



Wipro

BSE SENSEX 19,008
S&P CNX 5,697

Rs456

Neutral

Bloomberg	WPRO IN	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EV/	EV/
Equity Shares (m)	2,434.1	END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
52-Week Range (Rs)	500/321	3/10A	271,957	45,638	18.6	17.4	24.5	5.7	26.6	21.8	4.0	18.0
1,6,12 Rel.Perf.(%)	0/5/-4	3/11E	309,907	50,990	21.6	16.1	21.1	4.7	23.5	19.7	3.4	16.4
M.Cap. (Rs b)	1,110.1	3/12E	370,197	58,937	24.1	11.3	18.9	3.8	22.4	20.9	2.7	13.0
M.Cap. (US\$ b)	24.3	3/13E	428,271	70,268	28.7	19.2	15.9	3.1	21.9	21.0	2.3	10.5

Wipro's 3QFY11 volume growth of 1.5% QoQ was disappointing and even lower than Infosys' 3.1%. IT EBIT margins were sequentially flat despite lower utilization, lower working days and currency headwinds. Margins benefited from pricing and higher fixed-bid. Guidance of 3-5% revenue growth in 4QFY11 was slightly below our expectation. Key highlights are:

- Wipro's 3QFY11 volume grew 1.5% QoQ, which was disappointing and lagged its peers for the second consecutive quarter. An offshore price increase of 3.7% and onsite increase of 0.6% QoQ (2.5% and -0.8% in CC) ensured revenues were in line with expectations at US\$1,344m, representing sequential growth of 5.6%. The Technology and Healthcare verticals were especially weak, reporting a sequential decline in revenue of 3.5% and 3.6% respectively (CC decline of 4% and 4.8%). Energy and Utilities (9.9% of revenue) grew fastest at 16.5%.
- The stepping down of Wipro's joint-CEOs was a surprise and was likely to have been driven by the company's underperformance to top-tier peers ever since the industry emerged from the downturn. The new CEO, Mr Kurien's credentials seem strong, having led Wipro's healthcare, telecom and BPO practices in the past. The immediate focus of the new leadership would be to return Wipro to peer growth rates and not so much on margins.
- IT EBIT margin was flat QoQ (v/s our estimate of 40bp improvement to 22.6%), which is credible given lower working days, lower utilization and a 50bp currency headwind in 3QFY11. However, SGA continues to remain high at 12.3% of revenue, which can be used to offset prospective margin headwind in 1QFY12 on the further wage increases.
- We believe lower exposure to higher growth BFSI and higher exposure to lower growth TMT verticals makes things incrementally more difficult for Wipro in terms of efforts to catch up with peers.

Continued underperformance to peers on volumes and strategic/execution risks emerging out of change in leadership warrant a wait and watch approach on the stock. We are embedding slightly lower volume growth than before for the next few quarters and revise our EPS assumptions downwards by 4.4% (to Rs24.1) for FY12 and 4.3% (to Rs28.7) for FY13. We expect Wipro's US dollar revenue to post 20% CAGR over FY11-13 and EPS CAGR of 15%. The stock trades at a P/E of 18.9x FY12E and 15.9x FY13E. Maintain **Neutral**, with a target price of Rs488, based on 18x FY13E.

CONSOLIDATED QUARTERLY (IFRS)

