FINAL TRANSCRIPT

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G - Q1 2008 GENPACT LIMITED Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2008 Genpact Limited earnings conference call. 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). As a reminder this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Roanak Desai, head of Investor Relations and Corporate Development. Please proceed.

Roanak Desai - *Genpact Limited - Head of IR and Corporate Development*

Thank you. Welcome to Genpact's earnings call discussing our results for the first quarter ending March 31, 2008. As the Operator mentioned, I'm Roanak Desai, head of Corporate Development and Investor Relations. With me are Pramod Bhasin, our President and Chief Executive Officer, and Vivek Gour, our Chief Financial Officer.

We hope you've had an opportunity to review our press release. Please allow me to outline the agenda for today's call. Pramod will begin with an overview of our results; Vivek will take you through our financial performance, including the income statement and balance sheet; we will then close the presentation and take questions.

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 today's 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 the information presented on this conference call.

During our call today, we'll refer to certain non-GAAP financial measures, which we believe provide useful information for investors. You can find reconciliation of those measures to GAAP, as well as related information in our press release on the Investor Relations section of our website at genpact.com.

With that, let me turn the call over to Mr. Pramod Bhasin, Genpact's President and CEO.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thank you, Roanak, and good morning to everyone. We had an excellent first quarter. Our revenues grew 33% from the first quarter of 2007 to $234 million. We continue to see strong demand for our services and solutions as most of what we do for our clients is essential to their business.

We continue to watch the business environment carefully. We are seeing some changes in behavior, including some postponements, particularly in the IT area, as well as some accelerations. We have been deepening our relationships with our clients with an increasing focus on driving greater efficiencies for them to process re-engineering, Six Sigma and Lien. Our core strength in driving process efficiencies positions us very well in this environment.

We continue to expect 2008 annual revenues to increase 25% to 27% from $823 million in 2007, and our adjusted income from operations margins to improve by 10 to 30 basis points from 16% in 2007.

In the first quarter of 2008, we grew our revenue per employee to $29,000, a 3% increase from $28,200 in 2007. This increase reflects a combination of higher revenue work and our ability to improve pricing. Our total headcount increased to 34,300 people globally.

GE revenues grew 1% from the first quarter of 2007, excluding revenues from businesses that GE divested. When GE's ownership stake in a business drops below 20%, we group revenues for that business as Global Client revenues rather than GE revenues. We understand that there may be some confusion about how we look at GE revenues, so Vivek will explain this in more detail in a few minutes.

Global client revenues grew 121% from the first quarter of 2007, driven by our ability to expand our relationships with existing clients and develop new ones.

We continue to win new deals and expand our client base, as mentioned in our press release. Of particular note is our first domestic client in China in the banking and financial services sector. We also continue to see growth in our services delivered from Europe and Asia-Pacific. First quarter 2008 revenues from our European operations increased by 106% over the first quarter of 2007. First quarter 2008 revenues from our Asia-Pacific operations increased by 60% over the first quarter of 2007. That mix between our BFSI and manufacturing clients remains about the same as 2007. Business processes increased to 78% of overall revenues for the quarter compared to 76% for the full year of 2007.

For the 12 months ended March 31, 2008, 20 client relationships each accounted for $5 million or more in annual revenues, and increased from 18 for the 12 months ended December 31, 2007. Of those, four clients each accounted for $25 million or more in annual revenues as of March 31, and increased from three as of December 31. Our model is to grow with our existing clients by moving up the value chain and expanding across their lines of businesses and geographies. Increasing scale with existing clients allows us to drive tangible impact, while providing end-to-end solutions beyond any specific process. Scale also allows us to better utilize the investments we make in leadership and support for our client relationship, and improves supervisory span and shift utilization.

Our attrition in the first quarter came down significantly to 25% from 30% for the 2007 full year. While it is too early to determine if this will be the trend for the year, we are delighted with the results, which we believe will have a tremendous impact on our business, if sustained. Not only would client satisfaction increase, but it would allow us to build knowledge and move up the value chain with our clients more quickly. In addition, the cost of hiring and training would decrease.

We continue to invest in Six Sigma, Lean, and re-engineering DNA. As of March 31, we had 8,213 employees trained in Six Sigma Green Belts; 440 of Six Sigma Black Belts; and 12,257 trained in Lean techniques.

We continue to diversify our revenue base and are pursuing work in India for Indian clients and in China for Chinese clients. To date, we have two clients in India and one in China, I mentioned earlier. We are excited about entering these high growth markets.

Now, I will turn it over to Vivek to discuss the financials.

Vivek Gour - *Genpact Limited - CFO*

Thank you, Pramod, and good morning to all of you. We exceeded our financial targets for the first quarter. As Pramod mentioned, we had revenues of $234 million, representing a 33% growth over the first quarter of 2007. Our organic growth rate for the first quarter was 29% over the same period last year. Our adjusted income from operations was $35 million, up from $22 million in the first quarter of 2007. This represents a 63% increase.

The margin here was 15% in 2008, up from 12.2% in the first quarter of 2007. Consistent with normal seasonality in our business, the margin decreased from 18.7% in the fourth quarter of 2007.

