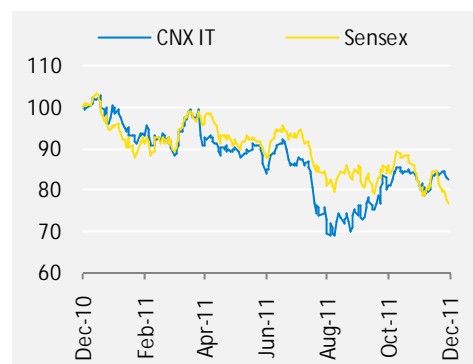


December 19, 2011

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Sensex v/s CNX IT



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Sensex	3.8	(7.1)	(17.6)
CNX IT Index	6.4	(6.5)	(10.0)
eClerx Services	(5.9)	(11.1)	(0.1)
Geometric	20.4	(17.6)	(32.8)
HCL Tech.	0.4	(15.3)	(7.7)
Infosys Tech.	(1.9)	(2.7)	(17.3)
KPIT Cummins	(11.3)	(10.6)	12.4
Mphasis	19.2	(24.1)	(47.1)
MindTree	1.6	13.8	(20.7)
Patni Computer	15.0	28.0	(7.3)
Persistent Systems	(3.0)	(17.8)	(24.5)
Polaris Software	(4.1)	(33.4)	(30.0)
Rolta India	(20.6)	(61.2)	(64.5)
TCS	2.6	(0.4)	0.5
Tech Mahindra	(7.5)	(18.6)	(16.0)
Wipro	7.9	(3.0)	(14.1)

We recently met the managements of *TCS*, *Infosys*, *Wipro* and *MindTree*, respectively, to gauge their earnings risk. The commentary was consistent across companies. There are no warning signs from the clients' IT budget as yet. The currency depreciation is going to result in operating margin tailwinds, but cross-currency movement could be a spoil-sport for revenue growth in USD terms. However, in the quarter where the revenue performance is likely to be bunched-up, we expect the companies with better operating leverage to deliver stronger growth at the bottom-line. **We expect stronger-than-peer performance for Infosys and HCL Tech as we enter Q3FY12. Hence, we reiterate Infosys and HCLT as our top-picks.**

- Volume growth likely to be bunched up:** Based on our recent discussion with the management, we expect Tier-1 Indian IT companies to deliver low-to-mid-single digit volume growth. The growth pack is likely to be led by Infosys and HCL Tech, whereas we expect Wipro to continue lagging behind its peers. However, cross-currency exposure would differentiate USD performance for the companies. We see Wipro and TCS as the worst affected due to high rupee and GBP exposure.

- Operating leverage would drive positive surprise:** This quarter has witnessed the strongest tailwind from the currency depreciation ever (excl Q3FY09). We expect Indian IT companies to see tailwind of ~300bps in Q3FY12. However, due to higher hedge, book positions of TCS (US\$2.6bn) and Wipro (US\$1.7bn) would be a drag at the bottom-line. Moreover, stretched margin levers of Wipro and TCS would result in margin erosion at constant currency terms. We expect Infosys and HCL Tech to deliver stronger quarter as these two are better placed in terms of operating leverages. However, aggressive pricing by HCL Tech to gain market share could yield negative surprise on operating margins.

- Infosys and HCL Tech – remain our top-pick in the sector:** Our recent discussion with the companies' management indicates no signs of cut in the IT budget. The companies maintained a cautious tone due to uncertainties in Europe, but highlighted no early signs of any cut in IT budget for CY12. We expect the current quarter performance to be differentiated based on the operating leverage. We see that Infosys and HCL Tech are advantageous as compared to TCS and Wipro in terms of exploiting these leverages. **We reiterate Infosys and HCL Tech as our top-picks in the sector.**

Exhibit 1: Top pick – Infosys and HCL Tech

	Revenues (Rs m)		EPS (Rs)		CMP (Rs)	Target (Rs)	Rating	Upside	EPS CAGR
	2012	2013	2012	2013					
Infosys Technologies	331,186	389,543	142.9	163.3	2,725	3090	BUY	13.4%	17.0%
TCS	480,568	599,549	52.0	64.5	1,146	1230	BUY	7.3%	23.4%
Wipro	353,663	405,298	22.0	24.0	404	410	Accumulate	1.6%	12.0%
HCL Technologies	195,925	247,805	31.1	37.5	412	550	BUY	33.4%	21.3%

Source: Company Data, PL Research (All prices as on December 16, 2011)

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Exhibit 1: Cross-currency movement – Expects USD revenue erosion of 1-3%

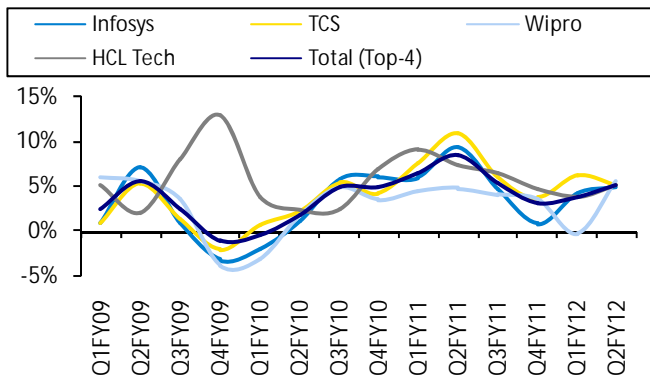
	OND (Avg)	QoQ	YoY
USD-INR	50.8	11.0%	12.2%
GBP-USD	1.6	-2.4%	-1.9%
EUR-USD	1.3	-4.6%	-1.5%
AUD-USD	1.0	-3.8%	0.5%
GBP-INR	79.8	8.3%	10.1%
EUR-INR	68.5	5.9%	10.7%

Source: Bloomberg, PL Research

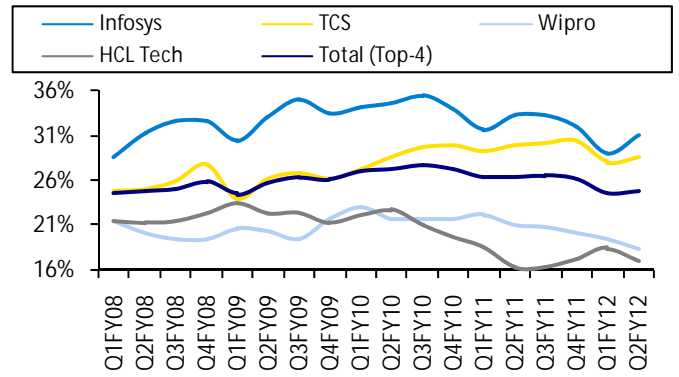
Exhibit 2: Infosys best placed in cross-currency movement

	US	Europe	Others
TCS	56.4%	25.6%	18.0%
Infosys	65.3%	20.5%	14.2%
Wipro	51.7%	28.8%	19.5%
HCL Tech	55.8%	26.7%	17.5%

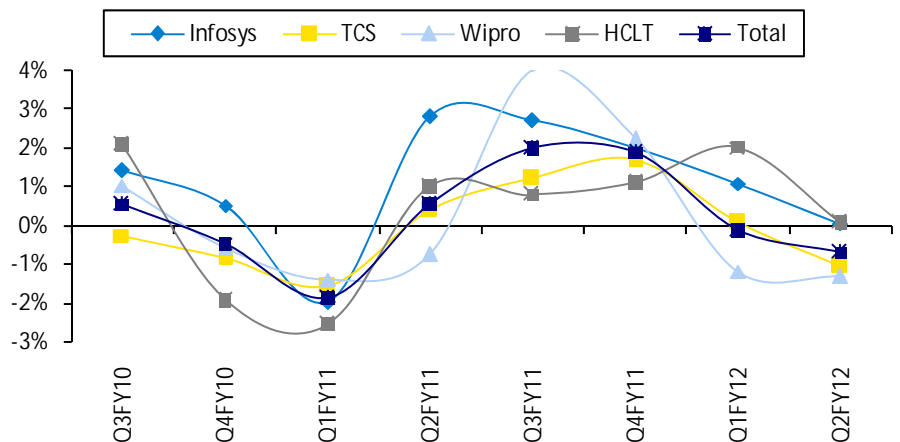
Source: Company Data, PL Research

Exhibit 3: QoQ growth @cc: Bunched up performance


Source: Company Data, PL Research

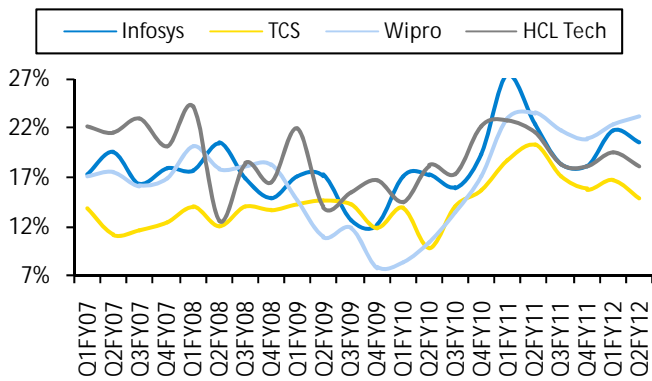
Exhibit 4: EBITDA Margin: Op. leverage at play for outperformance


