FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Shishir Verma
Genpact Limited - IR

Pramod Bhasin
Genpact Limited - President, CEO

Mohit Bhatia
Genpact Limited - CFO

Tiger Tyagarajan
Genpact Limited - COO

CONFERENCE CALL PARTICIPANTS

Tien-Tsin Huang
JPMorgan - Analyst

Tim Fox
Deutsche Bank - Analyst

Mitali Ghosh
Banc of America - Merrill Lynch - Analyst

Joseph Foresi
Janney Montgomery Scott - Analyst

Bryan Keane
Credit Suisse - Analyst

Dave Koning
Robert W. Baird - Analyst

Vincent Lin
Goldman Sachs - Analyst

Ashwin Shirvaikar
Citi - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the third-quarter 2010 Genpact Limited earnings conference call. My name is Erica and I will be your coordinator for today. (Operator Instructions).

I would now like to turn the presentation over to your host for today's call, Mr. Shishir Verma, head of Investor Relations. Please proceed.

Shishir Verma - *Genpact Limited - IR*

Welcome to Genpact's earnings call to discuss our results for third quarter ended September 30, 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 ample opportunity to review our earnings release. If not, you will find it on our website at Genpact.com.

Our agenda today is as follows. Pramod will begin with an overview of our results and provide a perspective on the current environment. Mohit will then take you through our financial performance in greater detail. Finally, Pramod will make a few closing remarks, after which Tiger, Pramod, 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 be 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, which we hope you will find useful. This includes, among other things, geographic and industry vertical and BPM and ITO revenue details.

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

Pramod Bhasin - *Genpact Limited - President, CEO*

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

Genpact grew revenues, net income, earnings per share and cash flow from operations sequentially and year-over-year. We won 20 new logos this quarter. And our investment in Smart Enterprise Processes is paying off.

We have a strong pipeline that is expanding, particularly in deals with existing clients, which we call mining. While our results for the quarter are good, they are less than our expectation at this point in the year, and we have had to adjust our full-year 2010 guidance.

Our revised estimate for 2010 revenues primarily reflects Global Client delays in transition to production and ramp-ups from agreed schedules and signed contracts. These unusual delays, which happened in the third quarter and were not were not visible earlier, are the result of several factors, including clients' own internal constraints, reprioritization to faster payback projects, and cautiousness related to the pace of economic recovery.

It is important to note that these transitions and ramp-ups have been delayed and not deleted. In most cases the clients involved nonetheless added significantly to our revenue growth this year, and we expect to realize the delayed revenues in the future.

These client delays also negatively affected margins in the near term, because of the upfront investments we have made in support, infrastructure and solutions that we would normally make in transitioning processes from clients to us.

However, we have already taken appropriate steps to align our costs with these revised schedules and to reset our cost base.

Here are the results. Third-quarter revenues of $322 million represented 13% growth year-over-year and 5% sequentially. Revenue growth in the third quarter was driven by Global Client Business Process Management and GE.

Global Client revenues grew 15% year-over-year, led by mining of accounts in media, hospitality, banking and financial services as well as new clients like Walgreens, SABMiller, and AstraZeneca.

BPM revenue from Global Clients grew at an even faster pace of 18% year-over-year. Within the Global Client BPM business, our reengineering and analytics businesses are leading growth with a year-over-year increase of more than 30%, underscoring the demand for fast payback projects.

Finance and accounting continues to be strong with an approximately 25% growth rate. And the Global Client ITO business declined by 9% in the third quarter due to disappointing results from our operations in Europe. I will address our ITO business in more detail shortly.

GE revenues increased 11% overall, continuing Genpact's sustained multiyear track record of deepening this relationship across GE's diverse businesses. Growth in the GE BPM business was 10%, driven by expanding the GE Capital relationship across new geographies within Europe and the Middle East.

GE ITO, in fact, grew 13% through new software implementation projects, which leveraged our deep process knowledge in banking and financial services. GE growth was also across multiple products, including finance and accounting, analytics, procurement and ITO.

Global Client revenues accounted for approximately 62% of our total revenues in the third quarter, compared to 61% in Q3 of 2009, with GE revenues accounting for the balance, 38%.

Overall, BPM, where Genpact holds the global leadership position, grew 15% in the third quarter. Global Client BPM continues to be our growth engine, and over 80% of our total Global Client revenues in the quarter were from existing clients.

Our overall IT business grew by 3% in the third quarter, primarily because of strong growth with GE, offset by lower volumes from our IT business in Europe. Outside of Europe our IT business grew 8%.

We are committed to improving our ITO business in Europe and overall, and have recently restructured it and hired a new global software leader, who will be based in the US to be closer to clients and end markets.

We are focusing on tools and automation for process improvements, virtualization and enablement of front-end cloud-based applications and business process as a service.

Over our history we have built and deployed a series of best-in-class IT workflow and analytics solutions with which we manage and optimize our clients' business processes. We believe these integrated solutions, coupled with our IT technology, can give us a distinct competitive advantage today, and will form an even more important foundation for the future.

Our investment in Smart Enterprise Processes is paying off and helping us win deals and generate revenue. SEP sales momentum is accelerating, and we won nine new engagements this quarter, twice as many as we did in the first half of this year. All of the wins were sole-sourced, which shows the unique value SEP can deliver.

The wins were across a wide range of industries, including a leading US retailer, a leading manufacturer of consumer packaged goods, a specialty chemical company, and several large clients in banking, financial services and insurance. Clients recognize the value of Smart Enterprise Processes, which allows us to measure the health of their business processes and provide a detailed roadmap for improving them.

We continue to dedicate real resources to the SEP as it represents a unique -- an approach that is unique to us, consistent with our DNA, and is a key competitive differentiator.

Our operating income comparisons reflect the client delays, as well as other factors. Adjusted operating income grew 6% sequentially to $49.5 million, a decline by 8% from quarter three of 2009. Adjusted operating income margin grew by 30 basis points sequentially to 15.4%, but was 350 basis points below the prior-year third quarter.

