FINAL TRANSCRIPT

G - Q1 2009 GENPACT LIMITED Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2009 Genpact Limited earnings conference call. My name is Erica and I will be your coordinator for today.

At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. (Operator Instructions)

I would now like to turn the presentation over to your host for today's call, Mr. Anil Nayar. Please proceed, sir.

Anil Nayar - *Genpact Ltd. - IR Contact*

Thanks, Erica. Welcome to Genpact's earnings call to discuss our results for the first quarter ended March 31, 2009. My name is Anil Nayar, Head of Investor Relations. With me, I have Pramod Bhasin, our President and Chief Executive Officer; Tiger Tyagarajan, Genpact's Chief Operating Officer, and Vivek Gour, our Chief Financial Officer.

We hope you have had a chance, an opportunity to review our press release. If not, you will find it on our Web site at Genpact.com.

Our agenda today is as follows. Pramod will begin with an overview of our results and provide a perspective on the current environment. Vivek will then take you through our financial performance in greater detail. Finally, Pramod will make a few closing remarks, after which Tiger will join Pramod and Vivek to take your questions. We expect the call the last about an hour.

Please note that some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include but are not limited to general economic conditions and those factors set forth in our press release and discussed under the Risk Factors section of our annual report on Form 10-K and other SEC filings. Genpact assumes no obligation to update information presented on this conference call.

In our call today, we will refer to certain non-GAAP financial measures which we believe provide additional information for investors and better reflect the way management views the operating performance of the business. You can find a reconciliation of these measures to GAAP, as well as related information, in our press release on the Investor Relations section of our Web site, Genpact.com.

With that, let me turn over the call to Pramod.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Thank you, Anil. Good morning, everyone, and thank you for joining us on our call today. We had the pleasure of meeting with many of you in March at our investor day when we went into detail on our strategy, competitive differentiators, the environment and our drive for change. As such, our comments today will be brief to allow more time for your questions.

Genpact completed the first quarter of 2009 with a solid performance, including growth in revenue, margins and operating income in what remains a very tough economic environment. Revenues increased 13% year-over-year to $266 million, reflecting growth in both our GE and Global Clients businesses, as well as across geographic regions. Adjusted income from operations improved to $42 million, which is a 48% increase year-over-year.

Because we had anticipated some of the economic challenges last year, we were able to port out aggressive cost reduction measures in place early, which contributed to 374 basis point year-over-year improvement in adjusted income from operations margin. We expect many of these cost pressures to be sustainable through 2009, enabling us to stay ahead of the game.

Clients continue to delay decision-making on projects as they focus on redefining their business and operating models. But they are interested in partners like Genpact who can help them with cost controls, cash preservation and faster payback on their investment dollars.

Pricing pressures continued to be a challenge, but thus far, we are managing within our internal expectations. As we have said repeatedly, we are staying very close to our clients, ensuring our execution is flawless and being responsive to their needs to provide solutions that deliver measurable business outcomes during this difficult period.

The nature of our non-discretionary work is a run rate for growth in the coming year. Our pipeline continues to be robust as clients look to us as a solution for their cost pressures. Though we believe decision-making still has its challenges, the good news is that we are beginning to see signs of stability in our clients' businesses.

Here are the highlights. Revenues grew 13% overall for the first quarter versus last year. Global Client revenues grew 20% and now represent 58% of our total revenue. GE revenue grew 5%, evidence of the growth opportunity that still exists, even in this environment. Business process management representing more than 80% of our total revenue grew by 20%, demonstrating the strength and sustainability of our business model. This was partly offset by a 12% decline in ITO revenues, reflecting lower discretionary spends and delays in budgets getting finalized.

As expected, we continued to see the decline in discretionary spend, higher deletions in some business processes due to client volume contractions, price drops in the ITO business, and slower ramp-up from some clients.

First-quarter revenues declined on a sequential basis for the most part, reflecting the typical seasonal pattern between the fourth and the first quarter as the majority of products in discretionary spends are completed in the fourth quarter and have not yet started in the first.

Total revenues declined by 6% from the fourth quarter with global clients declining by 3% and GE revenues declining by 9%. The normal seasonal trend was clearly more pronounced this year because of the economic environment.

We continue to expand existing client relationships and build new ones. Existing clients represented approximately 18% of our growth in the quarter, but we also added key clients during the quarter. We continue to diversify geographically with growth of 75% in APAC, primarily China and the Philippines, and positive growth trends in other regions. We are starting to see payback on our investments in new markets, such as domestic China and India, and are seeing a healthy pipeline in many areas of delivery.

Adjusted income from operations margin increased by 374 basis points to 15.9% in the first quarter compared to 12.1% for the same quarter in the prior year. These results reflect our operating excellence and cost management expertise.