Source: Company Data, PL Research

Exhibit 5: Revenue Productivity (QoQ Growth) - Infosys and HCL Tech outperform peers


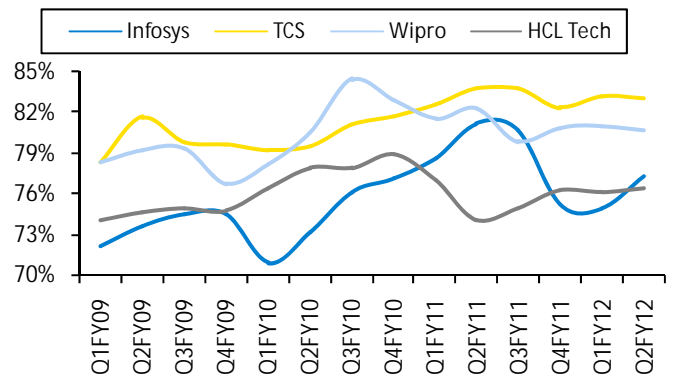
Source: Company Data, PL Research

Exhibit 6: Attrition Annualized – Wipro still struggling to contain it



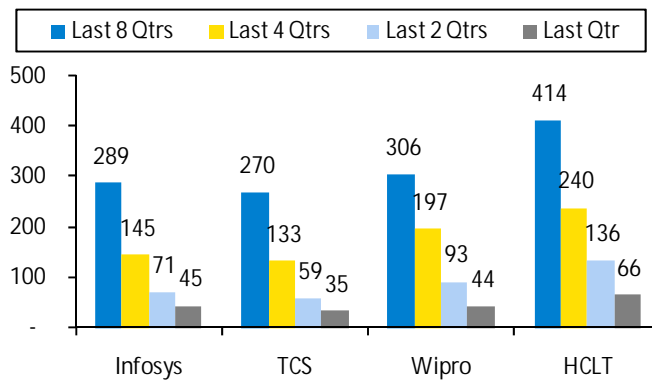
Source: Company Data, PL Research

Exhibit 7: Utilization (incl. trainees): Infosys and HCL Tech best placed



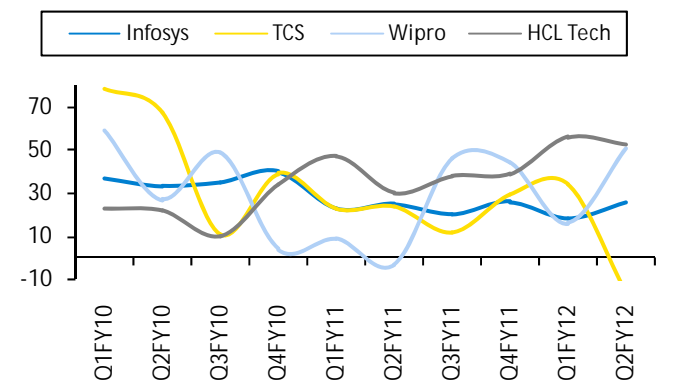
Source: Company Data, PL Research

Exhibit 8: Client Addition – HCL Tech outperformed in all the bracket



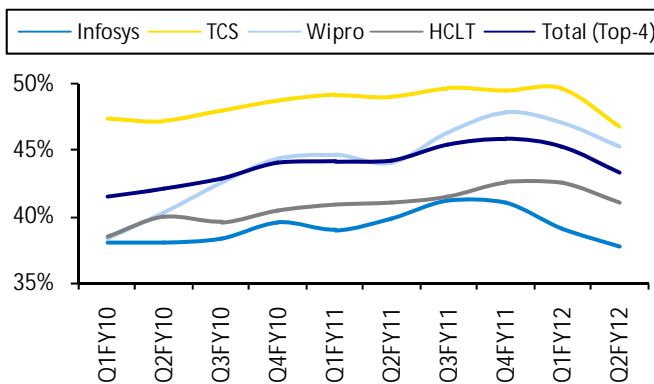
Source: Company Data, PL Research

Exhibit 9: Client Attrition – Check on client attrition



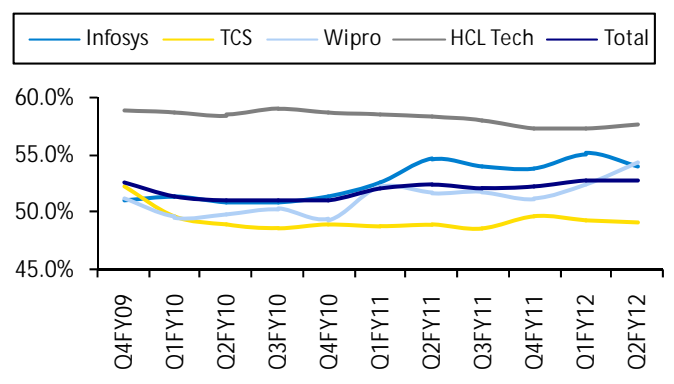
Source: Company Data, PL Research

Exhibit 10: FPP – Not a lever any more for TCS and Wipro



Source: Company Data, PL Research

Exhibit 11: Onsite – Wipro onsite ramp-up to put pressure on margin



Source: Company Data, PL Research

HCL Tech and Infosys remain our best pick in the sector

Exhibit 12: Wipro outperformance over the last three months is ahead of fundamentals

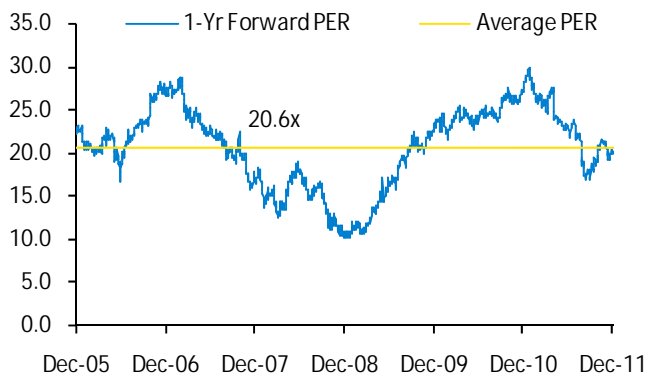
Company	1 Week	1 Month	3 Month
TCS	-2.2%	2.6%	11.8%
Infosys	0.5%	-1.9%	14.4%
Wipro	-0.3%	7.9%	19.2%
HCL Tech	1.1%	0.4%	8.4%

Source: Bloomberg, PL Research

We believe that improving macro-scenario in the US (the highest exposed geography for tier-1 Indian IT) and currency depreciation due to global uncertainty and weak fiscal situation of India would provide much needed impetus for Tier-1 at operating levels. However, strong out-performance of Wipro is ahead of fundamentals. We don't see consensus upgrade, post Q3FY12 results, for Wipro.

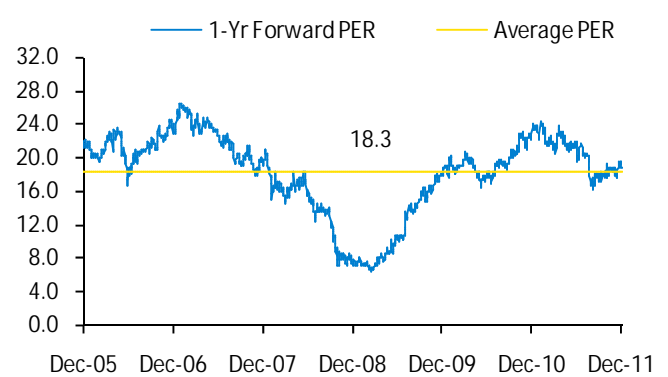
We reiterate our bullish stance on **HCL Tech and Infosys** going into CY12. We reiterate our '**BUY**' recommendation on Infosys, TCS and HCL Tech and '**Accumulate**' on Wipro, with a target price of **Rs3,090**, **Rs1,230**, **Rs550** and **Rs410**, respectively.

