812	921	628	125	0	0
- LPG	218	300	396	465	410	402	413
- Kerosene	195	274	294	306	302	279	262
<b>Less: Upstream sharing</b>	<b>303</b>	<b>550</b>	<b>600</b>	<b>670</b>	<b>649</b>	<b>506</b>	<b>497</b>
% of total	39%	40%	37%	48%	77%	74%	74%
<b>Less: gov't compensation</b>	<b>410</b>	<b>835</b>	<b>1,000</b>	<b>708</b>	<b>188</b>	<b>175</b>	<b>178</b>
% of total	52%	60%	62%	51%	23%	26%	26%
Net under-recoveries	69	0	10	21	0	0	0

Source: Citi Research

Figure 4. Non-administered Products – A downside risk to inflation

	WPI weight	CPI weight
Crude Petroleum	0.90%	0%
Diesel	4.67%	0.01%
Petrol	1.09%	1.66%
other mineral oil	2%	0%
Bus/Tram/Taxi/auto fare	0	1.31%
<b>Total</b>	<b>8.66%</b>	<b>2.98%</b>

Source: CSO, Office of the Economic Advisor, NSSO, Citi Research

Figure 5. Suppressed Inflation in Administered Products – An Upside Risk

	Current Price	Current Loss	WPI	CPI
			Weight	Weight
			Supp. Inflation	Supp. Inflation
LPG (Rs/cyl)*	414	404.6	0.90%	0.9%
Kerosene (Rs/ltr)	14.96	31.2	0.70%	1.3%
<b>Overall Impact</b>			<b>2.2%</b>	<b>3.7%</b>

\* Not adjusted for cylinder cap; Prices as on 1<sup>st</sup> Oct, 2014; Source: OMCs, CSO, Office of the Economic Advisor, NSSO, Citi Research

## State Election Impact: Rajya Sabha Numbers

### BJP NUMBERS IN RAJYA SABHA COULD IMPROVE

Taking into account the BJP's gaining majority in the Maharashtra and Haryana state elections, the BJP could improve its numbers in the Rajya Sabha.

This is because representatives of States and Union Territories in the Rajya Sabha are elected by the elected members of the Legislative Assembly of that State.

Currently, the NDA has just 63 members of a total of 250.

Note that while the Rajya Sabha is a permanent House and is not subject to dissolution, one-third of its members retire after every second year. A member who is elected for a full term serves for a period of six years.

Figure 6. Composition of the Rajya Sabha

Party	Seats	Party	Seats
<b>NDA + supporting parties</b>	<b>63</b>	<b>Opposition</b>	<b>164</b>
BJP	46	INC	68
TDP	6	NCP	6
Shiv Sena	3	J&K National Conf (JKNC)	2
Shiromani Akali Dal	3	Rashtriya Lok Dal(RLD)	5
Lok Janshakti Party	1	Samajwadi Party(SP)	8
NPF	1	Bahujan Samaj Party(BSP)	14
MNF	1	Rashtriya Janata Dal(RJD)	1
Kerala Congress	1	Bodoland People's Front (BPF)	1
RPI	1	Janata Dal (United)	9
<b>Total NDA+ Support</b>	<b>63</b>	INLD	2
		BJD	6
		AIADMK	10
		Left Parties	11
		All India Trinamool Congress (AITC)	12
		DMK	6
		Jharkhand Mukti Morcha	1
		TRS	1
		AGP	1
		<b>Total Opposition</b>	<b>164</b>
		Nominated	10
		Others / Independents	9
		<b>Total Rajya Sabha</b>	<b>246</b>

Source: [www.rajyasabha.nic.in](http://www.rajyasabha.nic.in)

### LOK SABHA / LOWER HOUSE: NDA HAS ABSOLUTE MAJORITY

Following the 2014 Election Results, the National Democratic Alliance (NDA) has won absolute majority in the Lok Sabha (336 seats), with the BJP alone gaining a majority (282 seats)

The NDA's clear majority bodes well for the legislative process in the Lok Sabha. The Strong BJP number implies decisions can be taken relatively quickly, with fewer delays from opposition.

