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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the third quarter 2009 Genpact Limited earnings conference call. My name is Carissa and I'll be your operator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this conference. (Operator Instructions). As a reminder, this call is being recorded for replay purposes. I would now like to turn the call over to Shishir Verma, Head of Investor Relations. Please proceed.

Shishir Verma - *Genpact Limited - VP, IR*

Thank you, Carissa. Welcome to Genpact's earnings call to discuss our results for the third quarter ended September 30, 2009. My name is Shishir Verma, Head of Investor Relations, and 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've had an ample opportunity to review our earnings release. If not, you will find it on our website at genpact.com. I should add that our earnings release was inadvertently released a few hours earlier than we intended yesterday, due to an error by the printer in filing our 8-K with the SEC. We apologize for any confusion or inconvenience that it may have caused.

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, Pramod, and Vivek will be available to take your questions. We expect the call to 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 obligations to update the 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 those measures to GAAP as well as related information in our news release on the `Investor Relations` section of website, genpact.com. Please also refer to the investor fact sheet on the front page of the IR section of our website for further details on our quarter results. This includes, among other things, geographic, industry level, and BPM/ITO revenue details.

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

Pramod Bhasin - *Genpact Limited - President and CEO*

Thanks, Shishir, and good morning, everyone, and thank you for joining us. Our results for the third quarter of 2009 were good and our outlook is positive. We grew revenue, gross profit, adjusted income from operating margins, and cash flows both year-over-year and sequentially. We're encouraged by the strength in expansion of our pipeline, some faster deal conversion times, higher win rates, and the caliber and scope of recent client wins. Pricing is still competitive but appears to be stabilizing. We've also been investing in business development and hired outstanding sales and account management talent during this period. And our forward view is now more optimistic than earlier this year, even though the pace and timing of economic recovery remains somewhat uncertain.

Here are the highlights for the quarter. Revenues totaled $284 million, which represents 5% growth year-over-year and 4% sequentially. Revenue from Business Process Management, which we call BPM, remains the primary driver of growth for both Global Clients and for GE. Global Client revenues now represent 61% of our total and continues to be our growth engine. Global Client revenue increased 12% year-over-year, 16% in constant currency and 7% sequentially. The year-over-year performance was led by BPM growth at an industry-leading 17%. We believe these results reflect the non-discretionary and critical nature of the work we do. Our win rates were at record levels during the quarter and continue to increase, especially due to the appeal of our differentiated end-to-end capabilities.

Genpact is being selected as the preferred partner for some of the largest and most recognized brand names globally. Year-to-date client wins totaled 48, including 19 this quarter. Many of these are marquee client names across our key vertical industries. Growth was led by Banking, Financial Services, and Insurance revenue (BFSI), which increased sequentially and year-over-year reflecting new clients, new work and expanded scope of work. This was followed by strength in Healthcare, Pharma, Consumer Packaged Goods, and our India-to-India business. Our Global Client business has demonstrated solid growth, is well diversified by industry and geography, and continues to represent a significant growth opportunity for the future.

GE remains an excellent and strong relationship, but with the fast pace of Global Client growth, is declining as a percentage of our total business and now represents 39% of total revenue. Revenue from GE in the third quarter declined 4% from the prior year, with strength in BPM partly offsetting lower IT revenues, which primarily related to discretionary IT projects. Sequentially, GE revenue actually increased by 1%, reflecting strong trends in our F&A practice that drove an increase in overall BPM revenues. These results were in line with our expectations. Given the well-publicized shrinkage of GE Capital's balance sheet, the fact that we maintained and slightly improved our BPM revenue with GE this quarter speaks volumes about the quality of our work and the strength and depth of this relationship.

Our team has done a superb job of working with GE throughout this period of challenges. Nevertheless, we are likely to see continuing small revenue declines in the near term, in line with our expectations and our guidance. But we believe that this will be increasingly offset by the pace of Global Client growth, as GE continues to become a smaller percentage of our mix.

Genpact has never been an exclusive provider to GE, contrary to some reports in the market. We've always had to earn our position by creating substantial value and driving continuous improvements for each of our many GE business clients. As a company and culture, GE has always been a tough customer but at the same time, especially open to creative ideas and welcomes innovative solutions to business challenges. This plays perfectly to our strengths and improves us overall and makes us a better competitor. We faced pricing pressure from many GE businesses, but this is nothing new and we are able to manage pricing generally within our margin expectations. Our business with GE is well diversified by business segment and geography, and we continue to find ways to add value. In the medium to long term, we continue to expect to grow with GE.

Overall, Business Process Management represented 85% of total revenue in the third quarter. Growth was led, as we said, by our Finance and Accounting practice, followed by core back office solutions such as collections and customer service, as well as procurement, analytics, and re-engineering. And as an example of our distinctive capabilities, Miami Children's Hospital won four awards at the Global Six Sigma and Business Improvement Awards held in October as a result of a series of highly successful Genpact re-engineering client engagements.

ITO revenues declined $9 million in the quarter, reflecting continuing softness and competitive pricing in the part of the market where Genpact competes, primarily infrastructure and software support, and more discretionary project work. However, our ITO pipeline also increased in the third quarter and we are encouraged that we will see improvements in this area. We continued to diversify geographically, with strength in all regions, including 49% growth in Asia-Pacific compared to the third quarter of 2008, led by China and Philippines. Europe BPM grew approximately 11% this quarter compared to the previous year and we are also seeing a healthy payback on our investments in new markets such as China and India, and a healthy pipeline in many areas of delivery, particularly in our India-to-India business.

Geographic growth and expansion is a result of our investments in talent and differentiated capabilities. Our continuing margin improvements allow us to do this. While we will always reinvest in the business, we believe that companies that make significant investments during a recession emerge stronger in recovery. This is a terrific time to invest in people and we are finding outstanding talent in the marketplace, who are excited to join Genpact from longer-established companies. Since the beginning of 2009, we have increased our business development team by more than 25% in the US, India, China and particularly Europe, where we have nearly doubled the team and now have dedicated resources covering UK, Germany, France, amongst others. Most of these individuals are senior executives who come to us with an average 15 to 20 years of business development, process or industry domain expertise, including in growth areas such as Healthcare and Pharma.

