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PRESENTATION

Operator

Good day ladies and gentlemen. Welcome to the second-quarter 2011 Genpact Limited earnings conference call. My name is Erica, and I'll 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 - VP IR*

Thank you Erica. Hello, everyone, and welcome to Genpact's earnings call to discuss our results for the second quarter ended June 30, 2011.

My name is Shishir Verma, Head of Investor Relations. With me I have Tiger Tyagarajan, our President and Chief Executive Officer, and Mohit Bhatia, our Chief Financial Officer.

We hope you've had an opportunity to review our earnings release. If not, you'll find it on our website at Genpact.com.

Our agenda for today is as follows. Tiger will begin with an overview of our results, a perspective on the current environment, and an update on the integration of our Headstrong acquisition. Mohit 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. I expect the call to last about an hour.

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

In our call today, we will refer to certain non-GAAP financial measures which we believe provide additional information for investors and better reflect the way management views the operating performance of the business. You can find a reconciliation of those measures to GAAP, as well as related information, in our news release on the Investor Relations section of our website, Genpact.com. Please also refer to the investor fact sheet on the front page of the IR section of our website for further details on our quarter results, which we hope you will find useful. This includes, among other things, geographic, industry vertical and BPM and ITO revenue details.

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

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

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

Genpact delivered a great second quarter with strong growth in revenues, Adjusted Operating Income, earnings per share and cash flows. This growth was led by Global Client Business Process Management and Smart Decision Services, in line with the strategy we discussed at our recent investor day. We closed the acquisition of Headstrong during the quarter, where the integrations were ramping well. We've already signed five cross-sell deals.

This quarter, we increased the number of clients contributing $1 million to $5 million in annual revenues to 103, including 25 from Headstrong, from 52 in the prior-year quarter, giving us a great run rate for future growth. We achieved these results despite challenges in the global environment, notably Japan and US consumer-facing financial services. Our business is highly diversified by geography, industry, and service offerings, so we were able to mitigate the revenue impact of these events through continued strength in other areas of our business such as in Europe, Australia and China, as well as offering them financial accounting insurance operations and Smart Decision Services.

Here are the highlights. Quarter two revenues were $398 million, representing 29% growth year-over-year and 20% growth sequentially with organic revenues increasing 15% year-over-year and 7% sequentially. Global Client continues to grow with organic Global Client BPM revenues increasing 22% from last year's second quarter and 5% sequentially, and the Global Client ITO business growing organically by 10% year-over-year and 8% sequentially.

Adjusted Operating Income increased by 40% from quarter two of last year to $65.3 million. Overall, AOI margin improved by 130 basis points, driven by improvements in costs, productivity and efficiency. Headstrong was AOI margin neutral for the quarter.

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Net income increased by 40%. Diluted earnings per share increased by 39%. Adjusted diluted earnings per share increased by 42%.

Growth was broad-based across geographies and most industry verticals, driven by Global Client and Smart Decision Services. Global Client BPM growth of 24% was led by 54% growth in Smart Decision Services, which is comprised of our reengineering, analytics, and enterprise risk consulting businesses.

We also saw solid demand for core offerings such as financial accounting services and in key growth verticals such as capital markets, consumer products, retail, insurance, and pharma. Geographic growth was particularly strong in Europe, Asia Pacific and India.

Our unique combination of process thought leadership captured in our Smart Enterprise Processes framework and our ability to reengineer these processes is resonating with clients. As an example, we leveraged our SEP Smart Decision Services and IT offerings to help a US-based manufacturer of furnishings and ergonomic products who was having difficulty realizing the financial benefits of implementing an ERP system.

First, we used SEP to identify and benchmark their performance in key metrics such as inventory management, rental payment, in overtime.

Second, we used Smart Decision Services to reengineer their procure-to-pay (inaudible) cash and distribution processes.

Third, based on this engagement, our ITO team won the contract to implement Oracle [out to our] ERP solution. Our assessment and recommendations built a self funding business case for the company that will add $19 million of EBITDA for the client.

Our business for G increased this quarter by 5% over last year driven by BPM growth in commercial finance infrastructure businesses and financial accounting and reflected the continuing strength of this relationship.

Adjusted Operating Income and margin expanded this quarter as lower gross margins were more than offset by improved SG&A as a percent of revenue. We continue to reinvest recent cost savings in expanding our front end teams, new product innovation, new geographies, and increased training for our employees. As we go through the second half of the year, we expect to increase our investment in these areas. Investment in talent always takes time to ramp up, but so far this year, we've added 24 professionals across our business development and relationship management functions. These individuals have, on average, over 20 years of experience in key growth industries such as banking insurance, pharmaceuticals, healthcare, and technology, and are from some of the largest global companies in each sector. We expect to add an additional 36 business development professionals across the US, Europe and emerging markets.

