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G - Q2 2012 Genpact Ltd Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2012 Genpact Limited earnings conference call. My name is Deanna and I will be the operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions) As a reminder, today's conference is being recorded for replay purposes.

I'd like to turn the call over to your host, Mr. Shishir Verma, head of Investor Relations. Please go ahead, sir.

Shishir Verma - *Genpact Limited - VP of IR*

Thank you, Operator. Welcome to Genpact's earning call to discuss our results for the second quarter ended June 30, 2012. With me I have Tiger Tyagarajan, our President and Chief Executive Officer; and Mohit Bhatia, our Chief Financial Officer. We hope you have had a chance to review our earnings release, as well as the second announcement regarding a significant transaction involving current investors.

Our agenda for today is as follows. Tiger will begin with an overview of our results and the context of our long-term strategy, with a perspective on the current environment, as well as our announced special dividend and the investor transaction; followed by Mohit, who will discuss our financial performance in greater detail, and then Tiger will have some closing comments. Finally, Tiger and Mohit 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 obligation 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 our 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.

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

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thank you, Shishir. Good morning, good afternoon, and good evening, everyone. And thank you for joining us on our call today.

Genpact had another great quarter in 2012, with Q2 results representing strong growth in revenues, adjusted operating income, and EPS on a year-over-year basis. Overall revenues grew by 18%, led by Global Clients, which increased 24% from Q2 of last year, with growth across all geographies, including Europe.

Both overall revenues and Global Client revenues also increased approximately 7% sequentially. We drove growth in both Business Process Management and IT services. BPM services for Global Clients grew at a healthy 20% compared to Q2 of 2011, reflecting strong client demand for traditional annuity services such as Finance & Accounting and Smart Decision Services.

IT services for Global Clients grew at a robust 38% from Q2 of 2011, reflecting the strategic and organizational changes we have made in the IT business since late 2010, which are resonating with clients.

We established 35 new client relationships this quarter across all major industry groups, up from 26 in Q2 of 2011. We continue to expand relationships with existing clients in key growth verticals such as CPG, BFSI and manufacturing.

Clients representing between $1 million and $5 million in annual revenues increased to 120 from 103 in Q2 of 2011, which provides a good runway for future growth.

These results were in line with our expectations and continue the momentum we've had since the beginning of 2011.

We have evolved our growth strategy over time. Let me discuss our results in the context of the five key elements of this strategy with some recent examples.

First, guide global enterprises to best-in-class through our proprietary Smart Enterprise Process framework that delivers improved outcomes for them. Clients tell us that they're looking for partners to help them migrate their businesses to a more variable cost structure, find innovative solutions to help them balance the challenges of lower growth in developed economies, while simultaneously capturing higher growth in emerging markets, and drive a comprehensive agenda of transformation to achieve all of this.

In each of these cases, Genpact's key differentiator as a partner is our ability to deliver better outcomes and effectiveness, not just in the services we manage for the client, but across the client's entire delivery footprint. All this leads to deeper client relationships over time and a much bigger impact for them.

As an example, in the second quarter, we won an engagement with a large global financial services client, where we will apply our proprietary SEP framework to create best-in-class processes as part of their IT infrastructure transformation project. SEP will generate a roadmap that will allow the client to leverage their $1.3 billion total IT spend for higher impact. This engagement includes a significant gain share component.

Second, another key element of our growth strategy is to invest in and build targeted vertical industry and domain expertise. We continue to expand our front-end business development and relationship management teams with experienced professionals who have deep domain expertise in our targeted verticals, in order to improve client intimacy, and increase mining and cross-sell opportunities.

As an example, this quarter, we established a new client relationship based on our experience in delivering supply chain and finance & accounting solutions for the CPG industry. The goal is to drive standardization of the client's global supply chain and F&A processes across Africa, Europe and North America, which is integral to improving their costs, revenue growth, and working capital. We won the engagement based on our end-to-end supply chain and finance expertise across specific disciplines, including d Distribution and Freight, Accounting and Costing, Overhead Reporting, and Annual Planning. We will be partnering with a client to set up a single process globally, along with relevant IT improvements across the diverse landscape.

A third vital element of our growth strategy is to combine data analytics and process expertise to create meaningful insights for our clients. Analytics combines insights drawn from data with our in-depth understanding of business processes and outcomes, in areas such as sales and marketing effectiveness, risk management analysis and reporting, and supply chain effectiveness. The intelligence we provide is exactly what clients are looking for today, particularly as they face the explosion in data, and an environment where they must drive topline growth and profitability, leverage existing costs in investments, and deal with increased compliance and risk.

