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## G - Q3 2011 Genpact Ltd Earnings Conference Call

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the third quarter 2011 Genpact Limited earnings conference call. My name is Erica and I will be your coordinator for today. At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. (Operator Instructions)

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 Ltd - Head of Investor Relations*

Thank you, Erica. Welcome, everyone, to Genpact's earning call to discuss our results for the third quarter ended September 30, 2011. With me I have Tiger Tyagarajan, our President and Chief Executive Officer; 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 Tiger will begin with an overview of our results and a perspective on the current environment; followed by, Mohit who will discuss our financial performance in greater detail. And then Tiger will have some closing comments. Finally, Tiger and Mohit will be available to take your questions. We expect the call to last about 1 hour.

Please note that some of the matters we discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include, but are not limited to, general economic conditions, and those factors set forth in our press release and discussed under the Risk Factors section of our annual report on form 10-K and other SEC filings. Genpact assumes no obligation to update the information presented on this conference call.

In our call today we will refer to certain non-GAAP financial measures, which we believe provide additional information for investors and better reflect the way Management views the operating performance of the business. You can find a reconciliation to 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, industry vertical, and BPM and IT revenue details. With that, let me turn the call over to Tiger.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Thanks, Shishir. Good morning, good afternoon, good evening, everyone, and thank you for joining us on our call today. We delivered another great quarter in quarter 3 with strong growth in revenues, adjusted operating income and margin, earnings per share, and cash flows. Growth was led by Global Client revenues from both Business Process Management and IT. The integration of Headstrong is on schedule and we continue to gain traction in the marketplace where we have won 11 cross-sell deals, including the 5 we discussed during our last earnings call. In total, across all of our businesses in the third quarter, we won 27 new logos, including 7 in our Headstrong capital markets vertical.

We also expanded existing client relationships significantly this quarter. The number of client relationships representing between $5 million and $25 million in annual revenues increased from 37 to 52 in the third quarter, with 7 coming from Headstrong. And the number of clients representing $1 million to $5 million in revenues increased from 59 to 112, with 25 from Headstrong. This gives us a great run rate for growth.

These results reflect the resilience and diversity of our business model. We continued to drive growth across industry verticals, service offerings and geographies. This was despite ongoing macro economic concerns, particularly in the European Union financial markets, softness in US consumer-facing financial services, and Japan.

In line with our strategic initiative of moving our leadership closer to our clients, 2 of our key vertical business leaders - our head of manufacturing and services and our head of CPG Pharma, retail, as well as our leader for new product innovation, are in the process of relocating to the US. With these changes, and my own planned shift to New York, we would have a more balanced distribution of our leadership in close proximity to our key clients, which provides a much better opportunity to be in continuous, strategic dialogue with the C-Suite and our client companies. This allows us to drive co-innovation, new idea generation and thought leadership, as well as faster response to client trends and needs. We are able to do this because of our history of operating excellence and the depth of our delivery leadership.

We're also pleased to announce that on October 4 we closed the acquisition of EmPower Research, an integrated media and business research company with strong capabilities in social media research, media monitoring, and measurement. This acquisition will add significant domain expertise, intellectual property, and a high-caliber senior management team to Genpact's Smart Decision Services. It is a fantastic fit for our business in a new growing area with numerous cross-sell opportunities particularly in the pharmaceutical CPG retail and financial services industries.

Here are the highlights for the third quarter -

Quarter 3 revenues were $430 million representing 34% growth year over year with organic revenues increasing 13%. Global Clients were again the growth driver with organic Global Client BPM revenues increasing 20% from the prior-year third quarter and 4% sequentially. Also, the Global Client IT business grew organically by 23% year over year and 10% sequentially. Adjusted operating income increased by 43% from quarter 3 of last year to $70.9 million.

The AOI margin improved by 110 basis points, driven by improvements in efficiency, operating leverage from G&A and a contribution from FX.

Net income increased by 20%. Diluted earnings per share increased by 19% and adjusted diluted earnings per share increased by 26%.

After the quarter close, MF Global, a Headstrong client, filed for bankruptcy protection. Our results for the quarter and the outlook for the year reflect this development. Mohit will have more details in his comments.

Growth was broad-based across all geographies and industrial verticals driven by strong demand for most major service lines. Global Client BPM growth was led by continued strong growth in offerings such as commercial lending and insurance operations, and finance and accounting, as well as solid demand for Smart Decision Services. From an industry vertical perspective, growth was led by CPG, retail & Pharma, high-tech, insurance, and capital markets. Our Global Client IT business also delivered excellent results in the third quarter, up 23% organically and the highest quarterly growth in the last 10 quarters, demonstrating significant progress in our planned actions to improve this business. Geographic growth was particularly strong for us in Europe, Asia-Pacific and India.

Our business with GE increased approximately 1% in the third quarter, in line with expectations, led by demand from commercial finance and infrastructure-related businesses, particularly for Smart Decision Services. GE continues to be a strong and stable relationship.

Adjusted operating income and margin expanded this quarter more than offsetting our planned investments.

We have been ramping up investments in 3 specific areas.

First, expanding our front-end sales teams. As of the end of this quarter, we have hired 35 new business development professionals since the beginning of the year.

Second, investment in new geographies such as new delivery centers in Brazil and Dubai, where we can now serve both global and local clients.

And third, new product and service innovations such as our solution for Solvency II, which will help European insurance clients meet new regulations, and our supply chain decision services, which help companies benefit from cost insights and optimization of sourcing inventory management and logistics.

We expect these investments to increase as we move into 2012.

We continue to win significant new business in the face of ongoing macro economic uncertainty and volatility. Our win rates are among the highest we have seen in several years, as we added 27 logos in the quarter. This compares to 26 in quarter 2 of 2011, and 21 in the prior year third quarter. Clients tell us that they are moving forward on their strategic agendas, but may want to reprioritize the actions they take and break down change into smaller steps. Clients are still looking for a partner who can adapt to their changing requirements, provide greater insight and analytics, benchmark best practices, help them think about how to approach and create a more flexible cost structure, and help them implement their strategic road maps, including growth objectives.

Here are some examples that illustrate how we are responding to these needs.