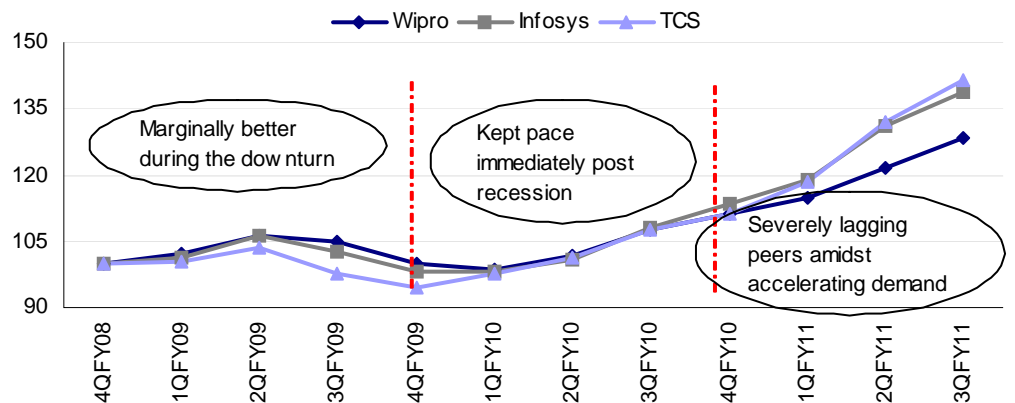
	(Rs million)									
	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
IT Services and Products#	55,603	61,835	61,762	61,496	63,322	68,164	68,278	73,732	240,696	273,496
Other Businesses	8,265	7,102	7,618	8,276	8,584	9,555	9,924	8,348	31,261	36,411
Revenues	63,868	68,937	69,380	69,772	71,906	77,719	78,202	82,080	271,957	309,907
Q-o-Q Change (%)	-2.2	7.9	0.6	0.6	3.1	8.1	0.6	5.0		
Direct Expenses	43,247	47,522	47,766	47,764	48,647	53,270	53,530	56,265	186,299	211,712
SG&A	7,791	8,466	8,472	8,701	9,225	10,002	10,406	10,447	33,430	40,080
EBIT	12,830	12,949	13,142	13,307	14,034	14,447	14,266	15,369	52,228	58,116
Margins (%)	20.1	18.8	18.9	19.1	19.5	18.6	18.2	18.7	19.2	18.8
Other Income	355	681	721	1,612	948	955	1,324	1,183	3,369	4,410
Forex Gain/(Loss)	-1,406	240	394	57	458	-414	91	-110	-715	25
PBT	11,893	13,982	14,385	15,152	15,597	15,180	15,841	16,602	55,412	63,220
Provision for Tax	1,740	2,217	2,321	3,015	2,527	2,183	2,582	2,795	9,293	10,087
Rate (%)	14.6	15.9	16.1	19.9	16.4	14.6	16.5	17.0	16.1	21.5
Net Income	10,104	11,707	12,033	12,091	13,003	12,849	13,188	13,736	45,935	52,776
Q-o-Q Change (%)	0.9	15.9	2.8	0.5	7.5	-1.2	2.6	4.2	18.5	14.9
Diluted EPS (Rs)	4.1	4.8	4.9	4.9	5.4	5.3	5.4	5.6	18.8	21.6
US\$ Revenues (IT Services)	1,033	1,065	1,127	1,166	1,204	1,273	1,344	1,406	4,391	5,226
Q-o-Q Change (%)	-1.2	3.1	5.8	3.5	3.2	5.7	5.6	4.6	1.6	19.0

E: MOSL Estimates; # reclassified in FY09

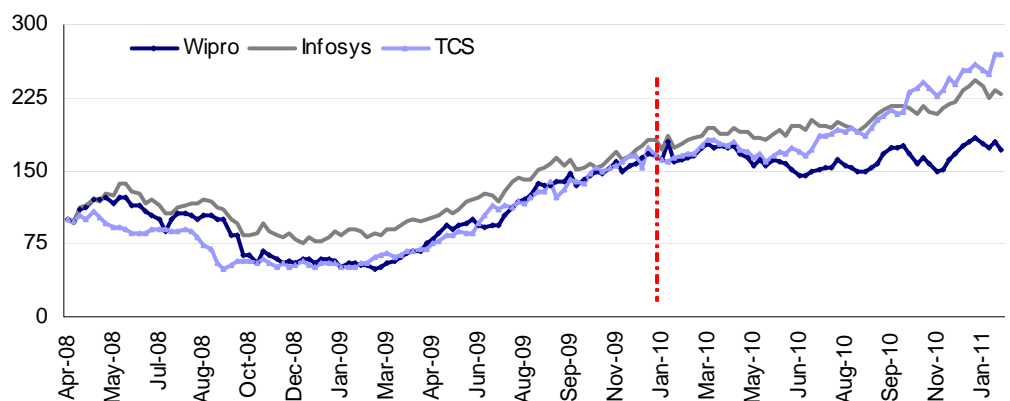
Joint-CEOs resign: a look at revenue, stock performance during their tenure