As an example, this quarter, we expanded our relationship with two of the top 10 investment banks, which we serve through our capital markets business. We applied analytics, process and technology from our Smart Decisions Lab to solutions that will link separate disparate systems within their businesses. Our approach will combine clients' financial advisors' behavior pattern analysis, portfolio data and text mining, with their communications platforms, such as email and instant messaging, and trade reconciliation data, in order to enhance sales performance while also improving their compliance and risk detection systems.

The fourth element of our growth strategy is to expand geographically in both our markets and delivery capabilities. As you know, we delivered our services and solutions from 18 countries and 67 global delivery centers, including four in the US. We continue to expand and diversify our delivery capabilities in order to be closer to our clients, particularly as the nature of our work becomes increasingly complex.

Last quarter, we announced our new delivery center in Richardson, Texas where Genpact will provide technology services, business analytics and mortgage underwriting for a growing number of US-based clients, thereby establishing a new hub for these high-end capabilities. We are already evaluating plans to expand our capacity at the this center, given the initial response from a number of clients.

The fifth key element of our growth strategy is to add new capabilities through acquisitions. We will continue to expand our targeted vertical industry, domain and geographic capabilities through acquisitions that meet our disciplined criteria for strategic, operating, cultural and financial fit.

This quarter we announced the acquisition of Triumph Engineering, which allows us to enter the underpenetrated engineering services space, with a focus mainly on the aviation and energy sectors. With delivery capabilities in Ohio and Maryland, Triumph provides a wide range of engineering services, including aerospace systems design, integration and certification, system and component analysis, and data and technical management. We will leverage Triumph's strong domain expertise and successful track record to expand relationships with global clients in the manufacturing and energy verticals.

Our results in the second quarter demonstrate that these five key elements of our growth strategy are resonating with the marketplace. With consistent implementation and investment, we are winning client engagements, and creating a differentiated -- clearly differentiated business model, that will help drive sustainable growth beyond 2012.

The macro environment continues to be challenging for clients. Against a backdrop that includes a general slowdown in global GDP and challenges in Europe, many of our clients have been evaluating how best to move forward strategically in this environment of uncertainty. In the short-term, these uncertainties have affected client budgets, notably in capital markets and analytics.

As a strategic partner, we regularly engage our clients in discussions focused on re-thinking and transforming their business models to adapt to this challenging environment. This daily, strategic dialogue is just where we believe we can provide clients the greatest value. The fact we continue to achieve strong results in a volatile macroeconomic environment is a testament to our business model, which is resilient, diversified, and differentiated, and drives value for our clients.

Our pipeline remains healthy as we are beginning to see some early results from investments we have been making in our front-end teams. Client decision cycle-times remains stable, as does pricing; and deal sizes have been steady. From an industry perspective, demand is broad-based, across CPG, Life Sciences, Healthcare, Banking, and Financial Services.

We are beginning to see some new infusion of deals from US retail banking clients in BFSI. In capital markets, we are seeing clients focus less on discretionary projects, but engaging in discussions of long-term partnerships that will help them permanently reduce their cost structure, as that industry goes through a secular change. We see demand from all major geographies, including the US and Europe, and across all major service lines, particularly Finance & Accounting, core banking and insurance operations, Smart Decision Services and IT.

Before I hand the call over to Mohit, I want to discuss the special dividend we announced yesterday.

The management team regularly reviews our financial and capital structure with the Board of Directors. Given the substantial operating and free cash flow we generate, as well as the $442 million of cash on our balance sheet, and taking into account the financial flexibility needed to continue to pursue acquisitions and organic growth initiatives, we concluded that a special dividend, funded in part by additional, modest leverage, would enhance shareholder value. We are planning to pay a special dividend of approximately $500 million in the aggregate or $2.24 per share to all common shareholders.

We have also announced that Bain Capital is buying $1 billion of our common shares from General Atlantic and Oak Hill Capital on a postdividend price of $14.76 per share. We are excited about this transaction and it is hugely positive for all of our shareholders. It is a vote of confidence for our business model, our differentiated service offerings, the value we deliver to our clients, and the strength of the management team.

Bain has a long-term perspective, which is critical to building value, particularly in a company like ours. As a testament to this, they have agreed to a 2.5 year lockup on their shares.

I want to stress that post-this transaction, Genpact will remain an independent public company, with Bob Scott continuing as Chairman of the Board. The management team and I will continue to pursue our strategic objectives.

Bain's purchase of shares is positive for all shareholders, because it, one, ensures an orderly exit for General Atlantic and Oak Hill, who invested in 2005, while minimizing any adverse impact on other shareholders. Two, reduces share overhang; and three, enhances our brand recognition with enterprises across the globe.

