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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2010 Genpact Ltd. earnings conference call. My name is Michael, and I will be your coordinator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I will now turn the presentation over to your house for today's conference, Mr. Shishir Verma, head of Investor Relations. You may proceed.

Shishir Verma - *Genpact Limited - VP, IR*

Thank you, Michael. Welcome to Genpact's earnings call to discuss our results for the fourth quarter and full year ended December 31, 2010.

My name is Shishir Verma, head of Investor Relations, and with me I have Pramod Bhasin, our President and Chief Executive Officer; Tiger Tyagarajan, Genpact's Chief Operating Officer; and Mohit Bhatia, our Chief Financial Officer. We hope you have had an opportunity to review our earnings release. If not, you will find it on our website at Genpact.com.

Our agenda for today is as follows. Pramod will begin with an overview of our results and outlook. Tiger will discuss the pipeline and new initiatives. Mohit will discuss our financial performance in greater detail, and then Pramod will have some closing comments. Finally, Pramod, 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, 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 these measures to GAAP, as well as related information, in our news release on the Investor Relations section of our website.

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, which we hope you will find useful. This includes among other things geographic, industry vertical and BPM and ITO revenue details.

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

Pramod Bhasin - *Genpact Limited - President & CEO*

Thank you. Good morning, everyone, and thank you for joining us on our call today.

In 2010 Genpact grew revenues, adjusted income from operations, earnings-per-share and cash flow. We saw growth balanced between existing and new clients, despite global macroeconomic conditions that remain uneven. And we delivered solid growth in Global Client Business Process Management, which continues to be our growth engine.

For 2011 we are well-positioned to take advantage of opportunities through our expanded breadth and depth of services, including Smart Enterprise Processes, technology platforms, new products and new geographies. Our commitment to innovation was recognized recently as Smart Enterprise Processes, or SEP, won NASSCOM'S Process Innovation Award for 2011.

Here are the results.

2010 revenues were $1.26 billion, up 12.4% over 2009, and fourth-quarter revenues were $342 million, up 15% year over year and 6% sequentially.

Our Global Clients business grew at 16% for the full year with Global Client BPM revenues increasing 19% for the full year and 23% in the fourth quarter. We also had very healthy growth from our GE business, which grew 7% in 2010, also led by Business Process Management, specifically in Procurement Sourcing, Finance and Analytics.

Full-year adjusted operating income was $204 million, representing an increase of 2% over last year. Our adjusted operating income margin was 16.2% for the year compared to 17.8% in 2009.

Adjusted operating income margin in the fourth quarter was 18.7% compared to 18.4% in the prior year fourth quarter. This performance reflects our actions to take costs out in response to margin pressures earlier in the year.

Business Process Management is driving growth, especially with Global Clients. In 2010 this growth was balanced between hunting and mining revenues. We saw continued traction for SEP, which is a clear differentiator for Genpact and continues to help us win new clients and projects. Clients are also showing strong demand for what we are calling Smart Decision Services, a new category comprising our Reengineering, Analytics and Enterprise Risk offerings. Revenues from Smart Decision Services increased by 48% year over year, which includes our acquisition of Symphony Marketing Solutions in 2010. Overall growth for the year was broad-based across all geographies and industry verticals, but in particular, CPG, Retail, Pharma, Healthcare and Insurance. We also saw solid growth across our core offerings in Finance & Accounting and Procurement and Supply Chain.

We clearly see signs of improvement in the current environment, and the pipeline for new business continues to expand, especially for our Smart Decision Services. Growth in this pipeline has also been led by mining opportunities across industry verticals in geographies like Europe, China, India and Asia Pacific. At the same time, we are also seeing longer client decision cycles and smaller deal sizes. Client decision timelines, especially for larger transactions have lengthened; in some instances to 15 months. While the delays in client transition and grants that we discussed in our quarter three call are beginning to recover, they continue to do so at a slow pace. In addition, we have also seen lower volumes of activity, reflecting the slow pace of recovery in areas such as Mortgages and Collections.

The terrific demand and leadership position we see for SEP and Smart Decision Services is helping us in this environment with both existing and new clients. They clearly set us apart from the competition. SEP, our unique proprietary science that we have developed for Business Process Management continues to resonate with clients and win us business. Our high-value Smart Decision Services offering gives our clients, existing clients, new insights and develop opportunities for us to provide additional services, as well as give us some entry points for new clients. Our capabilities and leadership in these areas is further strengthened by the unparalleled level of quality, Six Sigma and lean training across our employee base.

Finally, we are also expanding our business in emerging growth markets such as India, China and Latin America.

As we discussed in our Q3 call, our costs-related actions in Q4 have produced savings of more than $25 million on an annualized basis, and these actions contributed to our margin improvement in Q4. And considering the opportunities we have, as well as the current market environment, we have made the strategic decision to reinvest most of these savings back into specific initiatives which will help us drive growth in 2011 and beyond.

This strategy to drive profitable growth includes investments in four areas.

First, the expansion of our client-facing teams where we continue to add specific resources with deep industry experience in Banking, Insurance, Pharma, CPG and Manufacturing, and an expansion of our training budget by 100% to provide our employees with specialized skills in industry and technology domains. We are also increasing the number of Global Relationship Managers in order to deepen our penetration with the many strategic clients that we currently serve.

Second, investment in new product development to drive growth in areas such as Business Process as a service. Our unique understanding of business processes and experience with SEP allows us to build products on multiple platforms. Our experience and success with SEP has brought greater visibility to these opportunities that will allow us to bring even greater value to clients with new products and solutions. There is a strong pipeline of ideas, and we are prototyping some of these with potential clients.