- Wipro outperformed its peers on revenue growth modestly during the recession, much of which was driven by: (1) lower exposure to the BFSI vertical than peers, which was a severely challenged segment during the period, (2) better proportion of services like IMS, a segment relatively insulated from recessionary headwinds. A leaner organization approach driven by the management led to a cut in the size of the bench and higher utilization, which helped Wipro grow its margins from 15.9% in 4QFY08 to 20.1% in 1QFY10.
- However, with the upturn, demand for IT services increased and Wipro was caught off guard, resulting in peers catching up with Wipro. The impact was felt most in the past three quarters, in which factors like pent-up demand and M&A integration led to higher demand and a rush for resources. Wipro's decision to stay away from low-end work and staff augmentation turned out to be its undoing as clients migrated to higher end work with its peers.

Revenue performance during the tenure of joint CEOs (indexed at 100)



Comparison of stock performance



Source: Company/MOSL

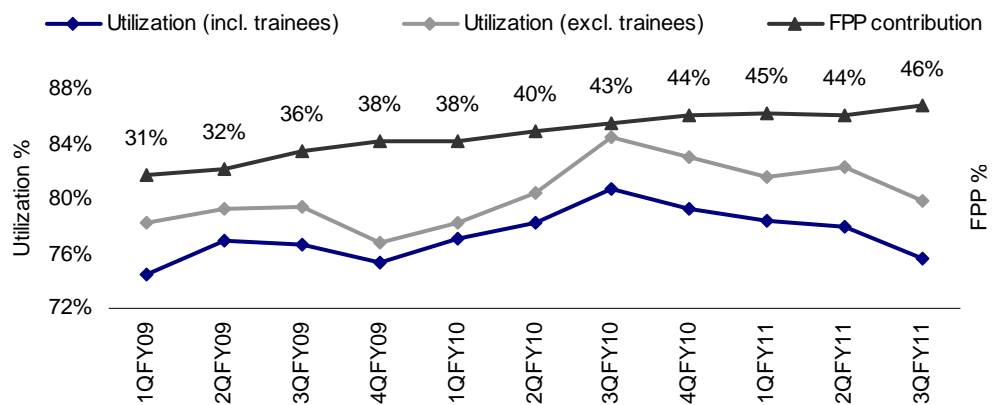
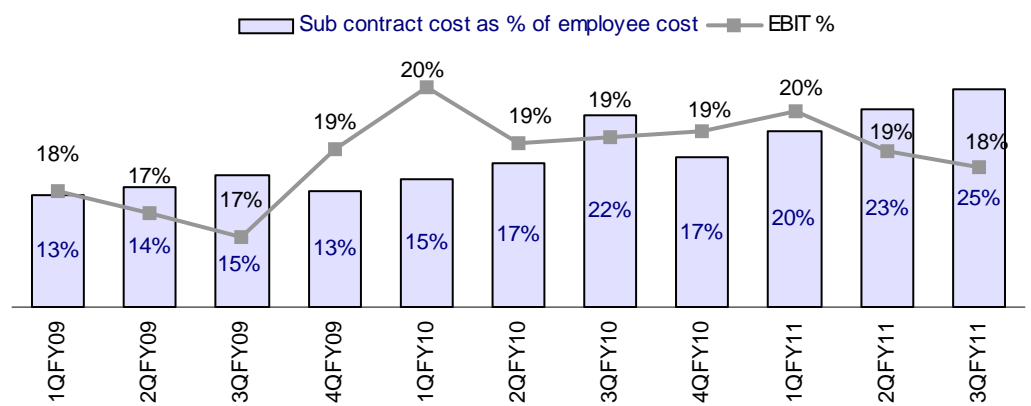
Higher fixed-bid proportion and large deployment of sub-contractors amid high attrition remains a risk

- IT EBIT margins at 22.2% were sequentially flat after having dropped 230bp in 2QFY11. Wipro maintained its positive outlook on margins due to the levers of: (1) improved bulge mix through a larger proportion of fresher additions, going forward, (2) productivity-based improvement on a high fixed-bid mix (46.3% v/s 44% in 2QFY11),

(3) strong thrust on a non-linear model, constituting 11% of revenue and (4) utilization - a medium-term lever, as it is unlikely to pick up over the next two quarters.