We will continue to build domain expertise around our existing vertical markets such as BFSI, Healthcare, Pharma, Consumer Products and Manufacturing, and across practice areas such as F&A, procurement, collections and mortgage loan originations and modifications. We are also investing in our differentiated end-to-end solutions. Genpact was the first in our industry to focus on true effectiveness rather than just efficiency in managing business processes. Our unique scientific and highly granular end-to-end approach can deliver two to five times the benefit when compared to approaches that measure efficiency alone. We have a database of 200 million transactions to map and analyze at a granular level, the core end-to-end processes for companies such as order to cash, procure to pay, request to repair. As a result, we can create a client-specific road map that more than just measuring efficiency captures the benefit of connecting and improving the various parts of the processes that both we and our clients operate, that's effectiveness and it's measured in outcomes like reducing credit losses, improving margins and growing cash flow.

Our simple goal is to be the best in managing business processes end-to-end. We grew client relationships in the third quarter, with existing clients representing more than 80% of our revenue. We increased the number of clients accounting for $5 million or more in annual revenue by 35% in the third quarter to 36 from 26 in the prior-year quarter, demonstrating our ability to serve our clients well and drive demand for the breadth of our service portfolio.

As an example, for one of our global insurance clients, we leveraged our existing Six Sigma and Lean methodology to bring an end-to-end view of customer operations in the applications to policy in force process which includes new business originations, underwriting, agent management, policyholder services, and finance and accounting. Some of these processes are operated by the clients and some of them are operated by us on behalf of our client. Our team identified and drove improvements in the entire value chain, thereby delivering increased capacity and faster cycle time for the end customer. This has now allowed us to capture more parts of a process that we can now run for our clients.

Our significant client wins this quarter reflect the increasing sales momentum we are building in our pipeline. Our win rates are at record levels on BPM deals. Some examples of recent wins include major global companies in the healthcare and pharmaceutical industry, communications industry, consumer products and financial services. Genpact won those deals based on our domain and process expertise, Lean and Six Sigma culture of continuous improvement, our operating capabilities and especially on how all these factors can tie together through our unique end-to-end solutions. Partnerships like these help build the runway for future growth and provide an opportunity to eventually penetrate the larger organization at our clients' premises. These wins also reflect our investment in business development, expanded domain expertise in end-to-end solutions, and enhancements to our front-end client team approach, for example, with a more consistent focus on cross-selling. We're just beginning to see the results of these investments in terms of both new client wins and growth in existing client relationships.

I'll now turn to the current environment and the sales pipeline. We're seeing increased interest levels across the board and in some instances, improved cycle times and faster client decision-making. Our pipeline has grown both year-over-year and sequentially in terms of number of new sales opportunities and total value, including the number of high-value deals. As an example, the number of deals in our pipeline has increased by more than 38%, since the first quarter of this year. While cycle times continue to be extended for the most part, we are starting to win some deals with cycle times as short as three to six months compared to more than nine months earlier in the year. We're also seeing a slowdown in deletions and volume contractions and an increase in ramp-ups.

The Global Client growth rates we experienced this quarter was a result of client actions and decisions taken nine to 12 months ago. We believe these slower growth rates are now coming to an end and based on our stronger current pipeline. Our pipeline is also more diversified in breadth, depth, geographic representation, and size. This includes a large percentage of new logos in the pipeline, including some of the most recognized brand names in the world. Greater diversification including small and mid-sized companies and a number of companies that are considering BPM engagements for the first time.

We're also beginning to see interest in solutions that go beyond absolute cost reduction and cash conservation to a focus on driving revenue growth. We're seeing a strong pipeline growth in Europe and in India and across vertical markets. Our BFSI pipeline has shown considerable growth over the last two quarters and we are seeing strong interest in our core F&A practice, as well as mortgages and collections.

We've again had a terrific quarter in terms of margins and profitability. Adjusted income from operations increased 9% over the third quarter of 2008 and our adjusted income from operations margin improved 60 basis points to 18.9% from 18.3% in the prior-year third quarter. This performance was achieved despite the continued adverse effects of foreign exchange volume reductions and pricing pressure. It also includes the strategic investments we have made for growth that I talked about earlier. And this margin improvement will continue to allow us to make the extra investments we want to make to enhance our position beyond what we originally planned. As in the first half of the year, margin expansion primarily reflected continued cost productivity from lower salary costs, including managing our wage inflation at 4%, lower hiring cost, better span of control and utilization of infrastructure, favorable renegotiation with suppliers and vendors, and a reduction in discretionary spending. We believe we have reset the bar for long-term profitability, although we do expect costs to increase as our revenues grow and as we ramp up recent client wins.

For the full-year 2009, we are reaffirming our annual revenue guidance for growth in the range of 6% to 9%, reflecting healthy Global Client growth in the mid-to-high teens and a decline in GE revenues in low single-digits. Our ability to drive this level of industry-leading Global Client growth is indicative of our unique end-to-end view and expertise in managing business processes. We're raising our guidance for adjusted income from operations margins to a range of 17.5% to 18% from 17% to 17.5% previously, and compared to 17.1% in 2008. Our performance in this area demonstrates the strength of our earnings model and continues to reflect the focus and discipline we bring to cost management as well as the impact of higher-value solutions on our margins.

Vivek will review our financial results in greater detail in his comments. But in summary, we believe our third quarter results represented a terrific job done by our team in aggressively driving growth, managing costs, and delivering value to our clients and shareholders despite the economic uncertainties that we have faced. These results demonstrate Genpact's ability to continue to build very profitable businesses with a broad group of clients.