Figure 7. Composition of the Lok Sabha

Party	Seats	Party	Seats
<b>NDA</b>	<b>336</b>	<b>Opposition</b>	<b>207</b>
Bharatiya Janata Party	282	Indian National Congress	44
Shiv Sena	18	AIADMK	37
Telugu Desam Party	16	All India Trinamool Congress	34
Shiromani Akali Dal	4	Biju Janata Dal	20
Lok Jan Shakti Party	6	Left Parties	14
Rashtriya Loka Samata Party	3	Telangana Rashtra Samithi	11
Apna Dal	2	YSRC	9
Pattali Makkal Katchi	1	Nationalist Congress party	6
Swabhimani Paksha	1	Ind./ others	6
All India N.R Congress	1	Samajwadi Party	5
National People's Party	1	Rashtriya Janata Dal	4
Naga People's Front	1	Aam Aadmi Party	4
		IUML	2
		INLD	2
		J&K Democratic Party	2
		Janata Dal (Secular)	2
		Janata Dal (United)	2
		JMM	2
		SDF	1
		<b>TOTAL LOK SABHA</b>	<b>543</b>

Source: Election Commission

## Statistical Snapshot

Figure 8. India Macroeconomic Summary FY03 – 16E

Fiscal Year to 31 March	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
<b>National Income Indicators</b>														
Nominal GDP (Rs bn)	28,617	32,422	36,934	42,947	49,871	56,301	64,778	77,841	90,097	101,133	113,551	128,312	146,276	165,467
Nominal GDP (US\$ bn)	623	720	834	950	1,241	1,224	1,367	1,708	1,873	1,873	1,880	2,070	2,359	2,805
Per Capita GDP (US\$)	582	662	754	847	1,090	1,061	1,168	1,440	1,558	1,539	1,499	1,651	1,854	2,171
<b>Real GDP growth (%)</b>	<b>8.1</b>	<b>7.0</b>	<b>9.5</b>	<b>9.6</b>	<b>9.3</b>	<b>6.7</b>	<b>8.6</b>	<b>8.9</b>	<b>6.7</b>	<b>4.5</b>	<b>4.7</b>	<b>5.6</b>	<b>6.5</b>	<b>7.0</b>
Agriculture growth (%)	9.0	0.2	5.1	4.2	5.8	0.1	0.8	8.6	5.0	1.4	4.7	0.5	3.0	3.0
Industry growth (%)	7.3	9.8	9.7	12.2	9.7	4.4	9.2	7.6	7.8	1.0	0.4	3.9	5.9	7.0
Services growth (%)	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.7	6.6	7.0	6.8	7.5	7.5	7.8
<b>By Demand (%YoY)</b>														
Consumption	5.4	1.9	8.7	7.7	9.4	7.7	8.4	8.2	8.9	5.2	4.7	5.6	6.8	6.8
Pvt Consumption	5.9	1.7	8.6	8.5	9.4	7.2	7.4	8.7	9.3	5.0	4.8	5.5	7.0	7.0
Public Consumption	2.6	3.4	8.9	3.8	9.6	10.4	13.9	5.8	6.9	6.2	3.8	6.0	6.0	6.0
Gross Fixed Capital Formation	13.6	20.7	16.2	13.8	16.2	3.5	7.7	11.0	12.3	0.8	-0.1	2.5	6.5	8.5
<b>Cons; Invst, Savings * (%GDP)</b>														
Consumption	75.0	70.1	69.2	68.0	67.2	68.6	69.1	67.5	68.5	68.8	68.9	69.2	68.9	68.9
Gross Capital Formation	26.9	32.8	34.7	35.7	38.1	34.3	36.3	36.5	36.4	34.7	31.4	31.7	31.7	31.4
Gross Domestic Savings	28.7	32.4	33.4	34.6	36.8	32.0	33.7	33.7	31.3	30.1	30.5	30.8	31.0	31.0
<b>Real Indicators (%YoY)</b>														
Commercial vehicle sales	36.2	22.4	10.1	33.3	4.2	-21.4	39.2	27.0	19.5	-1.9	-20.2	-4.5	11.6	15
Car sales	27.2	17.8	7.7	20.7	12.1	0.3	25.7	29.2	3.9	2.4	-6.7	1.7	10.6	20
Two-wheelers	11.3	15.7	13.6	11.5	-7.8	2.7	25.9	25.8	13.9	2.9	7.3	10.0	10.0	20
Diesel consumption	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	8.0	6.7	-1.0	4.0	4.0	
Mobile Tele density	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	87.9	78.0	80.0	
<b>Monetary Indicators (% YoY)</b>														
Money supply	13.0	14.0	15.9	20.0	22.1	20.5	19.2	16.2	15.8	13.4	17.0	16.0	17.0	17.5
Inflation – WPI (Avg)	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	7.5	5.9	4.5	4.5	4.0
CPI (Avg)	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	10.2	9.5	7.8	6.2	6.0
Bank credit growth	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	14.1	15.0	14.0	15.0	16.0
Deposit growth	17.5	13.0	24.0	23.8	22.4	19.9	17.2	15.9	13.5	14.2	13.5	14.0	14.0	14.0
<b>Fiscal Indicators (% GDP)</b>														
Centre's fiscal deficit	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.8	-5.7	-4.9	-4.6	-4.1	-4.0	-3.6
State fiscal deficit	-3.9	-3.4	-2.5	-2.1	-1.4	-2.3	-2.9	-2.1	-2.4	-2.3	-2.2	-2.6	-2.5	-2.6
Combined deficit (Centre+State)	-8.2	-7.2	-6.5	-5.4	-4.0	-8.3	-9.3	-6.9	-8.1	-7.2	-6.9	-6.7	-6.5	-6.2
Off Balance Sheet Items			-0.5	-0.9	-0.6	-1.7	-0.2							
Combined liabilities (dom+ext)	90.0	88.8	84.6	79.9	76.1	76.8	75.5	70.2	69.6	69.8	69.6	68.5	66.2	64.7
<b>External Sector (% YoY)</b>														
Exports (US\$bn)	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	306.6	318.6	342.5	376.8	422.0
% YoY	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-1.0	3.9	7.5	10.0	12.0
Imports (US\$bn)	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	502.2	466.2	490.0	539.0	598.3
%YoY	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	0.5	-7.2	5.1	10.0	11.0
Trade deficit (US\$bn)	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-195.7	-147.6	-147.5	-162.2	-176.3
Invisibles (US\$bn)	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	111.6	107.5	115.2	110.8	118.3	125.4
Current Account Deficit (US\$bn)	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-88.2	-32.4	-36.7	-44.0	-50.9
% to GDP	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-4.7	-1.7	-1.8	-1.9	-1.8
Capital Account (US\$bn)	16.7	28.0	25.5	45.2	106.6	7.4	51.6	62.0	67.8	89.3	48.8	75.5	81.5	77.5
% GDP	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.6	3.6	4.8	2.6	3.6	3.5	2.8
Forex Assets (incl gold) (US\$bn)	110.3	140.9	151.6	199.2	309.2	252.3	277.0	303.5	294.4	292.6	303.7	342.5	380.1	406.7
Months of imports	16.5	14.2	11.6	12.5	14.4	9.8	11.1	9.6	7.1	7.0	7.8	8.4	8.5	8.2
External Debt (US\$bn)	112.7	134.0	139.1	172.4	224.4	224.5	260.9	317.9	360.8	409.4	442.2	457.2	472.2	487.2
Short Term Debt (US\$bn)	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	78.2	96.7	89.2	94.2	99.2	104.2
<b>Exchange Rate</b>														
US\$/INR - annual avg	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	54.0	60.4	62.0	62.0	60.0
% depreciation	-5.2	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	12.3	11.9	2.6	0.0	-3.2