Our process-focused approach won a contract this quarter to provide finance and accounting services for a large, global media services company with a multiplicity of operating divisions and legal entities. They wanted to achieve the benefits of a common ERP platform without making the heavy capital expenditure. Our solution included deploying a methodology through Smart Enterprise Processes to measure, evaluate and standardize the process performance of each division, after which we will assume responsibility for the finance and accounting processes for the entire company in order to take them on a journey to best in class.

Another example is where we used our capabilities in supply chain management to help a large US-based utility drive efficiency and effectiveness of their IT vendor management. Our solution includes leveraging our Smart Decision Services to analyze spend and deploy specific strategies to rationalize suppliers, create a demand management system and optimize vendor contract, which will generate immediate savings for the client.

Third, based on our deep domain understanding of customer care operations, Lean Six Sigma methodology and analytical capabilities, we won a contract with a leading, global, telecommunications company to monitor, audit, report and drive operational excellence for their outsourced, customer care operations in a multi-vendor environment. This means that we will be managing the entire call center ecosystem for the client, including defining key operating metrics, vendor rationalization and optimizing operations to drive true business effectiveness rather than running the individual, commoditized operations.

And lastly, we leveraged our deep understanding of order-to-cash cycle and the capabilities from our acquisition of Akritiv technologies to deliver a complete cloud-based solution for our global CPG Company. This includes deploying collections workflow, credit automation, dispute management, cash forecasting and reporting across their operations in the US and Europe.

The key point in all of these examples is that the clients required a partner who could engage at multiple levels of an organization, including the C level, to provide part leadership, domain expertise, insight and best-in-class capabilities to deliver the right solution for them as well as the flexibility to adapt to their desired pace of change.

Our pipeline has remained stable and healthy over the past several quarters, which is noteworthy given the number of projects converted to wins over this period. While the overall pipeline is healthy, there are a few areas that have shown some weakness. For examples, US consumer facing financial services and Japan as we have noted previously. The current situation in the EU suggests that further caution is appropriate, but thus far, we have not seen an impact on our business. It is just too soon to provide more specific insight, and we will continue to monitor the environment.

With the investments we are making to build out our business development resources, we expect more client opportunities to be captured in the pipeline, recognizing that it takes some time for these new resources to contribute to pipeline inflows and ultimately into wins. Cycle times have also been relatively consistent but we are keeping an eye on this metric as clients adapt to the continuing level of uncertainty. We see strong demand across geographies coming from core offerings in BPM, particularly finance and accounting and Smart Decision Services. Our IT pipeline is also strong, including many more annuity contracts as clients place renewed emphasis on their IT costs, especially for IT infrastructure and managed services.

Our integration of Headstrong continues according to plan. The combined strength of the front-end teams is gaining momentum with clients. As part of the integration, Sandeep Sahai now leads all our IT-related businesses for Genpact in addition to the capital markets vertical. Our objective is to leverage his leadership team's experience and track record in technology to accelerate growth in our IT-related businesses. Additionally the Headstrong team is contributing their experience and expertise to new product innovation, and cross-sell activity continues to gain traction. For example -

We leveraged Smart Decision Services to provide credit card analytics for a large, bank holding company, which is a Headstrong capital markets client. We will provide the client with deeper insights into buying patterns and help develop new products and solutions to expand their customer base.

Genpact's remote infrastructure management capabilities won a contract to provide services for a European-based derivatives dealer which was an existing Headstrong relationship. We will now provide IT services from their network operating centers in the UK and Australia.

Based on Genpact's scale and quality of global delivery as well as process and operations capabilities, we are assuming responsibility for corporate actions and post-trade reconciliations for our Headstrong client, with one of the world's leading fixed-income, asset managers.

The Headstrong acquisition has come together well, with very high morale and enthusiasm among the combined employee base. And we are excited by the opportunity that combining our product and service offerings and building new product offerings holds for our clients and for Genpact's future growth.

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

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**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

Thank you, Tiger, and good morning, everyone. Today, I will speak about our third quarter results in detail, including a summary of key highlights from the balance sheet and statements of cash flow. My comments refer to reported results, including Headstrong since May 3 of this year, unless I call out organic comparisons.

On a year-to-date basis, our revenues for the first 9 months of 2011 were $1.1577 billion, up 26% overall and 14% on an organic basis, compared to the first 9 months of 2010. Our adjusted operating income for the first 9 months of 2011 was $187.4 million, up 34% compared to the same period last year, representing a margin of 16.2%, up 90 basis points.

Our overall, business process management, revenue growth in the third quarter was 15% driven by strong Global Client BPM growth of 23% within which Smart Decision Services grew 43%.

With an organic growth rate of 23%, the Global Client IT business was the driver for our overall IT business which grew 9% organically. On a reported basis, our IT business grew 146%, which includes the contribution from Headstrong.

Adjusted income from operations increased 43% to $70.9 million, representing a margin of 16.5% compared to 15.4% in the third quarter of 2010. This improvement reflected a better cost structure, scale leverage from G&A, and a favorable foreign exchange as compared to last year, partially offset by focused investments in front-end sales organization and in other growth initiatives. Our adjusted operating income results also reflect the impact of the $3.9 million reserve against the receivable from MF Global. Without this impact, our AOI margin would have been 17.4%.

Our gross profit for the third quarter totaled $161 million, representing a margin of 37.5%, up 120 basis points compared to the same period last year and 140 basis points sequentially. This reflects optimization of production infrastructure and technology, better supervision span and favorable foreign exchange. Our gross margin results are consistent with the sequential improvement we have expected over the course of the year and that we discussed in our quarter 2 call.

SG&A expenses totaled $96 million in the third quarter of 2011, representing 22.3% of revenues versus $71 million and 22.2% in the third quarter of 2010, reflecting leverage from higher volumes and better support costs, which largely offset our planned investments and the aforementioned reserve. We expect the pace of these investments to accelerate over the next few quarters.

As of September 30, 2011, Genpact had approximately 53,600 employees worldwide, including Headstrong employees, up from approximately 43,300 as of September 30, 2010. Genpact's employee attrition rate was 30% in the third quarter, largely driven by strong economic growth trends in emerging markets such as China and India, where we have many of our delivery centers. Sequentially, attrition rates have remained relatively stable in 2011 and have declined since the end of 2010. We expect the attrition rate to moderate slightly over the remainder of this year. Annualized revenue per employee for the 9 months ended September 30, 2011, was $34,300, up from $30,600 for the 9 months ended September 30, 2010, reflecting higher value offerings such as Smart Decision Services and Headstrong.