As disclosed last year, Q3 '09 benefited from a one-time payment related to cancellation and deletion. Without that benefit that margin decline would be approximately 240 basis points, primarily reflecting three elements.

1) delays in the conversion of new deals won to production revenues and the related investments we make in production and support staff.

2),our investments earlier this year in front-end sales teams, infrastructure and IT; and

3) foreign exchange headwinds compared to Q3 2009.

We have already taken aggressive action to align our costs with revised schedules and reset our cost base. We are reducing overhead and deferring our real estate expenses to match revised plan schedules. We expect these generations -- these actions will generate an annual cost takeout of at least $25 million and will primarily be reflected in our 2011 results.

Mohit will cover more details on margin in his section, but it is important to note that we are fundamentally resetting our cost model and expect margins to improve over time.

Now I will turn to the current environment. The recovery in demand trajectories for BPM and ITO are different, especially in this current uncertain economic environment. This uncertainty, along with pent-up demand as IT investments were put on hold during the downturn, has caused clients to focus their discretionary spending on faster payback, shorter cycle projects, such as digitization and temporarily augmenting existing workforces.

We see strong demand in our short cycle, faster payback services, like reengineering, analytics and Smart Enterprise Processes, and have accelerated the sales momentum in these businesses.

Business Process Management deals have a longer cycle and longer payback than IT deals, which means clients take longer to make decisions and decisions are made at a higher level.

Clients generally are taking longer to move forward on projects where upfront cost to them could be significant. This incrementally cautious approach has led to smaller initial deal sizes, with no reduction in the extended decision cycles from earlier in the year. And deal conversion continues to be a slower process.

Finding opportunities generally have faster sales cycles and transition with low upfront investment requirements. As a result, we are seeing increasing mining opportunities with existing clients.

Our pipeline is strong and we continue to see more deals and more diversity in terms of geography, product and industry. Our pipeline has grown ever 30% in total contract value from the same time last year, and 8% sequentially. Since the end of July we have seen an increasing sales momentum with a 70% increase in new deals entering the pipeline in Q3 compared to Q2.

This means that new deals have tended to be smaller across several hundred accounts in both the hunting and mining pipelines, and included a growing number of fast payback projects like analytics, reengineering, mortgages and collections. Mining has continued to expand and has more than doubled year-over-year in terms of TCV.

Our investments in industry and domain expertise, global relationship manager, the cross-selling efforts are evidenced -- are evident in this increasing mining pipeline. The overall pipeline reflects healthy demand across industries, with growth being led by BFSI and healthcare.

While we continue to see most of the demand coming from the US, there is robust growth in emerging markets such as India. We are still witnessing sluggishness in our ITO pipeline in Europe, with sales cycles remaining elongated in that sector.

Our win rates remain at record levels, with SEP resonating very well in the market. The trend of clients focusing on improving their operating efficiency and unlocking new growth opportunities plays to our overall strategy of starting small and growing with a client.

Even though our pipeline is strong and our prospects are good, we have had to adjust our full-year guidance. We now estimate full-year 2010 revenue growth of 12% to 13% compared to 14% to 17% growth earlier, and adjusted operating income margin of 16% to 16.3% compared to 17% to 18% earlier.

Our outlook for demand for our services continues to be positive. And we expect to realize the delayed revenues in the future. With the actions that we are taking to reset our cost base, we expect margins to improve while still allowing us to invest for growth.

As the globalization of services continues, we believe that in the future meaningful onshore delivery will be important to our clients. This is also a part of our long-term strategy. We acquired a delivery center in Danville, Illinois earlier this year and recently announced plans to expand our facility in Pennsylvania.

Our higher-end offerings, such as reengineering, analytics and mortgage processing require an onshore presence, and we expect these businesses to expand. We currently have close to 2,000 people in the US, and are investing further in people and facilities in anticipation of this growth. Recently we have added some great talent and expanded our industry in processes and domain expertise.

I will now turn the call over to Mohit. And following that I will have a few closing remarks before we open up the call to questions.

Mohit Bhatia - *Genpact Limited - CFO*

Thank you, Pramod, and good morning everyone. I will review our third-quarter results in detail, followed by a summary of key highlights on the balance sheet and statements of cash flow.

In the third quarter of 2010 our net revenues were $321.6 million, an increase of 13.1% year-over-year and 5% sequentially. For the nine months of 2010 our revenues were $917 million, up 11% over the first nine months of 2009.

Our Global Clients revenue growth continued to be strong at 15%. Within Global Clients we grew business process management revenues by 18%. Our Global Client ITO revenues declined by 9%, primarily in our Europe ITO operations.

Global Clients contributed 62% of our revenues in the third quarter, up from 61% in the prior-year third quarter as we continue to broaden and expand our blue-chip client base.

The revenues from GE in the third quarter totaled $123 million, up 11% year-over-year and 5% sequentially. Overall Business Process Management revenues increased 15% in the third quarter, led by finance and accounting, which continues to be our largest service offering. Our first-quarter acquisition of Symphony Marketing Solutions continues to drive growth in high-end analytics and business intelligence.

ITO revenues were up 3% in the third quarter, largely due to our growth in the GE IT business. Business Process Management revenues represented 86% of our total in the third quarter, with the ITO revenues accounting for the remaining 14%.

Adjusted income from operations totaled $49.5 million in the third quarter of 2010, a decline of $4.3 million from the prior-year quarter. This represents a margin of 15.4% for Q3 this year compared to 18.9% for quarter three of last year.

Our adjusted operating income for the first nine months of 2010 was $140 million, down 3% from $144 million for the first nine months of 2009.

A part of the decline in the quarter is due to a one-time payment of $4 million received for cancellations and deletions in quarter three of 2009, which we had disclosed at that time.

Excluding the benefits in 2009, the reduction in adjusted operating income margins would have been approximately 240 basis points.

Our margins have been affected primarily by client delays that Pramod discussed because of the upfront investments we normally make in transitioning processes from the clients to us. For example, supervision, production and transition resources and the associated infrastructure.

Our costs also reflect unamortized investment in sales and SEP for anticipated growth, which has been delayed, and therefore the expected leverage is not yet coming through. In addition, our cost base is higher relative to last year, also due to adverse foreign exchange.