Specifically, the margin expansion primarily reflects cost productivity from lower growth and salary costs, better span of control, reduction in discretionary spending, and favorable renegotiations with suppliers and vendors. While these improvements were partly offset by price reductions, primarily in our ITO business, we continued to find ways to streamline our processes and day costs out to improve our operating margins and are confident in our ability to do this in the future. Many of these cost measures are permanent and will reset the bar for the future without affecting client quality.

Vivek will review our financial results in greater detail in his comments, but in summary, our first-quarter results represented a very good start to the year.

Now, I will turn to the current environment. As we all know, the environment continues to have a negative impact on our clients' businesses and has delayed some key decision-making. The good news is that we are beginning to see clients starting to develop plans and strategies to address the changes required to their business models and cost structures to adapt to this environment. For some clients, these changes will have a dramatic effect in terms of cost takeouts to truly reflect the impact the environment has had on the economy.

The pipeline continues to be strong with more complex deals affecting multiple regions and higher end processes.

We are part of the solution for our clients. Our capabilities in driving End-to-End profit improvements align well with what clients are seeking. For example, during the quarter, we were selected as a partner by a large global client who has a decentralized operating model but wants to create a competitive advantage by building standardized back-office processes and ERP templates and consolidating operations with an outsource provider. They were looking for a credible global player who could partner with them through the three to four-year journey, and they chose us because of our deep F&A capability, global delivery, transformational ability that leverages application of our End-to-End thinking to deliver significant productivity benefits. Our scope of work there includes Finance & Accounting, Procurement and Re-engineering with a tremendous growth potential for the future of over $25 million in the coming two years and growth beyond that.

We look at the End-to-End process optimization with a focus on efficiency and genuine process effectiveness taken to a new level of granularity to deliver real business results.

Our differentiated capabilities reflect a culture that excels at Six Sigma, process and technology expertise and Re-engineering capabilities. This allows us to deepen our client relationships, move up the value chain and truly provide business value to our clients.

We are starting to see very good traction there in our End-to-End projects with five new projects commencing this quarter and over 70 projects in the pipeline at various stages of discussion, which should help us increase our productivity and improve on our margins, as these are mostly based on gain-share or outcome-based pricing.

The target environment is also producing new opportunities in the areas of collections, healthcare, mortgage services and supply chain. We have already deployed dedicated teams in these areas to drive Re-engineering projects focused on increasing cash flow, cost take-out, spend analytics, sourcing, commodity management and transactional excellence, all part of the solutions focused around "cash is king". We are seeing a good pipeline for these solutions as these projects start to ramp up and begin their conversion process.

In the area of Mortgage Services for instance, we see our expertise in analytics and process simplification as being particularly attractive to US financial institutions facing an increasing demand for loan modifications. Our focus on staying close to the clients with our client management team will ensure we are able to understand their issues and continue to create relevant solutions.

On People Management, our People-Management practices continue to lead the industry with an attrition rate for 2009 of approximately 21%, down significantly from 26% in December 2008. India attrition at 17% is lower than our overall average, a trend that has been felt across the industry as market uncertainties are causing people to reassess job changes. This trend will also likely result in less pressure on wage increases, as well as a positive impact on our business with increased client satisfaction through improved quality and lower costs of hiring and training.

Strategies for growth -- we have an established and proven track record of sustainable growth, including through an increasingly turbulent economic environment. We attribute this performance first and foremost to the strength of our business model that combines recurring revenues based on a large percentage of highly sticky, non-discretionary work with process and technology expertise.

Our strategy for growth is to start small where we can build a relationship over time providing the services that our clients need and enabled by the depth of our resources. This strategy also leverages our operating DNA to drive operating excellence throughout our processes. As a result of our daily process discipline, our existing clients have become extensive people through the references they provide. This relationship is really driven by a client-focused account management framework that ensures that our goals are aligned with those of our clients, a very robust reporting mechanism, and a reward-and-recognition process that drives consistent and appropriate behavior.

Our growth in client relationships of over $5 million increased to 36 clients from 29 at the end of 2008, demonstrating our ability to drive growth.

An example of the strategy in action is our relationship with a major European pharmaceutical company. This relationship started in 2000 with Genpact providing Finance & Accounting and Procurement support for seven of the bigger markets for one of their divisions. In 2008, the relationship continued to strengthen as each party gained insight to each other -- into each other's culture and the mutual focus each company had on delivering client value. As a result, we grew the relationship to support 15 more markets across 7 delivery centers, as well as diversifying 2 other divisions. Throughout the year, we have added several new business processes supporting strategic sourcing and Re-engineering projects to drive business impact for our clients. By year-end, the relationship had achieved over $9 million in revenues with a current plan to further double revenue in 2009.

We think this is the right time to invest for future growth, and we look to build our brand and sales engine. Higher great resources of global talent have never been more available, expand into new geographies and drive End-to-End effective solutions across more products and industries. We will continue to build domain expertise around our existing vertical markets such as the BFSI, healthcare and manufacturing, and across practice areas such as F&A and Procurement. We believe that companies that invest during a recession emerge stronger, supporting our goal of being clear market leaders in business process management.