- However, we maintain that material improvement in margins looks difficult in the near term and may materialize gradually, given delivery pressure due to high attrition (21.7% quarterly annualized v/s 23% quarterly annualized attrition in 2QFY11) and a tendency of contract staff to turn to permanent jobs in an improving demand scenario (sub-contracting fees increased to ~25% of employee costs in 2QFY11). A higher proportion of fixed-bid in such an environment creates greater risk as higher fixed bid would require greater operational control and continuity of resources for productivity gains to materialize. We believe this limits Wipro's ability to meaningfully improve utilization from current levels relative to that of peers like Infosys and TCS.

High sub-contractor costs, fixed-bid mix limit scope to improve utilization



Source: Company/MOSL

Revenue up 5.6% QoQ, guides for 3-5% QoQ growth in 4QFY11

- Wipro's 3QFY11 IT Services US dollar revenue grew 5.6% QoQ to US\$1,344m (in line with our estimate of US\$1,342m), at the higher end of its guidance of US\$1,317m-1,343m. In CC terms, revenue was US\$1,325m implying growth of 4.1% QoQ. Volume growth of 1.5% QoQ was worst among the peer set, with 3.7% QoQ offshore and 0.8% QoQ onsite improvement in pricing leading to in-line revenue growth.
- 4QFY11 revenue guidance is US\$1,384m-1,411m, up 3-5% QoQ (against our estimate of 4-6% and Infosys' guidance of 1-2% QoQ).
- IT services EBIT margin of 22.2% was sequentially flat (against our estimate of 22.6%, up 40bp). Overall EBIT margin of 18.2% was down 40bp QoQ (in line with our expectations).

- SGA as a percentage of sales increased 40bp from 12.9% to 13.3% (against our estimate of 12.7%).
- Other income was Rs1.3b (against our estimate of Rs1.1b) due to forex gains of Rs91m (against our estimated loss of Rs95m).
- Profit after tax was Rs13.2b, up 2.6% QoQ (against our estimate of Rs13b).

Wipro 3QFY11 actual v/s estimates

Key parameters	3QFY11		2QFY11	QoQ (%)	3QFY10	YoY (%)
	Actual	Estimate				
Revenue (Rs m)	78,202	79,497	77,719	0.6	69,380	12.7
EBIT (Rs m)	14,266	14,568	14,447	-1.3	13,142	8.6
EBIT (%)	18.2	18.3	18.6	-35bp	18.9	-70bp
Adjusted PAT (Rs m)	13,188	12,996	12,849	2.6	12,033	9.6
IT Services Revenue (US\$ m)	1,344	1,342	1,273	5.6	1,127	19.3
IT Services EBIT (%)	22.2	22.2	24.5	-234bp	23.6	-139bp

Source: Company/MOSL

Growth Comparison - QoQ (%)

	Wipro	Infosys	TCS	HCL Tech
By Industry				
BFSI	7.1	8.3	8.4	5.2
Manufacturing	6.4	9.8	8.8	7.2
Retail	5.4	6.6	7.0	15.5
Telecom	5.5	-0.8	-0.5	5.8
By Services				
Application Development & Maintenance	9.5	3.2	2.9	9.1
Package Implementation & Consulting	2.3	6.4	2.7	5.5
Infrastructure Services	6.6	2.5	19.5	9.4
By Geography				
US	4.0	4.3	6.6	5.8
Europe	12.6	6.3	10.9	7.2