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

Vivek Gour - *Genpact Limited - CFO*

Thank you, Pramod and good morning, everyone. On a year-to-date basis, our revenues were $823 million, up 8.4% versus the first nine months of 2008. Our adjusted operating income for the nine months stood at $144 million, representing a margin of 17.5%. This is a growth of 21% in our adjusted income from operations in the nine months from 2009 over 2008. Our financial results reflect the flexibility of our business model to cope with difficult economic conditions by adding value to our clients' processes. We continue to improve and optimize our internal processes, and are on course to deliver robust growth in 2009, despite the adverse economic scenario we observed during the first half of the year.

Turning to results for the third quarter, revenues were $284 million, a 5% increase from the third quarter of 2008. On a constant currency basis, we grew 8% year-over-year. Our Global Client revenues were at $173 million, up 12%. Within this, these were backed by a healthy 17% growth in the Global Clients BPM business. Our revenues from GE, adjusted for divestitures, stood at $111 million, representing marginal contraction of 4%, which was in line with our expectations. This decline in GE revenues was primarily on account of reduction in GE's IT discretionary spends. Sequentially, our revenues grew by 4% from $273 million in the second quarter of 2009. Sequentially, Global Client revenues grew 7%, while revenues from GE grew 1%.

The gross profit for the third quarter of 2009 stood at $117 million, representing a 41.3% margin and a year-on-year margin decline of 120 basis points. Nevertheless, we believe our gross margin performance has been excellent, particularly given the market environment and pricing pressures we have faced in the recent past, which we have been able to offset with price increases in other areas as well as by driving productivity. Consequently, we expect our overall gross margins to be on track and in line with our internal expectations. We have also had a one-time payment of $4 million from a Global Client related to cancellations and deletions. We have used this one-time payment to invest further in marketing, branding and new product development.

Our SG&A for the third quarter of 2009 stood at $67 million, representing 24% of revenue. This compares favorably with 26% in the prior-year third quarter. In absolute dollar terms, our SG&A spend declined by $4 million from $71 million last year to $67 million this year. We continue to drive productivity measures on our G&A spends such as support, bench and managed spend, which resulted in this improvement. On the sales and marketing side, however, we continue to implement a strong investment program to strengthen our business development teams in Europe, China and India. In Europe, we have doubled our business development strength and have deployed senior executives with industry domain expertise to cater to country-specific markets such as the United Kingdom, Germany, France, Switzerland and the Nordic region.

We have increased our business development teams by more than 25% since the beginning of this year. We also continue to make strategic investments in building domain expertise in practice areas such as finance and accounts, procurement and supply chain, collections and mortgage services across our existing vertical markets such as BFSI, healthcare, and consumer products. We believe these investments will help us in positioning for future growth and drive operating efficiencies in the long run. We expect to step up these investments in the fourth quarter, which will cause a higher-than-normal SG&A spend in the fourth quarter. On a full-year basis, we expect our SG&A spend to be in the range of 24% to 24.5% of our revenue.

Our adjusted income from operations improved to $54 million in the third quarter of 2009, up from $49 million in 2008, which represents an increase of 9%. Our adjusted income from operations margin has grown by 60 basis points to 18.9% in the third quarter of 2009, compared to 18.3% in the same quarter last year. This year-over-year margin improvement was driven cost productivity in our SG&A spends after netting our investments for growth. Sequentially, our adjusted income from operations margin improved by 120 basis points to 18.9%, up from 17.7%.

Our net income for the quarter was $33.1 million, compared to $33.6 million in the same quarter last year. This was due to a higher tax rate this year, which resulted from expiry of the tax holiday for one of our STPI locations in India, and a much lower interest income this year, as we have invested a significant portion of our cash in safer but lower-yield US Treasury bills. Our diluted earnings per share remain steady at $0.15 versus the third quarter of 2008. Our effective tax rate was 19% this quarter and our year-to-date effective tax rate has been 17% at the end of the third quarter. We expect the full-year tax rate to be around 17%, at the low end of our prior guidance range.

I will now walk you through key items on our balance sheet and statements of cash flow. Our days sales outstanding stood at 79 in the third quarter of '09, as against 77 days during the same quarter last year and 78 days during the second quarter of this year. We have been able to keep our days sales outstanding within this range through the year by maintaining a tight collections process. Our year-to-date capital expenditure has been $44 million or approximately 5.3% of revenues. We expect capital expenditures for the full year to be approximately 6% of revenues, which is also in line with our prior guidance.

Our year-to-date operating cash flows from business stood at $163 million before interest income and cash taxes. This compares to $149 million last year, representing 9% growth year-over-year. This has paid for cash taxes of $44 million, versus $27 million last year and an equal amount towards capital expenditures. This year, we also repaid debt of $45 million and made a payment of $20 million of earn-out towards our SAP acquisition in Europe, which was completed in 2007.

We have a strong balance sheet with approximately $399 million of cash and cash equivalents at the end of the third quarter of '09. In summary, we've had a solid third quarter, our balance sheet is very strong, and we are encouraged by our healthy pipeline.

I now turn the floor over to Pramod for his closing remarks.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thanks, Vivek. In closing, we are seeing some encouraging signs in the market. Client demand is coming back, decision-making is improving, and our pipeline is strong. Conversion and win rates are increasing, evidence of our domain expertise, end-to-end view of business processes, our differentiated DNA and a culture that excels a Six Sigma, Lean technology expertise and re-engineering capability.

Very importantly, we continue to be optimistic about the growth potential for Business Process Management over the medium and long-term. This market still has low penetration rates. The recent economic turmoil has caused more businesses to reevaluate their core competencies and focus on their needs for transformation and growth. We continue to make strategic investments in the business, including business development, geographic expansion, vertical market penetration in areas such as healthcare, and what we believe is truly unique, our differentiated end-to-end solutions. Although we are mindful that the recovery is still in its early days, the future looks better than it has in many months.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question comes from the line of Tien-Tsin Huang of J.P. Morgan. Please proceed.