Our gross profit for the third quarter of 2010 totaled $117 million, flat versus the prior-year third quarter. This represents a gross margin of 36.3%, a decline of 500 basis points year-over-year, for the same reasons that I just discussed.

SG&A expenses increased 6% year-over-year to $71 million in the third quarter, and represented 22.2% of revenues compared to 23.6% in the third quarter of 2009, partially offsetting the gross margin decline.

The favorable movement was driven by the leverage that accompanies our typically stronger revenues in the second half of the year, along with stringent cost control initiatives that we have put in place.

An aggressive drive is already under way to reset our cost base, the results of which we expect to see primarily in 2011. These include resizing of our support, supervision and bench staff, better utilization of our infrastructure, new technology designs that will reduce our cost per seat, renegotiating certain vendor contracts, process efficiencies in both transition and production, and very tight controls over discretionary spend.

Going forward we expect to see an annualized benefit of at least $25 million as we realize the full impact of these actions.

We plan for both our attrition and wage inflation in 2010, and the levels we are seeing are in line with our expectations. The wage inflation has been in the range of 6% to 8% so far.

For the first nine months of 2010 attrition was 28% compared to 23% last year, reflecting economic improvements in India, China and the Philippines, particularly as it relates to the demand for labor.

Our net income was $40 million or $0.18 per diluted share in the third quarter of 2010, compared to $33 million and $0.15 per share in the prior year third quarter.

The increase in net income of 21% was primarily due to a higher foreign exchange re-measurement gain that is reflected below the income from operations line and a lower Formation amortization charge. We accorded a re-measurement gain of $5.5

million in the third quarter of 2010, reflecting a strengthening euro versus the previous quarter. In the third quarter of 2009 we had had a re-measurement loss of $2.6 million.

Our tax expense for this quarter was $7.5 million compared to $7.9 million in the third quarter of 2009, representing an effective tax rate of 16%, down from 19%. This decrease is primarily driven by certain tax benefits recorded in the first quarter of 2010 based on recent favorable rulings, as well as certain changes in the Company's jurisdictional mix of income.

In the third quarter of 2009 we had had one-time gains in certain high tax countries, which increased our tax expense. We now expect our full-year expect effective tax rate to be in the range of 16% to 18% as against our earlier expectation of 19% to 20%.

I will now turn to our balance sheet. At quarter three end cash and liquid assets totaled approximately $404 million compared to $352 million at the end of the previous quarter. This is largely available in the form of deposits in banks and U.S. Treasury bills. The increase of $52 million is after scheduled repayments of $12.5 million of debt and also planned capital expenditure of $10 million.

Our year-to-date capital expenditure for 2010 was $39 million or approximately 4.2% of revenues. This amount was mostly invested for growth in sites across India, Europe and the Philippines and in Operational Excellence initiatives.

We have projects underway that will translate to better utilization of IT resources and infrastructure, and will also bring about structural changes to reduce our capital expenditure.

We now expect capital expenditure as a percentage of revenue to be in the range of 4% to 5% for the full year as against 5% to 5.5% mentioned in the last quarter call.

Our days sales outstanding were 82 days in the third quarter compared to 83 days in quarter two and 78 in the same period last year. As mentioned in our previous call, we changed our credit terms with GE and this has been gradually implemented for different statements of work.

A lot of effort was put in by the teams to streamline the process and systems for billings and collections, the impact of which is gradually showing up in the one-day improvement in DSO over the previous quarter.

Turning to operating cash flows, we generated $68 million of cash from operations this quarter compared to $56 million in the same period last year, and $30 million in the second quarter. The year-over-year increase is due to higher net income and better management of our working capital.

Overall, we have a strong balance sheet with over $400 million in cash and liquid assets. Our business fundamentals remain strong, and we have the infrastructure and resources ready to take on growth. Our pipeline is full, and our client relationships are healthy. We have taken aggressive cost actions and we are well-positioned to improve our margins going forward.

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

Pramod Bhasin - *Genpact Limited - President, CEO*

Thank you Mohit. In closing, we remain confident in the necessity of the globalization of services and the fundamentals of our business model. We continue to operate in a challenging economy, which has resulted in extended business process management deal cycles and some delays on signing contracts. Consequently, our results were below our expectations. However, we expect to recover the revenues that were delayed.

Global Client continue to be our growth engine, and we expect our Global Client BPM revenue run rate in quarter four to provide a good ramp into 2011.

We have also swiftly taken action to improve in areas that should have performed better for us, such as IT. We invested ahead of revenues, as we normally have when deals are in transition and begin to ramp, and to ensure that we are always ready to satisfy our clients' needs.

When we realized recently that a number of these transitions and ramps were going to be delayed, we took action to align our investments and reset our cost base with significant cost reductions expected in 2011.

We are focused on improving our IT business, expanding our relationships with existing clients. And we expect margins to improve because we have already taken actions that will reset our cost base.

Our pipeline and prospects are healthy, especially for mining opportunities with existing clients, short cycle, fast payback projects such as analytics, reengineering, and opportunities in emerging growth markets such as India and China.

In addition to assisting with short cycle projects with a fast payback, we are also developing products to help clients improve their financial and operating performance. Our Smart Enterprise Processes, for example, can drive true business effectiveness that can generate 2 to 5 times the impact than just efficiency alone.

We remain confident of our business model and of the globalization of services. We are, and have always been, relentlessly client focused. And we are working with clients to accommodate the time frames and delivery locations that are best for them.

Our business continues to grow as clients continue to engage and choose Genpact as a partner for managing and improving their business and technology processes.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - *JPMorgan - Analyst*

I guess I want to ask about the delays, obviously. A couple of questions there first. At what point did you realize that the client delays would be significant and would not happen?

Pramod Bhasin - *Genpact Limited - President, CEO*

It has really unfortunately been between mainly in the third quarter, since the last time we spoke to you when we realized that many of these delays were either going to crop into next year or were -- basically were going to crop into next year, versus being recaptured at some point in time this year. That has really been the essence of it.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay, are we talking about just a few clients delaying or was it more broad-based than that?