Source: Company/MOSL

Valuation and view

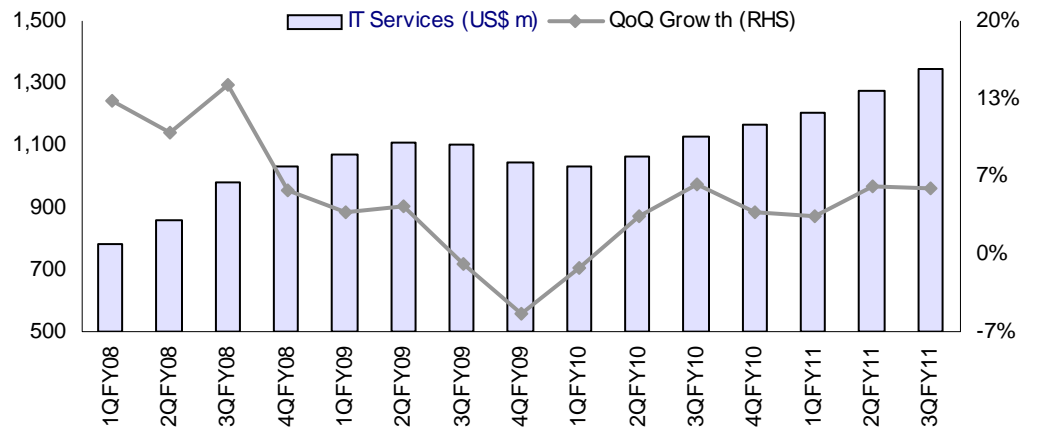
- Under-performance on volume growth compared with its peers and a change in leadership limit our confidence in Wipro bridging the gap with peers in the near term. Given execution uncertainties associated with a new leadership, we are taking a cautious approach in modeling our volume growth. Better currency assumptions (Rs45 v/s Rs44.5 in FY12 and Rs44 in FY13 v/s Rs43 earlier) offset execution uncertainty to an extent. Our revised EPS assumptions for FY12 and FY13 are Rs24.1 (down 4.4%) and Rs28.7 (down 4.3%) respectively.
- Lower exposure to higher growth BFSI (27.3% v/s 36.2% for Infosys and 44.6% for TCS) and higher exposure to lower growth TMT verticals makes it difficult for Wipro to catch up with its peers. Within TMT, Wipro has higher exposure to R&D/Product Engineering instead of core IT services. R&D spends are yet to pick up meaningfully as has been indicated by relatively weak R&D/PE results across companies (excluding Infosys, though it has only a small exposure here).
- We expect Wipro to post US dollar revenue of 20% CAGR over FY11-13 and EPS CAGR of 15%. The stock trades at a P/E of 18.9x FY12E and 15.9x FY13E. We maintain a Neutral rating on the stock with a target price of Rs488 (7% upside), based on 18x FY13E (a lower multiple on continued underperformance to top-tier peers). We prefer **Infosys** and **HCL Tech** among large cap IT companies.

Operating metrics QoQ growth (%)