Huang Tien-Tsin - *J.P. Morgan - Analyst*

Hi, thanks so much. I wanted to ask Pramod, Vivek about I guess employee productivity. If I look at it both in terms of revenue per employee and EBIT per employee it was up quite nicely. Is this sustainable?

Pramod Bhasin - *Genpact Limited - President and CEO*

Hi, Tien-Tsin. I continue to believe it is. We continue to do more higher-value work. Our re-engineering work is paying dividends. As we expand our end-to-end capabilities, we inevitably start with simple work, and then get into more value-added work or a work that pays us greater revenues, and often better margins. So we believe it is sustainable.

Huang Tien-Tsin - *J.P. Morgan - Analyst*

Okay, no, that's great, that's great. A couple more maybe, just on the bookings front, obviously the commentary and the tone is quite positive. I'm curious about actual bookings in the quarter, and I guess as well in October, how did that come in relative to the plan?

Pramod Bhasin - *Genpact Limited - President and CEO*

It's come in very well, Tien-Tsin. I think our bookings have been strong. Our pipeline has never been stronger and never been larger, but in a growth path, that's inevitable to some extent. I would say a couple of things. I think the quality of the clients we're seeing is excellent, the diversity. So large to medium to smaller-sized clients are coming in, as well as clients who are entering this area for the first time. They are just beginning to outsource. So the overall basket or overall market of companies we are talking to has expanded significantly. In terms of bookings and wins, as we said, we had 19 wins this quarter, that's unprecedented and certainly been about the best that we have seen in a very long time.

Huang Tien-Tsin - *J.P. Morgan - Analyst*

Okay, okay, good. Maybe I'll just -- my last question I'll just ask. I think I heard you mention, Pramod, that conversions of the pipeline were picking up as well. Is that the case and if so, what's the implications for margins in the coming quarters?

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure. Conversions are improving. There are two things going on there. One is our win rates are at record highs; now, how long we can sustain those? I don't know frankly, because they are at such high levels that I suspect a lot of our competitors will figure out how to attack us. But we're very delighted with the win rates we are having. Two, the conversion cycles are in some cases reducing quite fast. So companies are doing what you would have expected them to do in a recession in the first place, which is take action quickly. And so now you are beginning to see companies from time to time saying, look, I want to get this done, I need the cost out and I have to move very fast. And we're beginning to see that kind of behavior, which is also very promising.

Huang Tien-Tsin - *J.P. Morgan - Analyst*

Excellent, that's great. Maybe if I could sneak in just one last one. The 19 wins, how many of those would you consider to be strategic?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think it would be -- it wouldn't be double-digits, but it would be close to that number.

Huang Tien-Tsin - *J.P. Morgan - Analyst*

Okay. Excellent, nice work. Thank you.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thanks.

Operator

Your next question comes from the line of Joseph Foresi of Janney Montgomery Scott. Please proceed.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi.

Pramod Bhasin - *Genpact Limited - President and CEO*

Hi.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Forgive me if I missed this. I think you guys had talked about -- well, IT Services seemed to have been a little bit soft. Is that indeed the case, and if it is, we've been seeing some positive IT services companies report numbers, maybe you could talk a little bit about that then?

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure, Joe. IT Services has been soft, was soft mainly because we have a larger concentration of GE in our IT Services business. GE, as you know, has been going through some pretty well-publicized restructuring, both in GE Capital and in its core business. And they have cut back on discretionary projects like e-spending probably sharper than most others. And that's really I think a reason why the IT spending has gone down. Having said that, our pipeline in that area is also showing better growth, better recovery and consequently, we think that will also start flowing through. As you know, it's a slightly longer-cycle business although on the IT side, there's a lot of projects and others which are shorter-cycle than a BPM but the impact of that we're not probably going to see it next quarter, but we should begin to see it over time. But the main reason right now for the softness has been the larger-than-average concentration of GE in our IT business.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And just I think this is that -- just thank you for that answer. When you talk about the general demand and the pickup in demand, if the sales cycle in BPO is typically six to 12 months, correct me if I am wrong, then should we start to see this maybe late first quarter, early second quarter of next year, is that typically when we should see this flow through the revenue or maybe you could just give us some time frame of when you think that will come through?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, I think that would be broadly correct. The time line is six to nine months, as I said. In some cases, people are reducing it to three to six months. I think you will see the time lines continue to reduce in fact, because as companies have restructured themselves, they've got their people in all there, they've got their management teams in place. We're hoping. We obviously can't predict that with a huge degree of accuracy but we hope. Logic would suggest that they will act decisively at this point in time, and yes, you should start seeing some of that roll through, starting first quarter and second quarter next year.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. My last question is sort of just two parts here, because obviously you have a very healthy balance sheet, just maybe you could talk about how you view the relationship with GE and potentially diversification away from that business and putting maybe some capital to use to doing an acquisition?

Pramod Bhasin - *Genpact Limited - President and CEO*

Absolutely. Joe, I think our relationship with GE remains excellent. They're going through a lot of pressure. The fact that we have only declined by small, low single-digits is in itself remarkable if you consider that GE Capital's balance sheet is shrinking by 30% to 40% and its business volumes are shrinking by that much. So it demonstrates the strength of our relationship with them.

As we said, we have never been exclusive with them but that makes us compete harder and makes us better; it always has done. There is nothing new in this; nothing has changed in our relationship, now or over the last few years or before that. GE will go through its ups and downs during this time and obviously it's had more downs this time than ups and that has impacted the fact that we haven't grown with them.

About the cash, I think your point is absolutely right; we are very interested in mergers and in acquisitions. We have certainly been pursuing a number of acquisitions. Kindly don't believe all the press reports you read, of course but I think you know that anyway. But I think we're very conscious of price and payback and growth rates. So we focus very heavily on where companies can add to our growth rates to make sure that our price that we pay is accretive and to make sure that we're getting skills to us, which allow us to expand geographically as well as with a customer base.