The current demand environment remains stable and we are continuing to win new business. We added 23 logos in the quarter, including one from Headstrong. This compares to 16 in quarter one of 2011 and 22 in the prior-year second quarter.

This quarter's wins were broad-based and included a large US consumer electronics company where we are delivering high-end customer support and won the deal because of our ability to use analytics to improve process performance and drive effectiveness. We won a large US healthcare company in the pharmacy benefits management space where we will leverage our Smart Decision Services capabilities to help the company transform its claims management database to include more consumer-centric data. This involves completely redesigning their ERP data warehouse.

Strong client demand is now being driven by several trends. The first is the desire to go beyond cost reduction and process optimization to focus on growth opportunities, all of which require upfront transformation. Second, companies are focused on becoming more competitive in mature, slower-growth economies by building business insights to drive smarter decision-making and better business outcomes. In both cases, clients are looking for a partner that can bring them global delivery capabilities to help fuel growth and generate effective [new] gains across the enterprise rather than simply providing efficiency gains within a function.

Clients are also looking at emerging markets as sources for growth and expansion. We see strong demand for BPM services in Asia and Europe and have expanded our presence in China, India and Latin America. For example, we just announced our new delivery center in Brazil on August 1. We have a global pharma company as our anchor client, but we will also leverage the center for other Global Clients looking to enter the Brazilian market as well as for high-growth Brazil-to-Brazil companies.

Turning to the pipeline, overall, the pipeline is relatively flat and cycle times are stable. The pipeline continues to show strong demand for our core offerings in finance and accounting and insurance as well a Smart Decision Services with ongoing softness in services related to US consumer credit such as collections and mortgage originations.

Regionally, the pipeline has shown exceptional growth in Europe and Asia-Pacific, particularly Australia and China. Deal sizes are stable but smaller than they were three years ago. As we enter relationships with clients through Smart Decision Services, in many instances this opens up the opportunity to cross-sell additional services. These deals have much shorter cycle times and give us an opportunity to quickly demonstrate our breadth and depth of services and our execution capabilities. For example, late last year, we won an opportunity to use SDF to provide sales reporting analytics for a US division of a global pharmaceutical client. Since then, we have expanded the scope of this relationship to include BPM services of procure to pay an HR and IT support for Europe.

Discussions are underway for Genpact to assume global responsibilities for these processes, as well as others, such as Order-to-Cash. Much of this expansion, including into new geographies, was sole-sourced as the client gained confidence in our consistent and seamless delivery capabilities, saw true value in leveraging our Smart Enterprise Processes thinking and framework, and realized the benefits of a global partner.

We are making great progress in integrating Headstrong and to date have hit all our internal milestones. Headstrong is a complementary high-growth business that is an excellent fit strategically, financially, operationally, and culturally.

Strategically, we have gained critical deep domain and technology expertise in the complex but highly attractive capital market industry vertical, as well as Headstrong's strong client base that includes nine of the top ten investment banks, two of the top five asset managers, and other Fortune 500 companies. Additionally, the Headstrong team is contributing their experience and expertise to new product innovation such as collateral management and end-to-end fund administration, as well as to broader strategic discussions, including further building domain expertise and verticalization.

The primary growth opportunity is to cross-sell Genpact's products and services and process expertise to the capital markets vertical and Headstrong services to Genpact's clients. As mentioned earlier, we have won five cross-sell deals. These include,

one, for a large banking company which has been a long-standing Headstrong client, we're providing risk analytics services where we will implement process, data governance controls, and monitoring as part of their overall BASEL II initiative.

Second, with the Asset Management division of one of the world's largest banks, we are leveraging our analytics and asset servicing capabilities to mitigate risk exposure and monitoring and remediating erroneous data in complex asset classes such as loan structure products and OTC derivative portfolios.

Three, with a large financial services client, Headstrong's capabilities won a strategic assessment project that we will review the documentation and workflows of corporate actions event processing, as well as a longer-term engagement to implement the proposed improvements.

Finally, two engagements for one of the largest commercial leasing companies in the world where we leverage Headstrong's core technology strength to manage their application services and infrastructure services organization and increase overall IT efficiency and effectiveness.

In addition, we are actively working on 50 other opportunities with large investment banks and asset management clients to cross-sell Business Process Management services to Headstrong clients. These will take time to mature, but we are very encouraged by the nature and quality of these discussions.