Third, we are focused on our IT business to accelerate long-term growth. We are investing in stronger client-facing resources and building our capabilities, particularly in areas where we can bring together our Business Process Management expertise such as Workflow Management, Data Warehousing, Virtualization and Cloud Computing.

Finally, we are committed to continue investing in emerging growth markets such as India, China and Latin America, and expanding our onshore presence in the US, which we believe is becoming more important to our clients. As a result, we have today doubled the number of employees in the US since the end of 2009. This has given us opportunities to be closer to our clients, take on more complex work, and move up the value chain.

Based on our current market environment assumption and planned investments, our outlook for 2011 is as follows --

We expect revenue growth to be in the range of 10% to 13% led by strong and accelerating Global Client growth in the high teens to low 20s and flat to low single digit growth for GE. We expect GE to represent approximately 33% to 35% of our revenues in 2011.

We expect adjusted operating income margin to be in a range of 16% to 16.5%. This assumes we reinvest most of the cost savings from the fourth quarter into our initiatives for growth. Without these investments, we believe our margins will be north of 17% in 2011.

We are encouraged by the opportunities we have before us, particularly for Global Client growth, and believe that the investments we plan to make this year will help us on the path to achieving our longer-term growth goals.

Now I will turn the call over to Tiger Tyagarajan.

Tiger Tyagarajan - *Genpact Limited - COO*

Thank you, Pramod, and good morning, everyone. I wanted to provide some perspective on our pipeline.

Our pipeline remains healthy and balanced between hunting and mining opportunities. The mining pipeline continues to expand in terms of total contract value, particularly with Global Clients. In quarter four, the overall pipeline grew 16% year on year and by 3% sequentially. While our short cycle Smart Decision Services, SEP, BFSI and Healthcare businesses drove pipeline growth, we are also seeing momentum buildup in our core F&A and ITO offerings. The pipeline has grown across all geographies led by Europe, which showed an increase of 40%, driven by Finance & Accounting deals. China to China and India to India pipelines grew a healthy 79% and 21% respectively.

The breadth and size of the pipeline continues to improve, especially with more short-cycle, high-margin opportunities. However, this will be offset by extended decision cycles.

SEP is a clear differentiator for us. We won 21 SEP engagements over the course of 2010. Many of the engagements were in processes like Source to Pay and Order to Cash. While initially most of these are diagnostics, we expect a number of them to lead to larger and longer-term deals with Genpact taking over and running some of these processes, as well as redesigning them and using smart analytical insights to drive better outcomes. While we started this effort of building SEP framework with 14 processes, we are now looking at 15 industry-specific processes to be built out over the course of 2011.

For example, our SEP methodology and Smart Decision Services capabilities, including reengineering and analytics, helped us win a strategic relationship with a large global healthcare company where we are working with their team to redesign all of their processes across the Company. This will drive their technology rollout and enable them to take out more than $100 million of cost. This is a transformational engagement which will change the way the business runs. Our depth of understanding of processes and SEP allowed us to differentiate ourselves and win the assignment.

Pramod talked about the investments we're making in new products. Let me share with you a few of the exciting new products that we are developing and taking to market as part of this strategic growth initiative.

The first is offering Business Process as a Service in core back-office areas. Our deep understanding of specific processes gives us the ability, for example, to set up an order management process on multiple platforms and to offer this as a service coupled with reporting and analytics that drive unique insights to our clients.

Another example for our healthcare industry where we have developed a new overpayment claims detection offering. This combines our knowledge of claims processing and advanced pattern recognition analytics to help payers identify fraud, abuses and mistakes in a very scalable systematic fashion.

And finally, for the CPG industry, where companies often struggle to manage their margins due to price volatility for commodities and other production inputs, we have combined our supply chain accounting capabilities with our analytics expertise in sourcing, supply chain and marketing into a product that gives CFOs more accurate, current and future product cost visibility, as well as enabling chief marketing officers the ability to make disciplined pricing and promotion decisions.

We are building a portfolio of products that will not only help with winning new clients, but also allow our Global Relationship Managers to expand cross-selling into existing clients and increase the scope of these relationships.

SEP is also helping us identify even more opportunities, some of which we will fill through acquisitions. We are very pleased with our last two acquisitions of Symphony Marketing Solutions and Axis Risk Consulting. These acquisitions have given us distinct capabilities that our clients value and the opportunity to expand these relationships.

We won 76 logos in total last year, up from 52 in 2009. We serve 29 of the Fortune 100 companies, and that gives us a massive runway for growth. The number of clients that accounted for more than $5 million in revenue grew from 35 in 2009 to 44 in 2010. All of this clearly demonstrates the tremendous potential we have with existing clients to drive growth. Additionally we just received our Net Promoter Score results, which are among the highest we have had and indicates we are doing very well with client satisfaction.

Lastly, our attrition for 2010 was 31% counted from day one, and this reflects the buoyancy of emerging economies from where we deliver most of our services. While attrition has gone up for the entire industry as a whole, we continue to be the best in the Business Process Management space. We have reenergized a number of our proven retention programs, including investments in training, systematic internal promotions and career pathing, and we are confident that our attrition rate in 2011 will be an overall 25% to 28%.

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

Mohit Bhatia - *Genpact Limited - CFO*

Thank you, Pramod and Tiger, and good morning, everyone.

Today I will first speak about our fourth-quarter performance and then review full-year results in detail, followed by a summary of key highlights from the balance sheet and statements of cash flow.