Bain Capital is a great partner for us. We have complementary cultures and a shared vision for Genpact's future growth, and believe that they will add tremendous value, given their strategic orientation and consulting heritage.

We want to thank General Atlantic and Oak Hill Capital, who have been terrific partners for more than seven years, and have been incredibly helpful in our transformation from a captive Business Process Services operation to a diversified global leader in Business Process Management and Technology Services.

On behalf of my entire management team, I want to state how excited we are to work with our new partner and investor, and continue our journey to drive better business outcomes and insights for our clients.

With that, I will turn the call over to Mohit.

Mohit Bhatia - *Genpact Limited - CFO*

Thank you, Tiger, and good morning, everyone. Today, I will review our second-quarter performance, followed by a summary of key highlights on the balance sheet and statement of cash flow.

On a year-to-date basis, our revenues were $903 million, up 24% compared to the first six months of 2011. Our adjusted operating income for the first six months of 2012 was $149.4 million, up 28% compared to the same period last year, representing a margin of 16.5%, up 50 basis points.

We closed the second quarter of 2012 with net revenues of $467.6 million, an increase of 17.6% year-over-year and 7.4% sequentially.

Business Process Management revenues increased 14%, driven by strong global client BPM growth of 20%, which included Smart Decision Services growth of 26%. In addition, our overall IT business continued to grow very well, with revenues increasing 29% versus the previous year. Within that, overall IT business, Global Clients grew 38% and GE grew 6%.

Global Clients revenues increased 24% in the second quarter and represented 73% of Genpact's total revenues. Growth was driven by strong demand for nearly all major service lines and industries, including SDS, banking, and insurance operations, IT and F&A, and all industry verticals. We also saw double-digit growth across all major geographies, including the US, but particularly strong growth in Asia-Pacific and Europe.

Revenue from GE in the second quarter totaled $126 million, up 3% year-over-year, driven by growth from Smart Decision Services and IT.

Adjusted income from operations totaled $77.8 million in the second quarter of 2012, an increase of $12.5 million or 19% from the prior-year quarter. This represents a margin of 16.6%, up from 16.4% in the second quarter of 2011. The margin improvement was driven by higher revenues and higher gross profit margins that included the impact of favorable foreign exchange. We do not expect favorable foreign exchange to continue at these levels, and plan to increase our investment in resources and capabilities in the second half of 2012. This will likely change the more typical pattern of sequential AOI margin improvement in the second half of the year.

Our gross profit for the second quarter totaled $182 million, representing a gross margin of 39%, up from 36.1% last year, due to better supervision spans, higher-margin contribution from Smart Decision Services, and a favorable foreign exchange that more than offset the impact of wage inflation.

SG&A expenses totaled $114 million in the second quarter of 2012, representing 24.4% of revenues, compared to $87 million or 21.8% in the second quarter of 2011. This increase was driven by planned investments for growth, primarily in front-end sales, domain expertise, hiring and training, lean six Sigma and new product development.

Our sales and marketing expenditure as a percentage of revenue was approximately 5% in the second quarter, up from 4% in the same quarter last year, as we continue to ramp up investments in our front-end teams.

Our tax expense for the second quarter was $21.6 million, up from $14.4 million in 2011, representing an effective tax rate of 26.1% compared to 26.9% in 2011. The reduction in ETR is primarily due to benefits related to final determination of prior-year tax liabilities and growth in low tax jurisdictions, which has been partially offset by the complete sunset of our STPI tax holiday effective March of 2011.

In 2012, we continue to expect our effective tax rate to be in the 27% to 29% range that I had indicated in our previous calls.

Net income was $61.1 million or $0.27 per diluted share in the second quarter of 2012, up from $39 million or $0.17 per diluted share in the second quarter of 2011. Our current quarter results benefited from an unexpected foreign exchange re-measurement gain in addition to the higher operating income. This offset the impact of higher stock comp expenses, higher net interest expenses and higher taxes. As a reminder, we have been anticipating the higher interest, tax, and stock-based compensation expenses in 2012 that I had spoken about earlier.

In the second quarter of 2012, we recorded a foreign exchange re-measurement gain of $22 million or $0.07 per share, up from $1.1 million gain in the second quarter of 2011, primarily driven by the extraordinary depreciation of the Indian rupee versus the US dollar from Q1, 2012 to Q2, 2012. We also recorded net interest expense of $1 million in the second quarter of 2012 compared to $1.7 million interest income in the second quarter of 2011, primarily reflecting the full quarter impact of interest expense on the long-term debt taken in May 2011, and lower interest income due to movement of funds to the US.