Our aim is very simple -- to be the best in business process management. Our deep process excellence, analytical capabilities, technology confidence, and breadth and depth of services, combined with operating and business insight, result in business and strategic value to our customers.

I will now turn the call over to Vivek and will make a few closing remarks before we open the call for Q&A.

Vivek Gour - *Genpact Ltd. - CFO*

Thank you, Pramod. Good morning, everybody.

We had a good start to 2009 despite the current economic conditions. Our revenues for the first quarter of 2009 stood at $266 million, a 13% growth over the same quarter last year.

On the book, our Global Client revenues increased by 28% to $154 million in the first quarter of 2009, up from $120 million in the first quarter of 2008. After adjusting for divestitures, the growth was 20%.

Our GE revenue declined by 2% year-on-year. However, GE growth adjusted for divestitures was a positive 5%. The growth with GE was in line with our expectations.

Global Client revenues now represent 58% of our total revenues, up from 57% in the previous quarter, with revenues from GE at 42%.

Our first-quarter revenues tend to be relatively flat or lower sequentially and then grow through the year. In the fourth quarter, IP and Re-engineering projects typically culminate and the full-fee on our gain-share projects becomes payable. And we then start to stretch in many of these areas in the first quarter. A large part of the first quarter is spent on winning business and revenue catch-up in Q2.

Given the short-cycle nature of these project revenues, we make fresh starts in Q1 and ramp up as the year progresses. The sequential decline this year has been more pronounced, mirroring the current economic conditions. As Pramod mentioned, we have streamlined, delayed decision-making while some clients are cutting back on their discretionary spend. Given this, our revenue declined sequentially by 6% from $282 million in the fourth quarter of '08 to $266 million in the first quarter of 2009.

In the first quarter, our revenues were impacted marginally due to the depreciation of the Pound Sterling and Australian dollar. Our hedging policy keeps us substantially protected, but small volume which could not get hedged due to currency volatility gave us the negative revenue impact of $2 million versus fourth quarter of '08 and $4 million versus the first quarter of 2008.

The gross profit for the first quarter of 2009 stood at $102 million, representing a 38.4% margin and a growth of 15% over the same quarter last year, driven by improvements in supervisory spend and lower hiring costs. Apples-to-apples, our gross profit margin over the same quarter in the last year improved 220 basis points, which helped us to pay for the un-hedged currency exposure on revenue and price reductions we gave to retain and grow our business. After these two items, we were still able to improve our gross profit margin by 70 basis points.

Our SG&A expenses for the first quarter of 2009 stood at $64 million, representing 24% of revenue, as compared to 26.5% during the first quarter of 2008. We are continuing to drive structural cost changes that have helped move SG&A and our overall cost base lower. We have cut back on our discretionary costs and have renegotiated rates, as Pramod mentioned, with most of our vendors and suppliers. This has helped reduce our SG&A costs during Q1.

This proven cost management has helped us make further investments in our sales force and build domain expertise during the first quarter. As a result, we have been able to restrict the SG&A dollar growth to 3%, representing a productivity of 10%.

On a sequential basis, SG&A increased by $9 million to $64 million. As you know, in Q4, we cut back on SG&A costs for that quarter. Some of those cost cutbacks were short-term and have come back in Q1 '09 to support our business growth. Some others, like the significant reduction in our bench and freezing of support headcount are of a more sustainable nature.

As mentioned earlier, SG&A during Q1 also increased due to our investments in making our sales force more effective and building up our domain expertise. We intend to continue investing in these areas through the year.

Our adjusted income from operations improved from $28 million in the first quarter of '08 to $42 million in '09, an increase of 48%. Our adjusted income from operations margin has grown by 374 basis points to 15.9% in the first quarter of '09. We were able to significantly improve our margins by driving better utilization of our cost base.

Our Day Sales Outstanding came down to 79 days, as against 81 days in the same quarter last year.

Our capital expenditure in this quarter has been $14 million or 5% of revenue. We continue to expect capital expenditures for the year to be approximately 5% to 6% of revenue.

Our operating cash flows were $19 million in the first quarter of '09. After factoring the earn-out paid for our SAP acquisition in the Netherlands and taxes paid during Q1 which was on behalf of GE pertaining to the period before 2004, our operating cash flows improved to $25 million, an improvement of 19% over the same quarter last year.

We continue to be prudent in managing our cash balances, and we ended the quarter with $348 million of liquidity. Our effective tax rate during the first quarter of 2009 was 14%. For the full year, we currently expect it to be in the 17% to 19% range, as we have guided you on earlier.