Overall quarter four of 2010 was a good quarter for us where we saw revenues picking up, cost actions converting to margins, an uptick in our pipeline, and strong cash flow from operations.

In the fourth quarter of 2010, our net revenues were $341.5 million, an increase of 15% year over year and 6% sequentially.

Our global client revenue growth was strong at 19% compared to the prior year quarter and 8% compared to the previous quarter. Within Global Clients, we grew Business Process Management revenues by 23%. Our Global Client ITO revenue declined by 7%, primarily driven by a decline in our Europe ITO operations.

Global Clients contributed 63% of our revenues in the fourth quarter, up from 61% in the prior year quarter. Revenues from GE in the fourth quarter were up 9% year over year and 3% sequentially. GE Business Process Management revenue increased 11% in the fourth quarter, led by growth in Procurement & Sourcing, Finance & Accounting, and the Analytics portion of our Smart Decision Services. GE ITO remained flat compared with quarter four of 2009.

Overall BPM revenues increased 18% in the fourth quarter led by Smart Decision Services, reflecting our clients' need for faster paybacks and outcome-based services, and financial accounting, our largest service offering, which grew across CPG, Pharma, Retail and Banking & Financial Services.

Overall ITO revenues declined 3% in the fourth quarter, largely due to a slowdown in our Europe ITO operations that I mentioned earlier. Business Process Management revenues represented 87% of our total in the fourth quarter with ITO revenues accounting for the remaining 13%.

Adjusted income from operations totaled $63.7 million in the fourth quarter of 2010, an increase of $9.1 million from the prior year quarter. This represents a margin of 18.7% for Q4 this year compared to 18.4% for the fourth quarter last year.

I will now turn to our full-year financial results.

On a full-year basis, our revenues grew 12.4% over 2009 to $1.26 billion. This growth was driven by Global Clients, which grew by 16% and now accounts for $782 million of our revenues, representing 62% of Genpact's total revenues versus 60% last year. Our Global Client's BPM business grew by 19%, fueled by financial accounting services in CPG, Retail and Pharma, and our Smart Decision Services businesses that I spoke about while discussing the fourth-quarter results.

GE revenues adjusted for dispositions grew by 7%, primarily driven by Business Process Management through better cross-sell and penetration into new business units and geographies. The growth was broad-based across Finance & Accounting, Procurement & Supply Chain and Analytic Services. The GE ITO remained flat with a marginal 30 basis point improvement.

Our gross profit for the year totaled $470 million, representing a margin of 37.4%. This represents a decline of 260 basis points year over year. Our margins when compared with 2009 were impacted primarily by delayed transitions, longer cycle time to convert new deals, and upfront investments that we made in resources and infrastructure in advance of expected growth. In addition, our cost base was relatively higher due to adverse foreign exchange and due to certain previously disclosed one-time payments received from cancellations and deletions in 2009.

While we continue to invest in sales, our SG&A expenses were at $282 million in 2010, representing 22.4% of revenues versus 23.7% in 2009. The favorable movement was driven by leverage that accompanied stronger revenues in the fourth quarter, along with productivity from our cost control actions.

We expect these cost actions to yield savings of at least $25 million in 2011, which, as mentioned earlier, we intend to reinvest in the business for the mid- to long-term benefits of securing future revenues and profitability.

Wage inflation was approximately 6% for the year. We are planning a 7% to 8% increase in 2011, which together with substantive investments in training and other employee type activities, will help us create the right environment to retain, incent and grow our employees.

Adjusted income from operations was $203.7 million, an increase of 2% over last year. This represents a margin of 16.2% compared to 17.8% in 2009.

Our tax expense for the year was $34.2 million compared to $25.5 million in 2009, representing an effective tax rate of 19% for 2010, up from 17% in 2009. The year-over-year increase in the tax rate was primarily due to the expiry of a tax holiday in one of our major sites in India, combined with the completion of certain other tax benefits that we had been able to claim in prior years.

The fourth-quarter increase is due to changes in the Company's jurisdictional mix of income, mainly attributable to decisions taken to direct new revenues to specific locations based on complexity of work and client need and preference. This increased the amount of pretax income and locations that had already passed the tax holiday expiry deadline and together with certain one-time non-cash items increased our ETR for the quarter and for the full year.

In 2011 we expect the sunset to be a tax holiday for all our remaining sites in India and, therefore, expect our tax rate to be in the range of 23% to 25%. As we continue to ramp new growth in SEZs, we expect our ETR to decline over the next couple of years.

Our net income was $142 million or $0.63 per diluted share in 2010 compared to $127 million and $0.58 per share in 2009. The increase in net income of 12% was primarily due to a lower formation amortization charge and a higher foreign exchange re-measurement gain that is reflected below the income from operations line. We recorded a re-measurement gain of $1.1 million in 2010 versus a re-measurement loss of $5.5 million in the year 2009.

I will now turn to our balance sheet. Our cash and liquid assets totaled approximately $481 million compared to $451 million last year. The increase of $50 million is after scheduled repayments of $45 million of tax, business acquisition and partnerships of another $45 million, and after planned capital expenditure of $49 million.

Our capital expenditure for 2010 at $49 million was approximately 3.9% of revenues and is lower than our previous guidance of 4% to 5%. We have been able to control our spend through initiatives resulting in better utilization of technology infrastructure. The capital expenditure was mostly impaired for growth in our sites in India, Americas, the Philippines and in Europe.