As of June 30, 2012, Genpact had approximately 58,600 employees worldwide, up from approximately 51,300 at the end of the second quarter of 2011.

Our attrition rate improved to 24% in the first half of 2012, down from 29% in the same period in 2011. Our retention rate is one of the best in the industry, and allows us to drive higher net promoter scores, and deliver more complex work for our clients.

I will now turn to our balance sheet. At the end of the second quarter of 2012, our cash and liquid assets totaled approximately $442 million, up from $412 million at the end of the first quarter. This balance is after utilizing approximately $37 million towards acquisitions, $20 million towards capital expenditures, and $15 million towards scheduled debt repayment. In addition, it also accounts for a reduction of approximately $23 million towards translation of local currency cash balances and receivables into US dollars.

Our days sales outstanding stood at 82 days, an improvement of one day from the same quarter last year, and a 10-day improvement from the first quarter of 2012. In our previous call, we had discussed a seven-day increase in our quarter 1 DSOs going to 92 days, due to a substantial receivable from an upfront client payment. While most of the sequential improvement this quarter was due to realization of this receivable, normalizing for that payment, our DSOs still improved by three days from the first quarter.

For the full year, we continue to expect our DSOs to close at levels similar to 2011.

Cash from operations in the second quarter of 2012 totaled $127 million, up from $61 million in the prior-year second quarter. This increase reflects improved cash flow from operations of 38%, normalizing for the receipt of the upfront client payment that we just discussed. We continue to expect our cash flow to grow in line with revenue in 2012, after adjusting for certain non-recurring and period items between 2011 and '12, as referred by me in our earlier calls.

Capital expenditures as a percentage of revenue was 3.7% in the first half of 2012. This was mostly invested in creating additional capacity for growth in our SEZ locations in Gurgaon, India; the Philippines and Europe; but also investments in digitization initiatives and new technologies. We continue to expect to close the year with capital expenditures representing approximately 4% to 5% of revenue.

Before I hand it back to Tiger, I would like to add more color on the dividend and financing. We are in the process of raising a $925 million of debt in the US international institutional market because of the depth and liquidity of that market and attractive terms. This is an important milestone for our Company.

We will use the proceeds to pay the dividend and retire an existing smaller facility. Importantly, after payment of the dividend, we will have over $300 million of cash. And together with an undrawn capacity of approximately $175 million, we will have ample resources to pursue growth opportunities in a prudent manner. We expect our pro forma net debt to EBITDA to be above 1.2x, which we think is prudent and manageable, given our cash-generating capabilities.

With that, I hand it over to Tiger for his closing comments.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thank you, Mohit. In closing, our second quarter results continue the great momentum we have established over the past year-and-a-half. As we look ahead, clients continue to face volatility and uncertainty that is constantly forcing them to take a re-look at their business models. We are well-positioned to partner with them on their transformational journeys, especially through continued implementation of our key growth strategies and our targeted investments.

We have delivered a terrific first-half of the year, despite some softness around discretionary spending. In an uncertain macro environment, we continue to expect Genpact's full-year revenues to be in a range of $1.86 billion to $1.90 billion, and adjusted operating income margin in a range of 16% to 16.5%.

Lastly, I want to announce that after three years of leading our Investor Relations team, Shishir Verma is rotating into a business role managing a few key client relationships. I want to thank Shishir for all the hard work he has put in through a very exciting part of our journey as a public company. To replace Shishir, I'm delighted to announce the appointment of Bharani Bobba as our new Investor Relations leader based in New York, and will ask him to introduce himself.

Bharani Bobba - *Genpact Limited - VP of IR*

Thank you, Tiger. It's a pleasure to join all of you on the earnings call today. In terms of my background, I've been involved in both the buy and sell side over the course of my 18 years career at firms such as Merrill Lynch. A significant portion of that time has been spent covering this sector. I'm excited to be part of the Genpact leadership team and look forward to working with all of you going forward.

Now, I'd like to open it up for questions. Operator? Can you please give the instructions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

First of all, Mohit, could you give us the core BPO organic growth rate for the quarter? And maybe comment a little bit on how the traction is going with the new sales hires?

Mohit Bhatia - *Genpact Limited - CFO*

So your question was on core BPM growth?

Joseph Foresi - *Janney Montgomery Scott - Analyst*

BPO. BPO organic growth rate.

Mohit Bhatia - *Genpact Limited - CFO*

BPO organic, right. So if I were to exclude the impact of Headstrong and Accounting Plaza, our organic growth rate for the quarter was approximately 13%.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And any color you guys could provide on the traction that you're getting with the new sales hires?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Joe, a little unclear. On the traction we are getting, sorry?