As Pramod mentioned, global client revenues increased by 121% from $54 million to $120 million. This included organic growth of global clients of 113% in 2008 versus the first quarter of 2007. The first quarter of 2008 was the first time that revenues from global clients represented 51% of our total revenues, with revenues from GE compromising 49%.

Before I get into cost of revenues and SG&A, I will take a moment to discuss our foreign exchange gains. Several of you have asked questions on the foreign exchange gains. We recognize this is complex and want to share more information to help you understand our costs better. Last year in 2007, almost 100% of our FX gains were related to long-term hedges against our estimated cost line. The gains on these hedges should be considered integral to our operation, as that is how we measure and drive the business.

This quarter, of the $22.4 million in foreign exchange gains, approximately $15.7 million is linked to our long-term cost hedges. This $15.7 million serves as an offset to increase in cost of revenues and SG&A, due to appreciation of local currencies like the rupee. Accordingly, approximately $11.1 million of the gain should be credited back to the cost of revenues line, and $4.6 million should be credited back to the SG&A line. The balance of $6.7 million of the FX gain is related to re-measurement of dollar assets that lie outside the United States. This re-measurement is the difference in the value of these assets between the last date of one quarter versus the last date of the next quarter.

Over the last three quarters, this re-measurement was very small; but this quarter it came in at $6.7 million. These gains or losses are non-cash items and not directly linked to our operations. We expect this item to be a single digit million dollar amount, either as a loss or a gain, in any given quarter of this year. All our hedges are plain vanilla contracts meant only to fix our local currency costs in dollar terms. I reiterate that we do not enter into speculative foreign exchange contracts of any kind.

We will continue to hedge our costs as far in advance as possible to have predictability on our costs and our prices. Right now we have just started our hedging program for 2012.

With that explanation, I will return to the cost of revenue and SG&A lines. Our cost of revenues grew by 43% in accounting terms. After adjusting cost of revenues for the $11.1 million of foreign exchange hedge gains directly relating to it, we get an increase of 34% compared to our revenue growth of 33%. This 34% increase also includes a one-time write-off of $3.3 million against software licenses, which we have determined we will no longer need.

Similarly, our SG&A line grew by 36% in accounting terms. However, after adjusting for the $4.6 million of hedge gains directly attributable to our SG&A line, our adjustment increases to -- our SG&A grew only by 28% over the first quarter of 2007.

Our diluted EPS was $0.09 per share. Our adjusted diluted EPS was $0.15 per share, an increase of $0.07 per share in the first quarter of -- over the first quarter of 2007. Some of you have been asking questions about how we count revenues of businesses divested from GE. Therefore, before I move to the balance sheet, I'd like to take a moment to explain how we account for revenues divested from GE businesses.

In accordance with generally accepted accounting practices, when GE's ownership in a business drops below 20%, revenues from that client are no longer considered GE revenues, and are included as a part of global client revenues. Let me give you an illustration.

Let's say GE was going to contribute $100 in revenues in any given year. Assume GE sells a business on 30th of September that year, which would have given us $20 of revenue that year -- $5 a quarter. Of that $20, $15 would be included as GE revenues, and $5 would be included as global client revenues. Therefore, on the face of our P&L statement, GE revenues would be $95. However, when we assess how much we grew with GE in the following year, we would use $100 because that represents the revenues from the businesses GE had at the beginning of the year. When we assess growth for the following year, we would use $80, as that is the run rate of revenues from GE businesses at the beginning of the following year.

Using this method, the run rate for revenues from GE was $457 million approximately on 1st of January, 2008. Our guidance of mid-single digit revenue growth with GE uses this as the base. To put this in context, since our separation from GE in 2005 through to the end of 2007, GE has divested businesses that generated over $70 million in annual revenues in 2007.

These businesses have been divested in a number of ways -- public market spin-off, sold to financial buyers, sold to strategic buyers, many of whom have owned [captives] in developing countries. Driven by the strength of our relationships with the management teams of the divested businesses, we have fully maintained -- and, in some cases, grown -- our relationships with each of these businesses; a recognition of the value we bring to the table. All businesses divested by GE have continued their relationship with us.

Our day sales outstanding increased to 81 days from 75 days in December 2007, mainly due to the fact that global clients typically have credit periods a little longer than our older GE clients. Our global clients typically have credit periods of up to 60 days.

Our capital expenditure in the first quarter was $18 million. We continue to expect capital expenditure for the year to be around 10% of revenues, as we build out our SEZ's in India.

We expect our tax rate for the full year to be around 18% to 20%. We have a healthy cash position. In the first quarter, we generated $21 million of cash from operations; we have cash and cash equivalents of $305 million on our balance sheet. We are very pleased with our results for the quarter and with our growth rates.

With that, I'll turn it over back to Roanak.

Roanak Desai - *Genpact Limited - Head of IR and Corporate Development*

Thanks, Vivek. I'd like to now open up the floor for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Just real quickly here to start off with, there's been some changes in the GE relationship. They've left your Board and you moved up to date for the shares to be potentially sold into the market. I wonder if you can give us an update on how you view those changes and what effects they could potentially have on that business stream?

Pramod Bhasin - *Genpact Limited - President and CEO*

Let me take that. GE has left the Board at this point in time for reasons that only they can address and they're things that we can't comment on. We really don't see any difference in the change. If you may remember, we have now set up a Commercial Council with them, which is attended by the same people who used to be on the Board, where we discuss the overall GE relationship.

