

## WIPRO LIMITED

### Mar-12 results: weakening outlook

Wipro guided for revenue growth in the range of -1% to +0.9% q/q for the Jun-12 quarter, indicating that the near-term outlook remains challenging for Indian IT companies. Although results for the Mar-12 quarter were in line with our estimates, the tough macro environment could make it difficult for Wipro to resolve its execution issues. Valuations with a P/E of 15.7x FY13 (Infosys trades at 14.4x) also do not appear inexpensive. Hence, we maintain our 3-Underweight rating and our 12-month price target of Rs360.

**Mar-12 performance:** Wipro's IT services revenue of US\$1,536mn (+2% q/q) was in line with our estimate. This was driven by volume growth, which stood at +0.8% and price realization improvement of +0.6% q/q. The growth was driven by energy/utilities (+6.8% q/q) and retail (+5.9% q/q) while telecom and BFSI saw sequential declines of 2.1% and 0.6%, respectively. By geography, APAC and emerging markets (+10.5% q/q) were the main growth drivers while the US and Europe showed muted growth.

**Jun-12 guidance:** Wipro guided for IT services revenue of US\$1,520-1,550m (-1% to 0.9% q/q), indicating that the outlook remains unpredictable for IT companies. Out of the three Offshore IT service companies that provide quarterly guidance, Wipro is now the second company (after Infosys) to warn of a slow June quarter. Clearly all eyes will now be on CTSI results on 7 May. Wipro's margins could also remain under pressure in the June quarter due to higher wages.

**Sustained improvement appears warranted to justify valuations:** We adjust our EPS estimates down 3.5% for FY13 and down 4.1% for FY14 to incorporate the weak outlook. The stock's current valuations seem unjustified given the volatile macro environment and the execution risks associated with the company. We maintain our 12-month price target of Rs360 and our 3-Underweight rating.

#### WIPR.NS: Financial and Valuation Metrics INR

FY Mar	2011	2012	2013	2014	2015
EPS	N/A	22.79A	26.11E	29.95E	33.69E
Previous EPS	N/A	23.21E	27.06E	N/A	N/A
P/E	N/A	18.0	15.7	13.7	12.2

Source: Barclays Research.

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Stock Rating	<b>3-UNDERWEIGHT</b> Unchanged
Sector View	<b>2-NEUTRAL</b> Unchanged
Price Target	<b>INR 360.00</b> Unchanged

Price (25-Apr-2012)	INR 410.15
Potential	-12%
Upside/Downside	
Tickers	WIPRO IN / WIPR.NS

Market Cap (INR mn)	1008431
Shares Outstanding (mn)	2458.69
Free Float (%)	21.65
52 Wk Avg Daily Volume (mn)	0.1
Dividend Yield (%)	1.5
Return on Equity TTM (%)	21.71
Current BVPS (INR)	111.50

Source: FactSet Fundamentals

Price Performance	Exchange-BSE
52 Week range	INR 467.95-310.20



[Link to Barclays Live for interactive charting](#)

#### Asia Ex-Japan Software & IT Services

##### Bhuvnesh Singh

+91 22 6719 6314

bhuvnesh.singh@barcap.com

BSIPL, Mumbai

Vaibhav Dhasmana

+91 22 6719 6043

vaibhav.dhasmana@barcap.com

BSIPL, Mumbai

## COMPANY SNAPSHOT

Wipro Limited

Asia Ex-Japan Software &amp; IT Services

Income statement (INRmn)	2012A	2013E	2014E	2015E	CAGR
Revenue	371,971	422,351	475,001	531,271	12.6%
EBITDA	74,140	85,532	95,649	106,813	12.9%
EBIT	64,011	72,804	81,480	91,205	12.5%
Pre-tax income	69,422	80,888	92,828	104,414	14.6%
Net income	55,730	63,972	73,404	82,557	14.0%
EPS (reported) (INR)	22.79	26.11	29.95	33.69	13.9%
Diluted shares (mn)	2,449.9	2,450.7	2,450.7	2,450.7	0.0%
DPS (INR)	6.00	6.00	6.00	6.00	0.0%

Stock Rating	<b>3-UNDERWEIGHT</b>
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## Investment case

**Why a 3-Underweight?** Weak execution by the company should continue to weigh on growth. This should keep share price depressed, leading to a valuation at a 25% discount to Infosys' and our target price of Rs360.