Exhibit 13: Infosys



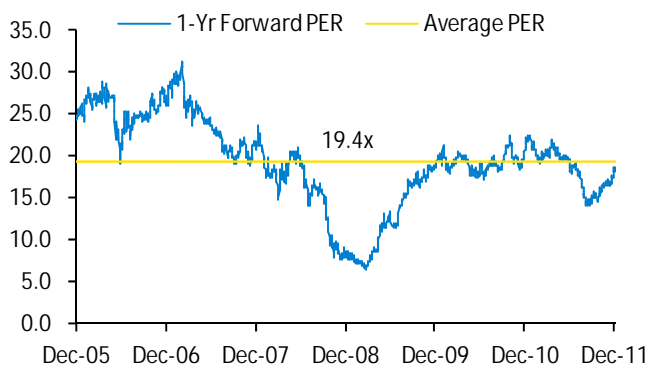
Source: Company Data, Bloomberg, PL Research

Exhibit 14: TCS



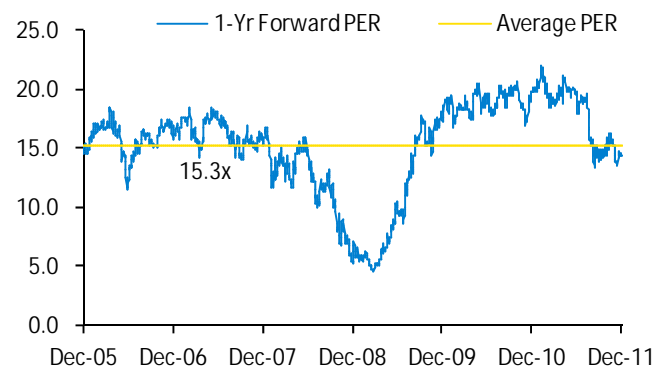
Source: Company Data, Bloomberg, PL Research

Exhibit 15: Wipro



Source: Company Data, Bloomberg, PL Research

Exhibit 16: HCL Tech



Source: Company Data, Bloomberg, PL Research



December 19, 2011

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Rating	BUY
Price	Rs2,725
Target Price	Rs3,090
Implied Upside	13.4%
Sensex	15,491
Nifty	4,726

(Prices as on December 16, 2011)
Trading data

Market Cap. (Rs bn)	1,587.3
Shares o/s (m)	572.0
3M Avg. Daily value (Rs m)	4477.8

Major shareholders

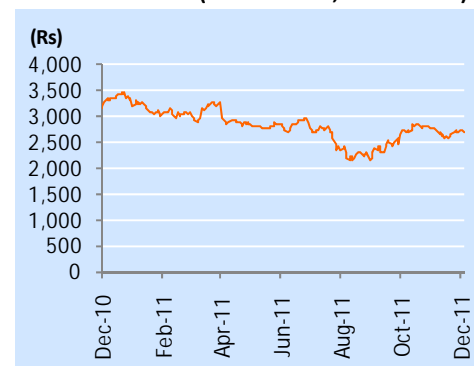
Promoters	16.04%
Foreign	36.66%
Domestic Inst.	10.71%
Public & Other	36.59%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.9)	(2.7)	(17.3)
Relative	5.7	11.2	4.7

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2012	142.9	141.9	0.7
2013	163.3	163.5	-0.1

Price Performance (RIC: INFY.BO, BB: INFO IN)


Source: Bloomberg

We met the management of Infosys to understand the sustainability of demand and likely levers for outperformance. The management maintained cautious stance on the demand environment; however, it was not bearish. We expect the company to deliver in-line quarter. We retain Infosys as our 'top-pick' in the sector.

- Tone continues to be cautious, but not bearish:** The management retained their cautious stance due to longer sales cycle, delay in decision-making and worsening macro indicators. However, they highlighted that the deal pipeline has not completely dried up. There are few deals in the pipeline that could involve rebadging of clients' employees. Infosys is likely to achieve a growth rate in the mid-point of guidance. We don't expect FY12 guidance (@cc) to be lowered. We see pain from their troubled top-clients bottoming out.
- Margin levers intact to deliver a positive surprise:** Infosys is likely to deliver positive surprises on margins by increasing utilization, flattening of pyramid (as growth becomes steady and predictable) and cooling-off onsite costs. However, we may witness uptick in product investment, absorbing some of the margin tailwinds from currency depreciation and operating leverages.
- Other highlights:** 1) Two extra working days in Q2FY12 would restrict seasonality impact 2) No ramp-down in projects 3) Delay in discretionary spend 4) Benefit driven from vendor consolidation in BFSI 5) Softness in Manufacturing 6) Telecom deal pipeline good 7) Strong growth momentum in Retail 7) Mid single-digit growth looks sustainable 8) Pricing stable @cc 9) High teen growth in BPO looks sustainable 9) Project ramp-ups are slow.
- Valuation and Recommendation:** We expect Infosys to do better than their mid-range of guidance for Q3FY12. Moreover, we do not expect the company to lower its FY12 guidance in constant currency terms. Also, the operating leverage for the company is much stronger. Due to a thin hedge book (US\$742m) compared to TCS (US\$2.6bn), we will see better performance by Infosys compared to that of TCS. We reiterate our 'BUY' rating, with a target price of Rs3,090, 19x FY13e earnings estimate.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	227,420	275,010	331,186	389,543
Growth (%)	4.8	20.9	20.4	17.6
EBITDA (Rs m)	78,610	89,640	106,188	118,555
PAT (Rs m)	62,660	68,230	81,724	93,393
EPS (Rs)	109.5	119.3	142.9	163.3
Growth (%)	4.6	8.9	19.8	14.3
Net DPS (Rs)	23.5	26.5	31.5	37.9

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	34.6	32.6	32.1	30.4
RoE (%)	30.3	27.8	28.0	26.0
RoCE (%)	30.1	27.8	28.0	26.0
EV / sales (x)	6.4	5.1	4.1	3.4
EV / EBITDA (x)	18.5	15.7	12.9	11.0
PE (x)	24.9	22.8	19.1	16.7
P / BV (x)	6.8	6.0	4.8	3.9
Net dividend yield (%)	0.9	1.0	1.2	1.4

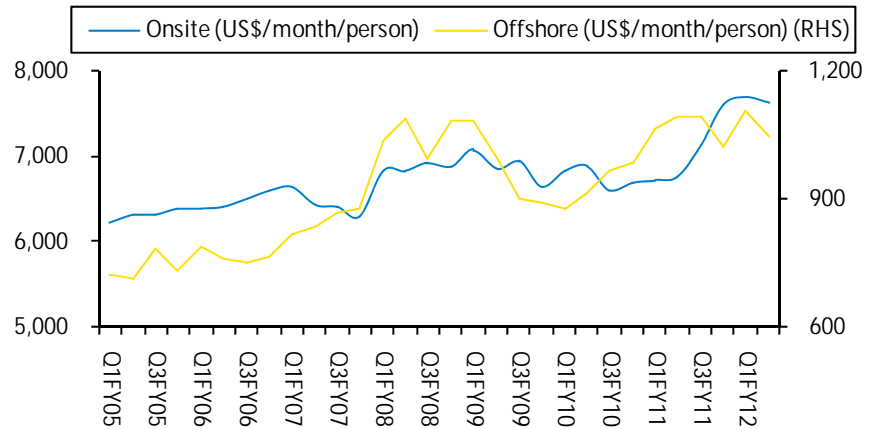
Source: Company Data; PL Research

Exhibit 1: See less likelihood of downward revision in USD revenue guidance

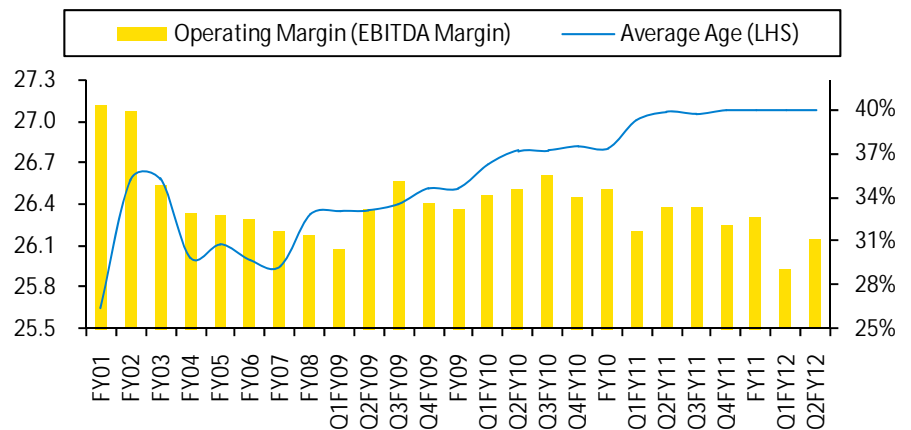
	Q1FY12	Q2FY12	Q3FY12e	Q4FY12e	FY12e
Revenue (US\$ m)	1,671.0	1,746.0	1,841.2	1,941.5	7,199.7
QoQ growth	4.3%	4.5%	5.2%	5.5%	19.2%

	Q1FY12	Q2FY12	Q3FY12e	Q4FY12e	FY12e
Revenue (US\$ m)	1,671.0	1,746.0	1,815.8	1,888.5	7,121.3
QoQ growth	4.3%	4.5%	4.0%	4.0%	17.9%