Pramod Bhasin - *Genpact Limited - President, CEO*

I will say it is across deals probably in some of the BFSI areas it has been a few clients. And then it has been in the mortgage space there has been a couple. It is been in -- also, frankly it has been in some of the old established clients with whom we are ramping up at this point in time, because they have had in some cases internal constraints on IT, people constraints on resources to manage us, which have actually caused them to delay, even though other ramps with them are continuing.

So all of it is really with existing clients, mainly. And as a result, we have been able to -- have to think about having these pushed out into next year.

Tien-Tsin Huang - *JPMorgan - Analyst*

I see. And I guess you had mentioned some things like -- I had written down reprioritization and cautiousness of recovery. That makes sense.

I guess I'm surprised though a little bit, because given the cost savings benefit of BPO and the long duration of the weak economy, I would have guessed that some clients might actually think about speeding up at some point now some of their BPO offerings.

I appreciate that the fast return shift or preference for that kind of work, but at what point do you think Pramod that, you know, things start to align and movement starts to pick up? Is there -- do we need to cross the end of the calendar year to see that or is there something else that we need to look for?

Pramod Bhasin - *Genpact Limited - President, CEO*

Right, I think -- absolutely the right questions. We have been wrestling with them, because obviously we are not happy about these results, and given the guidance we had given all of you. So we are not happy with that.

But having said that, we are still doing our 2011 plan so even those are being structured. The reasons for some of the delays are people are focusing on faster payback projects. Some of our projects, namely the BPO projects, do require an upfront investment, which is greater typically than an IT discretionary project where the paybacks are faster and the paybacks are longer. I think those two elements are really what is causing -- those two elements are really what is causing this shift.

The last one, I would say a lot of clients are not adding internal headcount to manage these projects, because they are a little uncertain about the outlook.

So I think it will pick up. I'm reluctant, quite honestly, to tell you exactly when it will pick up, because I think that we want to go through our cycle and especially really understand this well, which we will do in the next month or so. And we will be there fairly quickly.

But I think it will pick up during next year, we believe. And it is also reflected by the way -- your points about this being a good economic decision by companies are reflected the increasing pipeline we see all the time. It is filling up. We are hearing from advisors, we are hearing from intermediaries that their pipelines are full, which are translating to our pipeline.

So we are seeing a lot of activity. It is -- I don't want to come out right now and say this is exactly when we will see it because I think we want a little more time to study that.

Tien-Tsin Huang - *JPMorgan - Analyst*

No, I agree with you. I do expect it will eventually pick up, so that is why I asked the question more of a when, not if.

I guess last one from me just, are you going to -- just thinking about guidance and philosophy and the obvious question of next year, are you going to change your guidance strategy going forward?

And for fiscal '11 do think we can at least -- you can at least go in line with your prior guidance view of 17%, 18% that you laid out for '10 for 2011? Do you think we will see that catch up and come back or maybe do better in 2011?

Pramod Bhasin - *Genpact Limited - President, CEO*

We really believe we will do better than 2010 any way. That we are pretty clear about. How much? I think right now we really have to be very -- because we want to -- we are in the business planning process. We will get that done fairly soon. We need to go to the board. We need to rethink -- we need to relook at this new environment.

So absolutely. We will be better. How much better I think is a subject that you'll have to give us a little more time on.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay, fair enough.

Operator

Tim Fox, Deutsche Bank.

Tim Fox - *Deutsche Bank - Analyst*

Thanks for taking my question. Just to follow-up on Tien-Tsin's question about the delays, I guess the question would be, if these are -- I think you had mentioned predominately existing clients that you're seeing the delays in.

That is a little surprising, just given the fact you would think it would be some of the newer deals that you may have signed at the end of last year, not having had that operational experience in ramping up projects. So maybe if you could dive into a little bit of why it was more from existing rather than new, first, that would be great.

Tiger Tyagarajan - *Genpact Limited - COO*

This is Tiger. Hi. I think when we say existing clients, it is clients with whom we are already ramping up. And that pace of ramp-up that we had assumed is different from what it ultimately is turning out to be, both in terms of speed and scope.

I think the differentiation we want to make is from such clients that we won in the fourth quarter of last year, which we would call ramping up of existing clients, as compared to brand-new clients we are winning right now and then beginning to ramp up right now.

Pramod Bhasin - *Genpact Limited - President, CEO*

So an important point, Tim, I will also add because -- and I think perhaps the usage of the phrase, existing clients, can be confusing in this context. These are all pretty new clients. It is just that we have already started ramping up. Maybe we ramped up a little bit. So maybe we ramped up -- we were expecting to ramp up to 500 people, we ramped up 50, and then it got delayed. And we said we will only ramp up 200.

I just want to make that point, because certainly with the GEs and some of the older clients, and the mining opportunity we are seeing, those ramps have been going very well.

Tim Fox - *Deutsche Bank - Analyst*

Got it. And a follow-up there. Just to be clear, the delay in the ramps, is this almost entirely driven by clients' either internal constraints or looking for faster ROI and economic concerns or is there anything internally at Genpact that you may not be delivering, whether it be headcount or the right people and the right processes and the right verticals? Is there anything internally that you see that might be adding to these delays or do you think it is really externally driven?

Pramod Bhasin - *Genpact Limited - President, CEO*

No, not at all. There is nothing internal. They are all driven -- in fact, we do net promoter scores, and our net promoter scores are very high at this point in time and increased. Our quality of delivery remains very good. I think best-in-class almost, although obviously we don't know what everybody else is. So quality is very high.

And we are delivering on schedule to everyone. In fact, part of the issue on margins is we are ready. And so these are all delays happening at client premises.

The one area where we are responsible, and we need to fix is ITO, particularly in Europe. That is disappointing. We are not happy with it. We have a new leader in. We have got a terrific new person in. He is going to be based in the US. We are going to fix that and fast. Because I think that is the one area which is in our control, where I think we missed being on the ball as much as we should have.