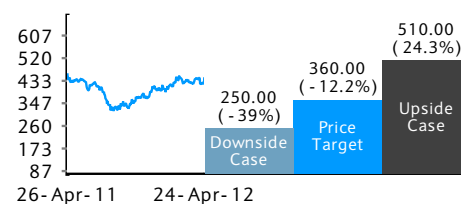
Upside case **INR 510.00**

A strong rebound in discretionary IT spending or a much better-than-expected improvement in operations could lead to both EPS (+10%) and multiples (to 16x) upgrades. This would lead to a target of Rs510.

Downside case **INR 250.00**

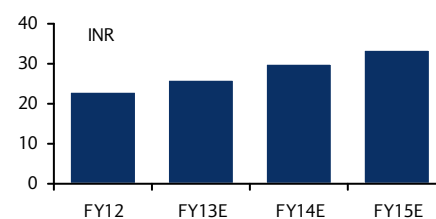
Significantly weaker macro scenario or some further issues with restructuring could lead to both EPS downgrades (down 15%) and multiple correction (to 10x) leading to a share price of Rs250.

## Upside/downside scenarios



Source: FactSet Fundamentals

## EPS projections



Source: Company data, Barclays Research

## Margin and return data

					Average
EBITDA margin (%)	19.9	20.2	20.1	20.1	20.1
EBIT margin (%)	17.2	17.2	17.2	17.2	17.2
Pre-tax margin (%)	18.7	19.2	19.5	19.6	19.2
Net margin (%)	15.0	15.1	15.4	15.5	15.3
ROIC (%)	21.1	22.6	26.3	25.4	23.8
ROA (%)	13.8	13.6	13.5	13.8	13.7
ROE (%)	21.2	20.4	19.4	18.0	19.8

## Balance sheet and cash flow (INRmn)

					CAGR
Fixed assets	101,570	113,570	125,570	137,570	10.6%
Cash and equivalents	121,095	196,499	257,634	273,733	31.2%
Total assets	436,001	505,521	582,003	614,459	12.1%
Total current liabilities	81,237	105,170	117,681	67,580	-6.0%
Long-term liabilities	9,643	9,643	9,643	9,643	0.0%
Total liabilities	436,001	505,521	582,003	614,459	12.1%
Net debt/(funds)	-62,137	-149,333	-219,901	-235,999	N/A
Shareholders' equity	285,314	342,693	416,097	498,654	20.5%
Change in working capital	-18,549	29,088	-5,004	-70,067	N/A
Cash flow from operations	47,310	105,788	82,568	28,099	-15.9%
Capital expenditure	-14,023	-12,000	-12,000	-12,000	N/A
Free cash flow	33,287	93,788	70,568	16,099	-21.5%

## Valuation and leverage metrics

					Average
P/E (reported) (x)	18.0	15.7	13.7	12.2	14.9
EV/EBITDA (x)	12.7	10.0	8.2	7.2	9.5
Equity FCF yield (%)	3.3	9.3	7.0	1.6	5.3
EV/sales (x)	2.5	2.0	1.6	1.4	1.9
Price/BV (x)	3.5	2.9	2.4	2.0	2.7
Dividend yield (%)	1.5	1.5	1.5	1.5	1.5
Total debt/capital (%)	17.1	12.1	8.3	7.0	11.1
Net debt/EBITDA (x)	-0.8	-1.8	-2.3	-2.2	-1.8

## Selected operating metrics

Total headcount	135,920	150,334	169,696	189,933
Volume growth (%)	10.7	12.6	12.7	11.9
Pricing growth (%)	2.4	-1.3	-1.2	-0.2
Onsite as % of revenues	53.8	53.3	52.0	52.2

Source: Company data, Barclays Research  
Note: FY end Mar

## Mar-12 quarter results

### Result summary

Wipro reported Mar quarter IT services revenue at US\$1,536mn (+2% q/q, +1.3% in cc), in line with our estimate. The EBIT margin for IT services was flat at 20.7% while the overall margin of 17.3% came in above expectations.