Source: Company Data, PL Research

Exhibit 2: Expect onsite cost peaking as voice against IT outsourcing is getting softer


Source: Company Data, PL Research

Exhibit 3: Scope for pyramid rationalization to give margin tailwinds


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	227,420	275,010	331,186	389,543
Raw Material Expenses	120,710	150,540	184,858	222,442
Gross Profit	106,710	124,470	146,329	167,101
Employee Cost	—	—	—	—
Other Expenses	28,100	34,830	40,140	48,546
EBITDA	78,610	89,640	106,188	118,555
Depr. & Amortization	9,050	8,620	9,343	11,902
Net Interest	—	—	—	—
Other Income	9,430	12,110	14,284	15,644
Profit before Tax	78,990	93,130	111,129	122,296
Total Tax	16,810	24,900	29,404	28,903
Profit after Tax	62,180	68,230	81,724	93,393
Ex-Od items / Min. Int.	(480)	—	—	—
Adj. PAT	62,660	68,230	81,724	93,393
Avg. Shares O/S (m)	572.0	572.0	572.0	572.0
EPS (Rs.)	109.5	119.3	142.9	163.3

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	79,970	90,260	120,472	134,198
C/F from Investing	(36,200)	33,980	(14,241)	(16,750)
C/F from Financing	(17,420)	(36,400)	(33,938)	(21,705)
Inc. / Dec. in Cash	26,350	87,840	72,293	95,743
Opening Cash	—	—	—	—
Closing Cash	—	—	—	—
FCFF	62,780	55,930	63,317	81,139
FCFE	62,780	55,930	63,317	81,139

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	4.8	20.9	20.4	17.6
EBITDA (%)	9.3	14.0	18.5	11.6
PAT (%)	4.6	8.9	19.8	14.3
EPS (%)	4.6	8.9	19.8	14.3
Profitability				
EBITDA Margin (%)	34.6	32.6	32.1	30.4
PAT Margin (%)	27.6	24.8	24.7	24.0
RoCE (%)	30.1	27.8	28.0	26.0
RoE (%)	30.3	27.8	28.0	26.0
Balance Sheet				
Net Debt : Equity	(0.5)	(0.6)	(0.6)	(0.6)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	24.9	22.8	19.1	16.7
P / B (x)	6.8	6.0	4.8	3.9
EV / EBITDA (x)	18.5	15.7	12.9	11.0
EV / Sales (x)	6.4	5.1	4.1	3.4
Earnings Quality				
Eff. Tax Rate	21.3	26.7	26.5	23.6
Other Inc / PBT	11.9	13.0	12.9	12.8
Eff. Depr. Rate (%)	11.5	10.1	8.4	9.3
FCFE / PAT	100.2	82.0	77.5	86.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	230,490	259,760	323,492	395,181
Total Debt	—	—	—	—
Other Liabilities	—	—	—	—
Total Liabilities	230,490	259,760	323,492	395,181
Net Fixed Assets	53,550	57,600	70,740	76,702
Goodwill	—	—	—	—
Investments	37,120	1,440	1,440	1,440
Net Current Assets	137,820	197,510	239,486	305,213
<i>Cash & Equivalents</i>	<i>105,560</i>	<i>150,950</i>	<i>191,396</i>	<i>249,716</i>
<i>Other Current Assets</i>	<i>76,810</i>	<i>99,730</i>	<i>90,736</i>	<i>105,657</i>
<i>Current Liabilities</i>	<i>44,550</i>	<i>53,170</i>	<i>42,646</i>	<i>50,160</i>
Other Assets	2,000	3,210	3,210	3,210
Total Assets	230,490	259,760	314,876	386,565

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	71,060	72,500	74,850	80,990
EBITDA	23,630	23,240	21,750	25,160
<i>% of revenue</i>	<i>33.3</i>	<i>32.1</i>	<i>29.1</i>	<i>31.1</i>
Depr. & Amortization	2,160	2,220	2,230	2,350
Net Interest	—	—	—	—
Other Income	2,900	4,150	4,430	3,870
Profit before Tax	24,370	25,170	23,950	26,680
Total Tax	6,570	6,990	6,730	7,620
Profit after Tax	17,800	18,180	17,220	19,060
Adj. PAT	17,800	18,180	17,220	19,060

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Volume (persons month)	821,903	998,425	1,178,142	1,399,043
Pricing (US\$ / Hr)	5,845	6,051	6,111	6,187
Currency (USDINR)	47.3	45.5	46.0	45.0
SW Devp. Cost (% of sales)	53.1	54.7	55.8	57.1
SG&A (% of sales)	12.4	12.7	12.1	12.5
Revenue (US\$ m)	4,804	6,041	7,200	8,657
EBITDA Margin Expansion/(Erosion) (bps)	139.9	(197.1)	(53.2)	(162.9)
Tax Rate (%)	21.3	26.7	26.5	23.6

Source: Company Data, PL Research.

December 19, 2011

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Rating	BUY
Price	Rs1,146
Target Price	Rs1,230
Implied Upside	7.3%
Sensex	15,491
Nifty	4,726

(Prices as on December 16, 2011)
Trading data

Market Cap. (Rs bn)	2,220.2
Shares o/s (m)	1,957.2
3M Avg. Daily value (Rs m)	2284

Major shareholders

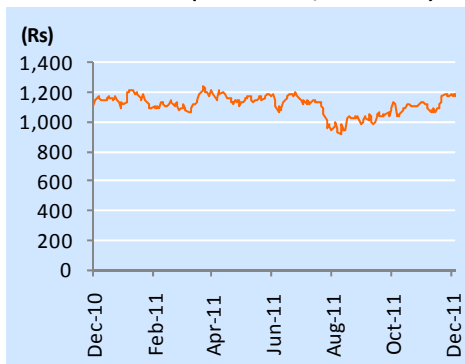
Promoters	74.08%
Foreign	12.80%
Domestic Inst.	8.10%
Public & Other	5.02%

Stock Performance

(%)	1M	6M	12M
Absolute	2.6	(0.4)	0.5
Relative	10.3	13.4	22.5

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2012	52.0	53.5	-2.9
2013	64.5	62.3	3.6

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


Source: Bloomberg

We met the management of TCS to gather sense on demand environment and their likely performance in the near-term. The management retained their optimistic view on sustainability of growth momentum; however, highlighted lack of any positive surprises on the margin front. We anticipate revenue momentum to remain intact, but, margins are likely to remain under pressure as growth is expected to come along with investments. We retain TCS, along with Wipro, as third in our pecking order. We expect TCS to lag behind Infosys in terms of bottom-line growth.

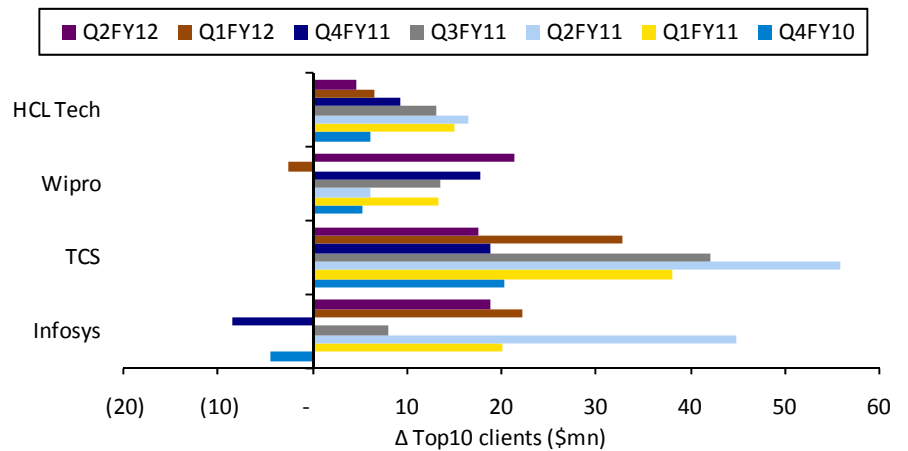
- Steady volume momentum is still intact:** The management is confident of delivering mid-to-high single digit QoQ growth. Growth in BFSI would be driven by work from risk management and compliance. For Q3FY12, based on our discussion with the management, we expect company to report volume growth of 3-4% QoQ and we expect 3-6% QoQ volume growth for FY13.
- No more positive surprise on margin:** The management said that there would be no more positive surprises on margins at constant currency terms. Based on our discussion, we continue to expect operating margins to contract for remaining FY12 @cc. As growth from top clients peak, we expect new growth to come from the investment in SG&A and increase contribution from onsite putting dent to margin. The company expects ~Rs4bn hedging losses.
- Other highlights:** 1) No change in clients' behavior 2) Clients' financial health much better compared to 2008 3) No pricing pressure from clients 4) Telecom to lag group growth 5) Growth momentum intact in Assurance Services, IMS, ADM, and BPO 6) BFSI still on steady growth track 7) M&A strategy – eyeing for opportunity in Continental Europe and Japan; Life Science and Energy & Utilities
- Valuation and Recommendation:** We are not anticipating any significant underperformance in terms of revenue growth compared to peers. However, pressure on margins and high hedge exposure, would be a drag for bottom-line. Hence, TCS stands as third in our pecking order behind Infosys and HCL Tech, which has better operating leverage for remaining FY12. We reiterate our 'BUY' rating, with target price of Rs 1,230, 19X FY13e earnings estimate.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	300,289	373,245	480,568	599,549
Growth (%)	8.0	24.3	28.8	24.8
EBITDA (Rs m)	86,799	111,984	137,949	169,488
PAT (Rs m)	68,729	82,936	101,730	126,229
EPS (Rs)	35.1	42.4	52.0	64.5
Growth (%)	(33.5)	20.7	22.7	24.1
Net DPS (Rs)	9.9	23.3	9.5	12.0

