WNS
Extending Your Enterprise

WNS' story of Transformation through Innovation gets a colossal coverage in one of the leading Indian corporate magazines 'Business India'!

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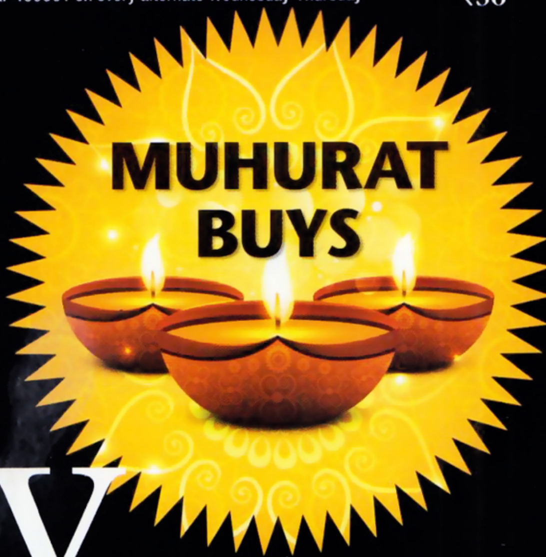


Jaitley IN THE Crosshairs

The government mounts a rearguard action to salvage the economic situation. But will it work?

Transformation through innovation

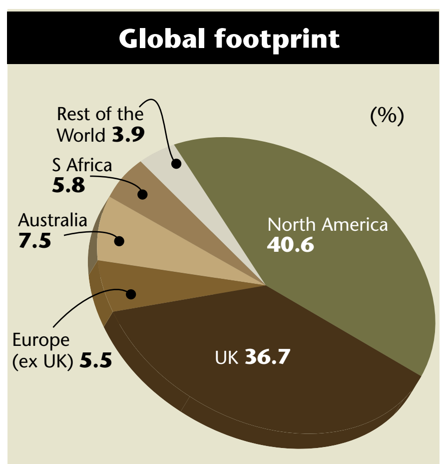
From being an also-ran, WNS has become an outlier in the industry

The epithet 'turnaround artist' aptly fits Keshav Murugesh, 54, CEO, WNS Holdings, a NASDAQ listed, global business process management (BPM) company. In the last 14 years or so, he has turned around not one but two global companies.

Coming from what was then a small town, Visakhapatnam, Murugesh has had a dream career run; first at ITC and later at Syntel, an integrated IT service provider. A chartered accountant by profession, Murugesh had worked in diverse industries ranging from financial services, agribusiness to IT processing and outsourcing. At Syntel, an integrated IT service company, during his seven-year stint prior to WNS, Murugesh was credited with growing the revenues of the company from $300 million to $2 billion, besides building up a BPO business. Earlier, at ITC, where he worked for 13 years in the treasury division as also ITC Threadneedle, he had done a notable job growing the income of the company.

Business India had first profiled Keshav Murugesh (Executive Focus*, 21 November 2012*) nearly three years after he picked up the gauntlet of turning around WNS. In 2009, the company had a market cap of $525 million. Today, it has soared to $1.82 billion. Profit has outpaced revenue growth by a wide margin, more than doubling in the last five years, to reach $92.2 million in 2016-17, while the total income, at $578 million, has seen a rise of 67 per cent to $578 million in the same period (*see table*). "Investors are re-rating WNS and are enthralled by the company's disruptive models," says Murugesh. The re-rating of the stock has seen all 15 analysts giving a BUY signal with two even signalling OVERWEIGHT, in anticipation of better times ahead. The high expectations are built in the price with WNS having a trailing P/E of 44 times. EXL has a P/E of 30, while Genpact one of the biggest in the sector, has a trailing P/E of 22. Feeling that the stock is still undervalued, the company's management has gone in for a buy-back programme, the second in the last three years. "The real growth story has yet to unfold," says Sanjay Puria, 44, group CFO. A key member of the WNS leadership team, Puria, a chartered accountant, had earlier worked in various companies, including Welspun and Syntel. He managed key functions, such as corporate strategy and M&A, before being designated the group CFO in 2013.