Our tax expense for this quarter was $18.9 million compared to $7.5 million in the third quarter of 2010. Our effective tax rate was 28.2% for the third quarter of 2011, up from 15.7% in the same quarter of 2010, mainly due to the complete sunset of the STPI tax holiday in India, a higher tax rate for Headstrong and some period items. We expect our effective tax rate for the full year to be at the higher end of our indicated range of 26% to 28%.

Net income was $48 million or $0.21 per diluted share in the third quarter of 2011 compared to $40.1 million or $0.18 per diluted share in the third quarter of 2010. The 20% increase in net income was primarily due to higher operating income and a higher foreign exchange re-measurement gain that is reflected below the income from operations line.

I will now turn to our balance sheet. As of September 30, our cash and liquid assets totaled $409 million compared to $336 million at the end of the second quarter. This increase of $73 million was after a $10 million of capital expenditure for the quarter.

Our Days Sales Outstanding in the third quarter of 2011 stood at 83 days, unchanged from the second quarter and 1 day more than the third quarter of last year. We are working to improve the DSOs by 1 to 2 days by the end of this year.

Turning to operating cash flows, we generated $95 million of cash from operations in the third quarter compared to $68 million generated in the same quarter last year. This improvement was due to better earnings and effective management of working capital and included early realization of acquisition-related receivables and some refunds we received this quarter. On a full-year basis, we now expect cash from operations to grow at a higher rate than revenue growth.

Our capital expenditures continue to benefit from efficiency and utilization improvements in infrastructure and technology virtualization, and represented approximately 1.8% of revenue for the first 9 months of 2011. We now expect full-year CapEx as a percentage of revenue to be approximately 2.3% to 2.5% with a planned acceleration in the 4th quarter.

In conclusion, we had a terrific quarter with strong top line and margin performance. We have a strong balance sheet, and we will continue to make the planned investments that will allow us to build the business for the future.

I will now turn the call back to Tiger for his closing comments.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Thank you, Mohit. In closing, our third quarter results continued the 2011 year-to-date trends of strong growth in revenue, adjusted operating income and margins and cash flows. In addition our growth was broad-based across industrial verticals,





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geographies and product and service lines. We have continued to win new business, and our Headstrong acquisition integration and cross-selling results are on track.

Genpact was built on a culture of driving operational excellence through Lean Six Sigma. That's in our DNA. As we look at the challenges our clients face today and in the future, there are 3 things that differentiate us from competition.

First, we have built a science of processes through our innovative SEP framework that cut across silos in an organization and drive effectiveness, generating business impact that can be 3 to 5 times the savings when compared to efficiency.

Second is our Smart Decision Services, where we build insights from data and analytics to help clients make smarter decisions and run their businesses better.

And the third is to actually implement these recommendations and run the processes for clients. It is the interaction of these 3 capabilities that allows us to deliver unique value to our clients.

We will continue to drive investment in our growth strategies.

First, building cutting-edge capabilities around the science of processes through SEP and our analytical capabilities through Smart Decision Services.

Second, differentiating Genpact through deep vertical and domain expertise both organically and through acquisitions.

Third, expanding in emerging growth markets, such as China, India, and Latin America.

Fourth, moving the center of gravity of our leadership closer to our clients.

And fifth, core innovating with clients in key industry verticals with a focus on higher value, products and services.

Our pipeline remains strong and stable, and we are well-positioned to capitalize on the opportunities for growth. However, in an environment where our clients are facing ongoing macro economic uncertainty and volatility, which may continue into 2012, it is especially important to be adaptable to the changing priorities these factors may pose. Since the Headstrong acquisition, we have consistently provided an outlook for the year 2011 of 23% to 25% revenue growth and 16% to 16.5% adjusted operating income margin. Our strong performance during the first 9 months of the year reflects the diversity and resilience of our business model. Despite the ongoing uncertainty in the global economy, we now expect to finish the full year 2011 ahead of the high-end of both of these ranges.

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**Shishir Verma** - *Genpact Ltd - Head of Investor Relations*

Thank you, Tiger. Erica, could you please open the floor for questions?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Tien-Tsin Huang with JPMorgan. Please proceed.

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**Puneet Jain** - *JPMorgan - Analyst*

Hi, this Puneet filling in for Tien-Tsin. Tiger, you called out Japan continuing to be weak in this quarter. So can you remind us what percentage of the overall revenue spend is from Japan and what's the outlook there for next year?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

I'm going to turn the call over to Mohit so he can answer the question. Mohit?

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**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

All right. For our revenues from Japan, which both were Headstrong and for us combined, are in the range of about 10% to 12% of our overall business. Like we had mentioned in the past, the softness that we have seen from Japan is more for the consulting business of Headstrong, a little less to do with the underlying Genpact business which is more annuity and more keep-the-lights on kind of work. And we do expect that even the consulting portion of the business in Japan should come back over the next few quarters.

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**Puneet Jain** - *JPMorgan - Analyst*

Okay. And Global clients grew 23% on organic basis, which was higher than where we thought it will be. And you laid out the drivers Smart Decision Services processes, SEP. But that also means that Headstrong contribution came in a little lighter, around $62 million compared to $45 million in 2 months of last quarter? What were the reasons for weakness in Headstrong? Was it primarily Japan or was there anything else as well that was weak there?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

No, actually Headstrong's overall revenues for the quarter were as we had expected when we began the quarter. And to your point, it was -- we had called out the fact that Japan would come in softer as we not only go through Q3 but also Q4. So overall, our Headstrong numbers are exactly as we had anticipated.

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**Unidentified Speaker**

Okay, thank you.

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**Operator**

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

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**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

Hi, I wonder if we could talk just a little bit about the present demand environment. What are you see on the sales cycle side pricing? And then if you could just talk a little bit about any updates in Europe.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Joe, hi. Firstly on sales cycles, we're seeing sales cycles to be steady and consistent. It's not come back to the levels they were prior to 2008, but it's not deteriorated anything over the last 3 or 4 quarters. It has remained pretty steady.

If you think about the business that we have and you divide it up into Smart Decision Services, technology, and BPM, the sales cycle times for those 3 parts of our business are different. Smart Decision Services is faster cycle. IT, I would say, is medium cycle, and BPM obviously is longer cycle.