Tim Fox - *Deutsche Bank - Analyst*

Got it. And just lastly on the guidance for the fourth quarter affectively could you talk about what level of visibility you have, given that you have had a little bit of a stumble here over the past couple of quarters? Presumably that is a fairly conservative number.

Pramod Bhasin - *Genpact Limited - President, CEO*

Well, it is an accurate number, if I may. It is a reasonable number. I wouldn't tell you right now it is terribly conservative. I think it is -- with only two months left you are really -- I think you would all expect us to be reasonably accurate and not hedging our bets one way or the other, frankly.

So it is what we think to be a reasonable number. It has risk in it. I must tell you, it has risk in it. It is not totally without risk, because there are one-off projects, there are revenues in China that have to come through. There are other things that have to come through the IT business in Europe, which still has to deliver to that. So I am afraid I can't tell you it is conservative.

Tim Fox - *Deutsche Bank - Analyst*

Very good. Thank you.

Operator

Mitali Ghosh, Banc of America - Merrill Lynch.

Mitali Ghosh - *Banc of America - Merrill Lynch - Analyst*

Just on the -- in fact, following up on the previous question, you mentioned a little while ago that you think the outlook for next year should be better than 2010. But you know even given the fact that we don't have very great visibility for the fourth quarter itself, I just wanted to understand what gives you the confidence that some of these ramps will indeed happen in the next year?

And more importantly, the deal conversion cycle or the deal conversions would again pick up or be adequate enough for faster growth in 2011. I just want to understand what are some of the indicators you are seeing in the environment.

Pramod Bhasin - *Genpact Limited - President, CEO*

Sorry, perhaps I have said the wrong thing, but we do have very good visibility into quarter four. All I am saying is we have some element of risk in it, but we have very good visibility into quarter four. No question about it.

I think that visibility is strong. And we have had to make sure it is stronger than in the past, because frankly these were unusual delays. One of the things we have always mentioned to you and prided ourselves on is the fact that we felt we had great visibility into how deals are progressing.

These are unusual, and as a result -- you know, as a result we do have very good visibility into quarter four. We also are looking at the quarter four run rate and saying therefore that the run rate into 2011 should be a very good run rate as we go into that year. So we are basing it on that, if that helps.

Mitali Ghosh - *Banc of America - Merrill Lynch - Analyst*

Right, so in the last few weeks have you perhaps seen any indications that clients are adjusted to this kind of uncertain macro environment that looks like it might last for a while? And perhaps are they taking decision to move forward, or have your discussions with people in the pipeline, has that picked up pace? Anything that we can take away from the recent weeks?

Pramod Bhasin - *Genpact Limited - President, CEO*

Well, I would categorize it in a number of ways. One, short cycle, absolutely. Short cycle is moving forward well and that has been good.

Two, pipeline is filling up. So lots of clients with mining -- and mining and hunting. The pipeline is actually filling up faster. Again, we talked about sequential growth and growth versus last year. Although conversions remain slow, so I don't want to get ahead of myself yet again. I am very conscious of that.

And then the one other point is that we believe in our pipeline we are seeing bigger deals coming back, as they were perhaps 6 to 9 months ago in the pipeline. This is after a period of time when the pipeline was very -- perhaps smaller deal sizes. But the sales cycle remains long and therefore we are cautious about that. But the pipeline with bigger deals, shorter cycle process coming through, mining coming through, all of that is happening well.

Mitali Ghosh - *Banc of America - Merrill Lynch - Analyst*

Thanks. Just secondly, in terms of your -- the investments that you mentioned you are making in ITO, if you could help us understand your strategy with respect to IT? And should we think about your IT offering more as just an integrated IT-BPO kind of offering, or are you also looking to standalone, be a meaningful player in IT? So which areas are you really looking at?

Pramod Bhasin - *Genpact Limited - President, CEO*

I think we want to look very specifically at those areas where we believe we have a competitive advantage. One of the issues clearly we have to fix in Europe is exactly that point. We have to fix for that point that we need to play in those areas where we have a competitive advantage. So areas like workflow, like automation, like working with business process as a service. Helping clients move to the cloud. Offering services on the cloud with business processes.

Those are all the areas that we want to focus on in IT as a very specific agenda and a very focused strategy. A lot of that will also be going into, for instance, our existing clients. For instance, workflow is a big, big opportunity today and that is something we want to do.

So business processes, coupled with analytics , coupled with a technology engine, is also a very big process. And again that is an area we want to focus on.

Our IT business, particularly in Europe, actually has really been around the Netherlands. The models there have changed, and we need to get out of playing just in a small nation in Europe and play a larger role where we think there is a lot more growth. We've got the right people onboard and we intend to continue to accelerate down that path now.

We are seeing growth in the rest of the IT. You have seen strong growth in GE. And we just need to get back and replicate the same level of growth that a lot of the larger players are seeing. We should be in the same spot.

Mitali Ghosh - *Banc of America - Merrill Lynch - Analyst*

Okay, and just one final question on the margin outlook you mentioned some of the efforts you're taking to reset the cost base. And some of those, in fact, seem to be structurally looking at resetting cost in terms of support staff and a couple of other things that you mentioned.

So I just wanted to understand that are you seeing -- what are the long-term kind of steady-state margins we should look at for the business? And are you perhaps seeing pressure there, given that today the model is changing or increasing towards some of the near-shore or on-site kind of delivery models as well?

Pramod Bhasin - *Genpact Limited - President, CEO*

Yes, I think the on-site delivery model, onshore delivery model is very important for us and we are going to pursue that. Now it is not going to be huge. So today it is 2,000 people. One and an half years from now it could be 3,000 people. So I think we've got to get that done, but I don't think that should have a huge impact on our margins.

We also deliver -- we really believe we can deliver analytics, reengineering, Smart Enterprise Processes type service, which are very high margin businesses from many of these onshore locations. We can get closer to our onshore -- we can get closer to

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our clients from our onshore locations, which should help us mine. So there are many ways in which we will get paid back for that -- for the onshore location that we come to with.