In 2011 we expect our capital expenditure to be in the range of 4.5% to 5.5%. This amount will mostly be invested in new growth areas, internal digitalization, and new product offerings that Tiger spoke about earlier.

Our day's sales outstanding were at 81 days in 2010 compared to 77 days in 2009 and 82 days in the third quarter of 2010. We have achieved a one-day improvement in DSOs over the previous quarter and a two-day improvement since quarter two, and we will continue our endeavor to bring down DSOs in 2011.

Turning to operating cash flows, we generated $163 million of cash from operations this year compared to $158 million last year with most of the improvement in the second half of the year coming from higher net income, improved working capital management and a few one-time items.

Overall we have a strong balance sheet with over $480 million in Cash and liquid assets and a solid financial position. We have successfully reset our cost base and are excited about making the investments we made for our mid- to long-term growth and profitability. We are ready to execute on our plans for 2011.

With that, I will turn the call over to Pramod for his closing comments.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thank you, Mohit. And, in closing, as we move into 2011, we view Genpact as having four major pillars.

First, the Global Client BPM business which grew at 21% CAGR over the last two years, which included, by the way, a time of significant recession, is our primary growth engine. This growth will come from multiple sources as the breadth and depth of our services expands for innovations like SEP and other new products and service offerings. With 29 of the Fortune 100 companies as clients, we believe we have tremendous run-rate for growth, as well as from new geographies like India, China and Latin America. We expect the investments we are making in client-facing teams to continue the momentum in accelerating growth with existing Global Clients and adding new ones.

Second, SEP and Smart Decision Services are growing rapidly in response to market demand for quick payback projects and for services supporting growth. SEP, in and of itself, continues to gain traction, contribute to client wins and reinforces our industry thought leadership and still offers significant growth opportunities. We will invest in business development relationship management and in innovative new products across the spectrum of our BPM services.

Third, GE continues to be a very strong relationship and the foundation of our business. Even after more than a decade of expansion and sharing of turbulent economic times, we continued to grow with GE by providing new services to the more than 40 discrete GE business units that we serve, even as GE becomes a smaller proportion of our overall revenues.

And finally, IT services, which include technology offerings that integrate well with our process management focus and data analytics. We are investing in this business, see new ITO deals in the pipeline and expect to see improvement beginning in 2012.

In closing, we continue to believe that the market for Business Process Management is underpenetrated, and with our leadership position in this market, we are investing to ensure that we --

One, grow our share of current demand for high ROI quick payback services through Smart Decision Services where Genpact has a leadership position;

Two, expand in emerging growth economies as China, India and Latin America and new vertical markets like Retail, Pharma, CPG and Healthcare;

Three, build new products and services like Business Process as a Service; and

Four, leverage our traditional strength of mining for new business with existing clients through our core offerings.

We deliver terrific value to our clients, we continue to be thought leaders in our industry, and we will continue to drive growth in our Global Client business in order to capture the large opportunity we see ahead of us.

With that, I will turn it back over to Shishir.

Shishir Verma - *Genpact Limited - VP, IR*

Please open the floor for questions, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Tim Fox, Deutsche Bank.

Tim Fox - *Deutsche - Analyst*

In thinking about the setting of guidance 10% to 13%, can you just talk a little bit about how that visibility is relative to say last year, and what would it take for the business to come in either at the lower end or the higher end of that range? Is it more the shorter cycle business, or is it more the BPM side?

Pramod Bhasin - *Genpact Limited - President & CEO*

One point I would just make in that shorter cycle the Smart Decision Services is actually part of BPM. It is a segment -- it is a sub-segment of BPM. I just wanted to make that point.

The 10% to 13% is a reflection of current environment. Deal cycle times are slow. While we are seeing some conversion of the postponements that happened last year, we are seeing some impact on volumes also just because of the slow pace of economic recovery as we said in areas such as Collection and Mortgages.

So it would really take good economic recovery to happen. We are seeing signs of it, but it is still I think uncertain. It is not definitive enough. We would like to see good economic recovery to happen, and some of these deal cycle times need to shorten to get above that number.

I would just point out also that Global Client BPM growth is very, very strong even in these numbers up at the sort of high teens to mid-20 to low 20 numbers.

Lastly, I would say that there is a shorter -- the visibility we have today is good. We have done a lot of homework in and around the visibility. It is well balanced between hunting and mining, which also gives us good visibility. So we believe the visibility is good, but still we are able to see more economic recovery. I think we obviously want to stay with these numbers.

Tim Fox - *Deutsche - Analyst*

Got it. And just following up on that, GE has been growing at a very strong pace here; however, you have, again, guided to flattish to low single digits. I'm just wondering why would you expect GE to be growing, to be decelerating, I guess, is the question? Is that just to be conservative, or is that just because you have seen some heads up demand come washing through in recent quarters?

Tiger Tyagarajan - *Genpact Limited - COO*

If you look at some of the growth that we got in 2010 in GE, it was on the back of a decline if you remember in 2009. So to that extent, part of 2010 growth is a recovery back. We are very well penetrated across the broad segments of the GE businesses. Any incremental good work we get is actually at probably the highest end of the value chain, very specific work, as well as new acquisitions and new geographies they enter.

At this point in time, our visibility indicates that we would be probably flat to low single digits in our growth projections for GE. As we go through the year, we will reevaluate that, but at the moment that is what we think.

Tim Fox - *Deutsche - Analyst*

Great. And lastly, if I could just throw one more in. Your reinvesting margins are going to be sort of flattish this year. Thinking longer-term, will we see the 50 to 100 basis points of expansion beyond 2011? What is your annualized thinking from a margin perspective after the investment this year?