Joseph Foresi - *Janney Montgomery Scott - Analyst*

The new sales hires and how is the traction going with the new sales hires?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Oh, okay. Okay, got it. Got it. Early signs, very good, Joe. We just finished our sales conference. We have that once a year. We got everyone together. Early signs, very good. We've got a number of them working on live deals; we've got a number of them who won deals.

We're very focused on hiring people who have spent time in the industry that they are now serving, whether it is life sciences, pharmaceuticals, capital markets, banking, insurance. So, I think I would say very, very pleased with the early signs on the way that is impacting the pipeline.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, and then maybe you could talk a little bit about your decision to hold guidance here, given the results in the quarter?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Joe, this will sound familiar to you because I've said this before. We are in an uncertain and volatile world. We did have a great first-half. We've done that in the face of softness, as I said, particularly, for example, in capital markets, which is not a surprise. You've seen that across the sector. And in some discretionary analytics spend. But we've had some good compensating traction in many other areas that I talked about.

You know, thinking about the second-half, we think the ramp will be a little slower. The world is uncertain, so we just are cautious and concerned about the way the world always looks these days.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And then the last one from me. With Bain, maybe you could talk about what the representation is going to be on the Board. And I know you touched on this in your opening remarks, but any general sense of what their thoughts are in holding the asset and for the business? Thanks.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So they will have four Board members joining us and replacing the four Board members who will step down from General Atlantic and Oak Hill partners. So the overall composition of the Board, therefore, from non-Bain Board members will remain the same.

From the perspective of how long Bain -- Bain expects to be a long-term investor. That's their reputation. They have a 2.5 year lockup that they have agreed to. But I suspect one could expect a much longer horizon than that.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, thank you.

Operator

Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - *JPMorgan - Analyst*

I guess a follow-up to Joe's question, just around the margin guidance being reiterated. I guess that implies the second-half margins will be consistent with the first. I think, typically, it's a little bit higher in the second-half. So how much of that is conservatism? Is there some mix or some other startup costs that we should be aware of?

Mohit Bhatia - *Genpact Limited - CFO*

So, you know, the key reasons why the margin profile would be more flattish in the second-half is two reasons, and I touched on it in my script earlier.

Tien-Tsin Huang - *JPMorgan - Analyst*

Right.

Mohit Bhatia - *Genpact Limited - CFO*

You know, one is that the investment that we are planning to make were more weighed towards the second-half. And just as for our own plan, we will be making a substantial part of the investment in quarter 3 and quarter 4, which will weigh down margins that you typically see as better in the second-half of the year.

And the second thing is just on the way our hedge rates are. We did get more benefit in the first-half as compared to the second-half, and that will also, to a certain extent, normalize, if I may, the margins in the second-half of 2012. That's really the key reason.

Tien-Tsin Huang - *JPMorgan - Analyst*

Right.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Tien-Tsin, hi. If I can just add one other color to the investment aspect of Mohit's answer, a substantial portion of our investment, as you can imagine, is front-end, and other domain experts that we are hiring. And that hiring is through, let's say, the first-half of the year that we've done.

The full half-year impact of that is going to be felt in the second-half. And we'll continue to ramp that up, because we still have some run rate to add there. The second is the new delivery centers that we've opened -- those investments also will come through in the second-half. So, a lot of the investment that we had planned will continue to happen, and it's all focused around driving growth. So, we think that that's the way the margin will look this year.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay, good. And I'm glad you're continuing with the investments. That makes sense. So just a couple more. Just on GE, that was a little bit faster than we had expected. What's the outlook for the rest of the year, especially in the next couple of quarters? Anything unusual to call out?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

No, nothing unusual. Nothing unusual at all, Tien-Tsin. We obviously are very happy with the first-half. We still think the full-year is broadly expected to be broadly flat, which is what we had said at the beginning of the year. I don't think -- we don't monitor in our business, as we've said before, quarter-by-quarter changes, but we feel good about first-half.

Tien-Tsin Huang - *JPMorgan - Analyst*

Excellent, excellent. And then just a housekeeping question related to the employee count. I don't know if you shared that, just the headcount in the quarter? Thanks so much.

Mohit Bhatia - *Genpact Limited - CFO*

Yes, our total headcount that we --

Tiger Tyagarajan - *Genpact Limited - President and CEO*

58,600.

Mohit Bhatia - *Genpact Limited - CFO*

58,600, that's right.

Tien-Tsin Huang - *JPMorgan - Analyst*

58,600. There you go. Thanks so much for the time, guys.

Operator

Edward Caso, Wells Fargo Securities.

Edward Caso - *Wells Fargo Securities - Analyst*

Thanks for taking my call and congratulations. Could you give us your best sense of timing on the dividend and the investment?