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

Mohit Bhatia - *Genpact Ltd - CFO*

Thank you Tiger. Good morning everyone. Today, I will speak about our second-quarter results in detail, including a summary of key highlights from the balance sheet and statement of cash flow.

On a year-to-date basis, our revenues for the first half of 2011 were $728.2 million, up 22% compared to the first six months of 2010. Our Adjusted Operating Income for the first six months of 2011 was $116.5 million, up 29% compared to the same period last year, representing a marginal 16%, up 80 basis points.

Overall, the second quarter of 2011 was a very good one for us where we saw growth in revenues, earnings and cash flows. Our revenues for the quarter were $397.6 million, representing 29% growth with Genpact organic revenue increasing 15% year-over-year, including approximately 2% benefit from foreign exchange.

Our Business Process Management growth was 18%, driven by strong Global Client BBM growth of 24%. Our ITO business delivered 5% organic growth with our Europe ITO operations now stabilizing.

Adjusted income from operations increased 40% to $65.3 million, representing a margin of 16.4% compared to 15.1% in the second quarter of 2010. This improvement reflected a better cost structure, favorable foreign exchange as compared to last year, and timing of certain investments that are now planned for the second half of the year.

The contribution of Headstrong was Adjusted Operating Income margin neutral in the second quarter, and this was expected to continue for the rest of the year.

Our gross profit for the second quarter totaled $144 million and represented a margin of 36.1%. As in the first quarter of 2011, our gross margins in the second quarter were lower than last year, primarily due to investment in resources for new accounts, local delivery for new client wins, growth in emerging markets, including Latin America and the Middle East, and investments in employee training, career enhancement, and rewards.

Sequentially, our gross margins improved 100 basis points. As we said during the first-quarter earnings call, we expect continued sequential improvement as we go through the balance of the year.

SG&A expenses totaled $87 million in the second quarter of 2011, representing 21.8% of revenues versus $75 million or 24.5% in the second quarter of 2010. The improvement of 270 basis points was driven by leverage from higher volume and better cost (inaudible).

In the second half of 2011, we intend to increase spend and investments in [certain] sales, account management resources, new products and services, as well as a new global delivery center. These investments will get reflected in SG&A.

As of June 30, 2011, Genpact had approximately 51,300 employees worldwide, including Headstrong employees, up from approximately 42,500 as of June 30 last year. Genpact's employees' attrition rates increased 3% year-over-year, largely driven by expected growth trends in emerging markets such as China and India where we have many of our delivery centers. However, attrition remain stable at 29% compared to the first quarter of 2011 and declined 2% from the end of 2010. We expect the attrition rate to improve slightly over the course of this year.

Headstrong's attrition rates, especially at the senior ranks, have remained relatively stable post the deal closing.

Our annualized revenue per employee for the six months ended June 30, 2011 was $34,500, up from $30,300 for the six months ended June 30, 2010, reflecting higher end offering such a Smart Decision Services and the Headstrong business.

Our tax expense for the quarter was $14.4 million compared to $4.9 million in the second quarter of 2010. Our effective tax rate was 26.9% for the second quarter of 2011, up from 14.9% in 2010, in line with our expectations. As we indicated last quarter, we expect Headstrong to add a few percentage points to our original full-year estimate of 23% to 25%. We now expect our effective tax rate to be in the range of 26% to 28% for the full year due to the jurisdictional mix of revenue, post acquisition, and the sunset of the STPI tax holiday.

Net income was $39 million, or $0.17 per diluted share, in the second quarter of 2011 compared to $27.8 million or $0.12 per share in the second quarter of 2010. The 14% increase of net income was primarily due to higher revenue and higher operating income and also reflected a $2.6 million contribution from Headstrong net of their share of these expenses. Additionally, we had higher interest income and a foreign exchange investment gain that is reflected below the income from operations line.

After deal related expenses, Headstrong represented approximately a $0.01 dilution on a GAAP basis in the second quarter. However, we continue to expect Headstrong to be marginally accretive on a GAAP EPS basis for the full year of 2011.

I will now turn to our balance sheet. As of June 30, our cash and liquid assets totaled $336 million compared to $481 million at the end of the first quarter. This balance is after utilizing approximately $187 million our cash for acquisitions, $21 million for debt repayment, and $6 million for capital expenditure.

Our days sales outstanding in the second quarter of 2011 stood at 83 days, an improvement of one day sequentially and the same as in the second quarter of last year.