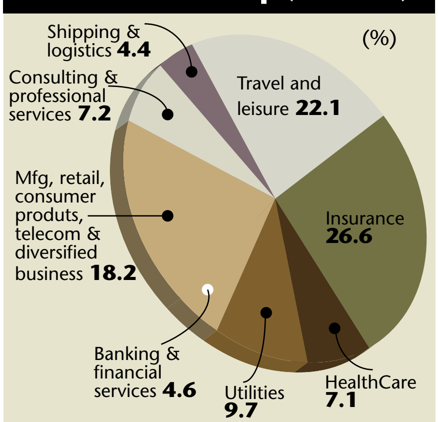
Learning lessons from his mother, who was the manager of India's first ladies' cricket team, Murugesh had early on realised the benefits of building a team. "I would say team leadership is a unique differentiator, which underwrote success in WNS," points out R. Swaminathan, 41, chief people's officer. Having worked in GE and later at Syntel, Puria and Swaminathan are part of the core team, which had



SANJAY BORADE

Murugesh: on a strong wicket

Sectoral break-up (FY 2016-17)



played a major role in the turnaround of WNS. Besides putting across a capable team through lateral hires across all levels, Swami, as he is affectionately called, has succeeded in bringing down the attrition rate from 42 per cent to 33 per cent currently.

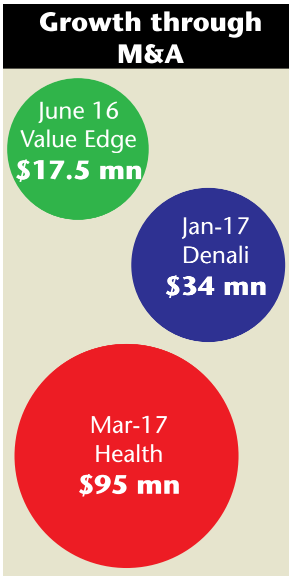
"WNS was directionless in 2010," says Puria; "and way off its earlier *avatar.* Started as a captive unit to service British Airways, WNS began its journey in 1996. Its real story started in 2002, when it started offering BPO services to companies in other industries. Like other service providers, WNS followed an aggressive growth policy. Growing through acquisitions, it got listed on NASDAQ in 2006. It acquired Aviva Global Services in UK in 2008. However, the landscape for BPO industry, as it was then called, was changing rapidly. Advanced technologies and rising demands of clients compelled the companies in this industry to adopt a flexible approach and move away from being just a low-cost, service provider, doing repetitive functions of the multinationals. By mid-2000, the industry was not just about helping clients to reduce cost, but was looked on as a provider of services that enabled companies to outperform in a competitive world, through adoption of innovative services and insights gleaned from harnessing the domain expertise of the client's industry.

Verticalization model

When Murugesh took charge, the morale of the employees was low. His predecessor, Neeraj Bhargava, had quit to start a private equity firm and the search for inducting a new CEO was on. Warburg Pincus, the private equity firm, had bought about 65 per cent stake for $40 million in 2002 and was instrumental in persuading Murugesh to come on board in 2009. The PE firm completely exited WNS by 2013, in stages including through an FPO of ADRs on NASDAQ, netting gains of over 7.5x. Currently, there are no identified owners in the professionally run company.

While Murugesh had not known about the company in details, he took on the job as a challenge (Business India*, 13 October 2013*). He is credited with having introduced a verticalisation model, not just in WNS but in the BPM industry. As against operating a horizontal model with offerings in finance, research, sales and recovery, he restructured offerings of WNS into several verticals, including travel, insurance, financial services, health care, legal services and logistics. Building domain expertise in each of the verticals was done thereafter. Reminiscing that BPO was then looked on as the last choice for aspirants, WNS started positioning itself as a company for building careers in insurance, healthcare, travel, consulting, etc, as against careers in BPO done earlier. In a bid to groom talent which could be industry ready, WNS has partnered with institutions for designing courses. It tied up with NIIT University (NU) to offer MBA courses in data analytics. The two years' course envisages one year training at WNS to get first hand industry experience. While WNS offers a stipend, roughly about ₹15 lakh over the two-year course, it gets a steady pool of talent for its business analytics with placements done, with a starting salary of ₹15 lakh per annum. Employees are also encouraged to go in for skill enhancement courses to upgrade their prospects and move up within the company. Today, WNS has 34,000 employees based out of 54 sites in 13 countries, with the largest workforce of 21,000 employees in various centres in India. Other sites include those in the UK, Europe, the US, China and South Africa.

Despite a string of acquisitions, WNS did not have a cohesive workforce in 2010. Aviva Global Services was still operated as a separate company with no cultural alignment. Revitalising the employees as well as the sales team was another major initiative taken with the leadership team travelling extensively to meet clients. Unlike in IT, a typical contract would take 6-9 months to close and would be quite small in value, say, \$5-10 million. Unlike IT companies, which also vied for BPM contracts, more to gain