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	28.9	30.0	28.7	28.3
RoE (%)	37.6	35.9	34.4	32.3
RoCE (%)	34.4	34.5	32.2	30.6
EV / sales (x)	7.3	5.9	4.5	3.5
EV / EBITDA (x)	25.3	19.6	15.8	12.5
PE (x)	32.6	27.1	22.1	17.8
P / BV (x)	10.7	8.9	6.6	5.1
Net dividend yield (%)	0.9	2.0	0.8	1.0

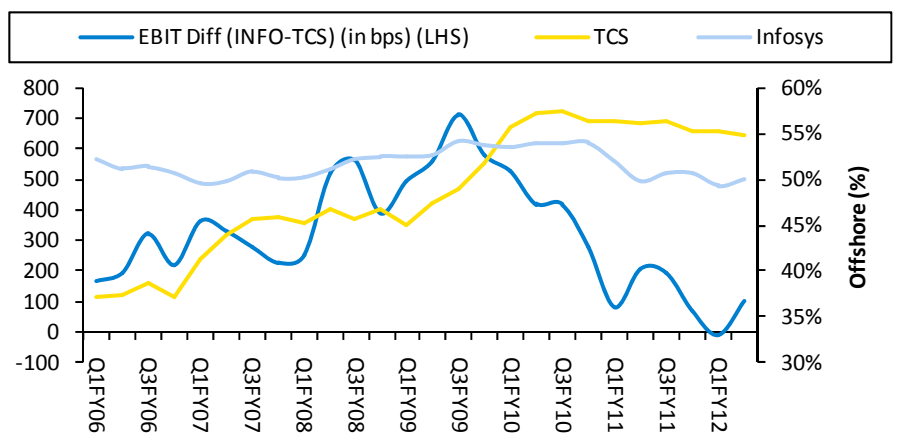
Source: Company Data; PL Research

Exhibit 1: ΔRevenue (US\$ m) Top-10 clients for TCS peaked out



Source: Company Data, PL Research

Exhibit 2: Offshoring, as margin levers for TCS, is fully exploited



Source: Company Data, PL Research

Exhibit 3: Predictable growth for TCS is over – need to add more new clients

Δ Revenue (US\$ m)	Last 8 Qtrs	Last 4 Qtrs	Last 2 Qtrs	Last Qtr	Last 8 Qtrs	Last 4 Qtrs	Last 2 Qtrs	Last Qtr
TCS	987	521	281	113				
Infosys	592	250	144	75				
Δ BFSI (US\$ m)								
TCS	402	217	111	54	40.80%	41.60%	39.50%	47.80%
Infosys	230	87	44	25	38.80%	34.70%	30.90%	33.10%
Δ Top 10 Clients (US\$ m)								
TCS	270	111	50	18	27.40%	21.40%	17.90%	15.50%
Infosys	138	41	41	19	23.30%	16.20%	28.50%	25.20%
New Client Addition								
TCS	270	133	59	35				
Infosys	289	145	71	45				
Net New Client Addition								
TCS	114	74	41	51				
Infosys	76	55	27	19				

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	300,289	373,245	480,568	599,549
Raw Material Expenses	161,628	204,296	267,821	340,665
Gross Profit	138,661	168,949	212,747	258,884
Employee Cost	—	—	—	—
Other Expenses	51,862	56,965	74,798	89,396
EBITDA	86,799	111,984	137,949	169,488
Depr. & Amortization	7,208	7,214	9,270	10,916
Net Interest	(1,551)	4,229	—	—
Other Income	694	5,324	7,133	7,776
Profit before Tax	81,836	105,865	135,812	166,349
Total Tax	12,088	21,739	32,595	38,260
Profit after Tax	69,748	84,126	103,217	128,088
Ex-Od items / Min. Int.	(1,019)	(1,190)	(1,488)	(1,859)
Adj. PAT	68,729	82,936	101,730	126,229
Avg. Shares O/S (m)	1,957.2	1,957.2	1,957.2	1,957.2
EPS (Rs.)	35.1	42.4	52.0	64.5

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	74,869	—	56,544	105,195
C/F from Investing	(51,361)	(18,663)	(19,223)	(22,483)
C/F from Financing	(28,098)	(13,332)	(18,593)	(23,486)
Inc. / Dec. in Cash	(4,591)	(31,996)	18,728	59,226
Opening Cash	14,839	10,249	47,401	66,129
Closing Cash	10,249	47,401	66,129	125,354
FCFF	75,070	48,603	35,834	80,853
FCFE	73,419	48,532	35,834	80,853

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	8.0	24.3	28.8	24.8
EBITDA (%)	20.9	29.0	23.2	22.9
PAT (%)	32.9	20.7	22.7	24.1
EPS (%)	(33.5)	20.7	22.7	24.1
Profitability				
EBITDA Margin (%)	28.9	30.0	28.7	28.3
PAT Margin (%)	22.9	22.2	21.2	21.1
RoCE (%)	34.4	34.5	32.2	30.6
RoE (%)	37.6	35.9	34.4	32.3
Balance Sheet				
Net Debt : Equity	(0.2)	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	66	76	73	73
Valuation				
PER (x)	32.6	27.1	22.1	17.8
P / B (x)	10.7	8.9	6.6	5.1
EV / EBITDA (x)	25.3	19.6	15.8	12.5
EV / Sales (x)	7.3	5.9	4.5	3.5
Earnings Quality				
Eff. Tax Rate	14.8	20.5	24.0	23.0
Other Inc / PBT	0.8	5.0	5.3	4.7
Eff. Depr. Rate (%)	10.3	8.3	8.8	8.5
FCFE / PAT	106.8	58.5	35.2	64.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	209,404	252,389	338,383	442,985
Total Debt	111	40	40	40
Other Liabilities	11,501	16,341	16,341	16,341
Total Liabilities	221,015	268,771	354,764	459,366
Net Fixed Assets	44,685	54,486	64,439	76,006
Goodwill	32,415	32,455	32,455	32,455
Investments	37,839	18,390	18,390	18,390
Net Current Assets	82,952	108,111	182,782	275,817
Cash & Equivalents	46,773	47,401	66,129	125,354
Other Current Assets	91,376	124,547	185,118	230,950
Current Liabilities	55,197	63,837	68,465	80,487
Other Assets	26,103	57,474	57,474	57,474
Total Assets	223,994	270,916	355,540	460,142

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	96,634	101,575	107,970	116,335
EBITDA	29,175	30,880	30,310	33,399
% of revenue	30.2	30.4	28.1	28.7
Depr. & Amortization	1,856	2,123	2,049	1,856
Net Interest	—	—	—	—
Other Income	1,822	2,239	2,886	997
Profit before Tax	29,141	30,996	31,147	32,540
Total Tax	5,491	6,772	7,063	7,913
Profit after Tax	23,461	23,809	23,803	24,390
Adj. PAT	23,461	23,809	23,803	24,390

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Volume (persons month)	1,216,218	1,588,419	1,985,524	2,481,904
Pricing (US\$ / Hr)	33.5	33.5	33.8	34.5
Currency (USDINR)	47.4	45.6	46.5	45.5
SW Devp. Cost (% of Sales)	53.8	54.7	55.7	56.8
SG&A (% of Sales)	17.0	15.3	15.4	14.7
Revenue (US\$ m)	6,339	8,186	10,335	13,177
EBITDAM Expansion/(Erosion) (bps)	309	110	(130)	(44)
Tax Rate (%)	14.8	19.0	24.0	23.0

Source: Company Data, PL Research.