We are very keen to do acquisitions. Captives typically represent a very good opportunity, but again we will be very conscious about pricing and we have a very strong Board which -- many of whom have done tons of deals. So we have a lot of checks and balances here. But we will look for diversification to reduce much of GE dependency but also to help end up with more products and services or geographical diversification and we have a strong M&A team, which is constantly on the lookout. So we are hoping that we can deploy this money rather than have it just sit in the bank.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Great. Thanks. Solid numbers.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thanks. Thank you.

Operator

Your next question comes from the line of Tim Fox of Deutsche Bank. Please proceed.

Tim Fox - *Deutsche Bank - Analyst*

Hi, thanks. First question was around GE. Just to sort of nail it down. It sounds at this point that you've seen the bottom, is that fair to say that you're expecting things to improve sequentially going forward?

Pramod Bhasin - *Genpact Limited - President and CEO*

With GE, no. In fact what we said is you will see some shorter-term declines. You will see some small declines in the near-term. But that's something we actually stated just a short while ago. So I think you're going to see some of that, Tim, continuing to happen. It's not going to be large. Our dependency on GE is getting to be smaller and smaller. It will be small declines in the near term. But I think GE is going to have to wade its way through its own restructuring efforts and work before we can call it out and say, yes, we are back to growth. Medium to long-term, absolutely. We will grow with GE in the medium to long-term. In the short-term, there is a period of time during which we will have to navigate a few -- some rough quarters with GE.

Tim Fox - *Deutsche Bank - Analyst*

Okay, it's fair. And just on the pipeline of -- obviously the deals closed in the quarter were quite strong. I'm just wondering if you could maybe quantify the size of those deals, the scope that you are seeing, 19 is a lot of deals, are they coming in bigger than expected, sort of on par with your historical averages?

Pramod Bhasin - *Genpact Limited - President and CEO*

No, I'll explain this by going back a little bit. I think we had earlier seen deal sizes become smaller than historically was true. So, we had seen I think deal size of $5 million to $6 million per deal, that deal size has now gone up in the pipeline. So it's gone up from $5 million to $6 million, to $7 million to $9 million, and that's good because I think clearly companies are saying, we'll grab this opportunity, we're putting in a lot of effort behind this initiative and we'll do more of it with more impact.

So I think you are seeing an increase, but it's not back to the historical levels as yet. I think that will take a little time. The reason for that also is quite simple. People are still pretty sharp about payback, they are pretty sharp about -- and while pricing has stabilized, companies are very keen to make sure that one, they get maximum bang for the buck, and two, their own investments that they need to make in these projects upfront need to have the right level of payback. So I think they focus very heavily on that. Having said all of this, the advantage for us is we really look for entry into a client, into a key strategic customer with whom we can grow over time. So in fact, the initial deal size often is hardly reflective of the total volume potential we get from a customer.

Tim Fox - *Deutsche Bank - Analyst*

And lastly, if I may -- I could just follow-up on an earlier question about the improving conversion rates when rates are obviously seeing a nice up-tick in the business here. What would be the impact looking out maybe into 2010 do you think on margins? Presumably with wages starting to increase a bit, attrition rates maybe ticking up as the economy improves, can you still expect to get 50 basis points, maybe to 75 basis points of improvement in what could be kind of countercyclical from a supply side?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think your points on the supply side are absolutely valid. Wage rates have to go up. We've all held them back and it's time we took them back up. Similarly, attrition to your point will tick up as demand for jobs increases and that will have its own impact. Our margin improvement basically comes from a combination of re-engineering revenues that we get by improving process sales, by gain sharing that we can derive from projects that we do for companies where we deliver real business impact, by focusing on outcome-based pricing rather than just FTE-based pricing, and by moving up the value chain. That dynamic will continue regardless of wage inflation or high attrition, etcetera.

I also think there is still plenty of room within our own system to take costs out. Just to give you an example. Work from home. We have about 600 people who work from home today; now I'm not saying we'll do this at all, so please don't use this as a target or a number or anything like that. But supposing we were able to take that number up to 5,000 people, that's two buildings of ours which would be empty. So I think there is lots of rooms and avenues we continue to explore all the time which can really allow us to, one, keep our costs under control and as we go up the value chain for companies, we will see better margins. Offsetting that, the one other element that will offset that is, as growth improves and as we bring in new customer, we will be investing in the early days. As we've said in the past, in the first year, 18 months, we invest and don't actually make profits on the customer. So that will offset clearly, that will bring more margin pressure. We really feel pretty comfortable that the combination of these elements will allow us to medium, long-term continue to increase margins at this point in time.

Tim Fox - *Deutsche Bank - Analyst*

Thank you, nice job.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thank you.

Operator

Your next question comes from the line of Kevin Sarvy of William Blair & Company. Please proceed.

Kevin Sarvy - *William Blair & Company - Analyst*

Thanks. Hey, guys.

Pramod Bhasin - *Genpact Limited - President and CEO*

Hi, Kevin.

Kevin Sarvy - *William Blair & Company - Analyst*

Hey. Just a few questions on sort of cross-sell. How many -- or could you provide a little color about how many of your customers have outsourced more than one process and then how should we think about up-tick for additional processes at existing customers?

Pramod Bhasin - *Genpact Limited - President and CEO*

Right. How many of our customers have sold more than one process? I think lot to answer, at least I would say if we think about a universe of all our customers, at least 50% to 60% have more than -- outsourced more than one process, at least. The number could be much higher and we can actually get that number for you. And I suspect it may be even 70%, but we will get the exact number.

