“Wipro Limited’s Strategic Alliance with ATCO Group – Press Briefing”

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MANAGEMENT

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Moderator
Ladies and Gentlemen, Good Day, and Welcome to the Wipro Telephonic Press Briefing. As a reminder, all participants’ lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Vipin Nair – Head, Communications, Wipro. Thank you. And over to you, Vipin.

Vipin Nair
Good Morning, everybody. Thank you all for joining the call at such short notice. This virtual press briefing follows the announcement that we made earlier today. We have Jatin Dalal – Chief Financial Officer, IT Business, Wipro Limited and Anand Padmanabhan – Chief Executive, Energy, Natural Resources & Utilities on the call.

Let me now draw your attention to the fact that during this call we may make certain forward-looking statements within the meaning of Private Securities Litigation Reform Act 1995. These statements are based on management’s current expectations and are associated with uncertainties and risks, which may cause the actual results to differ materially from those expected. The uncertainties and risk factors have been explained in detail filing with the SEC of USA. Wipro does not undertake any obligations to update forward-looking statements to reflect events and circumstances after the date of filing thereof. The conference call will be archived and the transcript will be available on our website, Wipro.com. I would now request Anand Padmanabhan to make the opening remarks. Over to you, Anand.

Anand Padmanabhan
Thanks a lot. Morning, everybody. We are happy basically to announce that Wipro has entered into a strategic alliance with ATCO Group based out of Alberta. ATCO is one of the Canada’s premier organizations. As part of the alliance, we will be providing a total Outsourcing Solution to ATCO, both in Canada as well as in Australia. We have signed a set of agreements with ATCO Group and will be basically providing the total Outsourcing Services to ATCO, which will result in approximately CAD120 million per annum to Wipro for the next 10 years. So this sort of makes it one of the largest deals for Wipro. Wipro will manage the complete suite of IT Services including managing their Infrastructure, the Application Maintenance, the Application Development, and also do the Asset Management. This win comes under competitive circumstance and is attributable basically to the domain knowledge that we have created over the last 10 years, and our ability to do transformation for utilities across the globe, and is in the sense a total Outsourcing deal for ATCO. This engagement also consolidates our presence both in Canada as well as in Australia, and sort of enhances our presence in the ENU space. Wipro’s IT delivery model will be further strengthened by way of acquiring the ATCO’s IT arm which is ATCO I-Tek. As part of that we would be talking over a set of employees from ATCO I-Tek and these employees come with significant domain knowledge and presence in these markets which will enable us to provide a lot of services to the utilities in those two markets.
So we are now happy to take any specific questions around this particular transaction.

Vipin Nair

Inba, we can open the lines for questions.

Moderator

Sure Sir, thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Varun Sood of ET, please go ahead.

Varun Sood

Firstly, if you could just tell me, is it a pure play IT Outsourcing deal or is it a Transformational deal, and in what kind of way is this transformational? The second question pertaining to when you say you are buying the IT arm, how many employees would you be taking on board? Just wanted to understand if this is the second company which you have acquired in the oil & gas space after SAIC a couple of years back for 150 million.

Anand Padmanabhan

So fundamentally it is a transformation deal, in the sense like we will be providing our global expertise in the utility markets to enhance and improve the business outcome for ATCO Group, and this is across all their Utilities business as well as the Asset Management business. So fundamentally we will be providing a lot of transformational capabilities. And it is also an Outsourcing deal; the total outsourcing deal in the sense that we probably are doing an end-to-end outcome-based services to them. So to an extent if I am to answer your first question it is a total outsourcing deal with a significant amount of transformational content to provide business outcome to ATCO Group. I think the second part of your question was the number of employees. You are right, I think it is about 500 people who would be coming on board to Wipro, and these people have a significant presence in the market, in the sense they have been doing this service for a long period of time and specific to ATCO Group in the utility space, so they come with a lot of domain knowledge and knowledge of how the utilities work in that specific market. So it is very valuable for us to enhance our presence and capabilities for that specific market, and then brings about that amount of flavor to our capability. The third question was, in the sense like the I-Tek part of it is probably, within the ENU space definitely the second largest I suppose in the last three years, that is right.