\* At current prices.

Source: CSO, RBI, Ministry of Finance, Citi Research estimates

## Appendix A-1

### Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

### IMPORTANT DISCLOSURES

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 investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. 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 [https://www.citivelocity.com/cvr/eppublic/citi\\_research\\_disclosures](https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures). 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.

### NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets India Private Limited

Rohini Malkani; Anurag Jha

### OTHER DISCLOSURES

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 issuer(s) 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.

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 Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi 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.

**Important Disclosures for Bell Potter Customers:** Bell Potter is making this Product available to its clients pursuant to an agreement with Citigroup Global Markets Australia Pty Limited. Neither Citigroup Global Markets Australia Pty Limited nor any of its affiliates has made any determination as to the suitability of the information provided herein and clients should consult with their Bell Potter financial advisor before making any investment decision.



**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** through Citigroup Global Markets Australia Pty Limited. (ABN 64 003 114 832 and AFSL No. 240992), participant 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. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. 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. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. 1202, 12th Floor, FIFC, G Block, Bandra Kurla Complex, Bandra East, Mumbai - 400051 Corporate Identity Number: U99999MH2000PTC126657 Tel:+9102261759999 Fax:+9102261759961. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A., Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and 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 to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant 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 **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego 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. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). 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. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). 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 the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 399 Interchange 21 Building, 18th Floor, Sukhumvit Road, Klongtoey Nua, Wattana, Bangkok 10110, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Büyükdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This material may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the PRA nor regulated by the FCA and the PRA 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 a member of FINRA and registered with 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 authorised by the PRA and regulated by the FCA and the PRA.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

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 Citi Research's Products can be found at [https://www.citivelocity.com/cvr/eppublic/citi\\_research\\_disclosures](https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures).

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 is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

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. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it 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. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. Citi Research generally disseminates its research to the Firm's global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via Citi's proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author's previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Thomson Reuters. The printed and printable version of the research report may not include all the information (e.g., certain financial summary information and comparable company data) that is linked to the online version available on Citi's proprietary electronic distribution platforms.



© 2014 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

---

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

---