Pramod Bhasin - *Genpact Limited - President & CEO*

We really would like to see that Tim, over time. We want to plan for it certainly. I think it is important at this time that we reinvest in some of these new products and services.

Having said that, as long as we see nice opportunities in Business Process as a Service, Back-Office-in-a-Box, and order management on a variety of different platforms, I mean there is a number of products that we have hidden inside our own Company that we are now trying to commercialize, bring out and sell to existing clients and penetrate new clients with, is enormous.

So we will obviously always have to make that balanced judgment, but yes, over time we should be able to see the margin improvement. Right now I think it is imperative that we grab the market opportunity and are positioned in it by accelerating what we can do here, by really accelerating what we can do in terms of building new products, Smart Decision Services, pushing that agenda, and investing from the front end in domain. I think it just makes sense in our environment today.

Operator

Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

My first question here is just on the pipeline. How does the pipeline compare this year versus last year?

Pramod Bhasin - *Genpact Limited - President & CEO*

The pipeline is up. So it's a nice healthy pipeline. It has gone up most quarters. In the fourth quarter, also, if you look at fourth quarter this year versus last year, it is up about 15%.

Now, in the fourth quarter per se, because of specific client movements, etc., some of that increases in India and China and other places. US is not up that much, but it has still been up through the year.

The key point -- so we are happy to see the pipeline. A lot of it is driven by mining, but the key point within that I would make is that the deal sizes are smaller and the conversion cycle times are still long. They have not decreased at this point in time.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And, I guess, I mean given what happened last year on the guidance front, do you feel like you're being more conservative in any changes that you have made in the guidance process that you could share with us?

Pramod Bhasin - *Genpact Limited - President & CEO*

I think we recognize that last year there were uncertainties that we -- that caught us off guard and that perhaps we want to make sure we anticipate better. We do think the environment -- I don't want to go out and say we are terribly conservative here or anything like that or provide that impression. But the fact is we are aware that the environment is uncertain. Decision timings are taking long, and we are factoring those in at this point in time.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And then my last question just on the supply side because I think you have discussed the demand well enough. Maybe you could talk just a little bit about attrition rates, the expectations for wage increases, and give us a little more detail on what you're going to actually put through on the cost-saving side -- I think you talked about cost savings -- and how you are going to go about that?

Pramod Bhasin - *Genpact Limited - President & CEO*

So I think on attrition rates, you know, attrition went up to 31%. I think we will bring it down this year because, frankly, attrition has gone up for pretty much all industries in India. It is not just our sector. It has gone up for pretty much all industries. We think we can bring it down. We will put some concerted effort behind it. You know, we have been very good at that in the past, and I am sure we can do it now as well. Some of it was also driven by the way by our cost drives at the end of last year.

On wages, we came in at the slightly lower end of the scale of 6% versus the 7% that we talked about. For next year we think we are going to go up a couple of percentage points because I think -- for this year, sorry -- we're going to go up a couple of percentage points above the 6%. We think we need that, and we think that is the right thing to do. And we also want to make sure that we do the promotions we want to, look after employees, increase employee touch. So that -- on attrition we think it will come down, and on wage inflation, the numbers we have are up a couple of percentage points.

As far as costs are concerned, we have talked about how we have taken costs out in the fourth quarter last year, and we really did that not in the sales area, but in the G&A area. We think we will get benefit leverage from that, but you know, we really want to invest that money back in the front end by hiring more people with expertise in particular domains and industries, by putting more people embedded into our strategic clients so that they can help us mine new opportunities, and by investing in new platforms and new product development and commercializing new products. We will keep a sharp eye on costs during this year, but really we are leveraging the benefits of the costs that we were able to take out towards the end of last year.

Operator

Edward Caso, Wells Fargo.

Rick Echolson - *Wells Fargo - Analyst*

This is actually [Rick Echolson] on for Ed. Just digging in on the ITO business, you said that you're not expecting improvements until 2012, I believe? So if you could just give us the breakdown of what you're expecting from BPM versus ITO in 2011 in the growth guidance?

Pramod Bhasin - *Genpact Limited - President & CEO*

Sure. Now we are expecting improvement over what was not a very good year last year. So, yes, there is some increase where we are expecting it will be in the single-digits, in the mid to high single digits on the ITO business. Our quality is that is really given where the ITO business is going for most people, that is hardly good, and so we need to get past that. So to get into good run rates where we are in, say, of our BPM business is what I would say will take us through until probably the beginning of next year, just to put the right front-end people in place, the right product development. We have got a new leader who we love, and getting all those people in place will be important. And that is the split.

The BPM business, as we said, we expect to grow between high single digits, high double digits in their teens to low 20s rate, and percentage increases, which we think is pretty good in this environment.

Rick Echolson - *Wells Fargo - Analyst*

Okay. And then just on the longer decision cycles and the smaller deal sizes, I mean do you see that as a structural issue, or is it a cyclical issue? And do you have any thoughts on when that should start to come down and get to more historical shorter decision cycles and a little bit bigger deals?

Pramod Bhasin - *Genpact Limited - President & CEO*

Right. So a couple of things I would -- I will say three elements. One, there are some signs of economic recovery, but I don't think they are strong enough for people generally to take a huge degree of comfort from it yet. Two, clients are still focused on discretionary spending. There are new ways of technology they are spending money on, and they are focused on that, and they are really saying that we want discretionary faster payback, faster ROI projects, which allow us to compensate for the fact that perhaps we are not seeing enough growth. And three, these are still all, by the way, very large clients. It's not as if the client sizes themselves are smaller. They are breaking these up into bite-size pieces. They are being sharper about payback periods. In many cases, our business requires an upfront investment with a longer payback than perhaps some discretionary spending they may do with our analytics business or SEP or reengineering or on the IT side. So that is really what they are focused on.