Varun Sood

What kind of changes are you really seeing when you go chasing such outsourcing deal, and if I can call it, say run-the-business-deals, are there any kind of cost pressures you are seeing? In this deal I understand you bought a company, it must have helped you in some ways, but other than that are we seeing some changes in deals when you go for such large-size contracts?

Anand Padmanabhan

Organizations do these type of deals because of multiple reasons, but the number one reason would tend to be more competitive in the business that they run, right, to be more transformational, and change the process of running the business. So our presence globally of running and delivering service to the utility market across the globe brings a lot of those flavors of what is the best-in-class, what are the best practices across, utilities across the globe. So we bring in those flavors to the organization in the local market. To that extent that is the significant part of the deal. So ATCO would gain from the global capabilities and expertise that
Wipro will bring in, and Wipro gains in the sense we have a significant presence in the market now, which will enable us to provide services to other organizations around that geography.

**Moderator**

Thank you. Our next question is from Itika Sharma of Business Standard, please go ahead.

**Itika Sharma**

Anand, this ATCO I-Tek buy that you have done… you mentioned in your statement that it is going to help you serve ATCO better, but from a Wipro perspective with these 500 employees and this company which you have purchased now, how does it figure in your scheme of things, and for Wipro’s other clients is ATCO I-Tek going to serve other clients also, while this 10-year deal is on or is it going to be focused only for ATCO Group?

**Anand Padmanabhan**

The second part of your question is right, in the sense it is not specifically to provide service to only ATCO Group. The whole logic of taking over ATCO I-Tek is to enhance our local presence and capability to provide service to everybody else in that market, not necessarily only ENU but across the IT spectrum. So we would be using these capabilities to provide service to other organizations in that market. ATCO Group would benefit from the capability that Wipro will bring over and above the ATCO I-Tek capability.

**Itika Sharma**

Of the funding, it is quite sizable acquisition of about $195 million in cash. If you could just throw some color on how the funding is happening and post this acquisition what will Wipro’s cash position be like?

**Jatin Dalal**

As you know we have sufficient liquidity on our balance sheet. We run a structure where we have both a little bit of debt on our balance sheet as well as cash, but at any point in time we are significantly cash (net of debt) position. So to that extent we do not foresee funding as a challenge at all; as of last quarter we were 2 billion that we had on our balance sheet, so that is this number represents less than 10% of that. So we do not see funding as a challenge. Obviously, when we actually close the transaction we will be able to talk about the funding, but that is not really a concern at any point in time.

**Moderator**

Thank you, our next question is from Chandra Srikant of ET Now, please go ahead.

**Chandra Srikant**

Anand and Jatin, I have questions for both of you; Anand my question for you, was ATCO already servicing multiple clients, I mean their subsidiary, I-Tek, because analysts think valuation is a little too high for a pure captive play like I-Tek. So if you can tell me something about that? From which quarter will start reflecting on Wipro’s revenue? Jatin, my question to you is on the margin front. If you can give us a sense of the margins that their subsidiary has, what impact it will have for Wipro going forward?

**Anand Padmanabhan**

Let me take the first part of the question… so ATCO I-Tek was set up by ATCO Group, fundamentally to provide IT Services not necessarily only to ATCO, but other organizations around. So they do provide service to other organizations outside of ATCO Group companies.
So fundamentally we would have ability to serve all those customers which ATCO I-Tek is currently serving as well as take those capabilities and build in a lot of IT and global capability around that to be able to serve newer customers in that geography. This sought of gives us an opening into a geography where it is very important to have significant local capability and presence to deliver services. So to that extent it is not only ATCO Group but a significant part is outside of ATCO Group as well. In terms of the revenue the moment deal is closed, I suppose a part of it should be reflecting from Q2. Jatin, do you want to add on to it?