The tax rate guidance factors in the partial expiry of the Indian tax holiday during 2009. As a result, our net income stood at $30 million this quarter compared to $20 million in the same quarter of 2008, an increase of 52%. Our adjusted diluted earnings per share was $0.18, up from $0.15 a share in Q1 '08.

With these solid results for the first quarter, we are maintaining our guidance for the year as indicated in our earnings release.

I will now turn the call back over to Pramod for his closing remarks.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Thank you, Vivek.

Now more than ever, our investment in talent, operating expertise and End-to-End process improvement, as well as the strength of our business model, will differentiate our performance from our competition. We are partnering with our clients to drive improvements in costs and cash. Genpact is well-positioned to meet these needs and we have a disciplined process to manage through the current environment.

First and foremost, we are staying close to our clients to ensure we really understand their key business drivers in main areas and are delivering superior service, value and results.

Secondly, we are aggressively driving our sales, marketing and relationship management teams to convert our pipeline and identify new opportunities for improving client business drivers. Our new account management framework, which we have recently put in place, encompasses the right disciplines and reward mechanism for growth, and a focus on cross-sell to our clients.

Third, our pipeline, which continued to expand in the first quarter, gives us a great opportunity for continued growth in 2009 and beyond.

Fourth, we are well-positioned with our End-to-End solutions to help clients with cost reduction, production efficiencies and cash flow improvements, and we intend to continue to expand those End-to-End capabilities to fill any gap. We also have expertise in areas such as integration of operations, risk management and compliance, which will all have a bigger client focus in today's environment.

Fifth, we have multiple levers such as managing wage inflation, utilization of infrastructure, and managing discretionary spends. We will continue our relentless focus on cost discipline and improved productivity to maintain and improve our margins even in the face of significant pricing pressures.

Sixth, we will continue to reinvest in businesses to attract global talent, to enhance our capabilities with domain-specific expertise, as well as diversify our business geographically, especially in emerging growth markets.

There has been, as we all know, a lot of discussion recently with respect to potential policy changes in the US to help stimulate the growth of employment. We understand the sensitivities of these issues as rising unemployment will cause social and political pressures. As such, we will continue to monitor this area very closely.

Our End-to-End framework provides solutions and opportunities to drive further investment in talent and resources in these markets and to optimize faster payback for our clients, no matter where these services are delivered from. This is and remains one of the most turbulent economic environments of our times. Our products and services are ideally positioned to meet the needs of our clients in these times, and our focus on key areas, such as cash and cost containment, will drive growth. We also see new opportunities in specific areas, as I mentioned earlier, such as collections, supply-chain, emerging markets such as India and China, and intent to put renewed focus on these areas to further drive growth. As I stated previously, our aim is to be the best in business process management.

With that, I would like to now open the floor to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jason Kupferberg, UBS.

Jason Kupferberg - *UBS - Analyst*

Thanks and good morning guys. I had a question on the revenue side. Understanding the first quarter is obviously the lightest due to seasonality, as you guys and knowledge this one was a little bit weaker than usual, just given the economy, so now you need a pretty steep step-up in sequential growth rates over the balance of the year to achieve your full-year '09 growth guidance. Can you talk about the visibility that you have on achieving that ramp?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Well, I think, one, I'm not sure we need huge sequential growth rates to achieve the guidance. So you know, we are staying with our original guidance of 10% to 15% and the margins. So, I'm not sure you're going to need huge, sudden ramp-ups, frankly, to meet that. That's why I think we had a particularly good first quarter in fact.

Visibility remains, as always, high; It remains at sort of the 80% level or so. The difference of course in this environment is that decision-making has more variability in it. Therefore, while the visibility is there, there is greater uncertainty in terms of every one of those projects happening at the right time, not getting delayed, etc. But the visibility we see is still very, very good.

Jason Kupferberg - *UBS - Analyst*

Okay, thanks for your comments.

Operator

Dave Koning, Baird.

Dave Koning - *Robert W. Baird & Co. - Analyst*

Hey, guys, great job.

I guess, first of all, you know historically, Q1 adjusted operating margin has been 500 or 600 basis points below kind of the rest of the year adjusted operating margin. I know, this year, you benefited from some cost savings, but it sounds like those are pretty recurring throughout the year. So I am just wondering why this year you started out at close to 16%, and yet the full-year range is about 16% to 17%. So really you're not expecting much of a step-up the rest of the year. I'm wondering if I guess why that is and why we might not see kind of a step-up the rest of the year like historically.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Yes. Dave, the trend you've picked up is exactly right. It does step up during the year.

Our cost savings and productivity have really driven some very beneficial economics for us. It did that in the fourth quarter; it's continuing to do that in the first quarter. Many of these are sustainable during the year.

You know, I think the issue right now is just the level of uncertainty. What else could happen to pricing? It's a conservative view of the world, frankly, saying when you have that much uncertainty, you want more of the year to go past.