Now for us, Smart Decision Services plays perfectly. All those areas play perfectly to help deliver growth, getting better insights, etc., with customers. But until I think we see much more certainty around client recovery, around economic recovery, I think we will have to hedge our bets on when the larger deal sizes will come back. We do not see any inherent reason why the structure should have changed. We don't see any reason why that has happened. Client satisfaction remains high, and the number of clients in the pipeline remains large.

Operator

Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - *JPMorgan - Analyst*

Good quarter here. I wanted to ask about the reinvestment because that is obviously something that we have been looking for, which is great. But how should we be measuring that promote in terms of returns on these investments? Is it going to be simply faster revenue growth in 2012, or perhaps should we be looking for maybe higher revenue per employee? Just some thoughts around that would be helpful.

Pramod Bhasin - *Genpact Limited - President & CEO*

A good point. Definitely revenue growth through 2012, as well as good, strong revenue growth from our Smart Decision Services, for reengineering, and analytics. Those areas will help. And we will be adding these new products that we build will all fall into that bucket, in fact, in many cases into Smart Decision Services.

So our revenue growth from Business Process as a service, back-office-in-a-box, things like that should begin to percolate into real revenues in 2012, and really watching out for that is where you should be able to see returns. Typically yes, we do believe margins should be better, and revenue per head count -- it should help improve revenue per head count. There are other things that should offset it. You know, our I2I business is growing fast, and that revenue per head count is much lower than our average. That is going to grow probably at -- it is going to double in size I suspect for a while, and that will pull it down. But broadly your point on revenue per employee is valid, and this is higher-margin stuff that we should be able to deliver.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay, great. That makes sense. And then on the wage inflation ticking higher, is that a function of the hiring of some of the relationship managers and business development staff that you are talking about and less on the entry-level? What is the disbursement of the wage inflation?

Mohit Bhatia - *Genpact Limited - CFO*

No, on the contrary, it is largely with our associates across the Company. Anyhow there is 7% to 8% range that we have given you is obviously a Company average. At the junior level of the associates where most of the attrition happens, the rates are actually much higher.

There is also global average of the US, which is much lower compared to India, which is higher, and we make sure that we are competitive in the delivery centers that we are operating. And like I had mentioned earlier, in the previous call, it is a full package for a employee that we look at and not just wage. So we look at training, employee touch, things like that, along with wage when we plan for 2011.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay, understood. Last one for me maybe for Pramod or Tiger, just the political mood I suppose in the US, is that having any impact on your closed rates at all? I know that some of your peers on the IT services side, emphasis and Wipro have said different things. I would like to hear your thoughts on that, if you don't mind.

Pramod Bhasin - *Genpact Limited - President & CEO*

I think it has some effect. It is not huge. It could be marginal, but I have always felt that unemployment is a bigger issue. The political noise is coming down ever since the elections have happened. That noise has come down, and therefore, I think you don't -- the rhetoric is just not as large. But unemployment in particular areas does impact how people think about it. It also creates capacity within the Company.

So the political stuff, there's lots of noise they make about Visa fees, we make about Visa fees, lots of stuff happens. I don't think it is in the core -- on the margin, yes, it can have some impact.

Operator

Bryan Keane, Credit Suisse.

Bryan Keane - *Credit Suisse - Analyst*

I just want to ask about the IT growth. The IT growth rates have obviously, as you have stated, have been lower than you guys were hoping for and are different than the industry that we are seeing with some of the other Indian IT players. I guess why is that, and what are you guys doing to correct that?

Pramod Bhasin - *Genpact Limited - President & CEO*

Right. A couple of reasons I would say. One, I think in Europe we got hit because we made an acquisition there in SAP. We got hit because Europe got hit harder by the recession, and IT spending there took a longer time to recover than in the US.

Two, I would also said that we probably needed to change around and improve our front-end, which we have done at this point in time. And, as we have done that, I think we are seeing some greater visibility into nicer deals, better deal sizes, larger pipelines on the IT side.

And I would also say that I think we were very heavily -- a large portion of our business in IT was with GE willing to change that infrastructure around and put more feet on the ground so that we can go out and change the proportion of people that are selling to outside third-party customers where we are seeing a lot of growth.

Now don't get me wrong. In 2010 we also saw good growth from GE. In fact, because GE, also like many others, went back into spending. But there was a bunch of things that we had to improve.

So the sales-force was clearly one. We can act through the types of products. At this point, we are adding products which really coincides very nicely with what we do on the Business Process Management side, and it is really working very well at this point in time because we are seeing traction.

It will just take time. As you put new people on board, as you train them up, as they get used us, it will take some time to get to the scale that we like to get to where we can show you great results there.

Bryan Keane - *Credit Suisse - Analyst*

Okay. No, that is helpful. Just on the delays in the transitions and the ramp-ups, why are clients telling you that they are delaying there? You would think that they would see the cost savings and would want to move ahead.

Pramod Bhasin - *Genpact Limited - President & CEO*

The main reason -- two or three main reasons. One, I think these are longer payback projects. So they see the cost savings. They are profitable at this time to themselves, companies are in the US -- not so much in Europe -- but in the US, companies are very profitable. They see the savings, but the payback is 18 to 24 months typically for the projects we are on. So one, that pushes it back.