Turning to operating cash flows, we generated $61 million of cash from operations in the second quarter compared to $30 million generated in the same quarter last year. This improvement of $31 million was due to increased earnings and better management of working capital, aided by certain statutory refunds received this quarter. On a full-year basis, we continue to expect cash flow from operations to grow at least in line with revenue. Our capital expenditure continues to benefit from efficiency and utilization improvements in infrastructure and technology virtualization and represented 1.3% of revenue for the first half of 2011.

In conclusion, we've had a terrific quarter with strong top-line and margin performance contributed both by the underlying business and by the recent acquisition of Headstrong. We continue to make 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.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Thank you, Mohit.

In closing, the foundation of Genpact was built on a culture of driving operational excellence and efficiency through lean Six Sigma. That's in our DNA.

As we look at our challenges -- as we look at the challenges our clients face today and in the future, there are three things that differentiate us from competition. First, we have built the [science of] processes through our innovative SEP framework that cut across silos in an organization and drive effectiveness, generating business impact that can be three to five times the savings when compared to efficiency. Second is Smart Decision Services, where we build insights from data and analytics to help clients make smarter decisions and run their businesses better. The third is to actually implement the recommendations from the insights and run the processes for clients. It is the interaction of these three capabilities that allows us to deliver unique value to our clients.

Our acquisition of Headstrong is off to a great start. While it's still early days, we are focused on leveraging cross-sell opportunities in both directions, all Genpact services to Headstrong clients and Headstrong services to pre-existing Genpact clients. The combination of Headstrong's deep domain and technology expertise coupled with our leading Business Process Management and Smart Decision Services offerings, is resonating with clients.

The cross-sell pipeline for new opportunities is growing, and we anticipate a typical decision cycle time for these BPM deals of approximately nine to 12 months.

We delivered a terrific second quarter and first half of 2011 despite some concerns in the global environment, the tragic tsunami in Japan and the slow recovery of US retail banking and consumer credit, thanks to the diversity and strength in most of our business.

We continue to expand our global delivery capabilities and see good momentum. Therefore, we continue to expect full-year revenue growth of 23% to 25% and Adjusted Operating Income margins of 16% to 16.5%, which includes the contribution from the Headstrong acquisition for eight months. Based on our results in the first half, we expect to come in at the higher end of these ranges.

Shishir Verma - *Genpact Ltd - VP IR*

With that said, Erica, please open the floor up for questioners.

QUESTIONS AND ANSWERS

Operator

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

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Great, thanks. Great quarter here, everyone. I wanted to I guess just ask on the revenue upside, Tiger, where would you characterize the biggest upside relative to your expectations in terms of what you saw in the quarter?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

As I said, we clearly saw upside in our core financial accounting, particularly in Europe, Asia-Pacific. I called out Australia and Japan, our insurance operations, and of course a broad range of Smart Decision Services, reengineering both on the cost side as well as on the growth side for our customers and analytical services. Now that also offset, as I said, some of the softness we saw both in Japan, as you would expect, as well as retail consumer lending in the US.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Got it. Thanks for that. I guess also early on the call you mentioned that Headstrong would be I think margin neutral. Yet just looking at some of the stats, I thought it might be a little bit dilutive there. Can you maybe help reconcile that or did I hear that incorrectly?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

I'm going to have Mohit answer that.

Mohit Bhatia - *Genpact Ltd - CFO*

For this quarter, Headstrong had been margin neutral as far as Adjusted Operating Income margin is concerned, but Headstrong has been dilutive to net income and EPS by $0.01. That is also primarily because, in this quarter, we took a lot of deal expenses. We do expect Headstrong to be marginally GAAP EPS accretive for the full year.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Good, so no change there. I guess the last one for me just there's been some announcements around layoffs in the financial services sector, obviously a lot of concern. It sounds like it's not showing up here, but I'm curious. With your Headstrong exposure to the capital market side, have you seen any change, or are you watching things a little bit more closely there, given what's been happening on the ground in the last few weeks?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Nothing -- we haven't seen anything yet, but as you rightly said, the world is a different place these days, so we watch exactly the kind of events we talked about. These are very, very recent, in fact more recent than this this call could have captured. So you are absolutely right, we are all watching all events of this nature.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Very good. Excellent. Thanks a lot. I appreciate it.

Operator

Rahul Bhangare, William Blair & Co.

Rahul Bhangare - *William Blair & Co. - Analyst*

Thanks for taking my questions. Can you talk about the ramp of projects that were either pushed out last year or delayed, and how they're contributing this year?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

I think we talked about this at the investor day as well. Most of the ramps that were pushed out last year have started getting executed now. Not a single one of them got cancelled. There were a few that got more elongated as these clients continued to break them up into what they now think are more logical phases where they get payback and then they reinvest it back. Other than that, not a single one got cancelled, as we had said, and every one of them is getting executed.