Figure 1: Wipro – Mar-12 quarterly results vs Barclays Research estimates

Rs mn	Mar-11	Dec-11	Mar-12 act	% q/q	% y/y	Mar-12 Estimate	Actual vs estimate
Revenue	82,715	98,808	98,164	-0.7%	18.7%	101,945	-4%
Revenue (US\$ mn)	1,842	1,955	1,929	-1.3%	4.7%	2,031	-5%
EBITDA	17,068	19,842	19,612	-1.2%	14.9%	19,962	-2%
EBITDA margin (%)	20.6%	20.1%	20.0%			19.6%	
EBIT	14,787	17,239	16,943	-1.7%	14.6%	17,254	-2%
EBIT margin (%)	17.9%	17.4%	17.3%			16.9%	
Net profit	13,754	14,564	14,809	1.7%	7.7%	14,568	2%
Net margin (%)	16.6%	14.7%	15.1%			14.3%	
EPS (Rs)	5.64	5.94	6.04	1.6%	7.1%	5.95	2%
IT services							
Revenue	62,891	76,076	75,897	-0.2%	20.7%	77,240	-2%
Revenue (US\$ mn)	1,400	1,505	1,536	2.0%	9.7%	1,539	0%
EBIT	13,878	15,828	15,731	-0.6%	13.4%	15,905	-1%
EBIT margin (%)	22.1%	20.8%	20.7%			20.6%	

Source: Company reports, Barclays Research estimate

### Performance vs peers

Wipro guided for IT services revenue of US\$1,520-1,550mn for the June quarter, which implies q/q growth of -1% to +0.9% compared with Infosys' guidance of 0-1% sequential growth. We see two key implications of this guidance: 1) The onus of performance falls back on Wipro, and 2) the predictability of the business remains low and outlook remains uncertain across the industry and is not specific to any company.

Figure 2: Wipro – performance vs peers in the Mar-12 quarter (q/q)

	Infosys	TCS	Wipro	HCL Tech
Revenue growth (US\$)	-1.9%	2.4%	2.0%	2.5%
Revenue growth (constant currency)	-2.1%	2.3%	1.3%	1.9%
Volume growth	-1.5%	3.3%	0.8%	2.9%
Pricing growth	-1.1%	-0.9%	0.7%	-1.4%
Margin	-128bps	-155bps	-18bps	-16bps
Attrition	14.7%	12.2%	17.5%	15.0%
Hiring as % of workforce	3.3%	5.0%	nm	nm
Change in utilisation	-339bps	-274bps	+60bps	+260bps

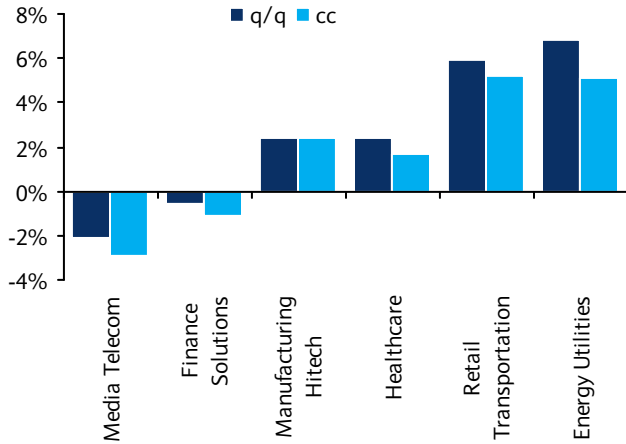
Source: Company reports, Barclays Research