Dave Koning - *Robert W. Baird & Co. - Analyst*

Okay. That's helpful. So part of it is just to take a little bit of a conservative approach just to make sure that you will hit the numbers. But would that also imply that, if the economy stabilizes a little bit, that there could actually be a little upside if things got better?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

You know, right now we don't -- David, the economy is stabilizing in parts; it isn't other parts. That's part of the problem. Many of our customers, either way, we are seeing them at least hit bottom and bottom-out, which allows decision-making, we think, to take place.

I just think it's a little too early for us to call it. It is just there's just enough uncertainty out there that I think we just prefer to remain pretty cautious right now.

Dave Koning - *Robert W. Baird & Co. - Analyst*

Okay, great. My one follow-up then for Vivek, just to get between GAAP net income and adjusted net income, can you give us the intangible amortization expectation and the stock comp expectation for '09?

Vivek Gour - *Genpact Ltd. - CFO*

Yes. For the full year, it will be $26 million for the amortization and approximately $19 million to $20 million for the stock.

Dave Koning - *Robert W. Baird & Co. - Analyst*

Great. Thanks so much.

Operator

Tien-tsin Huang, JPMorgan.

Tien-tsin Huang - *JPMorgan Chase - Analyst*

Just a couple of quick questions -- margins. Given the big upside -- and Dave asked the question so this is kind of a follow-up -- but can you see a scenario where margins are actually down year-over-year, given some of your investments? Or again, is there just some conservatism here? I am just trying to better understand the potential path of the quarterly progression in margins and if there is a potential for margins to be down, if that makes sense.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

You know, we are staying with the guidance as we said right now, which was 16% to 17%. Again, as I said it earlier, it is really being conservative in the face of significant economic uncertainty and pricing pressures and all of that. We feel very comfortable with that. We are very pleased by the first-quarter margin upside, which is ahead of plan. So we are very pleased with that. But quite honestly, at this stage, it is hard for us to go out and say much more than that, just given all of the pressures that are out there.

Tien-tsin Huang - *JPMorgan Chase - Analyst*

I understand. Well, it's nice to have the buffer going into the first quarter, so nice work on the costs.

I guess I will just ask, then, on the revenue side, as my follow-up, that you warned us of risk of deletions and project runoffs. You had some of that in the quarter, as you detailed. Has this fully run its course, Pramod, in the first quarter, or is it continuing into Q2? What have you seen sort of in recent weeks?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

So I think there are two types of issues happening which caused this. One is real Re-engineering and other projects which were due for completion in the fourth quarter. Sorry, there were three types, so let me explain the three types. So one is rearranging projects which are due to finish in the fourth quarter, which finish and which will resurface in the middle of the first quarter and going into the second quarter, etc.

Two is projects will be a gain-sharing where the gain-sharing true-up actually happens in the fourth quarter. The projects and the work is continuing during the year, but the upside we get from the gain-sharing actually flows through into our P&L through the fourth quarter. We can't book it until then because the accounting hasn't been done, it hasn't been confirmed, etc. So those projects will continue. You won't see that revive again until the fourth quarter of next year -- of this year, sorry.

The third one that you might see continuing during the year is deletions because of volume contraction, so lower volumes in collections activity, lower volumes in transaction flow. Those will continue, but the Re-engineering and the gain share in the projects are pretty much done by the fourth quarter. Then after that, it really should be new projects coming on stream.

Tien-tsin Huang - *JPMorgan Chase - Analyst*

I got it. Thank you.

Operator

Bryan Keane, Credit Suisse.

Bryan Keane - *Credit Suisse - Analyst*

I just want to follow up on the environment. You mentioned there was some improvement. Can you take us through the quarter, January through March, and then -- so you know, was March better than January, and any improvement in the environment in April, that you've seen?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

You know, I honestly couldn't do it, or I can't calibrate it for you on a month-by-month type basis. Clearly, though, I think, directionally, you are asking -- if I understand the question properly, you really think directionally how different is the first months to March and April.

Now --

Bryan Keane - *Credit Suisse - Analyst*

I mean some people in the industry are saying that they have seen some improvement in decision-making in March and April. I just wanted to see -- January was really tough, but really by the end of the quarter, things improved, so I just wanted to see if that held true for Genpact as well.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Right, right, right. Well, I don't think we would say -- and Tiger, our COO, is here with me. I don't think we would say that, in March or April, we've suddenly seen something new. The pipeline remains full. We talk to our clients and we think they are feeling a little more stable about their environment. That is why this is moving forward. Tiger?

Tiger Tyagarajan - *Genpact Ltd. - COO*

I would reiterate that, in the feeling of our clients, March and April was, as [John] said, it is different; it is more stable. So the chances of them saying "Okay, now I think I may be able to gather resources to make a decision" is probably better. But other than that, in actual decision-making, I wouldn't say there is a material difference.