We've known them very well for many, many years. A large part of our management team is ex-GE, so our knowledge of GE and are connects at the individual business levels are very, very strong. And GE does operate as many different businesses. And therefore, we have always had to sell into them at the different business and process-owner level. And while we clearly get support from the key people who earlier used to sit on the Board and now set on the Commercial Council, those relationships remain very strong.

GE will remain a financial investor in the Company and will do what obviously they want to do with the investment. But we do not see any issues whatsoever as they have come off the Board.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you for of the explanation of the hedge. Just on the hedging side -- if the currency was to move, let's say, depreciate rapidly in the quarter, how would you compensate for that on the adjusted operating line? Is there a way to -- I know it's to mitigate the risk, but let's say you hedge incorrectly or it goes against you in a rapid fashion in a quarter, how do we compensate for that on the operating line?

Vivek Gour - *Genpact Limited - CFO*

I think that's a great question, Joe. So let me take an extreme example, that if the rupee went to, say, 50 rupees to a dollar, we would have a hedge loss sitting in our FX gains and losses line. But we would have an exactly compensating decline in our SG&A and cost of revenue line, because the actual cost of production and the actual SG&A in rupee terms or yuan terms would have dropped. So the task of the hedges is to be able to peg our cost line well ahead into the future, so that we can price our long-term contracts with the very high degree of surety.

The aim of the hedges is not to make a speculative gain. And it is to protect us, regardless of whether the currency appreciates or depreciates.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

And just, I mean, how would you be able to drop SG&A that quickly? I guess maybe I'm not understanding how quickly the response could be from the Company.

Vivek Gour - *Genpact Limited - CFO*

The SG&A, for example, is being incurred in currencies all across the world. The fact that the dollar has appreciated against all those currencies that we hedge in, would automatically mean that when we consolidate our book, a 100 rupees or 100 yuans spent on SG&A would get recorded as $90 and not as $110.

Pramod Bhasin - *Genpact Limited - President and CEO*

It wouldn't drop SG&A costs, per se; it's the translation impact of the SG&A costs, which would be -- which would show up as a drop in those costs, which would be offset by the loss on foreign exchange.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, great. And then real lastly here, I know that you've kind of maintained your guidance -- as you look at the shifting business, maybe the movement to more BPO and some of what's going on in IT services, maybe you can give us some color on why you remain conservative with a strong quarter? And thanks.

Pramod Bhasin - *Genpact Limited - President and CEO*

Well, I think we are very pleased with the quarter, obviously. But you know the economic environment is uncertain and I guess I would say perhaps unpredictable. And therefore, at this point in time, we'd certainly like to remain conservative. We're seeing good traction. We're seeing great growth in existing customers. All of those things are happening, but it is a natural caution that we feel that this environment deserves, Joe. There's nothing more than that.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, great. Thank you.

Operator

Tien-tsin Huang, JPMorgan.

Tien-tsin Huang - *JPMorgan - Analyst*

Pramod, can you be a little more specific on your comments about the changes you're seeing in the IT area? Where you're seeing the postponements and where are you seeing the pickup?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes. Actually, we're -- and I should say we've seen postponements in the IT area. But we've also seen a larger number of, even on the BPO side, deals, for instance, going cold or getting dropped. We've certainly seen cycle times increasing from perhaps three to six months to nine to 12 months at this time.

At the same time, we are seeing greater demand for re-engineering, greater demand for faster, higher impact, transitions of work. And so right now they are offsetting each other. I think the difference also becomes that when you are working with existing customers who know you and trust you and with whom you have great credibility, they will move faster, I think, for some new customers who are putting their toe in the water for the first time, they may decide not to make the investment that is necessary in the first year to embark down this road.

So -- you know, it is a mixed bag out there, although the overall trend is something we're very happy with. But there are more -- I guess, to answer your question specifically -- there are probably more cold deals that go cold once they start up. And they may come back on the table -- not this year, they may come back next year. I hope that's helpful.

Tien-tsin Huang - *JPMorgan - Analyst*

It is, but the projects among the existing clients, it sounds like that's ramping very, very well, right? Did I read that correctly?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, existing clients are ramping very well.

Tien-tsin Huang - *JPMorgan - Analyst*

Got you. So, any comment about just the timing of when some of those things, ones starting to go cold -- because we're starting to hear about March, I guess towards the end of March, early April, some change in some activity there. Maybe can you be a little bit more specific on the timing of when some of these things happened?

Pramod Bhasin - *Genpact Limited - President and CEO*

Over the last, I would say, last three months. The last three months, we've been seeing it. A number of deals that we've been involved in and, of course, everybody else is also involved and have gone cold, or sometimes people have said, look, we're going to stay in-house right now. Or they said, we'll do less. So in addition to going cold, the size of the deals have been restructured.

So I think all of those things are happening. And it's really over the last three months. I mean, we've seen it -- yes, three months, maybe five months. And I think it will continue.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay. Then GE, on the ITO side for GE, how is that tracking to plan? Any change there?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think that will be slower. I think GE will cut its costs, as you would expect, this year, given their own results, et cetera. So I think we may see less spending from GE. I think they've been clear about announcing those things.