In terms of resetting the bar, we are also focusing heavily on outcome-based pricing. That outcome-based pricing will also, say, for SEP or many other areas, will start to give us good margins because then we don't have to relinquish all the productivity we may choose to deliver for our customers.

Having said that, we are resetting the bar on costs in our delivery locations, one, because of the delays. And we need to make sure we have the flexibility to manage for these delays in future. And, therefore, if there are delays, we need to be able to not take off up-and-down as fast.

But to also -- you know, this delay, we are now doing it at a much more I would say definitive level. At a different -- we are making a step change in certain areas -- shift utilization, supervisory spans, transportation, many other things.

We are trying to make our costs as variable as we can, reducing our IT costs per person. All of these things will help us offset some of the wage inflation issues, but allow us to get back to the margins we have normally expected ourselves and that we have talked to all of you about. And I think we can get there.

Mitali Ghosh - *Banc of America - Merrill Lynch - Analyst*

Okay, is there a number we should look at, a range we should look at as a sustainable margin in the long term, anything you would like to have us think about or target?

Pramod Bhasin - *Genpact Limited - President, CEO*

I just want to get through our plans. As we said, you could look at it -- we've got at least a $25 million cost take-out happening. It has already happened. We have taken the costs out. I think there is room for more. We are going to keep pushing for more. So I really would ideally want to get to my business plan. I want to get the business plan done.

We do not believe that the long-term has changed for us. Let me put it that way. We do not believe that has changed. I think we have had a hiccup at this point in time. We are taking -- we are moving very swiftly to take action against it. We have already done so on the cost side.

Mitali Ghosh - *Banc of America - Merrill Lynch - Analyst*

Sure, thank you very much.

Operator

Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

I guess my first question here is, I know you have talked about these being delays and not cancellations. Maybe you could just give us a little bit more color on what gives you confidence that they are in fact delays and not cancellations?

Tiger Tyagarajan - *Genpact Limited - COO*

Hi, this is Tiger. I will just give you a color of some of the examples and this is reflective of what we are talking about. If we have a client who is moving work from nine countries and is implementing a technology solution, and then while we start moving on two them, we get a red flag saying, here on the balance of seven, let's wait. We are finishing the technology rollout. It is going to take us another 3 to 6 months, and then we will get back on those countries.

The consolidation effort across the nine countries is on track. It has to happen. It is not going to stop after two countries. That is one example.

Another would be a client who's moving work from another service provider, an incumbent, who gave us a date and it was supposed to move on that date, and then comes back and says, hey, guys, it is not going to move on that date. For various reasons it is now moved by three months. And the incumbent is going to allow us to move the work three months later. Again, it is a done deal, it is just moved.

So these are some very simple examples of where decisions by clients, which are just pieces of work getting spread out. There are many such examples. I just gave you two of them.

Pramod Bhasin - *Genpact Limited - President, CEO*

There are other examples; I'll chime in as well. A relatively new financial services client, instead of moving 500 people, they say, we will move 100 now. We don't want to take out all the cost of severance, etc. at this point in time. So we are going to wait to do it next year. A lot of these guys are saying, we've got the cash, but we are going to wait till next year. We don't want to incur the expense at this point in time.

So the discussion has always been very clear that we are going to move this back three months. We are going to move that back six months or we will start this process at that point in time. And in almost no case have we ever had a discussion where the client has said, we placed the order, we have now decided we changed our minds.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

I guess -- that is very helpful. Just sort of sticking with that theme there, is it safe to say that these delays are broad-based, but they are more on the discretionary, newer client side?

I just want to be clear about where you are seeing those. And, obviously, if a client can push something out, maybe it doesn't become maybe mission-critical. I guess that is why I'm trying to figure out whether it is more discretionary.

Pramod Bhasin - *Genpact Limited - President, CEO*

Well, I think -- no, if I may, I think it is actually unfortunately the reverse. But in fact it is relatively new clients typically where this has happened. It is relatively new clients who are new to this.

Two, in most cases we are taking over processes which they are currently doing. So they are mission-critical, but they are doing them anyway. I think these are nondiscretionary and therefore they have to get them done.

In fact, they are currently doing them, but they are playing it -- either they are being cautious or they have internal constraints that they don't want to move that internal process, which they are currently doing. So it is very important work that we are doing for them, but it is not really discretionary. It the nondiscretionary nature of it which is actually the reason for some of the delay.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Right. So I guess maybe it is safe to characterize it as the speed of movement is more discretionary, not the movement itself.

Pramod Bhasin - *Genpact Limited - President, CEO*

Absolutely. That is the way I should have said it.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Then just lastly, as we look into towards next year, and I know you're still trying to get through this year in your business plan, any rough color you can give us on third-party revenue growth, on the tax side of things, just so we can start to prep our models for what next year might bring?

Pramod Bhasin - *Genpact Limited - President, CEO*

I think what we have said is we really want to do the business plan. We are unhappy about missing guidance. Frankly, as a management team it is not something we have done, and I don't know how many years, right?

Last year was a huge problem in the economy, and I think everybody can understand that. But we like meeting our commitments. And I think we want to be absolutely certain that when we come out we are certain of our numbers. We don't want to come out half to you guys in a way where we never have to repeat this exercise again. So we are very -- we are being a little extra -- we are taking extra time and caution to do that.

Having said that, the ramp -- if you look at the run rates in quarter four and how those played through into 2011, that will automatically start giving us much better run rates into 2011.

Just please give us a little more time to calibrate that. But most of the pipeline and the run rate and the ramps and the delays, if you add them altogether, for us it is clear that that should be better than 2010. I don't want to pull a number in it until we are good and ready.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Sure. Thank you.

Operator

Bryan Keane, Credit Suisse.

Bryan Keane - *Credit Suisse - Analyst*

I am just trying to get a handle of how many client delays we are talking about -- 5, 10, if you could just help us with a number?

Pramod Bhasin - *Genpact Limited - President, CEO*

Sure. I think the total number of clients delays would be around 10, I would say, 8 to 10 something like that.