Jatin Dalal

Yes, I will add to what Anand said, one other reference which you said that whether this price that we have paid is little more or little less vis-à-vis some other transactions. I just want to give you comfort that we definitely look at these other transactions, but you have to see the color of this transaction; the color of this transaction is not that of M&A, the color of the transaction is that of a total outsourcing deal where we are committing certain business outcomes to customers over a period of 10 years, and customer is very happy to underwrite those revenues to us, and in the process of delivering that we are also taking some of the input factors from the customers, which are namely, the key component being people, and they have come in form of a share purchase of the existing entity because they were unlike other customers in which case they may be segregated in various divisions of the customers, the customer has already done one level of consolidation in a separate legal entity, and in our sense it makes perfect sense to take over them as a legal entity as against trying to take over them as 500 different employees. So I think that is a fundamental economic structure of the transaction. Having said that we are obviously aware of the fact that there has to be a right from cash flow standpoint has to be a right internal rate of return, (IRR) that we generate, that is our internal benchmark. And from accounting standpoint after we do consolidation, the financial results are something that are acceptable to us and our shareholders, and from both standpoints, from both thresholds, we do not see anything but a positive go-forward, and therefore we have gone ahead and concluded this transaction, and in some form I am answering your third question on profitability also, because after taking the intangible write-off which would be a large component of this transaction, we do not foresee that any material dilution at Wipro Limited level on account of this transaction.

Chandra Srikant

Can you give me an idea of the margins that this captive currently has …the business that it is doing now?

Jatin Dalal

If you see this was part of the ATCO Group, their financials have not been published separately. From our standpoint this is something which is a customer confidential information, so I am not able to share with you, but I think it should give you comfort that it will not overall dilute our profitability materially and therefore you can take a sense on that that where the margins could be.
Chandra Srikant: Jatin, you mentioned something on write-off. I did not get that part, if you can just tell me again.

Jatin Dalal: There is no write-off as such. When you do any transaction of this nature, there would be an accounting principle that would be followed, and in that process certain amount of intangible assets that get created and that gets amortized over the life of the contract. And what I meant was even after that amortization we would have a healthy profitability.

Moderator: Thank you, our next question is from Rukmani Rao of Bloomberg TV, please go ahead.

Rukmani Rao: Jatin, I just wanted to understand, when this acquisition could see closure, if you can give some clarity on that?

Jatin Dalal: We want to do it as early as possible. From our standpoint we certainly see it closing in this quarter for sure, and much earlier if possible.

Sajeet Mangat: Hi Anand this is Sajeet Mangat from CNBC TV, Mumbai. I have a couple of questions; you mentioned that this acquisition gives you a couple of clients outside ATCO as well. Can you shed some light on that? To Jatin, he spoke about for this total outsourcing deal there will be a provision which will be done over a period of 10 years. Is it safe to assume that every year you would be doing $20 million as provision for the contract, and if that is the thing, what is the kind of impact on the margin, because you said margins will not be diluted to a certain extent, but there will be some kind of dilution which is there, right?

Anand Padmanabhan: ATCO I-Tek is present both in Canada as well as in Australia, , they have a presence in Perth in Australia, and they have a presence in Alberta in Canada. So if you look at these two markets specifically, the important thing that has to be noticed is fundamentally these two markets are pretty much natural resources rich geographies. So you have a lot of oil and gas, and utility, significant part of the presence in both the geographies, Alberta is rich in natural resources and mining and oil and gas as well as Perth in Australia. So ATCO I-Tek has the domain and the knowledge from a perspective of what is required to run businesses around natural resources. So they are already serving a few customers around that space and across the spectrum, it is not necessarily a couple of customers, so they do consulting, they do application, they do process improvement and so on and so forth. So that is an additional set of customers that would come to us, and also these capabilities will help us enhance our capability in these two geographies, which is fundamentally very core for oil and gas as well as natural resources, and so for utilities.

Sajeet Mangat: I just wanted some color on the kind of revenue that comes from non-ATCO customers, because if you are going to get $112 million every year from ATCO I-Tek, how much will be coming from ATCO and how much from non-ATCO customers.
Jatin Dalal: What we are talking about is committed revenue from the customer and that certainly we have shared with you. Obviously, our expectation is that we will draw more revenue than this because this is merely minimum revenue commitment. We could certainly drive more synergy out of it in terms of selling this capability to other customers, but at this juncture it would be too early and too premature to be talking about those data points.