But again, I would mention there are many other areas where we believe we can penetrate deeper into GE. And what we're doing is strongly embellishing our relationships across the board, not just with GE, but with all global clients. So we're getting much closer to our clients, we're spending much more time with them, we're talking to them about what their needs are. We're trying to understand where they're hurting the most and how we can help. And I think that is really helping us at this point in time, because we're being able to get in and penetrate much deeper in many, many other areas.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay. But the GE guidance is still mid-single digit off of the base that you guys clarified?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes. It will be low to mid-single digits is where we have guided and we will stay there.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay. Last question, just on the tax rate. We got the '08 number, how about the '09 and longer-term?

Vivek Gour - *Genpact Limited - CFO*

Longer-term, I think, at least for '09 and '10, our tax rates would creep up a little bit to the $20 million, $21 million mark -- 20-21% level. Beyond that is difficult to predict at this stage, because it will depend upon how fast we can get our SEZs clutched in. But this is the guidance for '09 and '10.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay, very good. Thank you.

Vivek Gour - *Genpact Limited - CFO*

And we are evaluating our recent -- the recent STPI notice that came from the Indian government extending it by one year. It will provide some benefits to us for some of our leader sites.

Operator

Rod Bourgeois, Bernstein.

Rod Bourgeois - *Sanford C. Bernstein & Company, Inc. - Analyst*

Yes, guys, Rod Bourgeois here. Are there meaningful segments in your sales pipeline that are being helped by the weaker economy, that you think will sort of help your growth outlook over the next few quarters?

Pramod Bhasin - *Genpact Limited - President and CEO*

I wouldn't say there are segments that are easy to identify. So, I think the split is more by clients that are familiar with this, which have done this, and who are already -- who have already embarked on the entire outsourcing initiative versus clients who may be trying it new. And the segmentation is more being driven in that fashion.

So, people who are coming to it new are saying, we're going to have to put some investment down. We're going to have to distract management to do this for a period of time and therefore, let's make sure that one, the payback we get is very, very clear, very good. We can do this quickly and fast -- or let's put it on hold until next year.

With existing customers where you have deep relationships, where transition times are far lesser, and you can get into a good discussion with them about where their pain areas are, can we help them with cash flow? Can we help them with working capital? Can we help them in taking costs out? I think those will move faster and are moving faster.

So let me try and explain a little more, because I appreciate your question. But even in banking and financial services, what we're seeing is some terrific acceleration with some of our key banking/financial services customers. And at the same time, when we talk to new customers, their total share of what they want to do may have shrunk in their perspective, and they may be going after the smaller contract than they might have done nine months ago. I don't know if that helps.

Rod Bourgeois - *Sanford C. Bernstein & Company, Inc. - Analyst*

That definitely does. And I know one of the things that you guys have spoken about doing in order to address that situation, is offering solutions that provide a quick payback for the client. And I'm wondering whether those efforts are seeing a lot of traction in helping you guys engage with clients during this time, or whether those efforts are only helping in sort of isolated areas?

Pramod Bhasin - *Genpact Limited - President and CEO*

No, it's definitely helping, Rod. I think our reengineering efforts are getting terrific reception. Now, it doesn't amount to a huge amount of revenues for us in this year, although all of it drops straight through to the bottom line; but on the reengineering side, we're seeing terrific traction with lots of our key customers, such as Wachovia, et cetera. And I think that will continue. We are continuing to ramp up our efforts in those areas.

I think also on analytics, we're going to see, I think, good traction because that's the kind of projects that companies are looking for where we can help them save costs.

We're also constantly coming out with new ideas. We're going out to other customers and saying, look, we've analyzed your cost base. We have the data. Let us show you a way in which you can trim that down by 5% to 10%. We're doing analysis around what they're selling, the products they're selling, how they can cross-sell more, how they can increase their pipeline of sales. We're doing analysis around Cash as King; how do we help you improve it.

So, these projects are working, and driving not just higher revenues -- albeit these are certainly helping margin -- but it's most importantly, helping us get our foot in the door and get great traction with these customers.

Rod Bourgeois - *Sanford C. Bernstein & Company, Inc. - Analyst*

All right. Well, just a follow-up on that. I mean, clearly the environment that we're in is altering the mix of deals that you're able to sign. Is that mix shifts that's being created by the weaker economy generally positive or generally negative for Genpact?

And then I guess the specific thing there, you mentioned that you're getting more traction with existing clients in the sales pipeline. And I guess I'm speculating that that might actually be good for your margin mix shift, because it's more profitable to sell to clients that you know. Is that an accurate way to look at what's happening here?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, it is, Rod. It's helpful to our margins. The mix shift is working for us. I think even for new businesses, we are going in a lot with our reengineering capabilities. So we are going in to new clients now and saying, guys, why don't we help you drive process efficiencies in your shop right now? And again, that helps us.

In terms of deals, we're actually seeing larger deals in many cases. We're seeing larger deals, which we are signing up. And we are seeing very certain momentum. So, companies that are doing it are actually pushing harder for it, because they're saying, we need to see the results faster.

So, long run, it is very positive for us because of the traction it gives us. It gets us a foot in the door, which is extremely important for us at this point in time. It makes us a better partner with customers, and it gives us room to increase penetration next year and the year after.