So to the extent that the proportion of our Smart Decision Services have grown, our overall cycles times actually have, from a weighted average perspective, actually improved. However for each of these the overall cycle times are consistent.

Pricing is stable; it continues to be competitive, but overall stable. There are some parts of our business, such as Smart Decision Services again, where we often actually don't compete as much as we do for example on the technology side. And overall again as I would say pricing is stable. The expectation that clients have is a continued drive on productivity as well as driving better outcomes and effectiveness, which obviously things like Smart Enterprise Process really helps them.

And your last point was on Europe. Our European business actually has done well, Joe. It is a reflection of the fact that we have made our investment 24 to 30 months back in our front-end business development team and that's really paying off now.

I'm not necessarily certain whether that's a true reflection of the overall market. After all our overall proportion of the overall market is still small, but we have done well in Europe. And lastly, I know we've talked a couple of times about our European IT business on the SAP side based out of the Netherlands. That's now reached stability over the last couple of quarters.

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**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

Okay. And I was just curious, maybe you could talk a little about your thoughts on 2012, just anything you're hearing from clients at this stage in the cycle. Anything that you could share with us as to why you might think it might be different than '07, '08. Obviously the macro headlines are there.

And anything we should watch as far as potential indicators one way or the other given what's the trajectory for next year.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Joe, let me respond first to the way clients think about the current environment and 2012. I think clearly everyone is aware of uncertainty and volatility; and therefore as they think about the future, I think one reaction is that they don't want to add capacity, even if they think that they are seeing higher revenue for themselves.

So obviously flexible cost structures is a big agenda on everyone's mind. If I compare the current environment in our client leadership teams to 2008, I think the single biggest difference I would say is, leadership teams are stable. Leadership teams were not stable in 2008.

A number of our client organizations underwent changes in leadership teams. And those tend to slow down decision-making. So I would say right now clients are continuing to take decisions. They are reprioritizing their decisions in terms of whether they need more flexibility and cost, whether they want to optimize and drive effectiveness and standardization in some of their existing operations before they move stuff to us.

Part of the reason our Smart Decision Services has grown is also that because we go in and re-engineer processes for them. So continued caution, continued watchfulness on uncertainty, variabilization of cost. But decision-making continues and a drive for effectiveness which is very keenly being driven by all our clients.

And then its impact in 2012, too early to talk about it, Joe. We are going through our planning exercise again by client, by industry, by geography; and we will be ready with it by the end of the year. That's the way I would overall paint the picture.

**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

Okay. If I could sneak one last in, it seems like margins are moving a little bit higher. I know in the past, Management has talked about 50 basis point increase in margins. I know that wasn't the case this year.

How should we think about the margin profile of the business heading into next year? Thanks.

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Joe, I would continue to say that when we had talked about, at the investor day, our medium term outlook of margins being steady and not necessarily growing because of our planned investments, that would be the way we would continue to think about the next couple of years.

The current increase in margin is driven by a combination of, obviously, some FX gains that Mohit's talked about, which obviously we don't plan for; and we don't plan for that even in our outlook. To some extent, our investments have taken a little longer than we had planned. If you think about the additions to our business development team, it takes time to hire the right resources, particularly the kind of resources that we are talking about in terms of industry domain expertise.

And of course when we talk about setting up Brazil and Dubai, probably a quarter later than we would have thought we would set it up. And we set up centers when we have anchor clients. And in both cases, we now have anchor clients. So I would think about those investments therefore accelerating, as Mohit said, into 2012; and therefore our margins continuing to be steady.

**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

Thank you.

**Operator**

Our next question comes from the line of Bhavan Suri with William Blair & Company. Please proceed.

**Bhavan Suri** - *William Blair & Company - Analyst*

Hi, guys. Just a quick question on pipeline, Tiger. In the past you've given us commentary around potentially total contract value increase on a sequential basis, or things like that. Could you provide any further color?

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Bhavan, hi. Our pipeline as I said is steady, so the way I would characterize the pipeline right now is that it's overall steady. But you must understand that a lot of our new business development resources that I talked about have just got added in the last couple of quarters, in fact more in the last quarter.

They take time to hit the ground. They take time to generate the pipeline and then to win deals particularly on the BPM side. So overall we feel good about the momentum that that pipeline would have as we go forward. But at the moment, I would characterize the pipeline as steady.

We have called out consistently, and I talked about it even in this call, the fact that US consumer-facing financial services and Japan continues to be weak in our pipeline; and that just continues.

**Bhavan Suri** - *William Blair & Company - Analyst*

Right. And then you've commented in the past that the introduction of folks, like McKenzie & Bain & Consultants, into the process has led, especially for BPM, to slightly longer decisions cycles and sales cycles.

Has that improved or do you still see that same sort of pattern or trend?

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

As I said, sales cycles haven't changed. They have remained consistent and steady. The introduction of some of the most strategic consultants into a discussion about transformation for our clients is again a reflection of some of the variabilization of cost that our clients are really thinking about, as well as real optimization of their own operations and shared services and obviously moving work to people like us. It's a combination of all 3.

So we are finding more and more of those conversations leading to our engagement far more upfront in driving that transformation agenda. And I talked about a couple of examples to that end

**Bhavan Suri** - *William Blair & Company - Analyst*

Sure.

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

But that's what we're seeing. It's not deteriorating cycle times any further, and cycles times continue to be steady.

**Bhavan Suri** - *William Blair & Company - Analyst*

Great. One quick last one. One of the things that we thought about especially as clients look for operational flexibility and variable cost structures is this BPO as a service or pricing outside of FTEs in more of a sort of non-linear basis.

Could you give us an update of how the business is tracking with those sort of initiatives?

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Bhavan, the business is tracking well, but probably less in terms of traction than what we would like. I think whether it is outcome-based pricing, which we see in obviously those arenas where outcomes are easy to measure, that would be procurement, that would be receivables management, order-to-cash. We see continued traction there. Probably it should be faster, but it takes time to get clients comfortable that they will pay us only on outcomes.

We see traction on transaction-based pricing when we bundle services along with technology and move it to the cloud. We see that happening more in emerging markets. We see that happening more in midsize companies. I think larger companies take time to get there, but obviously our push is in that direction because it aligns the goals of our clients along with our goals.