December 19, 2011

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Rating	Accumulate
Price	Rs404
Target Price	Rs410
Implied Upside	1.5%
Sensex	15,491
Nifty	4,726

(Prices as on December 16, 2011)
Trading data

Market Cap. (Rs bn)	912.5
Shares o/s (m)	2,454.0
3M Avg. Daily value (Rs m)	781.6

Major shareholders

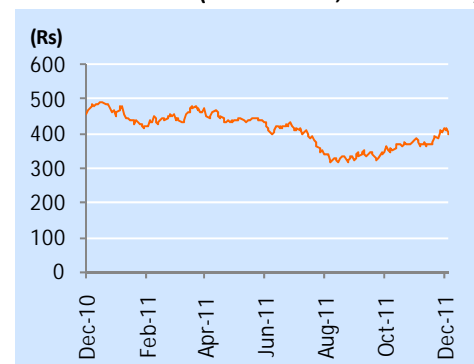
Promoters	79.28%
Foreign	5.38%
Domestic Inst.	3.71%
Public & Other	11.63%

Stock Performance

(%)	1M	6M	12M
Absolute	7.9	(3.0)	(14.1)
Relative	15.5	10.9	7.9

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2012	22.0	23.1	-5.0
2013	24.0	26.1	-8.0

Price Performance (RIC:WIPR.BO, BB:WPRO IN)


Source: Bloomberg

We met the management of Wipro to understand the deal pipeline, post restructuring, and impact on recovery due to global turmoil. The management highlighted positive momentum in the deal pipeline compared to 2-3 quarters back, but not translated into revenue as yet. Moreover, hedge book will dampen the growth at the bottom-line due to currency depreciation. We see outperformance of last three months ahead of fundamentals. We reiterate our **'Accumulate'** rating.

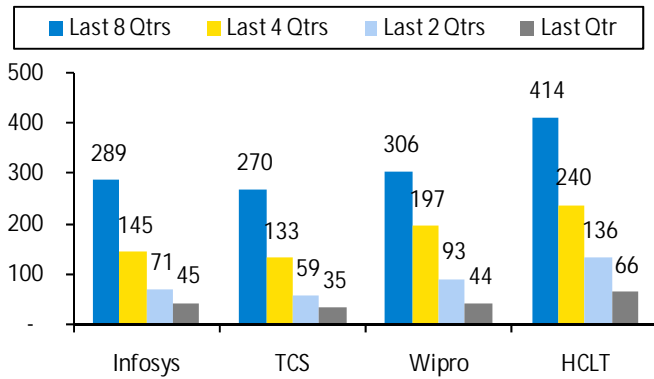
- Cross-currency movement could hold negative surprise:** The management tone was more optimistic compared to two quarters back. The deal pipeline is much stronger compared to what it was prior to restructuring. However, the pipeline is yet to be translated into business. We see the current turmoil to delay the pace of recovery for Wipro. We see ~7% outperformance of Wipro compared to CNXIT index over last three months ahead of fundamentals. In Q3FY12, Wipro will deliver growth at the lower-end of guidance due to cross-currency impact.
- On the path of recovery, but margin stickiness looks difficult:** Wipro's EBITDA margin eroded by 383bps in the last six quarters, highest among peers {INFO (59bps), TCS (69bps), and HCLT (154bps)}. However, we expect operating margin erosion (@cc) for Wipro in FY12 as it needs to invest in S&M (to gain ground) and bring utilization down (higher utilization compared to peers). Moreover, the management does not want to gain market-share at the cost of margin.
- Other highlights:** **1)** Cross-currency movement to erode ~1.5% USD revenue **2)** Customer feed-back indicates gain in wallet share **3)** Negative impact on PAT due to US\$1.7bn hedge **4)** Likely to see improved performance of sales and delivery due to linkage of variable pay to customer satisfaction **5)** Not reached 4-6% QoQ sustainable growth rate **6)** Productivity recoup in FPP project.
- Valuation and Recommendation:** We expect Wipro to lag peers in terms of operating performance (revenue and margin) in near term. We do not see an opportunity for earnings upgrade post Q3FY12. Hence, we expect the outperformance in last three months to reverse. We reiterate our **'Accumulate'** rating, with target price of Rs410, 17x FY13e estimates.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	271,957	310,542	353,663	405,298
Growth (%)	6.8	14.2	13.9	14.6
EBITDA (Rs m)	60,059	65,463	69,887	78,343
PAT (Rs m)	45,993	53,026	53,920	58,844
EPS (Rs)	31.3	21.6	22.0	24.0
Growth (%)	28.6	(31.0)	1.7	9.1
Net DPS (Rs)	7.8	6.0	7.0	8.0

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	22.1	21.1	19.8	19.3
RoE (%)	26.6	24.3	20.9	19.8
RoCE (%)	23.2	21.9	19.2	18.5
EV / sales (x)	2.0	3.1	2.6	2.3
EV / EBITDA (x)	9.1	14.5	13.4	11.6
PE (x)	12.9	18.7	18.4	16.8
P / BV (x)	3.0	4.1	3.6	3.1
Net dividend yield (%)	1.9	1.5	1.7	2.0