Rod Bourgeois - *Sanford C. Bernstein & Company, Inc. - Analyst*

Great. Thank you.

Operator

Edward Caso, Wachovia.

Edward Caso - *Wachovia Securities - Analyst*

Thank you. Ed Caso, Wachovia. Just a couple technical questions. If I calculated it right, I have the tax rate at 12.2% in the first quarter, and I think you guided 18% to 20%? Do I have that right?

Vivek Gour - *Genpact Limited - CFO*

Yes, you have that right.

Edward Caso - *Wachovia Securities - Analyst*

And can you give some color why it was lower this quarter?

Vivek Gour - *Genpact Limited - CFO*

Yes. You see, March is the year end for the Indian financial system. And some of our facilities in India will get off the older tax-free regime of STPI from April onwards. And that's going to be affecting the tax rate.

Plus, China is looking at increasing the tax rate on businesses like ours, from 15% to 25% in a graded fashion, and that's also clutching in now.

Edward Caso - *Wachovia Securities - Analyst*

It looks like your amortization went up significantly, sequentially. What does that relate to?

Vivek Gour - *Genpact Limited - CFO*

No, our amortization has not increased sequentially. It remained in the ballpark area of $9 million.

Edward Caso - *Wachovia Securities - Analyst*

I had it going from $8.9 million up to $10.2 million -- about $1 million -- it looked like a higher rate than it had been. Maybe you could explain what that was about--

Vivek Gour - *Genpact Limited - CFO*

That is the impact of foreign exchange movement, which has a nominal impact on amortization, especially if on the last day of the quarter, the rupee or the yuan depreciates significantly for a day. And that's what's happened this time. But the approximate range third quarter for this year for amortization is $9.5 million, which is roughly what it was last year.

Edward Caso - *Wachovia Securities - Analyst*

Great. I'd just like to go back to the client maturity question. Can you give us a sense how many clients now that you view are mature? I know you listed ones that are over certain revenue levels. But how many of -- your base, I guess, is roughly 35 to 40 clients -- how many of those do you view as sort of prime, mature clients to sort of help you weather the storm?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think I would -- and I don't have the precise breakdown here, but I will tell you that I would view at least 15 to 20 customers who are -- we're very comfortable with. Now many others will drop out. Some others will change. I mean, their own business cycles will change. So we don't really -- I don't really think about that. We measure it client by client, and that's what we focus on. But I think the list is very healthy at this time. We're very comfortable that we have great traction with many of them.

And there's a great number of -- there's a strong number of clients also in our pipeline in our hopper, which adds to diversity. I think equally the point I would make is our India to India business, our China for China business is beginning to see some traction as we go forward. And therefore, there's lots of irons in the fire, which are producing very good results at this time.

Edward Caso - *Wachovia Securities - Analyst*

Great. And last question. Can you just indicate for us what level of new client sales do you need to make your guidance for this year? And then also maybe relative to a month ago or to this period last year, is your visibility lower, similar, higher, whatever, into your guidance?

Pramod Bhasin - *Genpact Limited - President and CEO*

Our visibility is good; the same as last year. And we're probably around the same point we were last year in terms of visibility to our revenues. Because I think if you go back to what we've always said -- we have visibility and our -- 80% to 85% of our growth comes from existing customers. So it gives us very good visibility going forward. And we're able to track it.

Now, can some of that change? Of course. It always does. It has every year since we've been running this business. And it will, going forward. But we have strong visibility. And we're probably at the same point where we were last year versus this year.

Edward Caso - *Wachovia Securities - Analyst*

Great. Thank you.

Operator

Dave Conney, Baird.

Dave Conney - *Robert W. Baird & Company, Inc. - Analyst*

I guess another question on visibility. Based on your pipeline, I know you can see out quite a ways, should we expect growth to continue for several quarters and probably into '09 now, kind of in this 25 plus percent range all through '08 and '09?

Pramod Bhasin - *Genpact Limited - President and CEO*

Our long-term guidance has been around that area. And that's where we're staying with it right now. Obviously, as events shape, as the -- as there's great uncertainty in the economy, we'll feel better about different numbers, but right now that's where we are.

Dave Conney - *Robert W. Baird & Company, Inc. - Analyst*

Okay, good. And then as we look out through the quarters of '08, should we think, I guess, both on global client revenues, should we think of a pretty linear pattern of 10% plus sequential growth, maybe 10% to 12% sequential growth per quarter? And then on the margins, gross margin side, should we think of 100 basis points of margin improvement sequentially each quarter?

Pramod Bhasin - *Genpact Limited - President and CEO*

Dave, you know, with all due respect, we don't really look at our numbers on a quarterly basis. It's a long cycle business. We don't manage for quarters. Things can easily accelerate or move back and forth quarter to quarter. And that will happen. There is a general cyclicality in our business which we see, which is reflected in the first quarter; that, you know, because a lot of projects, et cetera, run off in the fourth quarter of each year, as companies shut down on their budgets and people don't want to transition over the year end, I think you will see a general cyclicality, which means that growth between first quarter and fourth quarter isn't going to be strong or has often not been very strong. And it will be cyclical.