Bryan Keane - *Credit Suisse - Analyst*

Okay. Can you give us some color on, maybe by vertical, the signs of stability? You mentioned some parts are stabilizing, others are still weak. Which are strong and which are soft?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Sure. I think banking, financial services, insurance is fine at this point in time. Certainly, our clients -- they know where they are headed, they know what they want to do. I think we are having good dialogues with them. I think, in horizontals such as supply chain, we clearly see a lot of traction because people are very interested in indirect Procurement and finding ways to cut costs.

I think that our pockets of manufacturing which are still hurting -- you know, auto section -- the automobile section clearly is still hurting and going through its pains. But in other areas of manufacturing, especially companies which are more diversified, they are certainly not -- they are certainly seeing the environment improve at this point in time.

Consumer pharmaceuticals are fine. Generally, in the healthcare area, again we are not seeing, and we never saw as much of a down turn earlier, we are not seeing it now. I hope that helps.

Bryan Keane - *Credit Suisse - Analyst*

No, that's great. Then just the last question for me -- I know you mentioned pricing pressure remains a challenge. Can you break it out between IT and BPO? I know, at the analyst day, I think you were talking about low single digits maybe down for the year for pricing. Does that still hold?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Yes, that still holds. So we are seeing pressure but it is within what we call our manageable limits right now. We are clearly seeing a hell of a lot more pressure in ITO than we are in BPO, no question about it. It's weighted almost, I don't know, it's 80/20 kind of thing.

Will it come back in some areas of BPO? I suspect so. I suspect some clients are really getting hurt and are going to look on the business process side also to get pricing. But we feel right now pretty comfortable that it is within our expectation and within the range we have talked about in the past.

Bryan Keane - *Credit Suisse - Analyst*

Okay. Congratulations on the quarter.

Operator

Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

My first question here -- I was just curious. Could you give us just an update on where we stand in the GE relationship? Obviously, one of the softest here in the quarter. Is that a one-quarter phenomenon, and maybe you could point directionally to what caused that?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Actually, GE grew very nicely by 5% during the quarter, Joe. Really, it is a disposition that showed that it was down by 2%. If you eliminate the disposition, or adjust for it, actually GE grew very nicely at 5%. So, we are very happy with that growth.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. Would that be sustainable through the back half of the year?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

We are still holding to our overall guidance on GE, which is low to mid-single digits I think at this time.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. Then just kind of looking at the IT versus the BPO, maybe you could help us understand obviously what is driving the growth on the BPO side versus the IT and just the decision processes that you are seeing out there.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Sure. I think one is a lot more discretionary versus non-discretionary spending in IT versus BPO. A lot of the work we're doing in BPO is lights-on -- is keep the lights on. So I think that makes one big difference.

I think there's a lot more project work which people are just backing at this point and time on the IT side, or even improvements in projects which they are pushing out. That will make a difference. That, by the way, will affect Re-engineering projects to some extent as well, for instance.

On the business process side, where they are saying, "These are functions we have to maintain, but we need to do them cheaper", that's where we can see our growth coming through on the business process side.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Then just lastly, I know maybe you could -- obviously you've done a good job on the SG&A side. I was wondering. Is there a way to pull out the ForEx impact in the operating line?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

I am not sure there is, I don't think, but Vivek?

Vivek Gour - *Genpact Ltd. - CFO*

Joe, the ForEx impact of cost of good hedging does lie in the SG&A and in the cost of revenue line. Now, when our 10-Q comes out in a few days time, in our new standard of disclosure, we will be showing the foreign-exchange benefit that lies specifically in these two lines completely and properly broken up.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

You don't have the... I'm sorry, go ahead.

Vivek Gour - *Genpact Ltd. - CFO*

Yes, the foreign exchange gains and losses that you see below the line is really things like the re-measurement of Accounts Receivable, things like that.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Do you have the impact handy or should we just wait for the K?

Vivek Gour - *Genpact Ltd. - CFO*

Yes, I think you should wait for the 10-Q filing within this week now.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Or I guess we can try and get you the numbers. Anil will try and get you these numbers as quickly as possible.

Anil Nayar - *Genpact Ltd. - IR Contact*

I will call later, yes.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, great, thank you.

Operator

Tim Fox, Deutsche Bank.

Tim Fox - *Deutsche Bank - Analyst*

Good evening. The first question is around competition and whether that is having a more pronounced impact on pricing, particularly in the ITO space and then on the BPO side. Are you seeing any different behavior from some of the larger peers in India on the BPO front, given the fact that this seems to be one of the areas of growth, unlike some of the standard ITO segments?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

So, clearly, on the IT side, we are seeing everybody crunch down on price. We are also seeing that on the business process side, and this includes the big majors who we compete with. People are competing for market share; people are competing for volume. We continue to see their pressure in both sides reasonably strongly, which is why we've gone to such lengths to reset the bar on our own costs, anticipating that pricing will be at a different point and a different level.