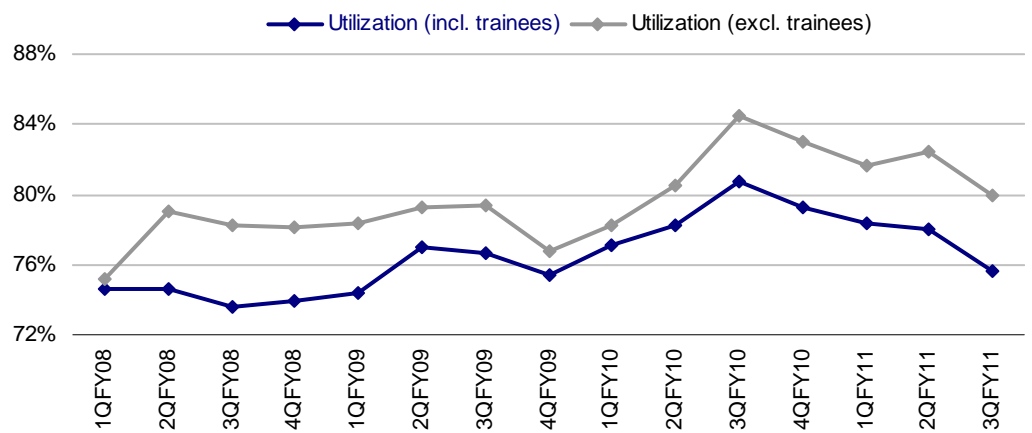
	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Service Line wise									
Technology Infrastructure Services	-1.4	2.4	-1.2	1.6	9.4	4.9	0.9	6.2	6.6
Testing Services	2.7	-1.6	0.4	2.3	1.4	5.3	0.6	5.7	1.9
Package Implementation	3.5	4.0	3.4	2.3	1.8	2.7	9.7	6.5	2.5
BPO	-3.0	0.3	3.9	7.2	6.8	6.4	-4.3	2.6	0.2
Product Engineering	-4.2	-14.8	-12.6	-12.6	11.2	3.5	18.4	17.0	-2.5
ADM	-1.8	-11.4	-3.0	5.2	5.8	1.6	3.8	4.7	9.7
Consulting	-8.8	-13.2	-5.9	18.6	5.8	21.5	-0.6	17.9	12.9
Vertical wise									
Technology	-3.5	-13.6	-6.2	-4.6	2.1	5.9	2.0	2.0	-3.4
Telecom	0.2	-12.8	-5.7	-0.6	3.2	7.4	2.0	7.0	5.6
CMSP	-3.2	-6.1	7.2	11.2	8.0	-7.1	6.8	-0.1	8.0
Technology, Media and Telecom	-2.2	-11.2	-2.0	2.0	4.6	1.5	3.6	2.9	3.5
Financial Services	-2.0	-4.9	-0.1	0.8	6.2	4.7	6.4	5.7	7.1
Manufacturing & Healthcare	-0.9	-0.3	-2.1	4.0	6.2	4.3	1.5	5.7	2.4
Retail & Transportation	5.7	2.3	-3.8	3.1	3.0	2.8	4.6	10.0	4.9
Energy & Utilities	-3.3	-8.4	5.1	11.8	11.7	4.6	-4.3	6.9	16.1
Geography wise									
US	0.1	-4.1	-2.5	0.9	3.4	2.7	4.3	3.2	2.4
Europe	-3.8	-7.1	-1.2	7.2	5.0	3.5	-0.3	10.3	12.7
Japan	-4.8	-8.9	-22.7	-8.3	5.8	-3.0	3.2	5.7	5.6
India & the Middle East business	-4.7	-2.4	1.3	5.7	16.2	2.3	5.6	4.6	5.6
Other emerging markets	16.6	-4.9	25.9	9.2	19.5	13.6	4.8	12.0	4.1
Client wise									
Top client	-8.2	-8.7	7.0	7.1	1.9	-0.5	19.8	5.7	9.2
top 5 clients	-2.6	-9.1	4.2	2.2	1.1	0.6	7.2	3.8	5.6
Top 10 clients	-1.9	-7.3	3.3	-1.4	4.7	2.4	5.9	2.5	5.6
Non top 10 clients	-0.6	-4.3	-2.3	4.3	6.0	3.7	2.6	6.5	5.6

Source: Company/MOSL

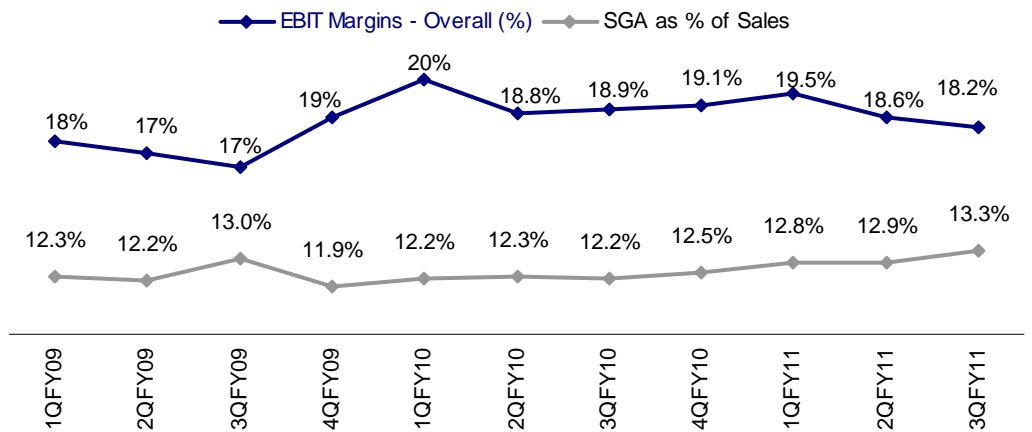
5.6% QoQ growth at the higher end of the guidance



Utilization (including trainees) declined 240bp QoQ due to lower volumes



EBIT margins declined 40bp sequentially (in line), SGA up 40bp QoQ



Source: Company/MOSL

Wipro: an investment profile

Company description

Wipro is the third largest Indian IT services company and the second largest third-party BPO operator in India. It is the largest third-party R&D services provider globally, employing over 119,000 employees. It offers the widest range of IT and ITeS services and its corporate governance and transparency are at the highest level in the industry.