Bryan Keane - *Credit Suisse - Analyst*

8 to 10. I guess the question I have, if they are delays and you still expect to get them in the near future, I guess, I am just trying to figure out why it doesn't pour over into 2011 and accelerate the growth rate pretty nicely. Why would they delay all the way to 2012 or beyond?

Pramod Bhasin - *Genpact Limited - President, CEO*

No, they wouldn't delay until 2012 or beyond at all, I think. I think the issue is that -- the issue is really the sales cycle has got elongated on the rest of the pipeline. And that is the piece that we are cautious about at this point in time. That is the only reason.

But absolutely, these things are not going to get delayed two years out. It is going to get delayed into next year. But how does the rest of the pipeline behave is something we are calibrating.

Bryan Keane - *Credit Suisse - Analyst*

Now these issues seem to be a little bit more Genpact specific. Have you thought of looking at the organization and figuring out why Genpact seems to be having some of these issues and not some of the other players in the industry?

Pramod Bhasin - *Genpact Limited - President, CEO*

I think on the BPO side, I think we have looked at the rest of the players and I think our growth on many of these areas is very similar to theirs. Unless we have got the numbers wrong, which I don't think we have.

I think if you look at BPO growth versus IT, as we have explained, we think it is different, one. And, two, that paybacks are longer, the conversion times are longer, the deal cycle times are longer, etc. And this is the same view that most intermediaries have had.

If you look at records from TPI, if you look at records from other analysts who are on the call and some others who are perhaps not on the call, they said the same thing about sluggishness of growth in some of these areas, and cycle times being longer.

And I think, frankly, if I look at BPO growth of the big IT companies, in India, frankly apart from perhaps one or something like that, their growth rates are lower than ours in many cases and have been for this year. So I am not sure that it is us. Although I will tell you quite honestly that we have looked hard and long at whether it is us. And I am absolutely certain it is not. It is the environment. Where it is us and ITO and that we will solve for..

Bryan Keane - *Credit Suisse - Analyst*

Okay, just last question for me. There has been some press reports out there that Genpact is looking at strategic alternatives. Can you just give us some comments on if that is true, and what you guys would be looking at?

Pramod Bhasin - *Genpact Limited - President, CEO*

Our official comment has to be, we do not comment on such rumors and speculation, which is really what they are. That is all it is. I would only add that the press in India, which is where some of these originated from, has a habit of creating stories in the most unseemly way that I have ever seen.

Most of us in India are quite used to it, but when Reuters and Bloomberg and everybody else picks up it suddenly gets credibility and credence. And so our official response will have to be, we can't comment on rumors, but I hope you can read through what I'm trying to say that the press is having a field day.

Bryan Keane - *Credit Suisse - Analyst*

Okay, thanks so much.

Operator

Dave Koning, Baird .

Dave Koning - *Robert W. Baird - Analyst*

I just wanted to pursue the margin profile a little bit. If we go back to the '08/'09 timeframe margins were in the 17% to 18%. Now we are talking about maybe a couple hundred basis points around those $25 million of cost savings. And we are going to be at a much bigger scale over the next couple of years than back in '08/'09. So it would seem like the adjusted margins could go into the 20% plus range, assuming nothing had materially changed.

But it seems like you're not really talking about margins ramping that fast, so it seems like something has changed since kind of that '08/'09 timeframe. And I am just wondering what might be a little different about the margin profile now than back then?

Pramod Bhasin - *Genpact Limited - President, CEO*

The basic point I would make is we want to make investments in the long term on more sales and BD people, more relationship managers, at every major client that we have. We want to make investments in new product development. We are focused on building 'back office in a box' type solutions. We are focused on providing point solutions through the cloud. We are focused on getting into new areas such as 'B to little B'. So we are focused on all of these areas. And we want to have the money to invest, because we think is the right thing to do for long-term growth.

We want to build up our healthcare business, which is doing nicely but it is small. We make need to take it to a completely different level. So if we didn't do that it would happen, but I want to make a step change in the quality of what we sell, how we sell it, our relationship with our customers, as well as a rate and pace at which we are bringing out new products and taking them to market.

We also want to make investments in the IT business in those areas which we have said we will specifically focus on. That is really the reason I would say that you're not going to see the margins at that point in time.

Dave Koning - *Robert W. Baird - Analyst*

Yes, that makes sense. That seems like a good long-term strategy. Then I guess the second question, the FX gain this quarter, if I remember right, those FX gains aren't necessarily related to the operating income or as an offset that they are more one-off items. Is that fair?

And then going forward should we expect that to be closer to zero with more of a -- it is always uncertain I think is the right way to think about it. It could be up; it could be down?

Mohit Bhatia - *Genpact Limited - CFO*

That is correct. So the gain that we spoke about of $5.5 million of re-measurement is reflected below the income from operations line. The second part of your question -- if the rates remain in the same range, you should see no gain or loss next quarter on that re-measurement.

So the numbers that we reported to you on adjusted operating income do not, in fact, include any part of that gain. That gain is reflected below the income from operations line, like you rightly pointed out.

Dave Koning - *Robert W. Baird - Analyst*

Okay, that's great. Thank you.

Operator

Vincent Lin, Goldman Sachs.

Vincent Lin - *Goldman Sachs - Analyst*

I just want to make sure, the $25 million in cost savings that you talk about, should we think about it in terms of the full run rate savings you are going to be realizing for all 2011, or you expect to realize the $25 million run rate basis sometime in 2011?

Pramod Bhasin - *Genpact Limited - President, CEO*

No, we have already taken the actions, so you should expect them through 2011. But you would get them in the actual ledger, if that is the question.

Vincent Lin - *Goldman Sachs - Analyst*

Yes, that's it. That's helpful. Then If we think about -- you mentioned that I think sales cycle, I understand that, for BPO it tends to be longer than ITO. But I just wanted to get a sense on versus the beginning of this year, say, early 2010, are you seeing sales cycles being extended even further or it is really about the same?

Pramod Bhasin - *Genpact Limited - President, CEO*

No, we're not seeing sales cycles necessarily being extended even further. It is really about the same. But it is longer than it has been in the past. And the point is we need to make sure it comes back. The deal sizes are smaller, so there is lots more sales cycle happening that we need to figure out.