Rahul Bhangare - *William Blair & Co. - Analyst*

Business Process as a service, can you talk about maybe how many customers you have there, and how Genpact positions itself in the market?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Well, very early days for Business Process as a service. We have two or three customers where we provide Business Process as a service at the enterprise services level and that would be, for example, finance and accounting, HR operations. These are obviously companies where either they are divisions of large corporations but in different markets that are starting up, and therefore it's easy for them to not get involved in legacy.

One of the biggest challenges in Business Process as a service is that you have to give up what you have as legacy, so if you don't have legacy, it's great. Emerging markets therefore are great opportunities for us to do this.

The other area where we are finding early traction in Business Process as a service is specific point solutions that are offered on the cloud. One of the great ones that we are now beginning to see traction in is a small acquisition that we call -- that we did call Akritiv that allows on-the-cloud collections and receivables management for business-to-business enterprises with strong reporting and MIS capabilities. But still very early days, from our perspective, offering large Business Process as a service.

Rahul Bhangare - *William Blair & Co. - Analyst*

Thank you.

Operator

Dave Koning, Baird.

Dave Koning - *Robert W. Baird & Co. Inc. - Analyst*

Good job. First, I just wanted to better understand. I think Headstrong, just backing into the number, had to be around $44 million of revs in Q2. Is that about right?

Mohit Bhatia - *Genpact Ltd - CFO*

Yes, that's about right. In fact, they was closer to $45 million.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Yes.

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Dave Koning - *Robert W. Baird & Co. Inc. - Analyst*

Great. Then is there anything seasonal about Headstrong, meaning if it contributes, do about two months this quarter, would that mean you just add another $20 million or something like that, so next quarter you'd think in the ballpark of $65 million, just on a full-quarter basis?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Yes, one of the most important things is to understand Headstrong's Japan business. Now, if you look at -- the way to think about this business in a normal year, in a normal year, is that they do have, like most businesses of this nature, a ramp as you go through the year. However, the fact is that Japan will take time to recover. We don't know when Japan will recover. Therefore, we have to be prudent as we think about the balance of the year on the revenues from Headstrong as well as from our clients in Genpact as it relates to Japan.

Dave Koning - *Robert W. Baird & Co. Inc. - Analyst*

Part of the reason I'm asking a couple of these questions is because it looks like, through the remainder of the year, maybe there's some conservatism, but it looks like you're kind of guiding towards a little bit of core organic deceleration from the 15% in Q2. I just want to better understand that. Are you trying to take a reasonably cautious approach or is there anything in there really other than that?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

So let me start by saying that, first of all, as Mohit said in his articulation of revenue, there is a 2% benefit that we got through foreign exchange. Obviously, as we think about the second half, we wouldn't plan for that.

Then of course there are clearly some known risks. I talked about Japan and retail consumer lending in the US. We actually don't think it's going to come back this year. Then of course, I think you talked about prudence. The current environment I think dictates that we just remain prudent.

Dave Koning - *Robert W. Baird & Co. Inc. - Analyst*

Yes, okay, that makes sense. My last question then is just in Q2, you had other income of $3 million, which was the same as Q1, despite having all of the debt come on for the Headstrong acquisition. I'm wondering maybe why you didn't start going into an expense mode there and maybe if we should start to expect that in Q3, given all of the debt.

Mohit Bhatia - *Genpact Ltd - CFO*

Yes, this is Mohit. I'll take that. So this was largely because of interest income. Let me explain that. I mentioned in the last quarter call too that our interest income varies with the geographic distribution of our cash. For example, we earn much higher interest rates in India as compared to the US. In quarter two of last year, the average balances in India were very low as compared to large balances that we had in India this time, in this quarter.

Even within India, there has been substantive movement in interest rates over the last 12 months by well over 200 basis points. So all this put together gave us a good upside on interest income in quarter two which more than offset almost $1.6 million of interest expenses that I had to pay because of acquisition financing. Interest was the main reason. There were some one-timers I guess you should know. We received some subsidy from the China state government which is not -- which is a pass-through.

It's also in expense and in income but it does show up in the Other Income line. That's why you're seeing the Other Income line inflated a little more than it should be. But this China subsidy will appear every quarter, at least for the balanced part of this year. Does that help?

Dave Koning - *Robert W. Baird & Co. Inc. - Analyst*

That does. Should we just expect that to continue to be a positive income number the rest of the year? Overall?