**Bhavan Suri** - *William Blair & Company - Analyst*

Great, thanks for taking my questions.

**Operator**

Our next question comes from the line of Arvind Ramnani with UBS. Please proceed

**Arvind Ramnani** - *UBS - Analyst*

Hi, congrats on a good quarter. Just a couple things. Your guidance essentially is 25% plus. Is there a reason you haven't quantified it more specifically?

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Really it's actually a reflection of the environment we are all in. I think the words we have always used, which probably resonates with everyone, is uncertainty and volatility. We clearly see our revenue being ahead of our guidance, in the high end of our guidance, of 23% to 25%. We don't see in this environment a need to call out an exact number. That's the way I would categorize it.

**Arvind Ramnani** - *UBS - Analyst*

Okay And in terms of your MF Global, I know you really haven't quantified your revenue, but would $20 million to $25 million be a safe way to think about it?

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

So one, we don't talk about revenues of individual clients, as you know, Arvind, irrespective of what client it is. I would say that's probably at the high-end. It wouldn't be that high. But more importantly I think as we think about the balance of the year, we've taken whatever impact we think MF Global would have on revenue into that outlook. And as we plan for next year, we would obviously take that into account as we plan for our 2012 numbers.

**Arvind Ramnani** - *UBS - Analyst*

Great. You mentioned that Europe was strong because of some of the investments you've made. Should we expect this geography to continue to remain strong over the next few quarters? Or is some of the macro starting to affect you guys, as well?

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

No, actually, I would say for us Europe would continue to be strong. Our pipeline in Europe continues to be very good. And our investments as I said are continuing to pay off. And these are, as you know, long cycle decisions and then long cycle ramps. So for us, Europe will continue to be a good growth geography.

**Arvind Ramnani** - *UBS - Analyst*

Great. In terms of your organic versus inorganic revenue, basically the Headstrong related revenue, can you give us some details, how we should be thinking about that?

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

One other point on Europe I just remembered, Arvind, you must know, that in Europe our financial services exposure is actually very low. As we think about the changes that are going through in Europe, obviously financial services are probably the one that is most impacted.

Our own exposure of clients in financial services in Europe is low. So to that extent, that's one of the reasons why we've had a good quarter in Europe, and we continue to expect good quarters going forward. Your question was on organic growth. Can you just repeat the question, Arvind?

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**Arvind Ramnani** - *UBS - Analyst*

How should we think about the organic growth versus Headstrong related growth for the quarter? I know you don't bake it out, but can you help us? How do we think about it?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

If you look at the last couple of quarters, you would see that our original guidance of 10% to 13%, which was our organic growth guidance, we've come in at the higher end or slightly ahead of that higher end of that guidance over the last couple quarters. So I would say that's the way we would characterize the environment going into the last quarter.

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**Arvind Ramnani** - *UBS - Analyst*

And just one last one. In terms of your cross-selling opportunities, when you acquired Headstrong, you obviously said this will take a few months before the firms get integrated; and we've had that few months. So how do we start to think about 2012? How does the pipeline look from a cross-selling perspective? Will you pretty much have 100% overlap? Will you be selling-services across the border? How is the cross-selling opportunity panning out?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Arvind, they're planning out exactly, and actually a little better than, what we had expected. As you would expect, our Smart Decision Services type businesses and some of the wins on cross-sell that we talked about are all short cycle, Smart Decision Services type revenue.

Those have immediately gathered momentum. We talked about 11 cross-sell wins, 6 of them in this quarter. Most of them, in fact probably all of them, are around the Smart Decision Services and technology arena. Both of which are faster decision cycles.

We have a very good pipeline around BPM through cross-sell for the same clients. These are longer cycle decisions, and these are big decisions for a number of these clients. In many cases, it's the first time that they will be taking a decision around business process management.

As we think about 2012, we would incorporate that into our thinking about 2012 for Headstrong's cross-sell numbers.

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**Arvind Ramnani** - *UBS - Analyst*

Excellent. Good quarter, and good luck for the remainder of the year.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Thanks Arvind.

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**Operator**

Our next question comes from the line of Manish Hemrajani with Oppenheimer. Please proceed.

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**Manish Hemrajani** - *Oppenheimer - Analyst*

Hi, good quarter, guys. Thanks for taking my call. Can you talk about where you saw specific strength in the quarter versus what your term expectations were? Do you expect that strength to continue in the near term?

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**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

Sure, I think if you look at revenues per se, the strength in the quarter would be on our shorter cycle, Smart Decision Services. We saw that momentum and traction continuing, just as we had in the previous quarter.

It is an area where it's a win-win with clients and us. It's a quicker payback for customers. It's good for us. We earn slightly higher margins on that business. It does not involve that much change management so we see this area of Smart Decision Services continuing to gain strong momentum like we saw in quarter 3.

I think other areas where we grew were in finance and accounting. We mentioned to you the CPG, retail space; that's ramping up very well; and we see that continuing over the next few quarters.

On the margin side, again, quarter 3 was very good. To try to explain little bit, we got some help from foreign exchange, but we continue to get scale on G&A which is very helpful and we continue to see productivity in our IT and infrastructure areas. With the IT virtualization and server consolidations that we're doing, so all of that is helping coming in.

And while we have the ability to make all the investments that we plan for, there is a phasing involved based on business life cycles, like when we open a new geography in Brazil or Dubai or Columbia, the actual investments and the timing are really dependent on a lot of other variables.

So overall, the kind of strength we saw in quarter 3 is stuff that should continue, other than investments, which are more of a timing thing, and we will accelerate those investments in quarter 4 and quarter 1 of next year.

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**Manish Hemrajani** - *Oppenheimer - Analyst*

Great. My apologies if you already spoke about this, but can you throw some light on your exposure through Headstrong to MF Global? And what level of impact do you see from this client?

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**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

At this point, we mentioned that we have created a reserve of $3.9 million, which substantially covers the entire receivable that we have from this customer. So we have taken no chances on that front. I think going forward, like Tiger said, we have to assess the situation. We've got to get into a dialogue to see what services will continue and not continue, but for now we are fully covered on the exposure of the receivable that we have from this company.

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

And, Manish, I would add that both for the balance of 2011 outlook as well as our planning process that we've obviously now picked up for 2012, we are obviously incorporating, and have incorporated in the outlook, the fact that MF Global is in the situation they're in.