Vincent Lin - *Goldman Sachs - Analyst*

Okay, got it. Then just in terms -- I wanted to focus on the quality of the pipeline a little bit. I appreciate all the color that you provided on the call earlier. I just wondering maybe you can quantify or provide some details in terms of how much of the existing pipeline -- the strength coming through the pipeline right now is coming from sole-source deals where the ramp-up schedule might be a little bit faster than some of the other deals where multiple competitors can be present?

Pramod Bhasin - *Genpact Limited - President, CEO*

I think the mining pipeline has expanded almost reversed from last year. Right now our mining pipeline would be -- it is back to normal levels that we have had. And it would be about 50% of our total pipeline. And that typically is sole-sourced. Now there are areas in there also, don't -- I shouldn't say -- in new areas within existing clients we may be in another fee situation, but typically that is sole-sourced, faster payback, faster cycle time. That is why we have been able to accelerate our mining this quarter substantially.

Vincent Lin - *Goldman Sachs - Analyst*

Then just lastly on headcount plans, I just wanted to get a sense on versus the 9,000 -- I think it was 9,000 or 10,000 hires that you laid out initially this year, how are you tracking against that?

And then how should we think about headcount plans or targets going forward? Thanks.

Mohit Bhatia - *Genpact Limited - CFO*

This is Mohit. So just versus in the last 12 months from quarter three last year to quarter three this year, we have hired about 15,000 people. That includes attrition back fills, as well as the growth that we've had in our revenues. We mentioned that attrition rate of 28% right now. So we have hired approximately 9,000 to 10,000 people to backfill and we have hired 5,000 to 6,000 people that are accretive right now to our production so far. Does that help?

Vincent Lin - *Goldman Sachs - Analyst*

Yes, that's it for me. Thanks.

Pramod Bhasin - *Genpact Limited - President, CEO*

We will take one last question.

Operator

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - *Citi - Analyst*

I just wanted to go back to the aggressive cost savings that you mentioned into these transitions. The basic question I have is, if you believe that it is a temporary slow down, why go through an aggressive cost savings program? Because if you're going through an aggressive cost savings program it sort of implies that you don't expect the revenues to come back in one or two quarters.

Pramod Bhasin - *Genpact Limited - President, CEO*

I think it is an opportunity for us -- it is an important question you're asking. I think, one, it is an opportunity for us to reset our base costs. Because I think we have room to do that, and this is the best time to do it.

Two, I think the delays have put us into a situation where our margins have got hurt. And we need to take some costs out, because we put those costs in early. And make our costs much more variable.

So I think our ability to take costs out now will allow us to put in costs which are variable as time goes on. And thirdly, we want to be able to invest. We want to be able to invest, as I said earlier, in new products, new areas, broader domain expertise, BD people, all of that.

And none of this will hurt our ability to meet client commitments. We are very clear about that in terms of how we are doing it. But I think we can definitely reset the cost bar in many areas. You will see the impact in 2011. And I think it is something that we should do anyway. The extent to which we are doing it now is greater than it has been done in the past, and that is why the number is as large as it is.

Ashwin Shirvaikar - *Citi - Analyst*

Got it. How much of the $25 million savings falls to the bottom line? Because you mentioned tight cost control, which normally implies that some of the cost comes back. You also mentioned vendor contract renegotiations.

Pramod Bhasin - *Genpact Limited - President, CEO*

Most of it will -- should fall through. The only pieces that we won't, as we do our planning is how much of that, if any, we use to reinvest. But in terms of the cost line, all of that will fall through. And that is what we have calibrated to.

Ashwin Shirvaikar - *Citi - Analyst*

Okay, and just to confirm, no client facing cuts here or are there also a client facing cuts?

Pramod Bhasin - *Genpact Limited - President, CEO*

No, no, no, no, no client facing cuts. This is mainly targeting for instance, how can we set IT costs per person that we invest? Two, does everybody -- does every laptop need a full program of software, infrastructure costs?. How do we improve our shift utilization? How do we move faster from the old-style STPI facilities into the new SEZ facilities, or particularly with new clients?

How do we improve our work from home capability so that we have less use of infrastructure? How do we significantly improve our hiring costs, because frankly, at some point in time we should be able to do all our own hiring without paying outside external agencies? How do we improve our training costs without losing effectiveness?

So there is a lot of programs in place. The bulk of that we have done. What we are giving you is actually the net effect of what we expect -- what we have already done, and what we expect will have to come back as a necessary cost to serve our clients in the future. After taking those into account is when we get to the $25 million.

Ashwin Shirvaikar - *Citi - Analyst*

Last question for Mohit. If I have my numbers right, GE DSOs seem to increase in the last few quarters. Is this a new normal or should we expect to get back lower?

Mohit Bhatia - *Genpact Limited - CFO*

GE sales have definitely gone up. And as I alluded to, the key reason is that we have renegotiated our payment terms with GE. However, it wasn't over the edge like starting one fine day. It was gradually implemented over different statements of work. And we have hundreds of statements of work with GE, so the impact is coming in only gradually.

So some part of that is permanent. What is not permanent though is the fact that our end-to-end order cash process is still not 100% effective as it should be. And we are working to improve that process, and that itself will bring down our DSO days.

So while there is a structural change, it won't go back to the numbers , but it won't go back to 10 days below what you are seeing today. Some improvement of 3 to 4 to 5 days will definitely happen because of the improvement in the effectiveness of the end-to-end process that we are working on.

Ashwin Shirvaikar - *Citi - Analyst*

Okay, that makes sense. Thank you, guys.

Operator

Okay, we have no further questions. I will now turn the call back over to Shishir Verma for any closing remarks.

Shishir Verma - *Genpact Limited - IR*

Let me just thank everyone for joining us on the call today. In this environment our clients will likely continue to face challenges in the near term as they look to reprioritize their business goals and objectives. But we are confident in our people and our business model to help our clients achieve even greater heights.

If you have any questions, please do not hesitate to reach out to us. Thank you.

Operator

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