Mohit Bhatia - *Genpact Ltd - CFO*

To the extent of this $0.8, $0.9 million of China subsidy, yes. To the extent of higher interest income, as I said, it's a function of how long the cash stays in India and how long the cash is also an element of potential opportunity, acquisitions, etc., which we don't know. But all things equal and assuming that none of these events happen, then as of now you should keep these in quarter three because I do plan to limit some of the India funds to the US in the fourth quarter.

Dave Koning - *Robert W. Baird & Co. Inc. - Analyst*

Great, thank you. That definitely helps.

Operator

Joe Foresi, Janney Montgomery Scott.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

This is Jeff Rossetti in for Joe. Nice quarter here. I just wanted to see if maybe you could -- if there's any way to possibly quantify some of the cross-selling market potential that you see with Headstrong.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Joe, the early cross-sell opportunities are all around primarily reengineering and analytics, shorter cycle, faster decisioning, risk. Those we are seeing immediately. They typically tend to be like many of our early engagements in those $0.5 million at any given point in time. And then those could be scaled up.

I think the bigger opportunity that we're beginning to build up in our pipeline, as I said, is BPM, Business Process Management. You know, typical financial accounting, procurement as well as broad back-office operations saw capital markets, large capital markets businesses. Those take time to decide. They also obviously will go through a cycle of decision-making that, at some point in time, in some cases, will get competitive given the nature and the size of these organizations. We think that, by the time we get to next year and we start talking about 2012, we have said that in the medium-term Headstrong would be a 20% growth business in that term. We expect that to happen driven by these cross-sell opportunities. Of course, there are cross-sell opportunities in the reverse direction of taking IT from Headstrong into specific Genpact lines.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

Thank you. I believe, Mohit, you mentioned the SG&A, G&A might be coming up in the back half of the year. I just wanted to see how you see that trending maybe heading into 2012. Thanks.

Mohit Bhatia - *Genpact Ltd - CFO*

Sure. The investments that he is talking about in the second half, that would obviously increase the SG&A as a percentage of revenue, are already as per plan and are baked into the 16% to 16.5% range that we're talking about. So they're planned. So at least at the Adjusted Operating Income margin level, you should not see any exposure.

The investments will be largely on front-end, on sales resources, on account management resources that we're hiring to man some of our new relationships, as well as in some of the new geographies like Tiger mentioned, Brazil and other areas of Latin America and China that we want to expand in.

In 2012, it's too early to say. We haven't done a detailed operating plan exercise for 2012, but like we mentioned to you in the investor day, our intent as a leadership team is definitely to invest back into the business, even in the medium to long-term.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

To really hold in that medium-term -- and this is more about the medium-term than just about 2012 -- to hold our margins flat and all opportunities to continue to drive productivity and cost, which we will do, the clear objective would be to reinvest it back in the same elements and another element that will continue to drive growth in this business.

Operator

Vincent Lin, Goldman Sachs.

Vincent Lin - *Goldman Sachs - Analyst*

Thanks. Can you also talk about GE revenues during the quarter. It looks like it accelerated versus the first quarter quite a bit. I'm just wondering your expectations on GE for the balance of the year. Should we be expecting GE to be in line with your previous expectation, meaning a low single-digit grower for 2011? Thanks.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

If you look back on GE over the whole of 2010, what happened in 2010 was a reacceleration from almost no growth in the second half of last year. So what we are finding in the first half of this year is really growth in comparison to that first half of 2010.

In the second quarter, we also get the benefit, as we always do almost every year, of the IT business with GE coming back versus the first quarter. As we get to the second half of the year, that growth will then have to be against the second half of last year. We don't expect this kind of growth to continue. So our original thinking that GE would be close to flat or very low single digits continues as it is.

Vincent Lin - *Goldman Sachs - Analyst*

Got it. Maybe just to follow up on Tien-Tsin's question on the banking and financial services sector earlier, you talked at your investor day that you're seeing some slowdown in terms of volumes in the mortgage and also in the credit space. Just wondering the expectations for the volume side of the equation for the balance of the year. How should we think about that?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

So I think we don't -- we continue to see that softness. Let me state very clearly what we are -- where we are seeing this. We're seeing this in origination on consumer loans, so that will be mortgages. We're also seeing it in origination on credit cards, and that kind of auto finance and auto leases. Then we are seeing it in delinquencies and therefore collections, given some of the credit quality of new customers coming in as well as the fact that they actually roll over faster and pay back faster. We don't expect that to change materially during the course of this year. So we're seeing softness obviously not only in revenue but we're also seeing softness in our pipeline in those specific segments in the US.

Vincent Lin - *Goldman Sachs - Analyst*

Got it. Thanks.