Otherwise, we really don't think about it on a quarterly basis. Obviously, Roanak and Vivek will have -- can have discussions with you off-line on some of these points. But we really stay with the longer-term nature of our business.

Dave Conney - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. Thank you.

Operator

Ashwin Shirvaikar, Citigroup.

Ashwin Shirvaikar - *Citigroup - Analyst*

Nice quarter. I have one five-part question.

Pramod Bhasin - *Genpact Limited - President and CEO*

One five-part question. Very good.

Ashwin Shirvaikar - *Citigroup - Analyst*

Or I can give you two questions -- one three-part and one two-part. Not to beat a dead horse, but your commentary on BPO demand, it is quite different from what I hear from smaller or perhaps more focused BPO companies. Is that a function of your approach, where you are looking for multi-year commitment to transformation? Whereas, maybe some of these other companies are looking for smaller, more focused kind of contracts?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think it is a function of our approach. Our approach is that we will grow with key customers over a long-term period by building a very strong partnership. It is also a function -- and I believe this very strongly -- of the pedigree of our customers. So, if you look at our client list, and you look at all the public names -- you know, the names that we have been able to make public with their permission -- these are very large companies with enormous potential for growth within them. Typically, we start with them small, in finance and accounting or supply chain, and we broaden the base of our work.

So typically, with any customer -- if you look at, even on the banking financial services side, you'll see a lot of customers growing at 100% this year and potentially 100% next year. So you see -- I think it is a function of what -- it is also a function of process re-engineering and process excellence skills we bring. That's what companies are looking for right now.

They're saying, look, take costs out for us. Make us more efficient. Share the pain with us because this is a time when we really need these skills. And I think our skills play very well to that. And our strategy of growing, with mining existing major customers, I think is really working extremely well in this scenario.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. Now, you --

Pramod Bhasin - *Genpact Limited - President and CEO*

Pardon me, Ashwin. Last one I would mention is, is breadth and depth of services. So I think many others may not have that breadth and depth. So we can go from finance and accounting into field service operations into supply chain; into IT software business, into IT help desk. I think that range also helps us penetrate in many, many different areas within a Company. My apologies for interrupting.

Ashwin Shirvaikar - *Citigroup - Analyst*

No, that's a good explanation. You're still guiding higher margins this year in spite of very significant non-GE growth, which is quite impressive on both those counts. But how much of that is the impact of SG&A leverage of what you're doing at clients like Wachovia and so on, versus the revenue mix shift because you do have the higher revenue per employee?

Pramod Bhasin - *Genpact Limited - President and CEO*

I would suggest that actually it's two pieces. One is -- as half maybe -- one part is SG&A leverage; I won't get into half, because we don't have the numbers here. We haven't analyzed it that way. But one part will be SG&A revenue. The other part is pricing. I mean, you know, we are getting good pricing and price increases. So I think you're going to see the impact of some of that rolling through.

Ashwin Shirvaikar - *Citigroup - Analyst*

Have you -- since early 2007, when GE eliminated the internal financial benefit they give to their managers to sign up with you guys, have you seen any kind of change in this -- especially in an uncertain environment at GE?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, I won't comment on what GE does or doesn't do internally. Obviously, that's up to them. No, we haven't. I mean, GE -- our relationships are strong. Our growth last year with them was well ahead of plan. We came in at 10% versus what we had said would be mid-single digits. I think it's a lot of -- a lot of it is our ability to build deep relationships and show them that we can really drive outstanding process efficiencies and productivity. I think while we continue -- as we continue to do that, we will continue to see good traction.

Now, GE will cut back on costs in the current environment in certain areas. That we are ready for. We engage with them at all levels, where our people -- we've raised the ante internally, tremendously, on connecting with customers, communicating with them, sitting across the table with them, understanding what they want. And that's really paying off. And so our entire organization is very formally engaged in communicating what we do, thinking about what they want, and making sure that we change course as necessary. And I think that's working out extremely well.

Ashwin Shirvaikar - *Citigroup - Analyst*

So that is why you still expect the low to mid-single digit GE growth?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. Just have a couple of clarifications -- the 18% to 20% tax rate, is that cash or accrual?

Vivek Gour - *Genpact Limited - CFO*

That would be accrual.

Ashwin Shirvaikar - *Citigroup - Analyst*

And what's your cash tax rate?

Vivek Gour - *Genpact Limited - CFO*

We haven't calculated it. I don't have the number off-hand.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay, we can go there later. Well, I'll follow up later. I do have some other questions, but I could follow up later. Thank you for your responses.

Operator

Bryan Keane, Credit Suisse.

Bryan Keane - *Credit Suisse - Analyst*

Just a couple of clarifications. When you're talking about postponements in cold deals, is there a distinction there between BPO and IT?

Pramod Bhasin - *Genpact Limited - President and CEO*

No, I don't think so. I think we are seeing it in both areas. I think we're seeing postponement in cold deals in both areas. For us -- and the reason I hesitate for a minute is -- for us, of course, BPO deals will always be more; it's a larger part of our business. So more BPO deals from our perspective will be cold versus IT. But that's just a factor of our business mix as opposed to what is necessarily happening in the market.

What we are seeing, though, is on the BPO side, there is also acceleration, which is not something we're seeing on the IT side.