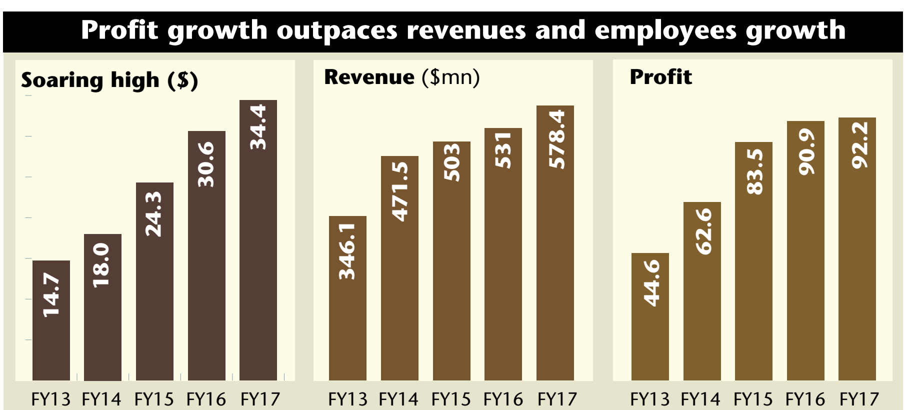


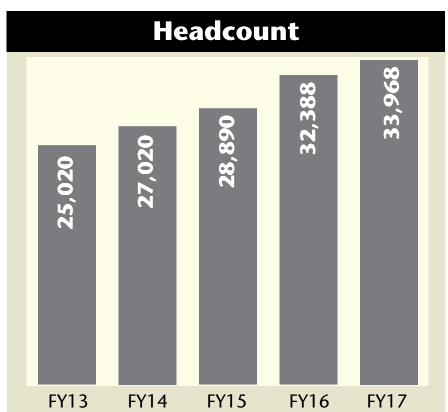
entry for their IT service offerings, pure play BPOs scored over integrated IT companies for whom BPM was yet another offering, which was quite time consuming.

Over the years, WNS has also been consciously trying to get higher value add contracts. "Domain knowledge along with expertise in consulting, allows us to go as equals when we meet clients," says Murugesh. Helping clients to build loyalty with customers, addressing the feedback of customers across social media and analysing the vast pool of data generated through smart analytics, are just some of the new services being offered. WNS has also developed some proprietary platforms leveraging automation and artificial intelligence. A new 2,500 people-strong research and analytics division has been created. "Servicing clients on multi-channels through our in-house-developed platforms is also gaining traction," says Akhilesh Ayer, EVP & head, research & analytics. Ayer had been with WNS since 2009, having earlier worked as CMO, WNS, building up the brand. Prior to WNS, Ayer had worked with investment banks after his stint with Genpact in Bengaluru. He also heads the research analytics lab, which develops products. SocioSeer is one such product developed in-house, to give insights gleaned from data culled across all

social media site to the client. Trac, another product, offers smarter analytics. Research & analytics services account for 11.8 per cent of the total income but is growing fast. Customers' interaction accounts for a little more than a fourth, while industry-specific accounts for 34 per cent. Auto claims has now been reduced to just 5 per cent.

Murugesh's move to diversify WNS's global footprint has paid off. The UK's clientele, which accounted for 55 per cent of its income, currently contributes 36 per cent, while North Americas,





Puria, Swaminathan, Ayer: changing the DNA of the industry

primarily the US, accounts for 36.7 per cent and Australia, just 7.5 per cent (*see table*). It has also built a broad portfolio of clients, after one of its large US mortgage companies, First Magnus Financial Corporation, filed for bankruptcy under Chapter 11. There is no overt dependence on one single client. Currently, the top five clients account for 32.1 per cent of the turnover, with Aviva Global Services (management services) contributing the biggest share of 9 per cent.

The initial efforts of the management were aimed at consolidating WNS, as also let it grow organically, one reason for it also being that there was not enough cash. But, today, the company has resumed its policy of growing through takeovers. After taking over Fusion Outsourcing Services, a financial and insurance service provider in South Africa, for £10 million in 2012, there was a lull in takeovers. However, in 2016-17, the company embarked on an aggressive drive, taking over three companies in a row. It annexed Value Edge Research, a health research & analytic service provider, for $17.5 million in June 2016 and followed it up with the take-over of Denali Sourcing Services, a finance & accounting service provider, with capabilities in procurement and sourcing for $34 million in January 2017. Then it was the turn of Health Help, a health care service provider, which was taken in as a proprietary tool, to allow for a predictive analytic platform for $95 million in March 2017. "We have gone in for capability acquisition to meet the gaps in our service offerings," says Puria. "In most of the M&A transactions, we had worked with the companies and had some sort of relations," points out Swaminathan explaining that, "in the case of Fusion, we had worked as partners for three years prior to the takeover. This helps in minimising cultural mismatches, one bane of the M&A, globally. "While retaining most of the talent teams in the respective companies, we ensure that the new employees share our DNA and can seamlessly merge with our existing workforce," concludes Swaminathan. A collaborative approach is followed in situations like this, says Puria, explaining that the 'my way or highway' approach does not work."