### Operating metrics

*By vertical – BFSI was the common weak thread for all companies*

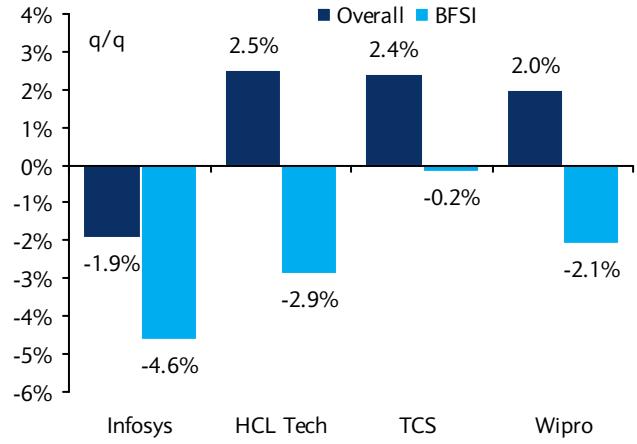
Growth for Wipro was driven by energy utilities (+6.8% q/q, +5.1% cc) and retail transportation (+5.9% q/q, +8.2% cc) while BFSI (-0.6% q/q, -1.1% cc) and Media Telecom (-2.1% q/q, -2.9% cc) dragged down growth. Going forward, management expects energy utilities to remain the key growth driver while BFSI should see a recovery with a quarter lag.

Figure 3: Wipro – growth across verticals in March quarter



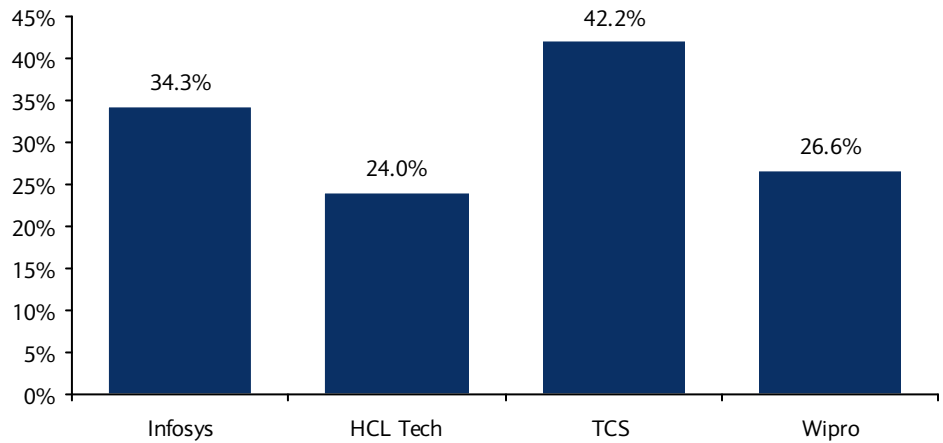
Source: Company reports, Barclays Research

Figure 4: US\$ q/q revenue growth in Mar quarter – BFSI has been weak across the companies



Source: Company reports, Barclays Research

Figure 5: BFSI as a percentage of total revenue, Mar-12 quarter



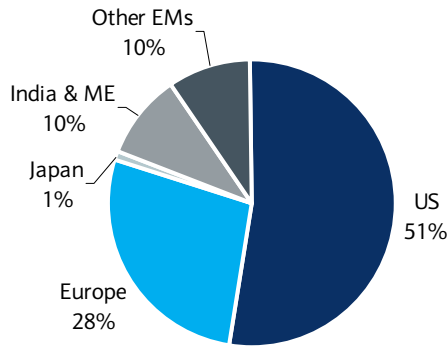
Source: Company reports, Barclays Research

### *By geography and practices*

Growth in Europe was muted at 0.2% q/q, 0.4% in constant currency terms while revenue in Japan decreased 18.4%. North America increased 1.1% q/q while strong growth was seen in Asia and the Middle East (+7.6% q/q) and other emerging markets (+10.5% q/q).

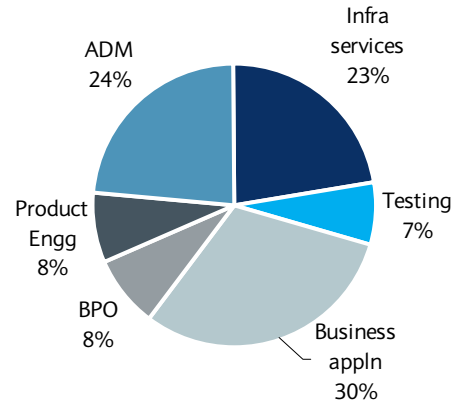
By service lines, ADM grew 0.7% q/q while business application services grew 1.3% q/q. Growth was impressive for analytics and infrastructure management, which grew at 5.4% and 6.4% q/q, respectively.