Operator

Arvind Ramnani, UBS.

Arvind Ramnani - *BofA Merrill Lynch - Analyst*

You've communicated that Genpact typically does not see significant outperformance. Can you maybe characterize your performance? Was there a one-time payment that boosted revenues, or was there some unrecognized revenues that got recognized, or do you see some kind of specific transaction volume despite that particular set of clients?

Mohit Bhatia - *Genpact Ltd - CFO*

Not really. Like Tiger mentioned earlier, the growth was real, other than the 2% benefit we got from foreign exchange with good rates, the dollar weakening against the euro, yen, and Australian dollar. Other than that, the growth came from Global Client BPM, from Smart Decision Services, from, quite frankly, renewed interest we are seeing in reengineering enterprises, consumer finance and analytics businesses.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

So just to further reinforce, CapEx is the only thing. Mohit called that out, that we would count as we don't know how the second half is going to be. Everything else is all our regular businesses. As I said, we have some really good strengths in various parts of our businesses. We should see those continue. The reality of course is, as I've said a couple of times, that there are segments in our business that are soft, but they're getting mitigated by other parts of our business.

Arvind Ramnani - *BofA Merrill Lynch - Analyst*

Great. How are some of the cross-selling opportunities progressing? Are there specific clients that are interested in expanding the services? Also how are you equipping the sales team or operational team to offer this wider set of offerings?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Your question is with reference to Headstrong and Genpact, right?

Arvind Ramnani - *BofA Merrill Lynch - Analyst*

That's right.

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Yes, so we've gone through a series of, first, awareness training and deep dives, particularly on Headstrong's client management, account management and sales teams, understanding our Business Process Management, analytics, reengineering, and risk services so that they can actually go and articulate that to the relevant client relationships they have. Those conversations, every time we've started having them, have gone exceedingly well. That's why we've seen five of those convert into complete deal signings that we are now beginning to execute on.

We also have specific leaders who have moved into the capital markets business to actually own each of these service lines for capital markets and build them out, obviously drawing on resources that we have in other parts of our financial services and other verticals.

Arvind Ramnani - *BofA Merrill Lynch - Analyst*

Excellent. Thank you.

Operator

Manish Hemrajani, Oppenheimer.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Good morning. Good quarter guys. If you look at your outperformance the second quarter and look at where your guidance has come in, given where Headstrong contribution is, are you seeing something out there in terms of demand slowdown in BPM and IT services which is making you take this slightly conservative stance in guidance?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

No. As I said, I think the first step to think about is kind of think about backing off 2% of that growth in the first half and saying, who knows if that repeats itself and why should we plan for that repeat affects? We're then saying that there is still Japan, which got mitigated this half, and there is the retail consumer banking credit for us that we talked about in the US, which also got mitigated this half. We don't see anything to believe that won't happen in the second half, but we don't know.

We do know that the world is uncertain. There are enough things we've seen in the first half pop up. I don't want to go through all those because they're all macroeconomic -- that we don't know our clients are going to get impacted. It just says that it is the right time to be prudent. So other than that, nothing else.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Can you remind us what was Japan's contribution to Headstrong last year?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Japan's contribution to Headstrong was about 12%, 13% -- 13% to 14% of Headstrong's revenue.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Got it. Just one more housekeeping question. As you move into next year, given your tax rate is at 26% to 28% for this year, and as more of your SEZs come into play later this year or next year, how should we look at tax rate for 2012?

Mohit Bhatia - *Genpact Ltd - CFO*

So first of all, like I mentioned in another question, we haven't done our 2012 detailed planning yet, and there are lots of puts and takes we'll get there. But at a high level, in '12, the rates could marginally go up before they start coming down in the outer year. Our estimated tax holiday finished on March 31 this year. Next year we should see the full-year impact.

Headstrong is increasing our average ETR, and we will get a full-year impact of Headstrong next year. Both these events should have an upward pressure on the tax rate, and they will be partially offset by our newer businesses moving to the SEZs. But like I said, we still have to work that math.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Got it. Thank you. That's all for me.

Operator

Kunal Tayal, Bank of America Merrill Lynch.

Kunal Tayal - *BofA Merrill Lynch - Analyst*

Thanks. Just to better understand the increased demand on the F&A side, are there any trends as to whether this demand is more from the first time adopters of outsourcing, or is it just the existing clients who are now spending a bigger piece of their budget on F&A activities?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Actually, I would say there are three types of clients, but if you think about both those, then you're talking about a third category. One is clients who are just expanding their scope, more and more clients continue to expand scope. If they have done transactional work, they go into more decision-making financial accounting. A lot of the clients also, when they enter -- and typically these are clients entering for the first time into outsourcing, that's the second category. Actually, those tend to do a complete all-encompassing end-to-end complete global all finance and accounting, they do tend to break it up, which is why sometimes deal sizes are a little smaller than they used to be in the past.