Two, as you think about up-tick in existing customers' processes, that's really our strength and that's what I meant when I talked about initial deal sizes, they actually don't matter that much to us because inevitably, a customer who started with $4 million or $5 million order grows fairly quickly. As you saw, the number of customers above $5 million at this point in time has increased very substantially. So our opportunity within the customers, particularly when we think about end-to-end processes, and I won't take the time today, but I should explain how those work. That view will always allow us to penetrate deeper across silos, across different functions. So if you think about procure to pay, we may start with accounts payable but we will quickly move into inventory modeling, into inventory requisitions, into ordering, into sourcing, into pricing of products and into identifying suppliers, and all of those cut across the entire silos and functional divisions within companies and that's really where we get the benefit of looking at process effectiveness and that's what allows us to grow further with customers. I hope that made some sense.

Kevin Sarvy - *William Blair & Company - Analyst*

It does, it does. I guess another way -- well, before I dive into that, just you said 50% to 60% have outsourced more than one process to you. When I look at that, to me, how much room is there for folks to outsource more of those processes? Because if more than half have outsourced more than one, are you looking at sort of 40%, that's the target to outsource more than one? How difficult does it get to kind of continue selling more process outsourcing to these customers?

Pramod Bhasin - *Genpact Limited - President and CEO*

Well, it becomes easier, I think, as we broadened. I think the number of processes -- one, our average penetration level in these companies, I would say is probably less than 5%. Okay? It is in low-single digits versus what could be outsourced by them. Two, if we've outsourced in individual -- by individual process, I mean I've outsourced a general ledger process, I've outsourced data accounts payable process, I may have outsourced a procurement process, I may have outsourced a treasury process. Can I add to it? Of course, I can add procurement, I can add even analytics, I can add technology, I can add help desk, I can add sourcing, I can add customer service. So the range of processes you can add is so extensive that I think once you start climbing in and proving to the customer what your worth is, it actually becomes easier, it takes our sales and marketing expenses down. So in fact, penetration levels are still very, very low which is what gives us confidence in the medium and long-term.

Kevin Sarvy - *William Blair & Company - Analyst*

Interesting. And then one quick question just on that. When they -- when a customer says, okay, we are ready to do, say accounts payable having done general ledger, whatever, do they open that up to bid or generally as the incumbent, is there no competitive situation there?

Pramod Bhasin - *Genpact Limited - President and CEO*

There is no competitive situation there. Typically -- and I would say this applies to 90% of the cases, Tiger?

Tiger Tyagarajan - *Genpact Limited - COO*

Yes.

Pramod Bhasin - *Genpact Limited - President and CEO*

There is no competitive situation. And frankly, very often, we will have discussed this with the customer in the early days and they would have said, here is the order for general ledger, but please remember, if you do this well, on the back of it will be orders for X, Y and Z. And therefore, it just becomes part of the overall evolution with the customer.

Kevin Sarvy - *William Blair & Company - Analyst*

Okay. And I will squeeze one.

Pramod Bhasin - *Genpact Limited - President and CEO*

That's why I think many of our -- some of our very large competitors will tell you that they sole source a huge portion of their business.

Kevin Sarvy - *William Blair & Company - Analyst*

Yeah.

Pramod Bhasin - *Genpact Limited - President and CEO*

Well, on that definition, so do we. A large portion of our growth in any quarter is completely sole source.

Kevin Sarvy - *William Blair & Company - Analyst*

Okay. And then just turning to that one Global Client payment of $4 million. Why did that client cancel the engagement?

Pramod Bhasin - *Genpact Limited - President and CEO*

Slower growth. A slower planned growth, slower expectations of growth, hit by the economic issues that we all faced. It's all been part of the discussion that we've seen and the impact we've seen over the last 12 months. That growth has slowed, obviously, we were hoping -- our growth rates were much higher and have come down to 6 to 9% and many of our clients' businesses and volumes have contracted significantly. And that's really what it was.

Kevin Sarvy - *William Blair & Company - Analyst*

Okay. Thanks, guys.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thanks.

Operator

And your next question comes from the line of Karl Keirstead of Kaufman Brothers. Please proceed.

Karl Keirstead - *Kaufman Brothers - Analyst*

Yes. Hi, thanks for taking my questions. I've got two. First, on the volumes, on the last call, you sounded pretty cautious around volumes and you were pretty clear about pressures. It seems that you're communicating a message here that they're still under pressure but the rate of decline is slowing. So first, is that a correct assessment? And secondly, can you offer any view as to when you think volumes might bottom? Thank you.

Pramod Bhasin - *Genpact Limited - President and CEO*

I think volume have - okay, let me explain that in this way, Karl. Whatever volumes were going to decline is something that actually we have been able to predict in the past. So what you're seeing is, right now is the result of actions taken ten, 12 -- nine to 12 months ago. It's not new stuff happening now. Consequently, you will see, and this is all within our guidance that we've given, impact of lower growth rates in this quarter and next quarter, that has stopped and that lowering of growth rates has now ceased, we believe and will improve. The impact of that you will see later because as ours is a long-cycle business. But both volume declines, deletions, the pace of deletions has slowed down, the pace of volume declines has slowed down, and pipeline and other things have accelerated. So you are in effect in many ways seeing the impact of -- nine to 12 months ago economic environment today as companies grapple with those issues, restructure and do all the things they do. But to your point, I think that we're seeing the bottom - we've passed the bottom.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. So if the volumes likely decline in this current fourth quarter and you think that's the bottom after which we should see some sequential growth thereafter. Is that right?

Pramod Bhasin - *Genpact Limited - President and CEO*

Well, you've seen sequential growth this quarter, right? So it's a rate of growth if I may. All right? I think you've seen sequential growth this quarter, you've seen sequential growth every quarter. I don't think you've seen net declines ever from us.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. I was speaking about volumes, not revenues.

Pramod Bhasin - *Genpact Limited - President and CEO*

Even volumes have gone up. Fundamentally, volumes have always gone up. Declines have happened in small places, which has slowed down the rate of growth, but net volumes has never declined.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. Thanks. And then --

Pramod Bhasin - *Genpact Limited - President and CEO*

If I gave that impression earlier, then I was clearly wrong. It's never happened.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. Thanks. And then secondly, on SG&A, Vivek, if I take your full-year guidance for SG&A and back into what it must be for the fourth quarter, if my calculations are correct, it'll be $75 million or $77 million. Is that a rate that you would expect to be sustained for a couple of quarters as you increase the investment in sales, marketing and business development or is this a one-quarter bump, if you could add a little color? Thanks.