**Manish Hemrajani** - *Oppenheimer - Analyst*

Got it. Couple of housekeeping questions. What are your plans for a higher CapEx deployment in 4Q, and how should we look at CapEx for next year?

**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

So like I said for the full year, we expect it to be in the range of 2.3% to 2.5% of revenues. It's been 1.8% so far, so clearly there will be an acceleration, which has already begun in the last month of this quarter, and will continue in Q4. Mainly in the areas of, (a) refresh of technology, which we're going to do in the 4th quarter, and it's also going to be an infrastructure, in expansion that we are doing in China as well is in our new sites in Brazil and Dubai.

So, we'll see some of that happening in the 4th quarter. If you look forward in '12, it is premature. We have not done our plans at this point in time. We will come back to you. Clearly some of the effectiveness that we have seen this year we expect to continue over 2012. So those days of CapEx being in the 6%, 7% range of revenue are over in the long-term as far as I'm concerned. But we will come back to you with those ranges as we plan for 2012.

**Manish Hemrajani** - *Oppenheimer - Analyst*

One last one for me. Can you remind us of the impact of the rupee volatility on margins and what grade are you assuming in your guidance?

**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

We have a long-term hedge volatility where we hedge out 2 to 3 years. We don't indicate unfortunately our individual hedge rates and the exact impact in any particular quarter as it compromises our commercial position in many cases. So my apologies for that. But clearly our hedge rates in this quarter have been better than the hedge rates in the same quarter last year, and we are seeing a benefit of that in our cost lines.

There is a 2nd aspect of foreign exchange, which is a re-measurement of our receivables in some aspects of our balance sheet that appears below the Income from Operations line. We do disclose that. We made a $9.7 million gain on that in this quarter compared to a $5.5 million gain in the quarter 3 of last year.

So we got a benefit of about $4.2 million relative to Q3 of last year on foreign exchange re-measurement below the line. It does not impact our adjusted operating income, but it does impact our net income and EPS.

**Manish Hemrajani** - *Oppenheimer - Analyst*

Thank you. That's all I have.

**Operator**

Our next question comes from the line of Sachin Jain with Kaufman Brothers.

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**Sachin Jain** - *Kaufman Brothers - Analyst*

Hi, guys. Good set of numbers here. My first question is at a high level, how do you find the current slowdown different from what you saw in 2008, 2009, in terms of how it is impacting your BPO business?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

As I was saying earlier, the biggest difference between the current environment and 2008, 2009 is the fact that our clients' leadership teams are stable. They have very clearly determined over the last 2 years not to add capacity, so they are not in a mode of saying, "I need to restructure to take further capacity out".

They are in a mode of saying "how do I convert a lot of my additional capacity needs as well as existing capacity into variable costs". The other thing they are doing is taking a look at all their operations and saying "how do I find a way to drive more optimization and effectiveness in those operations?" Whether it is working with someone like us to move work or actually having us participate in driving a big transformation agenda.

And the 3rd, and this is interesting, because a lot of our clients, for some quarters now, and we've talked about it, are focused on how to drive more growth. This is a low growth world, and therefore how to get that incremental growth in developed economies, which is a tough task, and using Smart Decision Services to do that. And then when you look at emerging economies, a number of them are jumping on to emerging economies and saying "how do I grab more share in emerging economies, how do I ride the growth wave in emerging economies?" Because those are important to get growth for the company for them.

We are participating in every one of these moves that our clients are making. Very different from the thinking and behavior in the last cycle.

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**Sachin Jain** - *Kaufman Brothers - Analyst*

Fair enough. And can you talk about the on-site/ offshore mix in your IT Services business? And how do you expect this mix to trend over the next few quarters?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Obviously our on-site/ offshore mix has changed since our acquisition and integration of Headstrong. Headstrong having a much higher onshore proportion. A lot of our work around Smart Decision Services, particularly the re-engineering efforts that we have with our clients, are onshore in their centers, optimizing their operations.

So to the extent that continues to grow, it will continue to add more revenues and resources in onshore locations, not just in the US but also in onshore locations in Europe, onshore locations in Latin America, as we start working with clients there, in South Africa, as we've grown that business, in China and so on.

And then of course, onshore operating centers over the last 2 or 3 years, our onshore resources, for example, in the US have grown in our operating centers. And these are doing types of work that often needs to be closer to clients, it is sensitive from a client touch perspective, is in the healthcare arena. It is in the order-to-cash arena, a lot of that is much closer to our clients.





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The way we think about these is a global delivery of services. In many cases, we don't think about that delivery of services as onshore/offshore. It'll surprise you a little bit, but we don't track that as a very deterministic metric. Most often we, in dialogue with clients, figure out the right mix that solves the problem for that client for that particular situation.

And more and more we are finding in some cases giving the high, value-added services that we are getting into, a lot of the expertise we draw from markets that are more developed across the world.

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**Sachin Jain** - *Kaufman Brothers - Analyst*

Great. Thanks for taking my questions.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Thank you.

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**Operator**

Our next question comes from the line of Bryan Keane with Deutsche Bank.

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**Bryan Keane** - *Deutsche Bank - Analyst*

Good morning. I just wanted to make sure I understand the demand picture. We get a lot of questions about the last 3 months, and I know you guys commented that the US consumer finance in Japan was weak before and it's still weak.

Any other change that you would point out over the last few months that has been different in the environment? I just want to be specific there. Thanks.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

None, Bryan, that we would point out, other than the fact that, as I said, the European banking environment, I suspect, one would say, is volatile and uncertain. However, as I said, our exposure to that environment is very small. We've actually obviously tried to grow that business over time, but it takes time to do that. So in our pipeline, we don't see any change other than the 2 that we have already pointed out.

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**Bryan Keane** - *Deutsche Bank - Analyst*

What about Headstrong? I know they have a lot of capital market's exposure and obviously that's been a huge area of volatility. Does that outlook there still hold?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

At the moment, yes. Obviously MF Global, as I've said, we've already incorporated into the outlook, the impact of MF Global. But other than that, at the moment in our pipeline and in the work, we haven't seen any impact come through, but these are uncertain times.

These are volatile times. I am sure everyone is evaluating their view of the future, and we will have to monitor the situation as we go forward.