The company also rigorously follows a strategic rolling plan annually, with a specific group dwelling on new trends spotted in the industry. The aim is to stay ahead of the curve, says Murugesh, who feels that the BPM industry does not have to go to the clients, asking 'what to do next'. Rather, with the hyper-specialisation knowledge, which companies like WNS are building up, they can sit across the table as partners and suggest ways and means to companies to enhance the customers experience, test new products and advice them accordingly. WNS is moving away from a pure transaction-led company to adoption of various models, including pricing based on the outcome. "This allows a nonliner growth," says Murugesh.

While a full-time equivalent model requires billing to be done on the number of employees deployed on execution, fixed price contracts is based on milestones achieved. Outcome-based model is a high-risk, high-reward model, where the service provider, WNS, takes on the risk of the outcome. This could be in the form of reduction in days outstanding, improvement in working capital and reduction in operating expenses. A break-up of the pricing models shows that full time equivalent pricing of contracts now accounts for 62 per cent, while, transaction based, fixed price based and outbased along with a mix of business models (partially transaction, partially outcome based) account for the balance. This is one of the reasons for WNS' profit growth out-pacing both revenue growth as well as the head count growth in the last five years. In the case of WNS, profit has more than doubled to $107 million in the last five years, as against a revenue growth of 67 per cent and an increase in in the number of employees by 36 per cent.

Murugesh feels that WNS is on a strong wicket to leverage its investments built over the years in technology to empower the clients to better face the competition in the evolving world. What we are witnessing is the third phase in the BPM industry, he says. But, with no owners and sound capabilities, WNS could well be a takeover target for some IT giants like TCS in the future. However, still being a people's company, though processes

SANJAY BORADE

‘BPM 3 is how I would like to describe the current phase’

Keshav Murugesh, CEO, WNS, is also an evangelist of sort, having played a stellar role as chairman, BPM Council, NASSCOM. In an interview with **Daksesh Parikh**, he dwells on the evolution of the BPM industry, as also what lies ahead

The BPO industry was once looked on as a distant cousin of IT. Currently it has become the investors’ favourite. What triggered the change?

The BPM industry has evolved rapidly over the last decade. Earlier, it was clubbed with ITeS. People did not understand BPM. At NASSCOM, all CEOs collectively took a decision to rebrand BPM. Myths were demolished to let people understand what BPM meant. We also created industry-specific jobs for aspirant. To further our interest, we held a BPM summit independently in the US last year and are looking at making in an annual affair. Centres of excellence have been created for analytics, data science. We are making an elevated pitch for working with state government. Specialisation and skilling of workforce has allowed us to partner with our clients.

How do you see BPM evolving in future?

There is a huge potential for growth in this sector over the next decade at least. We are in the third phase of growth – transformation through innovation. From being merely cost reducers, the BPM industry has transitioned to offer better products designs and platforms to help clients. Many are actually advising their clients on improving processes as also advising and empowering them to take key decisions to survive and grow in a competitive landscape.

Can the BPM industry evolve like the McKinseys or Big 4 to become strategic advisers?

No, we are not aspiring to become strategic advisors but we certainly do advise clients about availability of better products, advise them on technology and partner them in leveraging technology and use analytics.

What about AI and robotics? Can they replace BPM industry?

Automation, AI and robotics can do repeatable or commoditisable jobs. Brains cannot be replaced. We are moving out of such low end jobs. Some players engage with technology and partner with robots to do such jobs. The industry is aware of the problem and is engaged in reskilling and upgrading skills of its employees. Various programmes have been initiated. As against scaling up headcounts, companies like WNS are banking more on domain knowledge, technology and higher intelligence. Newer non-linear growth models are used for pricing contracts. Many companies are moving out of low end jobs and moving up the value chain. The potential for growth in high end jobs is huge and just being realised. We are changing the DNA of the industry, from taking orders to becoming partners of choice.

and platforms are being put in place, would any company spend $2 billion for taking over a BPM company, knowing fully well that it may not be able to retain its top leadership? A soaring stock market can also allow shares to be used as currency, with ‘part cash, part share’ swap a possibility. While consolidation in any industry is theoretically possible, it requires a different mindset for running a BPM company as opposed to an IT company. And in any case, IT companies’ shares are not exactly fancied by the investors currently, with their trailing P/E ratios being lower than those of the BPM companies. And investors may prefer a pure BPO unit, rather than an integrated IT company. From a level of $11-13 at the time when Warbug Pincus exited, the company has grown three times in a span of eight years and, unless there is a strong value proposition, investors may be disinclined to exit or vote against the current management.

In a fast changing dynamic landscape, outliers like WNS have no cause for worry.

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