Sajeet Mangat: Will you be merging it with any of your existing divisions or it will remain as a standalone entity?

Jatin Dalal: The point is that it will not continue as ATCO I-Tek, it will certainly become Wipro brand and it will become part of the Wipro family. Now, what legal structure that we work is always a consideration of what is the most optimal way of executing your delivery model and sales model in a particular geography and that is nothing to do with an acquisition strategy. So, in some form, it is again too premature to talk about it. Our first endeavor is to close the transaction and taking over employees, giving comfort to customers that we indeed are providing the experience that we provide during the time, legal entity structure is really significantly down the line activity that we will worry about.

Sajeet Mangat: What about the write-off part of it? Can you give me some more indication of, is it going to be equal write-off over a period of 10 years or is it going to be in a graded fashion?

Jatin Dalal: We have closed the deal, we have announced the deal yesterday night and we are 15 hours from that. We will close the transaction first, we will finalize the accounting treatment and so on and so forth. What I shared with you is the normal accounting principle which arises in a deals of this nature.

Sajeet Mangat: Because in the industry has done it in different fashion – there are some companies who have done it in one-go, there are some who have amortized over a period of contract. So that is why I wanted to ask you, are you going to do it at one-go or are you going to do it over a period of 10 years?

Jatin Dalal: As I said, the principle is that of amortization, it would be over a period of 10 years, but the sheer quantum, how it will get executed, etc., I think we will be able to talk to you much better in our earnings call, we would have a week’s time between now and later, to be able to talk to you and even better when we actually close the transaction, because we may still be a few yards away at that point in time to be able to give you more clarity than what we can give you.

Sajeet Mangat: A little on the margin front, because you said not overall dilutive, so that means there might be some dilution, what kind of margins your utilities and oil and gas business normally has as compared to that, how will ATCO fair?
Our Energy, Natural Resources & Utilities business is a separately defined segment in our financial. If you go and see those numbers they operate at quite a healthy margin not only for Wipro, but at industry level. Coming back to specific deal, as I said, nature of this deal is that of an organic deal, total outsourcing deal, deal that would have happened in a normal course of business, the only change is that we are taking over employees because that is the most optimal way of doing this transaction, and since it is for us like any other deal, and since we do not talk about any other deal vis-à-vis profitability, dilution, etc., because that is how we run our business, there will always be pieces of business that would be significantly higher, there will be pieces of business that would be at the company average, etc. hence we will not talk about specific margins of this deal, because there is nothing different here than what we have seen in any large deal.

Sajeet Mangat

So yearly guidance will factor in the ATCO revenues as well, is it safe to assume that?

Jatin Dalal

Yes, based on the visibility that we have on the day of earning release, we will be able to share more details about guidance.

Moderator

Thank you. The next question is from Dhanya Thoppil of Wall Street Journal. Please go ahead.

Dhanya Thoppil

I just wanted to get a sense of the total employee count of I-Tek and are you taking over all of the employees or there are some employees left behind?

Anand Padmanabhan

We are taking over 500 employees in Canada and about 50 employees in Australia. ATCO continues to do the BPO part of the business, so there will be some employees who will be retained by ATCO to run the BPO part of the business. The current headcount of I-Tek would be a few more than 700.

Dhanya Thoppil

So remaining 200 odd would be part of the BPO team of I-Tek, is it not?

Anand Padmanabhan

It could be part of BPO, it could be part of the retained organization to manage the transaction, right. So that would be the split, yeah.

Moderator

Thank you. I would now like to hand the floor to Mr. Vipin Nair for closing comments.

Vipin Nair

Thank you, everybody, and hope the session was useful. Good bye and have a great day.

Moderator

Thank you. Ladies and Gentlemen, on behalf of Wipro that concludes this conference. Thank you for joining us and you may now disconnect your lines.