**Bryan Keane** - *Deutsche Bank - Analyst*

Okay, and then just two more quick ones for me. On the adjusted operating margin, do you guys expected that to expand on a year-over-year basis in 4Q '11? And then secondly, how big is EmPower in terms of annual revenue and maybe the growth rate that it's been growing at? Thanks so much.

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

The first one, as I said, Bryan, earlier, our adjusted operating income margins we had earlier indicated, even in our medium term outlook, will remain stable. All our productivity drive and improvement in G&A, et cetera, we would reinvest back in the 3 areas that we pointed out very clearly. Global growth, front-end sales, and client-facing teams with deep domain expertise, and new product innovation. Particularly innovating on new products along with our clients.

Those investments will continue and that will have our adjusted operating income margins remain stable over the next couple of years. To your question on EmPower, Mohit?

**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

EmPower is a reasonably small impact right now. This year the impact of EmPower would be not even, hardly, a couple of million dollars.

**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

And obviously, it's in a space of high growth. It's in a space where almost every client in every industry wants to find a solution for in terms of driving customer service conversations, as well as growth and brand and promotion conversations, whether it is CPG, Pharma, retail, or it is financial services, insurance, et cetera.

So we expect the business to be actually a high growth business and we have a team that is extremely expertise-driven in that area. So we are very, very thrilled about the fact that they are part of our team. But in terms of impacts for the year, extremely small.

**Bryan Keane** - *Deutsche Bank - Analyst*

Okay, congrats on the solid quarter.

**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

I just want to add to Tiger's comments on margin, where he mentioned over the next couple of years. I think you had also asked about Q4 specifically. In Q4 '11, clearly the margin would accelerate. That's how we're at 16.2% of our range. That's how we'll get to the high-end of our range. By definition, our quarter four '11 margins will be better to get there.

I want to make one other clarification for a question asked earlier on our exposure to Japan. I actually gave a range of 10% to 12%. I had included in that some of the other work we do in China. The true exposure really is 5% to 7%. Just want to clarify that for the group.

**Bryan Keane** - *Deutsche Bank - Analyst*

Mohit, on the 4Q margins, what about on a year-over-year basis? Obviously sequentially they're always strong because of seasonality, but how do they look year-over-year?

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**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

On a year-over-year basis, if you recall in quarter 4 of 2010 we had a completely outstanding quarter for various reasons. There was a lot of business that had got delayed that culminated in quarter 4 of '10. It was a very special quarter for us, going back in time, so I would frankly not expect those kinds of margins as you saw in Q4 of '10, which had unique special causes attached to it.

But clearly, as far as sequential growth is concerned, you should see healthy margins in quarter 4 of '11.

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**Bryan Keane** - *Deutsche Bank - Analyst*

Great, thanks so much.

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**Operator**

Our next question comes from the line of Kunal Tayal with Bank of America/Merrill Lynch.

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**Kunal Tayal** - *Bank of America/Merrill Lynch - Analyst*

Thanks. Tiger, just commenting on the 2012 discussion. While your overall pipeline may be flattish on a year-over-year basis, is there a difference in terms of the split between hunting and mining opportunities? And also, is there a significant difference in terms of plans that are already available in the system from successful deals during the year versus the same time last year?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

No, I don't think there's any significant difference between hunting and mining that we would call out at the moment. I think the one that we will call out and we actually talked about it, is the pipeline has a higher composition than a year back of Smart Decision Services and IT, in the overall pipeline, reflecting our faster growth of Smart Decision Services, which has been happening for the last many quarters, and in the most recent quarter, on IT.

And those tend to be, as I said earlier, a faster cycle conversion of the pipeline into revenue. That is the one that is more significant and material in terms of the difference in the pipeline.

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**Kunal Tayal** - *Bank of America/Merrill Lynch - Analyst*

Sure, got it. And continuing on the point on Smart Decision Services, while this part of the business is on a secular growth trend. Just some perspective on the part of revenues in this part of the business, that are project-based in nature.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Historically, a lot of the work that we do, in fact a significant portion of the work we do in the analytics area is annuity business not project business; and that I think is a big distinction between our analytics business and practice as compared to many other analytical services that you would find in the marketplace.

A lot of our engagements start with pilots, as you can imagine, but very quickly convert to core annuity services over many years. These are long-term contracts. And then the other side of Smart Decision Services, which is a much smaller portion, is re-engineering services. And re-engineering tends to move from project to project.

But our history of re-engineering which is now 5 years old, shows that based on delivery and performance and based on the current environment that people are transforming and optimizing their own operations, they tend to come back for the next round of optimization and the next round of processes that need to be looked at.

They are project in nature but they tend to get repeated into a series of projects. They are more on-site, in fact substantially on-site as I said, but that's a smaller proportion of the much bigger Smart Decision Services.

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**Kunal Tayal** - *Bank of America/Merrill Lynch - Analyst*

That is helpful, thanks.

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**Operator**

Our next question comes from the line of Vincent Lin with Goldman Sachs.

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**Vincent Lin** - *Goldman Sachs - Analyst*

Great, thanks. Tiger, not to beat a dead horse here, but going to next year, just wondering, it almost feels like relative to last year where you had some client-specific delays and making some internal repositioning or restructuring of the business, it almost feels like the Company is on better footing, just in terms of new client momentum, just in terms of execution, et cetera.

So just wondering, macro volatility aside and the kind of uncertainty that you have cited, how do you feel about the business momentum going to next year versus around the same time last year, where just in terms of visibility, the stale of business? Any color you provide would be helpful. Thanks.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Vincent, from our perspective, we feel good about our positioning. We feel good about the investments we have made, which obviously as we think about next year, will start beginning to pay off. We feel good about momentum we have in client discussions.

Having said that, the environment is different. Unfortunately, we cannot think about our positioning in the absence of the environment. It is in the presence of the environment. That's the way I would respond. We feel very good about our position. We feel very good about the investments we've made and we continue to make.

We feel very good about the journey that our clients are on in terms of changing the way they run businesses, in terms of variabilization of costs and so on. But the reality is that the environment continues to be uncertain and volatile.

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**Vincent Lin** - *Goldman Sachs - Analyst*

Okay, and maybe just in terms of the regulatory compliance opportunities, in your prepared remarks, you mentioned the opportunity to run Solvency. Can you provide more specific color just in terms of the kind of regulatory compliance work that you're doing for clients? And just given all of the regulatory changes that we're seeing right now, how big of that opportunity that could mean for guys over the next couple of years? Thanks.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Strategically that would be a big area of focus, investments, and new product innovation. In fact, it is one of the areas that we are spending time and investment dollars on in terms of building out some of those capabilities.