Key investment arguments

- Wipro was able to forecast the slowdown much before its peers, which has translated into better margin management. Strong cost optimization continues.
- It is the largest player in infrastructure management services (IMS), the fastest growing service line for Indian IT companies.
- It has a strong presence in domestic and emerging markets, growing ahead of developed markets.

Key investment risks

- Risk pricing in FPP projects could go wrong.
- Increase in attrition could put pressure on wages and moderate the company's ability to increase utilization and affect productivity in fixed bid projects.
- Limited operational scope with near historical high utilizations.
- New management raises uncertainty over execution in the near term.

Comparative valuations

		Wipro	Infosys	TCS
P/E (x)	FY11E	21.1	27.1	27.4
	FY12E	18.9	21.6	23.3
P/BV (x)	FY11E	4.7	7.1	9.5
	FY12E	3.8	5.8	7.1
EV/Sales (x)	FY11E	3.4	6.2	6.2
	FY12E	2.7	5.0	4.9
EV/EBITDA (x)	FY11E	16.4	18.7	20.7
	FY12E	13.0	14.8	16.4

Shareholding Pattern (%)

	Sep-10	Jun-10	Sep-09
Promoter	79.5	79.5	79.2
Domestic Inst	2.6	1.7	2.2
Foreign	8.6	9.8	8.9
Others	9.3	9.0	9.7

Recent developments

- Announced the appointment of TK Kurien as the new CEO from 1 February 2011, after the joint CEOs stepping down.
- Wipro added eight clients in the US\$20m-50m category in 3QFY11.

Valuation and view

- Valuations at 18.9x FY12E and 15.9x FY13E.
- Maintain **Neutral** with a target price of Rs488, based on 18x FY13E.

Sector view

- Indian offshoring has been vindicated with global clients and service providers making India their base for IT enabled solutions. India still commands less than 5% of global IT markets. We are positive on the sector from a long-term perspective.
- The US economic slowdown, wage inflation and sharper currency appreciation are key concerns.
- Frontline Indian IT companies will be better placed to sail through near term adversities. Niche IT/ITeS services companies with strong business models are likely to be better placed to face near-term uncertainties.

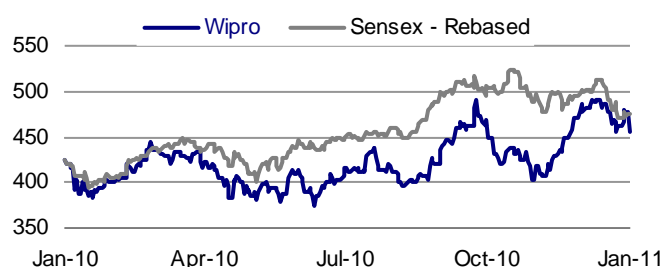
EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	21.6	22.0	-1.9
FY12	24.1	24.8	-3.0

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
456	488	7.0	Neutral

Stock performance (1 year)