Figure 6: Wipro – revenue breakdown by geography



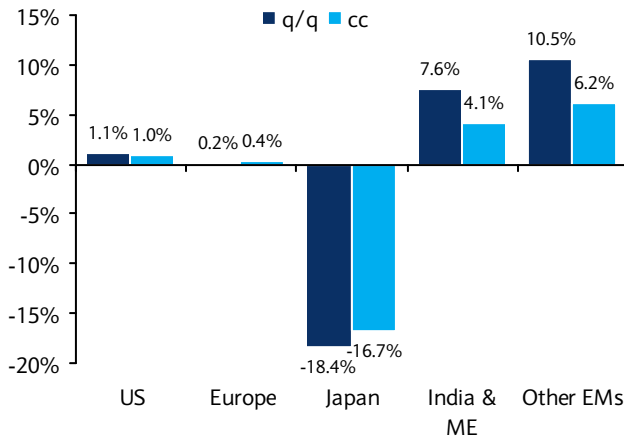
Source: Company reports, Barclays Research

Figure 7: Wipro – revenue breakdown by service line



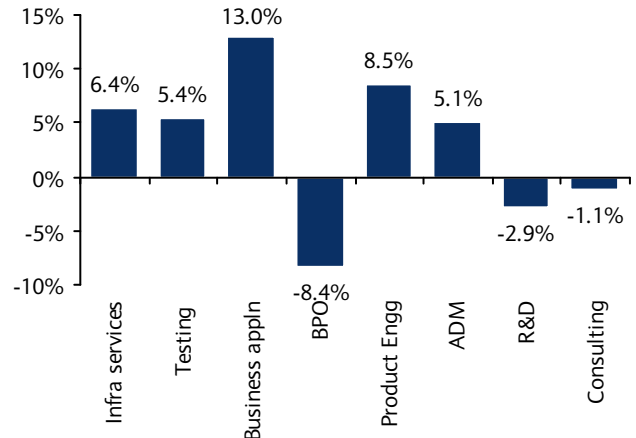
Source: Company reports, Barclays Research

Figure 8: Wipro – growth rates by geography



Source: Company reports, Barclays Research

Figure 9: Wipro – growth rates by service line



Source: Company reports, Barclays Research

### Customer and employee metrics

Customer metrics at Wipro continued to show improvement with 1 new client added in the >US\$100mn bucket and 2 in the >US\$75mn bucket in the current quarter. Attrition continued to decline although the still remains high versus industry peers at 17.5%. Restructuring and manpower rationalization in the BPO business caused the employee headcount to reduce to 135,920 from 136,734 in the previous quarter. Gross hires for the quarter stood at 7400.

Figure 10: Wipro – number of customers by revenue bucket

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
>\$100M					1	1	3	3	4	5	6	7
>\$75M									12	13	14	16
>\$50M	17	16	16	16	17	20	21	22	24	24	25	25
\$20-\$50M	36	35	37	40	41	43	43	46	45	46	48	50
\$10M-\$20M	44	48	42	40	42	43	49	49	49	50	48	46
\$5M-\$10M	59	53	61	70	65	58	63	63	77	72	76	87
\$3M-\$5M	63	64	77	60	73	80	78	75	63	75	87	84
\$1M-\$3M	194	187	165	180	196	181	179	174	180	195	178	183
>1M	413	403	398	406	434	425	433	429	438	462	462	475

Source: Company reports, Barclays Research

Figure 11: Wipro – key employee metrics

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Global IT services - voluntary	8%	11%	13%	17%	23%	24%	22%	21%	23%	19%	14%	14%
Global IT services - involuntary quarterly	1.9%	3.1%	0.9%	0.5%	1.4%	1.4%	2.2%	2.5%	2.0%	1.3%	1.6%	2.5%
Global IT Services - annualised	16%	23%	17%	19%	29%	29%	31%	31%	31%	24%	21%	24%
BPO % - Quarterly	14%	17%	15%	17%	16%	14%	14%	16%	15%	14%	14%	15%
BPO % - Post Training	7%	10%	9%	9%	9%	10%	10%	11%	10%	9%	8%	10%
Closing headcount	98,521	97,891	102,746	108,071	112,925	115,900	119,491	122,385	126,490	131,730	136,734	135,920

Source: Company reports, Barclays Research

### Volume, pricing and utilisation trends

Both volume and pricing for the company saw a sequential increase of +0.8% and +0.7% respectively. Utilization saw an increase of 60bps over the previous quarter primarily on account of the volume growth combined with the workforce rationalization in the BPO business.