About 4 years back, we did an acquisition of a business called Axis that actually brought in risk and enterprise risk capabilities particularly around audits, around stocks, compliance and so on. We're now adding Basel II and European Basel II and insurance Basel II requirements and needs into it. We already have a very strong practice over many years that we've built in financial services around risk and reporting and portfolio monitoring services. All of those are areas that would grow.

The specific areas to grow would depend upon the pace of that change, the Dodd-Frank Act and how that plays out in terms of the needs for our clients to add more resources, to get more work done, and we are in dialogue with a number of clients to help solve those problems for our clients.

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**Vincent Lin** - *Goldman Sachs - Analyst*

Got it, and maybe last one for Mohit. It looks like there was a pretty meaningful FX gain this quarter. How should we think about the FX line below the operating income line for next quarter? Thanks.

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**Mohit Bhatia** - *Genpact Ltd - Chief Financial Officer*

Sure. Like I mentioned, the re-measurement gain in the balance sheet depends on quarter-to-quarter movement in the foreign exchange rate. There has been a lot of volatility in the last 45 days to 2 months, which is why you see larger numbers of gains this time.

Assuming the rate does not change, you should not see any gain or any loss in the 4th quarter. Now it's hard to predict whether the rates will change, in which case there could be a gain or loss, but for planning purposes, we have to assume the rate will remain the same as in quarter 3, and therefore there will be no gain and no loss in the next quarter.

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**Vincent Lin** - *Goldman Sachs - Analyst*

Great, thanks a lot for the color.

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**Operator**

Our last question comes from line of Ashwin Shirvaikar from Citi.

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**Ashwin Shirvaikar** - *Citi - Analyst*

Thank you. Tiger, you had a common in there that you said you need to be adaptable to the macro changes and so on, which to some extent you have always been.

But can you give some examples of how Genpact is an organization, including Headstrong, is changing to make this happen? How it might manifest itself in the financials?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Ashwin, that's actually a great question. We do think that today's world in almost every industry and certainly in our business demands us, in order to be good partners of our clients, to be really flexible and adaptable.

Our clients are facing a world of uncertainty and volatility. They change their priorities often, and for us to be able to be in those dialogues so that we can actually together decide priorities and then for us to be able to change the organization and delivery capabilities to meet those changed needs, is very important.

One of the ways clearly, we identified about 3 or 4 quarters back, for us to be able to do that really well is to shift the center of gravity of our leadership team to be more balanced between our client locations and our delivery centers.

By the end of this year, in the next couple months, we would have completed that transition where half our leadership team, senior leadership team, would be in our client locations with the capability to have dialogue with the C-Suite our of clients, understanding their changing priorities.

And then from a delivery perspective, the ability to move resources across the different verticals, across different geographies, the ability to move additional resources into areas that we see growth in. An example of that would be the actions we've taken over the last 4 quarters around Smart Decision Services, around reengineering and optimization of practices and client locations for a number of our clients.

Our ability to move resources to be able to offer them up to clients so that they can use them. And these are black belts, these are people with deep domain expertise in finance and accounting or in financial services or in procurement. I would say that combination is what is necessary, and that combination is I think what we have that makes us different in the marketplace.

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**Ashwin Shirvaikar** - *Citi - Analyst*

Okay. Couple of smaller questions. One was with regards to, do you have a number for penetration of Smart Decision Services in your client base?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Penetration of Smart Decision Services meaning how much more run rate we have? Is that what you're trying get to, Ashwin?

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**Ashwin Shirvaikar** - *Citi - Analyst*

Yes, what percentage? I know the shorter cycle works so it sort of reinvents itself and you cannot give a pure, longer number, longer standing number. But if you have X clients, what percent of X knows about Smart Decision Services and is working with you on ASDS project?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

I understand. First of all, I just want to repeat what I said, which is most of Smart Decision Services that we do particularly around the analytics space are actually annuity businesses. These are people who are dedicated to clients. They actually understand the client environment and then they do a series of analytical ranges, of model building, insight building for our clients. What they do may change every day, but they are dedicated, annuity businesses.

Our penetration of our broad client base just in terms of them knowing that we have Smart Decision Services hopefully is very high. But in terms of using those services, we have a long run rate to grow as we look at our client base, and then within our client base, also we have a huge run rate of growth.

More broadly, I think every one of our clients in every industry is looking at the availability of data with them and with their competitors, and saying, there's an opportunity to leverage the data we have to build insight. There's a need to do it, and there's a competitive pressure to do it. Because if they don't do it, their competitors will do it. So the secular demand for building insights from data I think far outweighs any other penetration conversation.

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**Ashwin Shirvaikar** - *Citi - Analyst*

Okay. It's a useful point. One last question. In your comments obviously you mentioned US consumer facing and Japan. And you quantified Japan. Can you quantify US consumer facing also?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Yes, our US consumer facing business is about 6% to 7% of our overall revenue. The more important point there, Ashwin, is additions to that is what we are saying is low, because our pipeline around US consumer facing financial services is smaller than it used to be.

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**Ashwin Shirvaikar** - *Citi - Analyst*

Okay. Got it. So accumulative to Japan plus that, it's maybe 12%, 13% and the rest of your business is fine?

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

And so is the business that we are ready do in Japan and the business we are ready do with US consumer financial services. It's just that we are not finding further traction and further growth in US consumer financial services.

And in Japan we think there will come a time when all of that is going to come back. It's a question of that investment beginning to happen again.

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**Ashwin Shirvaikar** - *Citi - Analyst*

Absolutely. Great quarter, guys, thank you.

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**Tiger Tyagarajan** - *Genpact Ltd - President & Chief Executive Officer*

Thank you.

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**Operator**

I will now turn the call back over to Shishir Verma for any closing remarks.

**Shishir Verma** - *Genpact Ltd - Head of Investor Relations*

Thank you, Erica, and thank you, everyone, for joining us on the call today. If you have any questions, please do not hesitate to reach out to me.

**Operator**

Thank you for your participation in today's conference. This concludes the presentation. Everyone may now disconnect, and have a great day.