Financials and Valuations

INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Sales	271,957	309,907	370,197	428,271	
<i>Change (%)</i>	<i>5.9</i>	<i>14.0</i>	<i>19.5</i>	<i>15.7</i>	
Operating Costs	179,373	206,367	247,046	284,712	
SG&A	32,822	39,410	45,142	51,879	
EBITDA	59,762	64,130	78,009	91,880	
<i>% of Net Sales</i>	<i>22.0</i>	<i>20.7</i>	<i>21.1</i>	<i>21.5</i>	
Depreciation & Amort.	7,831	7,982	9,255	10,707	
EBIT	51,931	56,148	68,754	81,173	
<i>Margins</i>	<i>19.1</i>	<i>18.1</i>	<i>18.6</i>	<i>19.0</i>	
Other Income	2,654	4,435	5,872	8,458	
Income from equity investees	530	851	640	640	
PBT	55,115	61,434	75,266	90,271	
Tax	9,293	10,087	16,045	19,719	
<i>Rate (%)</i>	<i>16.9</i>	<i>16.4</i>	<i>21.3</i>	<i>21.8</i>	
PAT	45,822	51,347	59,221	70,552	
Minority Interest	-184	-357	-284	-284	
PAT bef extraordinary	45,638	50,990	58,937	70,268	
Extraordinary items	0	182	0	0	
Net Income	45,638	51,172	58,937	70,268	
<i>Change (%)</i>	<i>18.0</i>	<i>12.1</i>	<i>15.2</i>	<i>19.2</i>	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Share Capital	2,936	4,907	4,907	4,907	
Reserves	193,176	232,472	284,570	347,999	
Other Comprehensive Income					
Net Worth	196,112	237,379	289,477	352,906	
Minority Interest & others	8,339	6,344	6,344	6,344	
Loans	62,511	58,583	58,583	58,020	
Capital Employed	266,962	302,306	354,404	417,271	
Gross Block	89,796	100,627	115,882	121,882	
Less : Depreciation	36,338	44,320	53,575	53,575	
Net Block	53,458	56,307	62,307	68,307	
Investments	30,420	64,858	64,858	64,858	
Intangible Assets	57,813	58,106	58,106	58,106	
Other non current assets	13,143	19,563	21,649	24,018	
Curr. Assets	175,094	173,781	232,037	299,032	
Debtors	67,636	78,538	93,816	108,534	
Inventories	7,926	9,340	11,157	12,907	
Cash & Bank Balance	64,878	53,378	88,748	132,697	
Adv., Other Current Assets	34,654	32,525	38,316	44,895	
Current Liab. & Prov	62,966	70,309	84,553	97,051	
Net Current Assets	112,128	103,472	147,485	201,981	
Application of Funds	266,962	302,306	354,404	417,271	

E: MCRSL Estimates

RATIOS					
Y/E MARCH	2010	2011E	2012E	2013E	
Basic (Rs)					
EPS*	18.6	21.6	24.1	28.7	
Cash EPS*	21.8	24.1	27.9	33.1	
Book Value	80.7	97.6	119.1	145.1	
DPS	2.4	2.4	2.4	2.4	
Payout %	12.9	11.1	10.0	8.4	
Valuation (x)					
P/E	24.5	21.1	18.9	15.9	
Cash P/E	20.9	18.9	16.4	13.8	
EW/EBITDA	18.0	16.4	13.0	10.5	
EV/Sales	4.0	3.4	2.7	2.3	
Price/Book Value	5.7	4.7	3.8	3.1	
Dividend Yield (%)	0.5	0.5	0.5	0.5	
Profitability Ratios (%)					
RoE	26.6	23.5	22.4	21.9	
RoCE	21.8	19.7	20.9	21.0	
Turnover Ratios					
Debtors (Days)	87	86	85	86	
Asset Turnover (x)	5.7	5.3	5.7	6.3	
Leverage Ratio					
Debt/Equity Ratio(x)	0.3	0.3	0.2	0.2	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Cash Flow from Operations	53,469	58,972	68,192	80,975	
Cash for Working Capital	-25,743	-2,844	-8,643	-10,548	
Net Operating CF	27,726	56,128	59,550	70,427	
Net Purchase of FA	-11,198	-10,831	-15,255	-16,707	
Net Purchase of Investments	-12,742	-40,969	-2,086	-2,370	
Net Cash from Invest.	-23,940	-51,800	-17,341	-19,076	
Issue of Shares	10,072	-4,645	0	0	
Proceeds from LTB/STB	8,742	-6,130	0	-563	
Dividend Payments	-6,839	-6,839	-6,839	-6,839	
Net CF from Financing	11,975	-17,614	-6,839	-7,402	
Free Cash Flow	16,528	45,297	44,295	53,720	
Net Cash Flow	15,761	-13,286	35,370	43,949	
Opening Cash Balance	49,117	64,878	51,592	86,962	
Add: Net Cash	15,761	-13,286	35,370	43,949	
Closing Cash Balance	64,878	51,592	86,962	130,911	

N O T E S



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