Bryan Keane - *Credit Suisse - Analyst*

Right. Because I'm trying to reconcile your comments there, yet you're reiterating guidance. Because it would seem like the environment has changed a little bit, but yet you still feel good about the guidance. So just trying to figure out -- reconcile the two.

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes. No, we're staying with the guidance because as I said, there are some postponement and delays, but I think it's a very important point to make. There are also a lot of accelerations -- a lot of accelerations. And that's why we're delighted with our current quarter results and that's why we're staying with our guidance.

We're also, just to reiterate the point, our growth is from existing customers. We have great visibility. A lot of that growth will accelerate. We are accelerating that vigorously with our customers. And we're still winning our fair share of new deals as we go forward. And therefore, we're very comfortable staying with the guidance.

I do want to emphasize the point that, yes, there are some deals going cold and all of that, but there's a lot of traction and acceleration with existing customers, with new customers who want to move faster on the re-engineering side, on the project side, on driving efficiencies, on new products that we are selling, on the India to India business, China, on the China to China business. So, I think there are multiple things going on and generally, we feel pretty good.

Bryan Keane - *Credit Suisse - Analyst*

Okay. And then is there a distinction between vertical? Are some weaker than others?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think on the -- on new clients. So, existing clients, no. I think existing clients -- in fact, our strongest vertical continues to be banking, financial services and insurance; it's doing very well. We're very pleased with the results there.

As we think about the pipeline going forward, we really haven't seen a significant shift in one vertical versus the other. I think it's more client-specific, depending on what sort of situation they're in, what sort of restructuring they may be going through, and how familiar they are and willing to make the first year investment in this kind of initiative.

Bryan Keane - *Credit Suisse - Analyst*

Okay. And then if I heard you correctly Vivek, I think it's the restatement of GE, the base year is 457 for '07? And I guess, if you have it there, do you have the four quarters restated for '07 so we can put it in our models?

Vivek Gour - *Genpact Limited - CFO*

That would be information we wouldn't be sharing. But the opening run rate for 1st of January '08 is 457.

Bryan Keane - *Credit Suisse - Analyst*

You won't share what the comparable numbers are in the --?

Pramod Bhasin - *Genpact Limited - President and CEO*

Can we do that off-line. I think we --

Bryan Keane - *Credit Suisse - Analyst*

Okay, yes. I just thought you might have it in front of you, so we can compare it because --

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Pramod Bhasin - *Genpact Limited - President and CEO*

We don't have it, unfortunately, Bryan, sitting here -- apologies for that.

Bryan Keane - *Credit Suisse - Analyst*

No, we can get it off-line. Thank you very much.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thanks.

Operator

Jason Kupferberg, UBS.

Jason Kupferberg - *UBS - Analyst*

Can you clarify exactly what the guidance is for '08? Because I thought earlier in, I think, response to a question, it was mentioned low to mid-single digits. I think the press release says mid-single digits. Not to split hairs, but can you just clarify what it is?

Pramod Bhasin - *Genpact Limited - President and CEO*

For GE, you mean?

Jason Kupferberg - *UBS - Analyst*

Yes.

Vivek Gour - *Genpact Limited - CFO*

It will be --

Pramod Bhasin - *Genpact Limited - President and CEO*

The press release says mid-single digits. We'll stay with that.

Jason Kupferberg - *UBS - Analyst*

Okay. All right. So, can you talk about some of the specific factors that give you the confidence that you'll see they acceleration from 1% in Q1 to the kind of levels you'll need to see to hit mid-single digits for the full year? Are there specific areas within GE that you expect to see pick up? Understanding that in the near-term, as you mentioned, they may actually be cutting back in some areas?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, I think we're seeing increasing opportunity as we engage with them. They've got terrific businesses in infrastructure and health care and other areas. We're deeply engaged with them.

We're actually being able to -- not just with GE, but with all clients -- what we're being able to do is come out with very specific products and services that we believe will help them today. So, if they're focused on costs and cutting costs in a certain area, that's again the kind of discussion we have with the Commercial Council and say, let's look across GE; is there one pocket of cost that we can attack across all businesses?

We also work with individual businesses and say, are there costs in operations? Are there costs in repairs? Are there costs in supply chain that we can take out? And while our penetration has been high in GE, the fact is GE has 300,000 employees around the world. It keeps acquiring new businesses, which we engage in. As GE Commercial Finance and many other entities acquire new businesses, we typically are the ones who are able to help them get in there.

And the last thing I would just point out is -- from a cyclicality perspective, first quarter with GE is always low, because projects run off in the fourth quarter with GE and then they'll take a short while to kick-off and start up.

Jason Kupferberg - *UBS - Analyst*

Okay. So, fair to say you have to kind of adapt on the fly a little bit? As GE's own business changes and their needs evolve, you guys have to bring some new ideas to the table to make sure you get to those growth rates?

Pramod Bhasin - *Genpact Limited - President and CEO*

Absolutely. But we do that with every client. You know, it's not a GE-specific thing. We do that with every customer. It's what we pride ourselves at. We think we're outstanding at it. And I think our deep relationships have allowed us to do that.