As far as India business is concerned, pricing, the actual billing rates are much lower than international rates anyway, in many cases just because costs are so much lower. But margins have in fact been good for the India business. So we are very happy with the India business. It just comes in at a lower revenue rate, if that makes sense.

Tim Fox - *Deutsche Bank - Analyst*

Yes. No, that makes sense, great. My follow-up is, in looking at your revenue guidance which you have reiterated here of 10% to 15%, if you could just help us parse out what it's going to take to be at either end of that. Is it more around the IT services decision-making process? Because presumably BPO is a bit more visible and recurring in nature. If you could just help us understand why the variance between 10% to 15% and what is really driving that.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Yes, happy to. I think, you know, between 10% and 15%, it is frankly decision-making in both cases. It's -- yes, we've agreed that we're going to move these processes over, but we're going to postpone it by a quarter, or we don't have the money today to focus on it, or we are going through a restructuring in our own company and don't have the resources. That's really what is driving it.

That delay in decision-making has been the cause for the wider range. That is really what has to improve. Once that starts improving, I think we will be able to calibrate this much better. We are hoping that it's going to start happening. We haven't seen it happen yet, but we are hoping, based on our discussion with customers, that is going to start happening now.

Tim Fox - *Deutsche Bank - Analyst*

Thank you. Let me break a rule and just one quick follow-up based on your comment there. Has there been any change at all in your approach to helping customers with transition costs, given the strong balance sheet you have and maybe some of the pressures that they are feeling? Anything you can give us on that front?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

We are doing a couple of things, and some of them are not new. One of them is clearly looking at transition costs and saying "We will bill you transition costs over the period of the contract and not upfront as we used to do in the past." From an accounting perspective, that has no impact on us because we anyway never took the transition income into our P&L but amortized it over the life of the contract. It does have a small cash flow impact on us; that's one.

We are trying to move, as we would like to, more and more. We have barely started down this journey, so the proportion of this doing our total revenue is small. We are trying to move as much as possible to outcome-based pricing, you know, gain-sharing. So, pay us once we deliver. Pay us when you've got the productivity, pay us a percentage of the productivity, as well as the revenue per person.

So we are trying to make sure that the customers, we offer them very palatable economic structures which they feel comfortable with because they can see the results of what we delivered by the time they pay us.

Tim Fox - *Deutsche Bank - Analyst*

Great, thank you. Nice execution this quarter.

Operator

Ed Caso, Wachovia.

Chris Whitman - *Wachovia Securities - Analyst*

Good morning. This is Chris Whitman for Ed Caso. Continuing on GE, I notice the DSOs spiked up here in the quarter. Could you provide us some commentary on that?

Vivek Gour - *Genpact Ltd. - CFO*

Yes, Ed, so Ed, you know, we -- some of our clients have re-negotiated their credit periods, which is in line with the environment that they are facing at this point in time. They have also become the tool for us to be able to drive more business growth with them, and that's part of the reason you are seeing an increase in the DSO versus the December quarter. So as you'll see, there is an improvement versus the same quarter last year, which is a function of the increased efforts we have put around collection. Just to be able to make an apples-to-apples comparison, our DSO includes not just billed revenues but accrued revenues also. At any point in time, we have 30 days of accrued but not billed revenue.

Some of our other comparable companies report DSOs simply as billed revenues and mark the accrued revenue which you will only discover when you read their 10-K rather than just the face of the balance sheet. I hope that clarifies.

Chris Whitman - *Wachovia Securities - Analyst*

No, that does. I believe Ed has a follow-up.

Ed Caso - *Wachovia Securities - Analyst*

Hi, it's Ed. I was just curious. You've obviously done a great job reducing expenditures, and I believe you did some in the recruiting, training, hiring area. How much do you have to sort of re-build that capability, that sort of intake capability, when the market turns up?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Ed, from an overall cost perspective, I think that's we have some of that re-building in the first order versus the fourth quarter last year. You know, I think we will continue to invest in more sales people around the world because I think we must do that as we expand geographically. But beyond that, I'm not sure we need to do a lot of re-building. I think we can operate at these levels very effectively. Personally, I believe there's still room to cut costs.

Ed Caso - *Wachovia Securities - Analyst*

Thank you.

Operator

Karl Keirstead, Kaufman Brothers.

Karl Keirstead - *Kaufman Brothers - Analyst*

I just wanted to clarify the guidance on the GE revenue stream in '09 to grow in the low-mid single-digit range. Just to be clear, is that a growth rate off of the $490 million in GE revenues recorded in '08, or is it a growth rate off of some adjusted number for divestitures? Thanks.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

No, it would be off the $490 million growth rate, that number we had last year.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay, great.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

We don't know anything about the divestitures, so if they happen, they happen, but that's what it was based on.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay, good. Thanks.