Two, in some cases lack of volume and growth themselves creates internal capacity. So they want to fill that up. They want to do this, but they have got real estate or other things that they want to fill up, and once those are filled up, then they are willing to look at this and move it across. And so, again, those things get into their consideration.

And see, last year I would say it is a question of, do you want to undertake this kind of expense until you're more certain about your own economic environment and where and how you want to spend the money you have? Do you want to spend it on more sales force, do you want to spend it on more product development, or do you still want to get to cost savings out here? And I think in some cases, they are making the call of saying, well, this is a longer payback item. I'm going to hold on this or do lesser of it.

One of the dynamics we are seeing, which is a very important one, is to say, it is the same price, but they are saying instead of $50 million number, let's just look at, first, a $25 million number for TCV because we will do a more focused approach here we are more certain about the payback in a shorter period of time.

I hope that helps.

Bryan Keane - *Credit Suisse - Analyst*

That helps. And then just last question for me, a clarification on the investments. You talked about the adjusted margins being 16% to 16.5%, and it would be north of 17% without those investments. Should we see those particular investments as one-time in nature? Meaning that as we go into 2012 and beyond, we will not see those types of investments?

Pramod Bhasin - *Genpact Limited - President & CEO*

We have not decided that today. I think we are going to watch that through this year to see -- to make sure these are very successful, and they work for us. So a little hard to answer, but I appreciate you are asking a directional question.

Ideally yes, we want to be able to come out and deliver some level of margin improvement. But our focus has to be on investing for growth than trying to just get more margin out the door. So, as long as we see new products like the ones we have seen now where we think there is a great opportunity for us, we will make those investments. I think it is a little early for us to sort of give a definitive trend here because we really want to use these investments and see how successful these are, and then we will be in a much better position to address your question.

Operator

Dave Koning, Robert Baird.

Dave Koning - *Robert Baird - Analyst*

I wanted to pursue the gross margin line a little bit. I think a lot of the savings comes through the SG&A. But from 2006 to 2009, the second-half gross margin was always stronger than the first half. This is the first year that we can see where the second-half gross margin is actually below the first half, and I think the last two quarters have been the weakest gross margin in the last five years.

When we look back at where the rupee was and where wage inflation was, it was a lot higher, I think, in 2007 than it is today. So I guess I'm wondering with all those factors, what is really contributing to the gross margin degradation over the last few years and particularly in the second half of this year, and then how does that get better?

Pramod Bhasin - *Genpact Limited - President & CEO*

Right. I think a couple of points I would make. One, as you know, we hedge out for a couple of years at a time. The hedge rates for 2010 were at a much stronger rupee than 2009. We have talked about that in the past, that you are seeing that in the gross margin level line, and particularly, in the second half, you are seeing that -- and you're seeing that also actually in the SG&A line, but in the SG&A line, we were able to take out more costs. So I think that is one.

Two is I think the impact of some of the ramps and some of the delays is really -- again, would have hit us in the gross margin line. The reason we had to -- as we talked in the third quarter, we had delays where we had invested, where we had -- we were ready with infrastructure technology, etc., and the impact of that really hit us on the gross margin line.

Next year we think we will be -- in 2011 -- we will be in a better position both on the hedging side, as well as in anticipating how -- as well as in anticipating the delays and timing our expenditures with the volumes that are coming through. So the reason for the gross margin decline in the second half of last year is actually pretty specific to some of these items that you talked about.

Dave Koning - *Robert Baird - Analyst*

Okay. That makes a lot of sense. And then the second one, just the growth progression through 2011 within the guidance, would it be stronger in the first half given Symphony has not quite anniversaried yet, or is some of the pipeline going to drive growth better in the back half of the year? I guess just how does that go through quarter to quarter?

Pramod Bhasin - *Genpact Limited - President & CEO*

So the balance of the growth is better somewhat, not hugely. Our growth will always be -- even if we grow global business process management at 23%, inevitably that means that quarter on quarter there is a growth pattern happening.

It will be less of a -- I don't want to call it a hockey stick, but less of a backend loaded growth than it was in 2010. Symphony anyway anniversaries in February 1, so it will have some impact but not huge impact given its size. So it will be a little better balanced, but inevitably in our industry, that is just the way the growth is going to be. It is pretty much year on year. If you go back on the 2008, 2009, 2007, our growth will be reflective of those types of years.

Dave Koning - *Robert Baird - Analyst*

Okay. That is great. Thank you.

Operator

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - *Citi - Analyst*

So my question is just -- and this has been asked in different ways before, but just a basic growth versus margins question. I know you're trying to say that you want to grow both the topline and grow margins at the same time, but it is really difficult to do for any BPO company. So can you set up long-term growth targets knowing what you know now? And long-term would be one to three-year growth targets for how we should think of a planned growth versus margins?

Pramod Bhasin - *Genpact Limited - President & CEO*

Right. In the past, what we have said -- and again, it is too early because of the uncertainty of the environment that I really don't want to go out too far because last year was uncertain. I wish the environment was more certain.

It is improving, but until it becomes a lot more certain, it's hard to go out. But theoretically at least where would we like to be? We would like to get back to what we have talked to you people about, about organic growth in the high-teens to 20% sort of level, in the mid- to high-teens to 20%, somewhere in that range. And we think we should be able to get back as the world writes and as we invest for growth.