Figure 12: Wipro – utilisation trends

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Global IT Services - gross	70.0%	70.8%	73.2%	72.1%	71.3%	70.9%	68.6%	68.9%	69.7%	69.3%	67.1%	67.4%
Global IT Services - net	77.1%	78.2%	80.7%	79.3%	78.4%	78.0%	75.6%	76.1%	76.9%	76.1%	73.5%	74.1%
Global IT Services - net ex-trainees	78.2%	80.5%	84.5%	83.0%	81.6%	82.4%	79.9%	79.7%	81.0%	80.7%	77.5%	76.1%

Source: Company reports, Barclays Research

Figure 13: Wipro – price realisations

US\$	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Onsite	11,787	12,340	12,299	12,254	11,647	11,774	11,846	12,074	11,863	11,914	12,256	12,295
Offshore	4,302	4,450	4,345	4,352	4,293	4,296	4,459	4,510	4,535	4,308	4,403	4,471
Blended	6,281	6,535	6,437	6,388	6,399	6,395	6,584	6,638	6,678	6,596	6,757	6,801

Source: Company reports, Barclays Research

Figure 14: Wipro – volume trends in terms of person months billed

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Onsite	32,876	32,367	33,730	34,396	40,011	41,786	43,474	43,315	45,820	49,942	50,670	50,752
Offshore	91,454	90,093	94,487	99,067	99,698	107,082	107,642	110,639	110,858	116,059	118,337	119,659
Blended	124,330	122,460	128,217	133,463	139,709	148,868	151,116	153,954	156,678	166,001	169,007	170,411

Source: Company reports, Barclays Research

## Changes to estimates

We make changes to our model to incorporate the results and weaker than expected guidance. We retain our 3-UW rating and our 12 month price target of Rs360. The FY13/14 EPS gets revised by -3.5%/-4.1%. We also introduce FY15 estimates into our projections.

Figure 15: Wipro – changes to Barclays Research estimates

Rs mn	Original		Revised			% change	
	FY3/13E	FY3/14E	FY3/13E	FY3/14E	FY3/15E	FY3/13E	FY3/14E
Rs/US\$	48.5	48.0	50.7	50.7	50.9	4.5%	5.8%
Revenue	434,183	493,822	422,351	475,001	531,271	-2.7%	-3.8%
Revenue - IT Services	332,007	377,221	327,218	370,205	415,472	-1.4%	-1.9%
Revenue - IT Services (US\$ mn)	6,845	7,859	6,458	7,290	8,166		
y/y growth	15.2%	14.8%	9.1%	12.9%	12.0%		
Gross profit	132,358	150,828	126,925	142,881	160,900	-4.1%	-5.3%
Gross margin	30.5%	30.5%	30.1%	30.1%	30.3%		
EBIT	75,541	84,997	72,804	81,480	91,205	-3.6%	-4.1%
EBIT margin	17.4%	17.2%	17.2%	17.2%	17.2%		
EBITDA	88,390	99,285	85,532	95,649	106,813	-3.2%	-3.7%
EBITDA margin	20.4%	20.1%	20.3%	20.1%	20.1%		
Net profit	66,322	76,515	63,972	73,404	82,557	-3.5%	-4.1%
Net margin	15.3%	15.5%	15.1%	15.5%	15.5%		
EPS (Rs)	27.06	31.22	26.11	29.95	33.69	-3.5%	-4.1%