Mohit Bhatia - *Genpact Limited - CFO*

So, there are a lot of customary close processes that we have to still go through. It appears right now that we gave to close by the fourth quarter, this entire transaction of 2012. And as regards the dividend, like we mentioned, it's going to be after we've got the financing agreements in place, which we believe may happen by the end of August. And then we will announce the record date and the payment date for the dividend, subsequent to that.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

And we expect therefore dividend to be a third-quarter event, once financing is put in place.

Edward Caso - *Wells Fargo Securities - Analyst*

Can you give us a sense of what kind of pricing that you expect on your financing? And is the incremental amount of debt roughly $600 million? Is that what I heard? What's the increment -- if you could help out there.

Mohit Bhatia - *Genpact Limited - CFO*

Right. So, as regards to pricing, it's premature for me to talk about it, because we still have to launch the syndication. But, you know, you guys are well aware of the market rates that are happening at this point in time. Once we have the final pricing, we'll definitely communicate that back to you.

As far as the credit facility is concerned, we had taken on a $380 million debt in May last year of which we have approximately $341 million outstanding as of date. We're going to retire that $341 million of debt, take on a new facility of $925 million, but we will not use all of that. We will be using about $750 million. So in summary, we will take on new debt of $750 million, retire the existing $340 million, and use the balance basically for dividend expenses.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So, again, Ed, really what this does is, it actually, one, preserves $300 million of cash on the balance sheet and creates unfunded lines that, along with that cash, continues to allow us to look for the right growth opportunities, both organic and inorganic.

Edward Caso - *Wells Fargo Securities - Analyst*

Terrific. Well, thank you very much for getting rid of this share overhang, so hopefully, the stock will start moving up now.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thank you, Ed.

Operator

Bhavan Suri, William Blair & Company.

Rahul Bhangare - *William Blair & Company - Analyst*

Hi, guys, it's actually Rahul Bhangare in for Bhavan. Just one question. How much visibility do you have to the full-year guidance, say, the midpoint of the guidance range?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So, we -- our visibility this year is actually very similar to the visibility we've had over the last three or four years. Typically, by the time you get to this part of the year, our long cycle businesses will not -- new stuff will not add much revenue to the current year, because it's long cycle. So a lot of the visibility for new business will always be in the shorter sales cycle of our business, which is analytics, all the Smart Decision Services, IT. And the visibility there is exactly what we expect it to be for what we are heading towards.

Rahul Bhangare - *William Blair & Company - Analyst*

That's actually a good segue into my next question. What exactly was SDS growth in the quarter?

Mohit Bhatia - *Genpact Limited - CFO*

The Smart Decision Services growth for the quarter was 20%.

Rahul Bhangare - *William Blair & Company - Analyst*

20%. Okay. And then just demand within Financial Services. I know it's picking up a little bit, but can you just break it into components? Where specifically are you seeing strength within that industry vertical?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So, we are clearly seeing strength come back on the retail banking side in the US. And, as you remember, over many quarters now, we called that out as not as strong as it's been in the historic past. That is beginning to come back; I think a lot driven by the fact that everyone has rationalized capacity. And therefore, any further capacity needed, as well as variabilization of costs, are the journeys that they're all on; as well as some of the regulatory type work and compliance type work that is -- that needs to be done.

We're also seeing real traction in insurance, property and casualty insurance, health insurance. With all the changes that are happening in that world, seeing good traction there. We're seeing good traction in banking in Europe, which is new for us. As you know, we actually have no exposure to European banking as a business. But with all the changes happening there now, we are having conversations with European banks there.

And in the traditional markets of, in terms of geographies of UK, Australia, Canada, so, it's pretty broad-based. And capital markets are separately -- and I talked about the fact that out there, it's more transformational, longer cycle discussions, with short cycle discretionary spends under intense pressure.

Rahul Bhangare - *William Blair & Company - Analyst*

Great.

Mohit Bhatia - *Genpact Limited - CFO*

And just to add to your question on Smart Decision Services, the Company grew 20% in this quarter but the Global Client part of that was about 26%.

Rahul Bhangare - *William Blair & Company - Analyst*

Okay, great. Thanks. Good quarter.

Mohit Bhatia - *Genpact Limited - CFO*

Thank you.

Operator

Dave Koning, Baird.

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

Hey, guys, great job. I guess just one other thing on the loan, first of all. Would you think of letting that float? Or would you think of fixing it off for five years? Or -- I guess I'm just wondering what type of length, just so we can kind of back into our own estimates on what type of rate you might get?