Now we will always invest more for growth than for margin. I think the street, all of you, our investors, our shareholders are always going to want us to look for growth and us delivering an extra 20 basis points of margin improvement if we can use it profitably. And that is the key. We really want to understand how this year pans out. Our long-term story has always been to improve margins as we have said up to now, but we've made a strategic decision at this point in time not to do that.

Now we are going to play that out and see how it goes and then decide whether we should continue with that decision or then come back to you folks and say, no, you should again see some margin improvement.

The new products we are building should give us more margin. They should give us more revenue per headcount. I know it is not a precise answer, but I think we really want to go through this year before we can come back to you with that precise an answer.

Ashwin Shirvaikar - *Citi - Analyst*

So the new products that you just mentioned, it was going to be my next question. Obviously higher revenue per employee for things like Analytics and Smart Decision Services and so on. But don't you also have to pay higher for the people that are doing these services, and so does that really translate to higher incremental margins?

Pramod Bhasin - *Genpact Limited - President & CEO*

It does actually translate to higher incremental margins. Most of these businesses already have higher margins than our core business. So if you look at analytics, reengineering, Axis, we get very good margins out of these businesses today. And, as we bundle our CoEs together -- so, as you combine the power of analytics with Business Process Management with a platform that we can either lease or buy or borrow, that ability should drive us to be able to sell ourselves in a way that deliver even higher margins. And that is in line with the broad trend that you're seeing anyway currently.

Ashwin Shirvaikar - *Citi - Analyst*

And just two quick questions on costs. One is, when you say you are reinvesting for growth, how much of that reinvestment is really pricing, which, as investors, we will never see, except in terms of topline growth versus just other kinds of investments that can improve productivity and so on?

And then the second question on cost is, what percentage of the cost that you took out will return? I'm just trying to get an idea of your operating leverage there.

Tiger Tyagarajan - *Genpact Limited - COO*

So, on the first part of the question, all our investments are actual dollars spend investments, if I got your question right. I may have got the question wrong. It is not pricing investment. You're not using the investment dollars to invest in pricing if that is your question. It is hiring people with specific domain expertise on the front-end with client-facing teams inside our clients or it's actually building out the platforms and the products and then commercializing and packaging it and taking it to market on the new products side. I don't know if I got the question right. Did I get that right?

Ashwin Shirvaikar - *Citi - Analyst*

Yes, you did get that right, Tiger. That is what I was asking. Because different companies they mean different things when they say they are investing for growth. I just wanted to be sure what you meant. (multiple speakers)

The second question, what part of the costs that you took out will return in terms of mainly growth? An operating leverage question.

Pramod Bhasin - *Genpact Limited - President & CEO*

Basically the costs we took out were mainly in the G&A area, so a lot of infrastructure, some of the support costs. We improved spans, reduced some of the bench, lot to do there.

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Those costs will come back but in entirely different areas. So they will come back in sales. They will come back in relationship management. They will come back in product development. They will come back in commercialization of our new product engine. So they are going to -- we will spend the money, but we are going to be spending it in many different areas. That is the benefit of it.

Ashwin Shirvaikar - *Citi - Analyst*

Okay. Got it. All the best, guys.

Operator

Jason Kupferberg, UBS.

Jason Kupferberg - *UBS - Analyst*

I just wanted to see if you actually have a target for sales force hires this year. I know you talked about investing more in domain expertise.

Pramod Bhasin - *Genpact Limited - President & CEO*

We will probably bring in about 25% more than we had in the past.

Jason Kupferberg - *UBS - Analyst*

Okay. And then how many of the 76 new clients in 2010 will you say have the potential to eventually generate, let's say, $5 million or so in annual revenue?

Mohit Bhatia - *Genpact Limited - CFO*

I would say easily 20 of them -- and I am not talking about 2011, but obviously easily 20 of them if not more can very quickly get to the $5 million mark. I would argue that given the size of some of these clients, some of them would get to the $25 million mark in terms of our run-rate because that is the other benchmark that we look at.

Jason Kupferberg - *UBS - Analyst*

Okay. Good luck, guys.

Operator

Vince Lin, Goldman Sachs.

Vince Lin - *Goldman Sachs - Analyst*

I just wanted to make sure the -- all decline delays in terms of contract transitions, none of the projects has been canceled. Those were just delayed, so that it is just a matter of timing in terms of revenue recognition. Is that correct?

Pramod Bhasin - *Genpact Limited - President & CEO*

Let me paraphrase that. They have not been canceled, but in some cases, the volumes have declined. So there was some Collections work that we were doing, Mortgage work we were doing where the volumes that we expected have declined versus what they would have been had they come through last year.

Vince Lin - *Goldman Sachs - Analyst*

Got it. That is helpful. And then just secondly, on the CapEx -- sorry on the cash flow question for 2011, have you given any sense in terms of what expectations in terms of cash flow and CapEx for 2011? And is any of the investments in terms of employees or products having an impact either way on cash flow per 2011?

Mohit Bhatia - *Genpact Limited - CFO*

So we did talk about a range for capital expenditure, which we think we think will be in the range of 4.5% to 5.5% in 2011, and we have not really spoken about free cash flows. We think they will be holding in 2011. A little bit about free cash flows will depend upon how much investment we really make back into the businesses on the new products that Pramod and Tiger spoke about. All things equal, our free cash flow should be growing in line with our revenue.

Operator

This concludes the Q&A session. I would now like to turn the call over to Mr. Shishir Verma for closing remarks.

Shishir Verma - *Genpact Limited - VP, IR*

Thank you, Michael. Thank you, everyone, for joining us on our call today. If you have any questions, please do not hesitate to reach out to me. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a good day.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thank you.