But there is a third category which is becoming an important category, and I suspect, as we go forward, it will become more important. Contracts that were signed in 2004, 2005, 2006 coming up for renewal. We're beginning to see those as well.

Kunal Tayal - *BofA Merrill Lynch - Analyst*

Sure, that's helpful. Are there any other specific trends in the way your pipeline may have grown over the past one or two quarters on the hunting side versus the mining side? Has the hunting side of the pipeline maybe grown slower than the mining side because of maybe the macro?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

So Kunal, the way -- I'll answer the question in two ways. One, if you think about the range of services we offer today, they have a number of products and services, particularly when it comes to things like Smart Decision Services, analytics, reengineering, risk, technology, particularly with something like Headstrong where the decision-making (inaudible) time is faster, payback is actually faster. Therefore, our ability to hunt and get a new client in is actually much quicker than earlier. Clients desire to get that payback and start driving not just cost take-out but also growth. It's actually more than before. However, when we do get those clients in a hunting deal, they tend to be small in size to begin with. That, we mine that client. So to that extent, if you see the mathematics, it will look as though we have more mining and less hunting. To some extent, it's driven by that. There is no question that, when it comes to large financial services, retail banking deals, large collection deals, large mortgage origination deals, those have slowed down. There's offsets in our pipeline, as I said, on those types of large back-office deals in retail banking. As well as obviously in the finance and accounting space, I did say that clients tend to break up a large potential transaction into smaller pieces.

Kunal Tayal - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

(Operator Instructions). Matt McCormack, BGB Securities.

Matt McCormack - *Brigantine Advisors - Analyst*

Just to kind of follow-up on all the questions on the cross-sell opportunity, you did mention that the real opportunity is in BPM. However, that's a longer sales cycle and a competitive process. So I guess -- and I would also assume your contact at the client is going to be different than whoever Headstrong is selling IT into. So I guess could you just talk about what's the true advantage that acquisition brings to the table in terms of those long sales-cycle BPM deals?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

When we did the acquisition, we knew that BPM deals have a certain cycle time. We didn't expect it to be any faster than it is right now. We knew that as a given. We also knew that we will enter these clients on the analytics and reengineering and those services very quickly. In fact, we believe we have entered them faster than we expected.

The decision-makers, interestingly, in capital markets, have a much closer connection between technology and process than in most other industries because these are not enterprise technology people. These are people who are technology people who are very focused on that creating platform or that FX platform or that brokerage platform, wealth management platform. Therefore, the acquisition -- one of the big drivers of the acquisition was our ability to use that technology and domain expertise to walk into the operating leader's office and have that conversation. Often, it's the same operating leader who also gets involved in the technology decision that Headstrong has been doing.

Matt McCormack - *Brigantine Advisors - Analyst*

Okay, no, that's helpful. In terms of attrition, the comment was made, the 29% rate is expected to stay stable. I guess could you just provide a little information regarding why you're confident that it won't increase?

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Yes, just one other -- I just thought of one other point on your earlier question. The reality is, and we said this when we did the acquisition, we hadn't seen Capital Market BPM deals. Not just we hadn't seen them, actually haven't been done as many as compared to many other industries, and we certainly have been invited. We're in the dialogue, in conversations -- in many instances right now, the only people in conversations for a number of these BPM opportunities in capital markets. So clearly that was the rationale and continues to be the rationale of having acquired Headstrong.

Attrition, if you look at the attrition for last year, as we drove more aggressively through performance management in the third and particularly in the fourth quarter of last year, we did have a spike in our attrition. We said at the beginning of the year that we will bring back a lot of the training. In fact, we've doubled training as we started the year and go through the year for a lot of our employees, including education at work and a lot of other programs and career-pathing. That started bringing attrition down Q1 versus Q4 of last year, and now it's stable. We think that will continue as we go through this year. We expect that to be the way it will play out. Our training budgets for this year are double what they were last year.

Matt McCormack - *Brigantine Advisors - Analyst*

Okay, thank you so much.

Operator

We have no further audio questions at this time. I will now turn the call back to Shishir Verma for any closing remarks.

Shishir Verma - *Genpact Ltd - VP IR*

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

Tiger Tyagarajan - *Genpact Ltd - President, CEO*

Thank you everyone.

Operator

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