Vivek Gour - *Genpact Limited - CFO*

So, $75 million and $77 million might be a little above the range we're expecting and it would be primarily a bump for one quarter and then we would settle down to a more normalized level like what you have already seen in the third quarter. So I would expect the first quarter SG&A to be more like the third quarter this year and the fourth quarter is going to be in the low-to-mid 70s.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. Perfect. Thank you very much.

Vivek Gour - *Genpact Limited - CFO*

And the one-time expenses are in the form of brand building, marketing, new product development, digitization. A lot of these are one-time things, which helped improve our efficiency and reach, without necessarily becoming a repetitive cost each year.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. Great. Thank you.

Vivek Gour - *Genpact Limited - CFO*

It will help us lower cost next year, more importantly.

Operator

Ladies and gentlemen, please limit yourself to one question and re-enter the queue for any follow-ups you may have. Your next question comes from the line of Jason Kupferberg of UBS. Please proceed.

Jason Kupferberg - *UBS - Analyst*

Thanks. I know it's a little early to offer official 2010 guidance but obviously people are going to get a little excited about the incremental -- incrementally encouraging commentary here now. Obviously '09 has been a tough year for everyone and you guys kind of coming in mid-to-high single digits and historically, we thought of more is kind of mid 20s kind of percentage, annual revenue grower. I mean, going forward, in a more normal economy, how should we think about the growth potential of the business? I mean from a size perspective, will it be challenging for you guys to get back to that 25% to 30% range, just given law of large numbers or is it just a function of, A, when the demand comes back from a cyclical perspective, you can get back into that rough range?

Pramod Bhasin - *Genpact Limited - President and CEO*

You're right, it's hard to answer this one. It's -- but let me take a crack at it. So clearly, this year has been pretty tough, right, 6% to 9% growth. We earlier obviously were expecting much higher numbers ourselves. As we climb out of it, and certainly we're climbing out of it now and the pipeline and everything else demonstrates that we are climbing out of it, and climbing out of it pretty well, I think the uncertainties around the speed of recovery remains. That's quite honestly one of the issues that continue to tell us that our ability to predict the future certainly quarter-by-quarter and in terms of timing remains more uncertain than perhaps three years ago. The reason for that is because our customers are also feeling the same thing and consequently how much money they may be willing to spend or how fast they move will remain difficult.

So I think going -- how fast will we go back to old days and old numbers remains a highly unpredictable point. Having said that, if you add up the other elements, if you add up the fact that geographical diversification is really making terrific -- really giving us terrific momentum, our pipeline in India is very strong. We're beginning to make strides within China. We're looking at Latin America. We're looking at new products in new geographies. If you think about things like the NASSCOM-McKinsey Study, which shows that from now till 2020, 80% of growth will be in new areas. So, public services, healthcare which we are very strong in and expanding our footprint in dramatically, pharmaceuticals, insurance, I think these are all areas -- and for instance, if we enter the government market, the public services market, these are areas with huge opportunities for growth as we expand and build -- continue to build our technology capabilities as well and our point solutions for technology. Again there are newer and newer areas that we can explore.

The beauty of our industry, I think is it is highly underpenetrated at this point in time. And well, the recession has caused a lot of companies to look around and say, how do I take out costs faster? There was slowness in decision-making, there was some hesitancy for a period of time, but I think it's back to saying, we can't live like this, we need to take costs out faster and that will play to our advantage. So I think the medium to long-term, I don't want to start thinking about predicting timing at this time, but I think the medium to long-term potential for this industry remains very attractive and, if anything, if I may be so bold, has actually improved.

Jason Kupferberg - *UBS - Analyst*

So, just if I can clarify what you're saying, obviously you guys aren't economists, you can't predict the speed of recovery, but it sounds kind of like what you're saying is that, you don't see any structural reason why your business cannot go back to pre-recession revenue growth rates whenever a normal economy re-emerges. Am I hearing that right?

Pramod Bhasin - *Genpact Limited - President and CEO*

Absolutely.

Jason Kupferberg - *UBS - Analyst*

Okay.

Pramod Bhasin - *Genpact Limited - President and CEO*

Exactly right. In fact, I should have said the way you said it. It would have been shorter and faster.

Jason Kupferberg - *UBS - Analyst*

And just on the record win rates, who do you guys think you're taking share from, and any meaningful change in competitive landscape?

Pramod Bhasin - *Genpact Limited - President and CEO*

There's no meaningful change. We continue to see competition coming in mainly from IBM and Accenture and Capgemini. We see some local Indian BPO service providers such as Infosys, more often WNS, we're seeing more often now. But our win rates remain the most against the big guys. Perhaps they are not focused on the space as much, I don't know. But our win rates there are really very encouraging.

Jason Kupferberg - *UBS - Analyst*

Okay. Thanks, guys.

Operator

And your next question comes from the line of Bryan Keane of Credit Suisse. Please proceed.

Bryan Keane - *Credit Suisse - Analyst*

Hi, just a couple of clarifications. If contracts start to ramp up, will margins need to fall from these higher levels?

Pramod Bhasin - *Genpact Limited - President and CEO*

There will be a pressure on margins because contracts ramp up, absolutely. But, we believe we can offset those pressures with more value-added work with existing clients, as well as with the ability to continue to take costs out and drive efficiencies, as well as with a change in how we price. We are looking very hard at doing more and more outcome-based pricing and gain sharing, as we call it, based on the productivity delivered to clients. So I think we can offset any pressure on our margins because of new client growth by the other things that we are able to do.

Bryan Keane - *Credit Suisse - Analyst*

Well, the other pressure, it sounds like, attrition might tick up in a better environment and the same with wage inflation. Could you just talk about where you expect maybe those rates to go and what you guys are doing on wages going forward?