Mohit Bhatia - *Genpact Limited - CFO*

The current facility of $925 million would be in two parts. There will be a revolver and there will be a term. The term would be the bulk of it -- about $675 million, and then it starts to be the term, and $250 million will be the revolver. The term will be over a seven-year tenure, but I have the flexibility of paying back early and paying whenever I feel like, depending on my cash flows and opportunities, and flexibility that I see that we need as a company. But it will have a tenure of seven years, you know -- a pretty much bullet seven years.

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

Okay. Great. And then, secondly, I guess, you've been kind of in the 13% or so organic revenue growth rate for several quarters now. And, considering the economy, that's very good. I'm just wondering kind of as you look at your current pipeline, and kind of think about the signings and everything, I mean is this kind of the normal rate right now? Or do you look at it and say, hey, next year could be better? Or we're concerned it could be worse? How do you just look at the pipeline and kind of the current pace the revenues kind of going into the next few years?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So Dave, first, I'll answer the question on, this is the way we had expected it to be. Obviously, there are puts and takes in the final number, but our expectations for the year and, therefore, for the first-half, are pretty much where it seems to have been.

And as we think about 2013 and beyond, I think it's a little early to use our current pipeline. We haven't done the exercise that we normally do. We tend to do it typically at the end of the third quarter, in the fourth quarter, so that we are ready to think about 2013 and talk about it. But given the investment that we've been making on the sales side, given the early read on some of the way the salespeople are turning out, we feel good.

It's also very clear that corporations across the world are rethinking the way they run their businesses. And as long as we can continue to find ways to add value to them as we are, on a major long-term transformational journey, we feel good about the way this business looks going into the future.

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

Okay, great. And then two just quick ones. What was the FX impact to revenue? And then when you look at your tax rate next year, is that biased higher or lower?

Mohit Bhatia - *Genpact Limited - CFO*

Sure. The impact of Forex on our revenue was a negative 1.3%. So, actually on constant currency, my revenue is more like 18.9%. We -- the negative impact was merely an account of the euro and the Indian rupee. These two currencies together impacted our quarterly revenue by about $5 million.

The -- sorry, the second question on the tax rate, you know, we still have to work the puts and takes for 2013. There are obviously lots of dynamics, and you know our growth, which jurisdiction the growth comes from, et cetera. At a very high level, though, at this point, we see that tax rates should have peaked by the end of 2012. So, in 2013, it should be equal or lower; but this is high level. We still have to do the math, and we will come back to you. So from where I sit today, I see the tax rate having peaked in 2012.

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

Oh, great. Great. Good. Well, thanks so much. Good job.

Mohit Bhatia - *Genpact Limited - CFO*

Thank you.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

I wanted to ask about the capital markets. What did that grow organically sequentially? And then maybe -- I don't know if you can break out Headstrong separately, but how is Headstrong growing as an entity, separate from Genpact as a whole?

Mohit Bhatia - *Genpact Limited - CFO*

So, you know, the second part of your question first. We are not really measuring Headstrong separately any more. It's been a full year. We've done lots of changes. There's cross sales happening, there are people who move between the two organizations.

We even shifted portfolios of the business. We've taken some part of the consulting business of Headstrong and put it with our China practice and so forth. So honestly, it's not a unit any more. And so that would be hard and even, attitudinally, we just don't want to do that as one organization.

As far as capital markets are concerned, you know, that business has grown about 8% to 10%. You know? And year-over-year. And you're aware we had mentioned in the previous calls that they've had to take an impact of one of their clients that went bankrupt. And that definitely caused a slowdown in terms of a year-over-year comparison.

We are obviously looking at Capital Markets very closely, given the current macro uncertainty. But there are many opportunities representing themselves out, too, because all the investment banks are looking at how to variabilize their cost structures more. So on the one hand, we're looking at it from a risk perspective, but we're also looking at it how to capitalize on the opportunities.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

To Bryan, I mean, just to summarize that, there is no separate business in Genpact that is Headstrong today. It's Capital Markets as a vertical, and then there are different businesses that have now become parts of other businesses of Genpact. So, actually we will -- we don't track Headstrong because it actually -- the original Headstrong doesn't exist.

Bryan Keane - *Deutsche Bank - Analyst*

Yes, I mean, I guess one of the bear theses, if there was a bear thesis on Genpact, was that that Capital Markets exposure from Headstrong would deteriorate. And besides the one client going bankrupt, we really haven't seen it -- which is a little bit different than the peer groups. So maybe you could just help us understand why -- is it just the cost savings that Headstrong can provide to the Capital Markets group is a lot different than your traditional IT peer?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

I think it's very simple, Bryan -- it's just a better team. Sundeep and the management team of the original Headstrong business that now leads Capital Markets as a vertical and IT as a horizontal, is just a better team. I'm just being a little jocular here, but it is a great team. It's integrated really well.