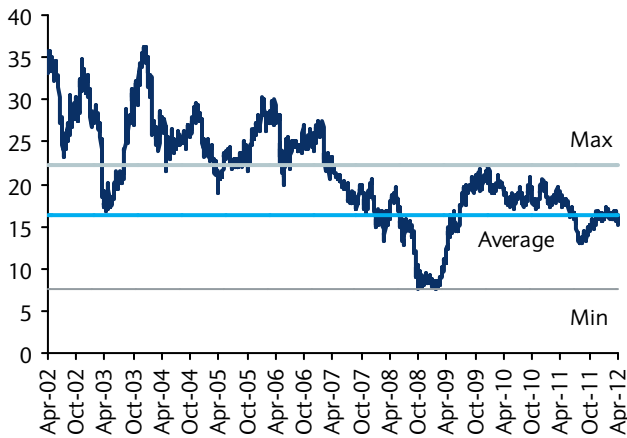
Source: Company reports, Barclays Research

## Valuations

Wipro stock has seen a good run over the past six months and is now trading at a valuation premium to Infosys. This will be difficult to justify given the Jun-12 quarter guidance and the inherent execution risks with the company.

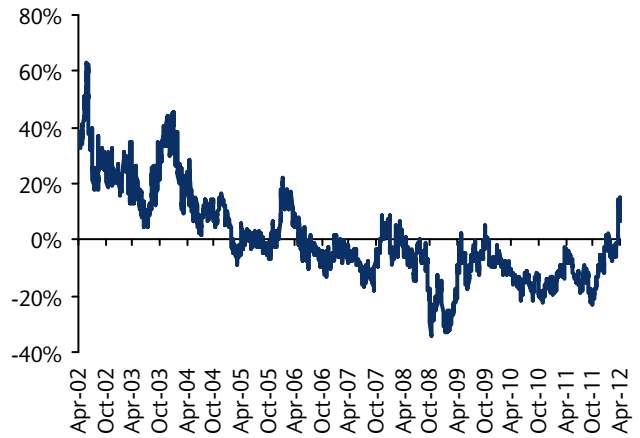
Our 12-month target price of Rs360 for Wipro is based on a P/E of 12x, which we apply to our EPS estimates for FY14. For Wipro, we now base our target multiple at a 25% discount to our target multiple of 15.5x for Infosys vs the previous 30% discount to our previous target multiple of 17.5 for Infosys, which we changed to reflect the weaker macro environment. Our target multiple for Wipro remains at the low end of Wipro's historical discount because we perceive a higher risk to Wipro's earnings growth going forward.

**Figure 16: Wipro – 12-month forward P/E relative to maximum, minimum and average since 2008**



Source: Datastream, Barclays Research

**Figure 17: Wipro – 12-month forward P/E relative to Infosys – now at a premium**



Source: Datastream, Barclays Research



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### Primary Stocks (Ticker, Date, Price)

Wipro Limited (WIPR.NS, 25-Apr-2012, INR 410.15), 3-Underweight/2-Neutral

### Materially Mentioned Stocks (Ticker, Date, Price)

Infosys Ltd. (INFY.NS, 25-Apr-2012, INR 2348.80), 1-Overweight/2-Neutral

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**3-Underweight** - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**RS-Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Sector View

**1-Positive** - sector coverage universe fundamentals/valuations are improving.

**2-Neutral** - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**3-Negative** - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

Asia Ex-Japan Software & IT Services

HCL Technologies (HCLT.NS)

Infosys Ltd. (INFY.NS)

Tata Consultancy Services (TCS.NS)

Wipro Limited (WIPR.NS)

## IMPORTANT DISCLOSURES CONTINUED

### Distribution of Ratings:

Barclays Equity Research has 2308 companies under coverage.

42% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of companies with this rating are investment banking clients of the Firm.

42% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 49% of companies with this rating are investment banking clients of the Firm.

13% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 39% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

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IMPORTANT DISCLOSURES CONTINUED

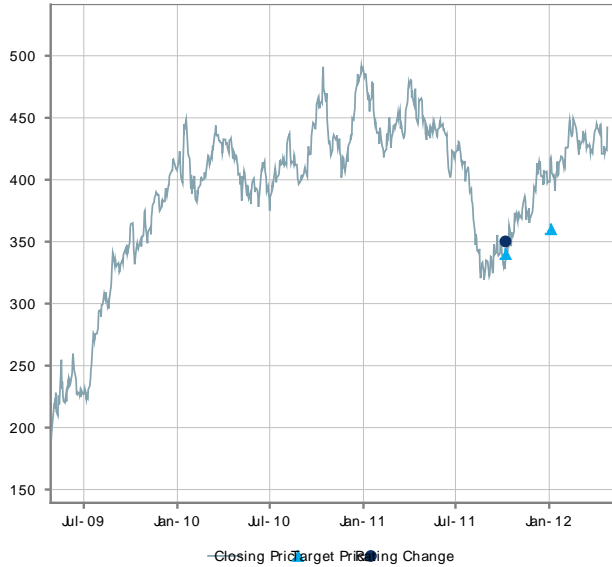
**Wipro Limited (WPRO IN / WIPR.NS)**  
**INR 410.15 (25-Apr-2012)**

Stock Rating  
**3-UNDERWEIGHT**

Sector View  
**2-NEUTRAL**

Rating and Price Target Chart - INR (as of 25-Apr-2012)

Currency=INR



Date	Closing Price	Rating	Price Target
04-Jan-2012	417.90		360.00
07-Oct-2011	333.80	3-Underweight	340.00

[Link to Barclays Live for interactive charting](#)

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**Valuation Methodology:** Our 12-month target price of Rs360 for Wipro is based on a P/E of 12x, which we apply to our EPS estimates for FY2014. For Wipro, our target multiple is based on a 25% discount to our target multiple of 15.5x for Infosys, because we perceive a higher risk to Wipro's earnings growth going forward.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** The key risks to the upside that could keep our price target from being achieved are a stronger-than-forecast rebound in the macroeconomic situation and better-than-expected execution by the new management team. We note that while the company has always had the industry expertise, it has historically had lapses in execution that have hindered growth. Turnaround by the new management could drive upsides to our forecasts. Key downside risk would come from macroeconomic factors that could further impede the company's already slow growth profile relative to its peers.

IMPORTANT DISCLOSURES CONTINUED

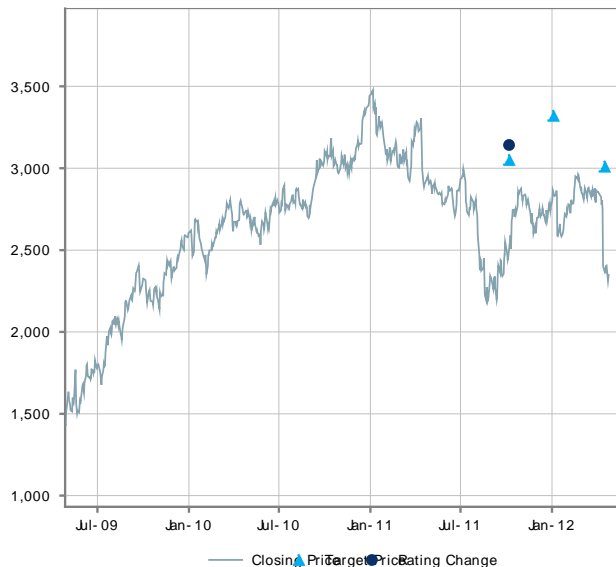
**Infosys Ltd. (INFO IN / INFY.NS)**  
**INR 2348.80 (25-Apr-2012)**

Stock Rating  
**1-OVERWEIGHT**

Sector View  
**2-NEUTRAL**

Rating and Price Target Chart - INR (as of 25-Apr-2012)

Currency=INR



Date	Closing Price	Rating	Price Target
16-Apr-2012	2369.35		3010.00
04-Jan-2012	2854.25		3320.00
07-Oct-2011	2507.05	1-Overweight	3050.00

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**Valuation Methodology:** Our 12-month target price of INR3,010 for Infosys is based on a P/E of 15.5x, which we apply to our EPS estimates FY2014. Our target multiple for Infosys is a 15% discount to Infosys's past five-year average.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** The risks that could keep our price target from being achieved include the following: 1) a weaker global macroeconomic scenario could slow down the process of incremental business from new and existing customers; 2) management changes over the past couple of years have caused some overhang, with any further shuffle in top management being a risk; and 3) demand unevenness has caused some issues in management of staffing levels that has had a margin impact and should be monitored.

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