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure. We'll take wages up a little bit. We're never the top payer, we've never wanted to be top payers, we are very clear with our employee base, also. Don't come to us if what you are looking for is highest wage. So we'll take it back up to our usual levels. Our usual levels have been 7%, 8%, 9% and that's what we'll go back to. We're never going to go back -- when the industry was taking wage increases up 13% to 15%, we were still at 7% to 9%. So, we will take it back up from the 4% we've got, but we can offset that again as I said by better utilization in infrastructure and other things. Similarly with attrition, attrition may tick up somewhat but our attrition has always been best in class in the business process industry and I think it will remain there. Attrition, surprisingly, actually doesn't end up costing us that much extra. In fact what gets hurt because of attrition is the quality of our service to customers. That's what I worry about most, but actually there isn't necessarily a major cost of attrition to us.

Bryan Keane - *Credit Suisse - Analyst*

Okay. Just last question from me. We talked about the $4 million payment for one contract cancellation. How many large contract cancellations have you seen this year that you're growing over? Is it a handful, is it ten, just help us out with that? Thanks.

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure. So let me explain contract cancellation. It is cancellation of some processes within a large contract. It isn't the entire contract going away, it's just a -- this area we won't grow as fast as we expected it to, this area we will stop and it's really more that than it is saying the whole contract is cancelled. We've seen no overall contract cancellations except in one case, where one of our clients was taken over by another company. That's the only time something like this has happened. Otherwise, these are cancellations of SOWs or parts of processes that we're engaged with, with a customer.

Bryan Keane - *Credit Suisse - Analyst*

And you've seen that kind of stop those cancellations, starting kind of in this third quarter?

Pramod Bhasin - *Genpact Limited - President and CEO*

I mean they are already factored into our guidance. We've known about them, and that's why our guidance for this year is very flat, right? So you are going to see some of that continue to happen, but it's already factored into our guidance. It has certainly slowed down tremendously versus this year as we look out into next year. Some cancellations, please remember are perfectly normal for our kind of business. Some projects will not come back, some annuity work will go away, some businesses will digitize the process and that work will go away. So there is a base level of cancellations which is always there, which is normalized. We were referring to stuff, which happens over and above that.

Bryan Keane - *Credit Suisse - Analyst*

Okay, thanks a lot.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thanks.

Operator

And your next question comes from the line of Tim Morse of Robert W. Baird. Please proceed.

Tim Morse - *Robert W. Baird - Analyst*

Hi guys, nice quarter.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thanks.

Tim Morse - *Robert W. Baird - Analyst*

Just a quick question on the pipeline. Could you talk about maybe -- just kind of dissect the pipeline in terms of different products and services, where you're seeing more relative strength and weakness?

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure. Tiger, do you want to take that?

Tiger Tyagarajan - *Genpact Limited - COO*

So Finance and Accounting, as usual, continues to be very strong, as companies continue to find ways to take out their SG&A cost. Procurement and supply chain, the entire source to pay cycle as companies think about buying better, buying cheaper, lowering price and then finding a way to hold onto that price, which is where we come in very strongly with compliance around procurement. Some risk management services in the current environment, receivables management and then if you look at verticals, healthcare as a vertical. I mean think about all the stuff at healthcare, both on the payer and the provider side; India-to-India as a geography; and banking, financial services and insurance, clearly over the last two quarters, we've seen that particular segment come back and start filling up our pipeline.

Tim Morse - *Robert W. Baird - Analyst*

Okay, great. And then just housekeeping, I didn't see the attrition numbers this quarter. Could you tell me what the attrition was?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes. I believe the overall --

Vivek Gour Yes. Our attrition numbers for this quarter were 23%, which was actually an improvement year-over-year of 3%.

Tim Morse - *Robert W. Baird - Analyst*

Okay, thank you very much.

Vivek Gour - *Genpact Limited - CFO*

It was 26% same quarter last year.

Tim Morse - *Robert W. Baird - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Ed Caso of Wells Fargo Securities. Please proceed.

Chris Bourbon - *Wells Fargo Securities - Analyst*

Hi, good morning. This is Chris Bourbon for Ed Caso. Can you talk a little bit about geographies, specifically in the emerging markets and Europe, what you are seeing there?

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure. India-to-India, we said is very strong and we have a large team based here. China takes longer to build, but I think we're beginning to see traction in our China-to-China business, and on the technology side and on the business process side, we're seeing more traction in Europe. Our pipeline in Europe is much stronger. Now, some of that is just because we've got more BD people in Europe now and therefore, it's not necessarily demand in Europe having increased but the fact is our presence has increased, and I think that will have a consequential effect as we go forward. I think as we think about new service areas, Tiger has already talked about the various industries in which we're seeing very good demand.

Chris Bourbon - *Wells Fargo Securities - Analyst*

And then secondly, given the increased focus on business development, is it -- are you changing your strategy on new business development versus mining existing clients?

Pramod Bhasin - *Genpact Limited - President and CEO*

No, we're not actually, but we'll just -- we think the market is right for growth. We think there is great talent available. We have, fortunately, the margins, which allow us to invest in that great talent. So we're really looking at it as an expansion, but our fundamental philosophy of growing and mining existing customers remain. The point of the BD resources is to be able to attract even better and bigger logos who we can then grow with for the next ten years, that remains our fundamental strategy. We will continue to add BD resources, and it's just because of our growth and size and this obviously represented a very unique point in time when we could hire terrific talent.

Chris Bourbon - *Wells Fargo Securities - Analyst*

Great, thank you.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thank you.

Operator

At this time, I'd like to turn the call back over to management for closing remarks.

Shishir Verma - *Genpact Limited - VP, IR*

Thank you, Carissa. Let me just thank everyone for joining us on the call today. In this environment, we're 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. If you have any questions, please do not hesitate to reach out to me. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation, you may now disconnect. Good day.