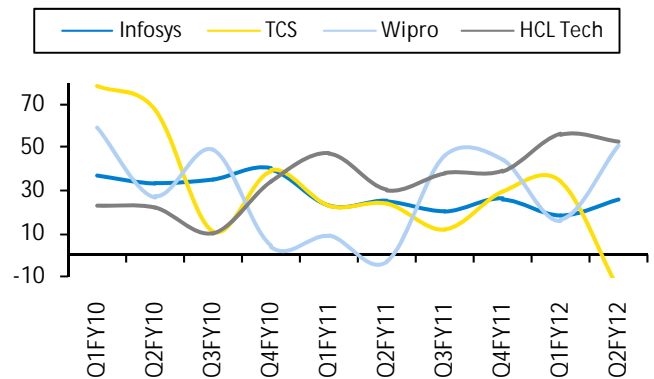
Source: Company Data; PL Research

Exhibit 1: Stronger than peer client addition



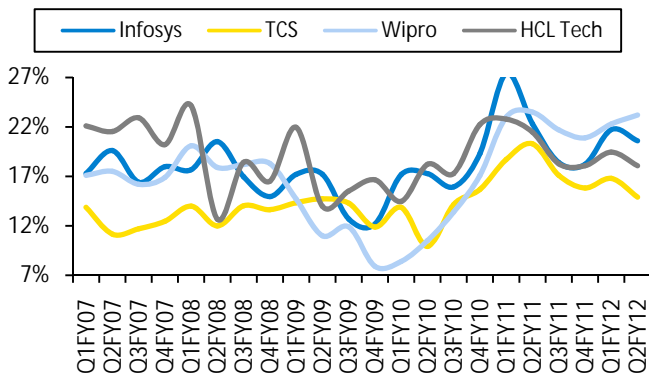
Source: Company Data, PL Research

Exhibit 2:accompanied by higher client attrition



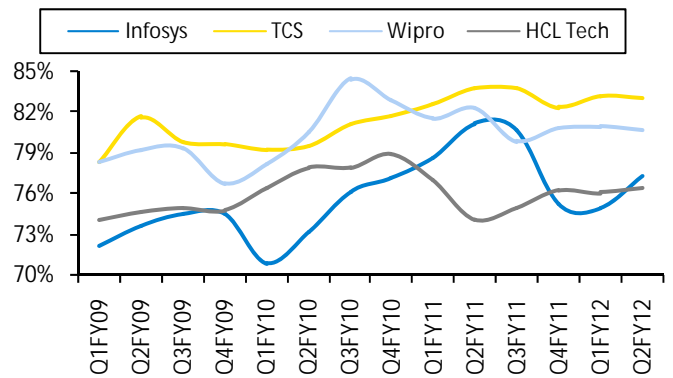
Source: Company Data, PL Research

Exhibit 3: Attrition (quarterly annualized) highest among peers



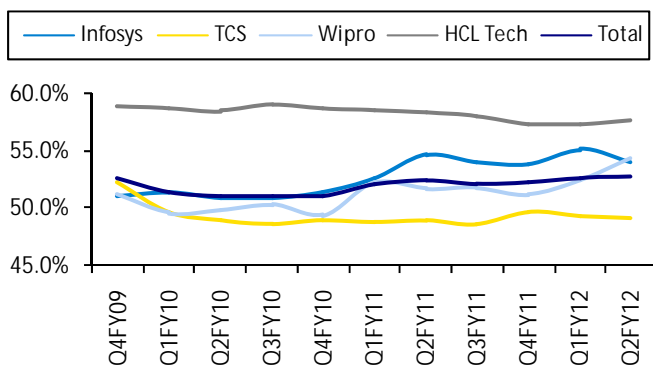
Source: Company Data, PL Research

Exhibit 4: With leanest bench to support growth momentum



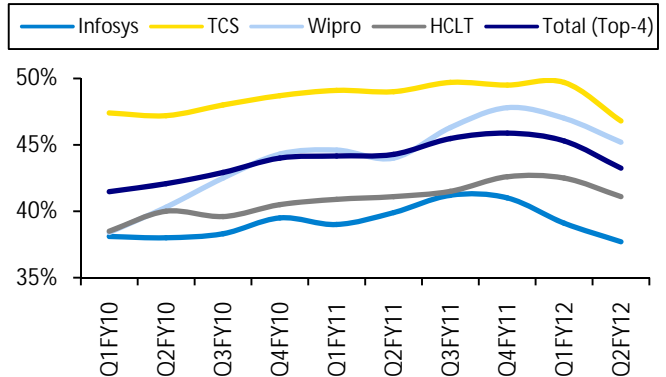
Source: Company Data, PL Research

Exhibit 5: Onsite push to win new clients and extend wallet share



Source: Company Data, PL Research

Exhibit 6: ... FPP efficiency could drive positive surprise for margin



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	271,957	310,542	353,663	405,298
Raw Material Expenses	186,299	212,823	246,646	287,691
Gross Profit	85,658	97,719	107,018	117,607
Employee Cost	—	—	—	—
Other Expenses	25,599	32,256	37,131	39,264
EBITDA	60,059	65,463	69,887	78,343
Depr. & Amortization	7,831	8,211	10,357	12,302
Net Interest	(530)	(11)	790	1,312
Other Income	2,654	5,822	8,624	9,126
Profit before Tax	55,412	63,085	67,364	73,855
Total Tax	9,293	9,714	13,444	15,260
Profit after Tax	46,119	53,371	53,920	58,594
Ex-Od items / Min. Int.	242	345	100	350
Adj. PAT	45,993	53,026	53,920	58,844
Avg. Shares O/S (m)	1,468.0	2,454.0	2,454.0	2,454.0
EPS (Rs.)	31.3	21.6	22.0	24.0

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	50,998	40,437	67,676	64,576
C/F from Investing	(33,815)	(17,239)	(21,220)	(24,318)
C/F from Financing	(1,859)	(40,041)	(17,080)	(19,520)
Inc. / Dec. in Cash	15,324	(16,843)	29,376	20,738
Opening Cash	49,117	64,441	47,598	76,974
Closing Cash	64,441	47,598	76,974	97,712
FCFF	30,392	26,379	45,998	39,800
FCFE	29,818	28,031	45,998	39,800

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	6.8	14.2	13.9	14.6
EBITDA (%)	14.9	9.0	6.8	12.1
PAT (%)	28.9	15.3	1.7	9.1
EPS (%)	28.6	(31.0)	1.7	9.1
Profitability				
EBITDA Margin (%)	22.1	21.1	19.8	19.3
PAT Margin (%)	16.9	17.1	15.2	14.5
RoCE (%)	23.2	21.9	19.2	18.5
RoE (%)	26.6	24.3	20.9	19.8
Balance Sheet				
Net Debt : Equity	(0.2)	(0.2)	(0.2)	(0.2)
Net Wrkng Cap. (days)	8	14	47	47
Valuation				
PER (x)	12.9	18.7	18.4	16.8
P / B (x)	3.0	4.1	3.6	3.1
EV / EBITDA (x)	9.1	14.5	13.4	11.6
EV / Sales (x)	2.0	3.1	2.6	2.3
Earnings Quality				
Eff. Tax Rate	16.8	15.4	20.0	20.7
Other Inc / PBT	4.8	9.2	12.8	12.4
Eff. Depr. Rate (%)	8.2	7.6	8.0	8.0
FCFE / PAT	64.8	52.9	85.3	67.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	196,112	239,680	277,062	316,386
Total Debt	18,107	19,759	19,759	19,759
Other Liabilities	10,097	11,386	11,386	11,386
Total Liabilities	224,316	270,825	308,207	347,531
Net Fixed Assets	54,510	57,466	68,329	80,344
Goodwill	57,813	58,369	69,624	69,166
Investments	31,621	52,266	52,266	52,266
Net Current Assets	58,549	77,459	90,351	118,118
<i>Cash & Equivalents</i>	<i>64,878</i>	<i>61,141</i>	<i>76,974</i>	<i>97,712</i>
<i>Other Current Assets</i>	<i>99,283</i>	<i>116,936</i>	<i>133,714</i>	<i>148,517</i>
<i>Current Liabilities</i>	<i>105,612</i>	<i>100,618</i>	<i>120,337</i>	<i>128,111</i>
Other Assets	22,875	27,637	27,637	27,637
Total Assets	225,368	273,197	308,207	347,531

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	78,202	82,715	84,929	90,070
EBITDA	16,344	16,759	16,579	16,522
<i>% of revenue</i>	<i>20.9</i>	<i>20.3</i>	<i>19.5</i>	<i>18.3</i>
Depr. & Amortization	2,078	2,281	2,338	2,519
Net Interest	—	—	—	—
Other Income	1,575	1,939	2,253	1,837
Profit before Tax	15,841	16,417	16,494	15,840
Total Tax	2,582	2,604	3,096	2,841
Profit after Tax	13,188	13,754	13,349	13,009
Adj. PAT	13,188	13,754	13,349	13,009

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Volume (persons month)	508,470	593,647	736,122	905,430
Pricing (US\$ / Hr)	36.4	37.0	37.3	37.7
Currency (USDINR)	46.7	44.5	43.5	43.0
Sw. Devp. Cost (% of Sales)	68.5	68.5	69.7	71.0
SG&A (% of Sales)	9.4	10.4	10.5	9.7
Revenue (US\$ m)	5,819	6,978	8,130	9,426
EBITDAM Expansion/(Erosion) (bps)	154.4	(100.4)	(131.9)	(43.1)
Tax Rate (%)	16.8	15.4	20.0	20.7

Source: Company Data, PL Research.

December 19, 2011

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Rating	Accumulate
Price	Rs403
Target Price	Rs470
Implied Upside	16.6%
Sensex	15,491
Nifty	4,726

(Prices as on December 16, 2011)
Trading data

Market Cap. (Rs bn)	15.2
Shares o/s (m)	39.5
3M Avg. Daily value (Rs m)	35.1

Major shareholders

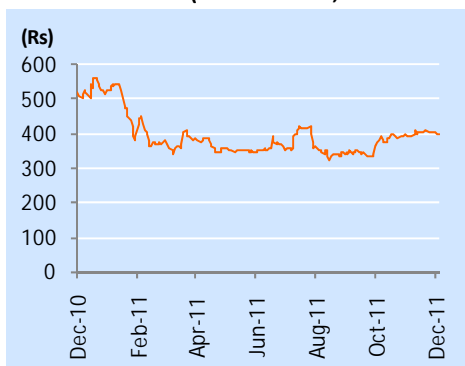
Promoters	24.26%
Foreign	18.50%
Domestic Inst.	8.03%
Public & Other	49.21%

Stock Performance

(%)	1M	6M	12M
Absolute	1.6	13.8	(20.7)
Relative	9.2	27.7	1.3

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2012	38.6	39.8	-3.0
2013	47.3	45.4	4.4

Price Performance (RIC: MINT.BO, BB: MTCL IN)


Source: Bloomberg

We met the management of MindTree to understand the growth opportunity from new focus area and scope mean reversal for margins. The management cited no reason for panic from the client's IT spending. The company is keeping a strict vigil on levers to improve margin. We reiterate '**Accumulate**' rating.

- IT Services steady, but PES to be a drag:** According to the management, there is no panic from their top 30 clients, as clients are more prepared than 2008. Demand in PES (36% of revenue) is soft due to downward cycle in hi-tech spending; however, IT Services demand is steady, with strong demand from Manufacturing (Consumer) vertical. The clients have not indicated any decline in IT budget and no pressure on pricing. The growth is likely to be led by top-10 clients. We expect the company to deliver 0-2% QoQ growth in Q3FY12.
- Margin focus could spin surprise:** The management is more focused on improving margin profile along with steady growth momentum. MindTree is likely to exit FY12, with operating margin of 14-15% (@Rs46/\$) and likely to attain 18% in FY13. The company is likely to focus more on mining existing clients to improve revenue per client. Also, the company has only 34% of total employees with less than three years of experience, compared to 45-50% for larger peers. The company is hiring 3k fresher for FY13 to rationalize pyramid.
- Other highlights:** **1)** New client acquisition in FY12 could ramp-up to top 10 clients **2)** Slowdown in hi-tech spending a drag for PES **3)** IT Services growth stable (with demand in Data Analytics, Business Intelligence, Business Warehousing, KPO) **4)** Forex hedge (FY12: \$72m @45.95, FY13: \$75 @Rs45.3) could restrict gain due to rupee depreciation **5)** Some IP-led revenue in Q3FY12
- Valuation and Recommendation:** Renewed focus on core-business in the last two quarters has pushed the performance of MindTree ahead of Tier-2 peers. We expect the performance to be steady. However, hedge-book would restrict the gain at the bottom-line. The near-term performance could be drag because of non-operating losses. However, we see room for positive surprise in FY13. We reiterate '**Accumulate**', with target price of Rs470, 10x FY13e earnings estimate.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	12,960	15,090	18,501	22,539
Growth (%)	4.7	16.4	22.6	21.8
EBITDA (Rs m)	2,456	1,778	2,450	3,068
PAT (Rs m)	2,149	1,016	1,546	1,894
EPS (Rs)	54.4	25.4	38.6	47.3
Growth (%)	294.4	(53.3)	52.1	22.5
Net DPS (Rs)	2.5	2.9	2.9	2.9