Then a second question -- you've talked a little bit about signs of stability in the client base. I am just curious. Is this translating to any pickup in signed bookings yet, or is it, in your judgment, still a little early for that?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

It's still a little early, Karl; it's still a little early. You know, it's not -- pipeline is very strong, but that's a lot of new customers as well in that pipeline.

I think it's really a little early, but we are hoping, obviously, that over the next three to six months it will pick up.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay, thank you very much.

Operator

(Operator Instructions). Mitali Ghosh, Merrill Lynch.

Mitali Ghosh - *Merrill Lynch - Analyst*

Good evening. On the outlook that you're looking at, I need first to understand that, in terms of (technical difficulty) about stability signs (technical difficulty) --

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Pramod Bhasin - *Genpact Ltd. - President, CEO*

I'm sorry, we can barely hear you, Mitali. We can barely hear you.

Mitali Ghosh - *Merrill Lynch - Analyst*

Is it better now?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Much!

Mitali Ghosh - *Merrill Lynch - Analyst*

I just wanted to discuss the comment earlier on signs of stability in the client businesses and if you could just give us a little bit more color in terms of what that is really translating into from your point of view. So, has decision-making maybe picked up a little bit, or have you seen more sort of RFPs coming in? Also, any difference in trends across geographies from US clients versus European clients, possibly?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Yes. So, I think when we say "signs of stability", it is really driven by our conversations with our customers and talking to them and saying "How is your -- what happening in your business? What are you seeing?" So they are the ones relating that to us. It also means, I think, in many aspects, that they now know what to shoot at, you know, how low is bottom, what restructurings they need to do, what costs they need to take out.

It hasn't yet translated into faster decision-making, as we said earlier. But our belief is that it will because, once they begin to get a handle around their own issues, we are clearly part of the solution they need. At that point in time, they can now at least stabilize and say, "All right, this is what we need to do and this is how we will go and get it done." Earlier, I am not sure they had clarity on that.

We are seeing the same thing in Europe, without doubt, but in each European jurisdiction, it is quite different. Different industries in Europe are facing very different challenges. So, Germany is very different from the UK, and different markets in Amsterdam and Holland is very different from France. So we see different dynamics there.

I think, in India, we are seeing great traction. Our pipeline is very full. We've seen very strong traction, and we see a lot of people very actively engaging with us in trying to make themselves more efficient and take the benefit of our services.

Similarly in China -- China, the sales cycle is much longer. It takes a longer time to actually close deals. But again, you know, the level of interest and pipeline we are seeing in China is good.

Mitali Ghosh - *Merrill Lynch - Analyst*

Right. So just as a follow-up to that, in terms of just US versus Europe, is it possible at all to comment on, or rather conclude that maybe there's a little more signs of stability in the US as compared to Europe?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

I think, actually, it differs a lot by geography in Europe; that's the problem. You know, the UK is going to go through a lot of pain; Germany, in some industries, probably not; Scandinavia, no; the Netherlands, no; France, yes but the amount of business one gets out of France is anyway not huge. So I think it is hard to do a direct comparison because, within Europe, it is quite different, country-by-country.

Mitali Ghosh - *Merrill Lynch - Analyst*

Right, right, I understand. Just in terms of the business that is growing from India and China, I think you touched upon it very briefly. But how does that compare in terms of profitability versus the other Western geographies?

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Profitability and margins on that business are equivalent to international business that we do. Revenue per head count, as you would imagine, is much lower because you don't have the associated telecom costs and infrastructure costs, etc. But profitability and margins, we are very pleased with.

Mitali Ghosh - *Merrill Lynch - Analyst*

Right. Just one final question to Vivek in terms of the foreign exchange gains and losses that you have below the operating line. If the rupee stays at current levels, what can one expect for the rest of the year?

Vivek Gour - *Genpact Ltd. - CFO*

If the rupee stays at the current level, then we should be approximately booking \$2.5 million to \$3 million per quarter of gain because -- in the line -- below the income line.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

That income line is purely translation of the balance sheet assets at the end of each quarter.

Mitali Ghosh - *Merrill Lynch - Analyst*

Yes, I understand. Okay, thank you very much.

Operator

There are no further questions at this time. I will now turn the call back over to Mr. Anil Nayar for any closing remarks.

Anil Nayar - *Genpact Ltd. - IR Contact*

Thanks, Erica. Let me thank everyone for joining us on the call today.

In this environment, we are very pleased with our financial results and our overall growth achieved to date. Our clients will likely continue to face challenges in the near term as they look to re-prioritize their business goals and objectives, but we are confident in our people and our business model to help our clients achieve even greater heights.

If you have any questions, please do not hesitate to reach out to me. Thanks very much, and have a good day.

Pramod Bhasin - *Genpact Ltd. - President, CEO*

Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. Everyone have a great day.