I think the domain expertise that they bring is unique, which is what we always liked about that business. They understand the technology, the products, and the platform very intimately. And they work very closely with their clients here in the US and Singapore and Hong Kong and Tokyo, in London, in Paris. It's a very different business. And it's clearly shining through now in times that are turbulent for Capital Markets.

Bryan Keane - *Deutsche Bank - Analyst*

Okay, great. Last question from me. Revenue per employee I think was down about $1100 year-over-year, which I think is the first time I've ever seen Genpact have a downtick on the year-over-year. I'm just wondering what helps explain that.

Mohit Bhatia - *Genpact Limited - CFO*

So the good news is that the revenue per headcount is down not because of any change in our billing rates or the actual revenue that we have agreed to with our customers. This is more a math thing.

We mentioned earlier that we are making investments in resources in our support people, in our front-end teams, in resources in advance of growth. And you just -- it's a headcount metric. So at this point in time, the revenue is actually good; the billing rates are fine. It's just the denominator of the people right now. We've hired a lot of people, and that's why you're seeing a drop of the $1000 or $1100 in the revenue per headcount. There is no change in actual production billing that we are doing to our customers.

Bryan Keane - *Deutsche Bank - Analyst*

What about pricing year-over-year?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Pricing is stable, Bryan, across the board. It's competitive as it's always been. But we aren't seeing any new things around pricing pressure in any specific segments of our business that is material and worth calling about.

Bryan Keane - *Deutsche Bank - Analyst*

Okay, super. Congrats on the quarter and the deal.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thanks, Bryan.

Operator

Manish Hemrajani, Oppenheimer & Co.

Unidentified Participant

This is Kunal Doctor sitting in for Manish Hemrajani. Good quarter. Okay, one of your peers mentioned that they are seeing a gradual change in opportunities from larger deals to many small deals. Are you seeing such things in the market when you're to new clients? Hello?

Mohit Bhatia - *Genpact Limited - CFO*

Yes, the line was not very clear. Are you talking about trends we are seeing in the market? Or may I just request you repeat the question?

Unidentified Participant

Yes. One of your peers in the management commenting had spoken about the trend in which they are seeing opportunity to take from larger deals to more smaller deals. Are you seeing such claims when you are approaching new clients or when you take these deals?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

So we aren't seeing a change from larger deals to smaller deals. In the last couple of quarters, it's actually been stable. However, for some time now, and we've said this actually for many quarters now, we've said that if we compare the size of deals from large corporations today versus pre-recession 2007 time period, it's much smaller deals now from large corporations.

And the reason for that is actually very simple. Most corporations tend to attack any of these opportunities in multiple phases. They want to attack the one that has the fastest payback first, for obvious reasons, and then they went to reinvest the savings again into the next attack. So, there's no change that we've seen recently. The trend is not any different from what it was. It's obviously different from the past but it's not become, quote/unquote, to use a cliche, the new normal.

Unidentified Participant

Okay. And one other question if I can squeeze in. With the US elections around the corner, have you seen any clients who are pushing back large deals or avoiding for the puspose of negative publicity or have you seen any pushback recently?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Nothing that is broad-based. A lot of such discussions have always been very client-specific, very local, very industry-specific, and what each client is going through. So nothing that is different from what it's always been.

Unidentified Participant

Okay, and just last one, what was your SDS as a percentage of your revenue?

Mohit Bhatia - *Genpact Limited - CFO*

Was that --?

Tiger Tyagarajan - *Genpact Limited - President and CEO*

What is SDS as a percentage of revenue -- we don't.

Mohit Bhatia - *Genpact Limited - CFO*

Yes, Smart Decision Services as a percentage of revenues in the range of 14% to 15%.

Unidentified Participant

14% to 15%, okay. Thanks.

Operator

This concludes the question-and-answer portion for today. I would now like to turn the call back to Mr. Shishir Verma, head of Investor Relations for closing remarks.

Shishir Verma - *Genpact Limited - VP of IR*

Thank you, Celine. Thank you, everyone, for joining us on the call today. It's been a pleasure working with all of you. I'm glad to have gotten to know all the investors and analysts, and I look forward to keeping in touch. As we transition to Bharani, I will continue to be available for questions. Thank you.

Tiger Tyagarajan - *Genpact Limited - President and CEO*

Thank you.

Mohit Bhatia - *Genpact Limited - CFO*

Thank you.

Operator

And thank you. This concludes today's conference. Thank you again for your participation. You may now disconnect and have a great day.