So, that's how we got to the 10% growth rate last year. We were really deeply embedded with them, went to them with new ideas. And we do customer roundtables every year. And the key theme every customer comes back to us through the roundtable is -- they all come back and say, come to us with your ideas. That's what we're looking for. You are the experts in these areas. You've got to come to us and tell us what you can do for us.

And I think we're sharpening that every time. We -- frankly, I wish we were a lot better than we are at it, because I think there's enormous room. But we're -- competitively? I think we're the best at it. And I think we do it in a way that is helpful to the customer at that time. And I think it's part of the nature of our business that we will always have to be very conscious of what the pain is.

There is no point going to a GE business which is going through cost pressure and talk to them about revenue growth at that time. If we can help them take costs out, that's what they've got to focus on. Next year, it could be, help me go to market faster; year after, it could be, help me with cash flows. We must understand those agendas and initiatives within any company, let alone -- not just GE, and be responsive to it.

Jason Kupferberg - *UBS - Analyst*

Okay. And last question, can you just help us understand maybe the incremental change in customer behavior that you've seen since the last earnings call, which I guess was six or seven weeks ago? Because I know you mentioned that some of these delays and cold deals is something that you've seen for the last three to five months or so. But I just wanted to try and hone in on what the incremental change may have been since the last earnings call, so we can get a sense of how things are actually playing out.

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, I think there isn't a dramatic incremental change. I think some of these things, as we said at the last time also, I think -- if memory serves me right, I think we'd said the cycle times are longer. We said deal sizes are sometimes getting smaller. And I think the smaller deal sizes are a little bit of a reflection of postponing perhaps a part of a deal or a part of an initiative. And then going ahead only with that part which they have the investment dollars for or where they are more certain of the payback.

So incrementally, we haven't seen it. Incrementally, all I would tell you is that from our perspective with existing clients, our traction is terrific and it shows in the quarterly results. And that has -- so, along with some postponements, again, just to reemphasize, there's acceleration. And overall, on a balance, postponements versus acceleration, all I will tell you is our first quarter results reflect that and we are very pleased with how we are positioned with our customers for the rest of this year.

Jason Kupferberg - *UBS - Analyst*

Okay, thank you.

Operator

Julio Quinteros, Goldman Sachs.

Julio Quinteros - *Goldman Sachs - Analyst*

Great. Yes, I just want to come back to the foreign currency items. I think, if I got this correctly, it sounded like there was -- of the $22.4 million, there was $6.7 million that you guys are treating as non-recurring, or --? Could you just walk back through that? Because it sounded like that component you want to sort of strip out from the year-over-year changes when we contemplate the cost of revenue and the SG&A changes. Is that correct?

Vivek Gour - *Genpact Limited - CFO*

Yes, Julio, you've understood it perfectly. The $6.7 million is due to remeasurement of dollar assets that sit outside the United States. 99% of these dollar assets are really Accounts Receivable. And that number of $6.7 million will bob up and down every quarter. And as I mentioned, last year for most quarters, it was a very, very marginal number; hanging around in the $1 million plus or minus range. And it's a function of direct movement from the end of quarter one to the end of quarter -- you know, from end of a quarter to the end of a quarter.

Julio Quinteros - *Goldman Sachs - Analyst*

Got it. And then so, if I strip that out and look at the year-over-year numbers, then excluding the $6.7 million. A year ago, I believe the gross margin would have been 38.2%, including hedging. And this quarter, we're looking at 37.5%. On a year-over-year basis, why would the gross margin be trending down?

Vivek Gour - *Genpact Limited - CFO*

The gross margin has trended down because we took a one-time write-off of $3.3 million of software licenses, which we are no longer going to be needing and we don't want to keep them on our books unnecessarily. And that's the primary driver in that movement. And you may want to add that back. But otherwise your numbers are perfectly right.

And if I may just add, the $6.7 million, we do not consider this a part of our operations. This is a strictly accounting U.S. GAAP-related item. And that is why -- and it's a non-cash item, and that's why I decided to break it up for you on the call.

Julio Quinteros - *Goldman Sachs - Analyst*

So why wouldn't you have stripped it out from the adjusted EPS number? I mean, I think the $6.7 million adds something like $0.03 of earnings, so your $0.09 would look like more like $0.06. I guess if you net out against the 3.3 -- I'm just trying to understand what the actual number on a recurring earnings basis really should be. Because that $0.09 feels a little bit inflated as well as that $0.15.

Vivek Gour - *Genpact Limited - CFO*

EBITDA EPS has to be whatever federal accounting standards require us to publish.

Julio Quinteros - *Goldman Sachs - Analyst*

What about your adjusted number, though?

Vivek Gour - *Genpact Limited - CFO*

The adjusted number -- we have to keep the adjusted EPS consistent with adjusted income from operations. Today, it's a gain; tomorrow, it might be a loss of $3 million. And what we publish as adjusted EPS has to get signed off and audited by KPMG. We don't want to keep redefining it every quarter.

Julio Quinteros - *Goldman Sachs - Analyst*

Understood. Okay, great. Thank you, guys.

Operator

And this concludes our question-and-answer session. I would now like to turn the call back over to Pramod Bhasin for closing remarks.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thank you very much for joining the call. As I said, we are delighted with our results of this quarter and look forward to talking to you again at our next call for the second quarter. Thank you.

Operator

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