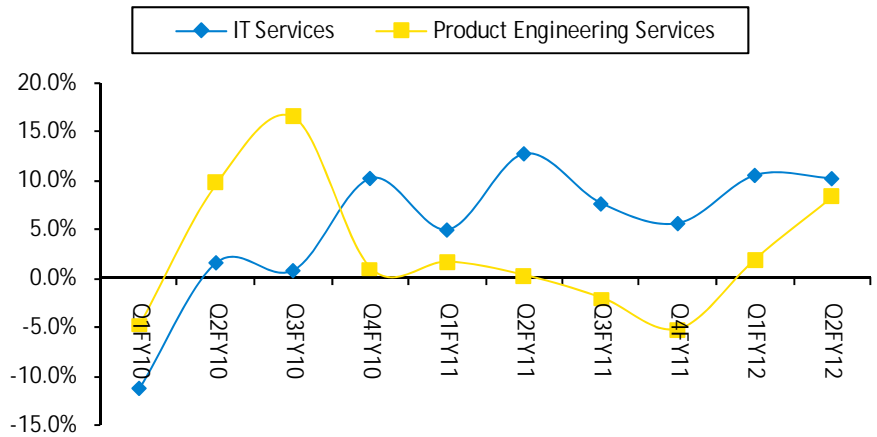
Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	18.9	11.8	13.2	13.6
RoE (%)	35.2	14.0	18.2	18.8
RoCE (%)	31.0	14.0	18.2	19.4
EV / sales (x)	1.2	1.0	0.8	0.6
EV / EBITDA (x)	6.3	8.8	5.9	4.3
PE (x)	7.4	15.9	10.4	8.5
P / BV (x)	2.4	2.1	1.8	1.5
Net dividend yield (%)	0.6	0.7	0.7	0.7

Source: Company Data; PL Research

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Exhibit 1: (QoQ Growth) PES growth is likely to be volatile in the near term



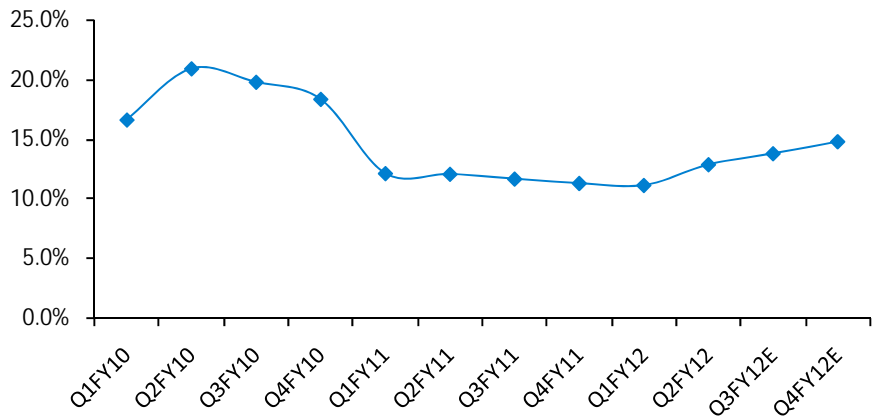
Source: Company Data, PL Research

Exhibit 2: Flattening of pyramid leaves room for margin improvement

	MindTree	TCS	Infosys
0-3 Years Experience	~34%	~38%	~40%

Source: Company Data, PL Research

Exhibit 3: EBITDA Margin: Management guided for 14-15% EBITDA margin for Q4FY12 @cc



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	12,960	15,090	18,501	22,539
Raw Material Expenses	7,982	10,145	12,245	15,293
Gross Profit	4,977	4,945	6,256	7,246
Employee Cost	—	—	—	—
Other Expenses	2,522	3,167	3,806	4,178
EBITDA	2,456	1,778	2,450	3,068
Depr. & Amortization	652	712	844	979
Net Interest	27	4	4	101
Other Income	770	242	283	322
Profit before Tax	2,547	1,304	1,885	2,310
Total Tax	398	288	339	416
Profit after Tax	2,149	1,016	1,546	1,894
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	2,149	1,016	1,546	1,894
Avg. Shares O/S (m)	39.5	40.0	40.0	40.0
EPS (Rs.)	54.4	25.4	38.6	47.3

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	2,265	107	1,847	1,320
C/F from Investing	(964)	(383)	(870)	(1,037)
C/F from Financing	(1,265)	(184)	672	803
Inc. / Dec. in Cash	36	(460)	1,650	1,086
Opening Cash	488	523	459	1,814
Closing Cash	523	459	1,814	2,863
FCFF	2,003	(23)	1,694	1,210
FCFE	640	(8)	1,694	1,210

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	4.7	16.4	22.6	21.8
EBITDA (%)	101.3	(27.6)	37.8	25.2
PAT (%)	310.2	(52.7)	52.1	22.5
EPS (%)	294.4	(53.3)	52.1	22.5
Profitability				
EBITDA Margin (%)	18.9	11.8	13.2	13.6
PAT Margin (%)	16.6	6.7	8.4	8.4
RoCE (%)	31.0	14.0	18.2	19.4
RoE (%)	35.2	14.0	18.2	18.8
Balance Sheet				
Net Debt : Equity	(0.1)	(0.1)	(0.2)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	7.4	15.9	10.4	8.5
P / B (x)	2.4	2.1	1.8	1.5
EV / EBITDA (x)	6.3	8.8	5.9	4.3
EV / Sales (x)	1.2	1.0	0.8	0.6
Earnings Quality				
Eff. Tax Rate	15.6	22.1	18.0	18.0
Other Inc / PBT	30.2	18.6	15.0	13.9
Eff. Depr. Rate (%)	12.7	12.7	13.0	13.0
FCFE / PAT	29.8	(0.8)	109.6	63.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	6,706	7,760	9,190	10,967
Total Debt	31	46	46	46
Other Liabilities	—	—	—	—
Total Liabilities	6,737	7,806	9,236	11,013
Net Fixed Assets	2,859	3,034	3,281	3,382
Goodwill	154	—	—	—
Investments	1,272	1,112	1,112	1,112
Net Current Assets	2,238	3,446	4,627	6,302
<i>Cash & Equivalents</i>	<i>523</i>	<i>459</i>	<i>1,814</i>	<i>2,863</i>
<i>Other Current Assets</i>	<i>4,318</i>	<i>5,331</i>	<i>6,691</i>	<i>7,935</i>
<i>Current Liabilities</i>	<i>2,604</i>	<i>2,344</i>	<i>3,878</i>	<i>4,496</i>
Other Assets	214	216	216	216
Total Assets	6,737	7,808	9,236	11,013

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	3,848	3,911	4,131	4,567
EBITDA	449	442	460	588
<i>% of revenue</i>	<i>11.7</i>	<i>11.3</i>	<i>11.1</i>	<i>12.9</i>
Depr. & Amortization	206	184	180	174
Net Interest	1	3	—	—
Other Income	95	101	122	240
Profit before Tax	337	356	402	654
Total Tax	33	25	89	109
Profit after Tax	304	331	313	545
Adj. PAT	304	331	313	545

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Volume (persons hr)	10,076,951	12,212,832	14,777,527	18,324,133
Realization (US\$ / Hr)	26.4	26.6	26.9	27.1
Currency (USDINR)	47.6	45.4	45.8	44.5
SW Devp. Cost (% of Sales)	61.6	67.2	66.2	67.9
SG&A (% of sales)	19.5	21.0	20.6	18.5
Revenue (US\$ m)	272	331	404	507
EBITDAM Expansion/(Erosion) (bps)	909	(717)	146	37
Tax Rate (%)	15.6	22.1	18.0	18.0

Source: Company Data, PL Research.



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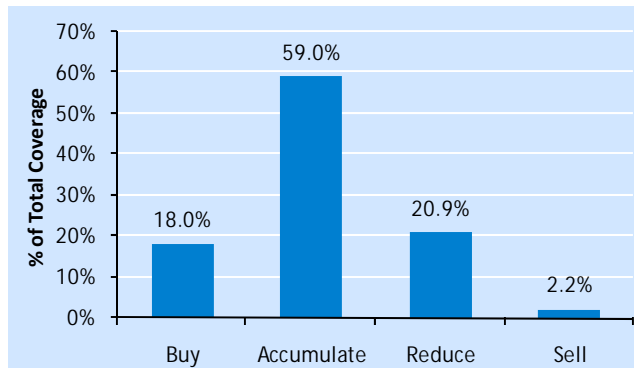


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