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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the fourth-quarter and full-year 2016 Genpact Limited earnings conference call. My name is Sonya, and I will be your conference moderator for today.

(Operator Instructions)

As a reminder, this call is being recorded for replay purposes.

I would now like to turn the call over to Roger Sachs, Head of Investor Relations at Genpact. Please proceed, sir.

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**Roger Sachs** - *Genpact Limited - VP of IR*

Thank you, Sonya. Good morning, everyone, and welcome to Genpact's fourth-quarter earnings call to discuss our results for the fourth quarter and full year ended December 31, 2016. We hope you have had a chance to review our earnings release which was posted to the IR section of our website, Genpact.com. With me in New York today are Tiger Tyagarajan, our President and Chief Executive Officer, and Ed Fitzpatrick, our Chief Financial Officer.

Our agenda today is as follows: Tiger will provide a high level overview of our results, as well as update you on some of our strategic initiatives. Ed will then discuss our financial performance in greater detail, and provide our outlook for 2017. Tiger will then come back for some closing comments, and then we will take your questions, and as Sonya just said earlier, we expect the call to last about an hour.

Some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties are set forth in our press release.

In addition, during our call today we will refer to certain non-GAAP financial measures which we believe provide additional information for investors, and better reflect the way management views the operating performance of the business. You can find a reconciliation of these measures to GAAP in our earnings release, in the IR section of our website. And with that, let me turn the call over to Tiger.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Thank you, Roger. Good morning everyone, and thank you for joining us today for our 2016 fourth-quarter and year-end earnings call.

We are pleased with our full year 2016 results, as we delivered strong Global Client BPO growth of 13% on a constant currency basis, expanded our adjusted operating margin, and significantly grew our adjusted earnings per share. With that said, we are seeing heightened levels of volatility and uncertainty in the global environment. Now more than ever, enterprises need to be nimble, and react quickly to compete in their respective markets.

Our digital transformational services uniquely positions us to drive value for clients. These consulting, digital and analytic services now account for approximately 20% of our global planned revenues, and collectively grew more than 20% in 2016.

Specifically during 2016, total revenues increased 6% on a constant currency basis. Global Client revenue increased 9% on a constant currency basis. Global Client BPO revenues was up 13% on a constant currency basis.

Adjusted operating income margin grew 20 basis points to 15.5%. Adjusted EPS was $1.46, up 16%. Bookings for the full year increased to approximately $2.65 billion, up 3% from $2.59 billion recorded in 2015.

During the year, we continued to invest in our client-facing teams, as well as enhance our capabilities, positioning ourselves as a leading partner of digital transformational services for our clients, built on domain, industry depth, and operations expertise. As a result of G&A leverage and disciplined cost management, we delivered our adjusted operating income margin goal of 15.5%, and grew EPS by 16%.

Our overall Global Client revenue was up 9% year over year on a constant currency basis. During the year, as companies continued to adopt new business models, they dramatically reduced spending on deploying, maintaining and running legacy IT infrastructure. This trend, coupled with cutbacks in discretionary technology projects, led to our Global Client ITO revenues declining 6% in 2016.

As we have discussed throughout last year, overall growth in Global Clients was broad based across most of our targeted verticals, including banking and financial services, CPG, high tech, life sciences and insurance. Along with the strong growth from our transformational services, in consulting, digital and analytics, we saw solid growth from our financial accounting and core industry vertical operational services during 2016.

Our GE revenue declined 7% year over year, better than the initial expectation we outlined at the beginning of last year, primarily due to delays in the phase-out of some of the work we do for the corporate entity of GE Capital, as it divested a material portion of its businesses. During 2016, we signed new contracts with eight of the buyers of the divested GE Capital businesses.

We ended the year by reaffirming and solidifying our strong relationship with GE, by signing a new long-term extension of our MSA. Moving forward as a preferred partner of GE's Predix Industrial Internet of Things platform, we believe there are growth opportunities we can capitalize on, as GE undergoes its transition to a digital industrial company.

As I look back and reflect upon 2016, it was a year of the unexpected. Global markets saw a number of major events, including Brexit, wide fluctuations in energy prices, an uncertain Chinese outlook, and hightened global economic and political uncertainty. Against this backdrop, we are seeing a large shift in the expectations of clients and their customers, driving corporate leaders to completely rethink the way they do business, or risk being disrupted.

In this environment there are four clear trends we are seeing across all industries: First, the volatile and low growth global macroeconomic environment, coupled with the rapid evolution of digital technologies, is driving more and more companies to look for completely new ways of doing business, by experimenting with newly highly disruptive business models. The second trend we are seeing is a deep focus on enhancing customer experience, using digital solutions.

The third trend is an intense focus on automation of a number of traditional business activities and processes, using new digital technologies. And finally, digital tools allow significant leverage of real-time analytics to drive decisions and actions. Genpact is on the right path to capture the value of these secular trends.

Our Lean Digital approach brings together deep domain knowledge of specific industries, design thinking methodologies, end-to-end process understanding, and a set of digital technologies to completely reimagine the way clients run their businesses to drive transformation. These engagements implement full end-to-end solutions, from the front office all the way through the middle and back office. By attacking the entire process, we can drive clients' top line growth through dramatically reduced end customer response times, and enhanced customer experience.

Our engagements with both new and existing clients start with a Lean Digital design thinking consulting engagement, that often leads to downstream managed services. BoDs and CXOs across all industries are talking about digital disruption.

As a result, we are engaging with clients at a deeper, more strategic level, and given widespread interest in our highly differentiated Lean Digital approach, we are participating in deals that historically we would not have been a part of. These business transformations are no longer exclusively driven by the CIO. CEOs, business leaders, CFOs, Chief Marketing Officers, risk and operating officers are now leading these initiatives, where partners demonstrating deep industry knowledge and process expertise win the day.

Throughout 2016, we used Lean Digital to build very disruptive solutions to solve critical business problems for our clients. For example, co-innovating with a leading CPG company, we are completely reimagining their order management process by incorporating analytics, artificial intelligence and robotics. This solution dramatically improves order fulfillment cycle times.

Using digital signals, orders from retailers are automatically filled by warehouses holding the inventory. The items are then routed to delivery trucks that travel on algorithmic optimized routes, based on retailers' locations.

Another example, we worked with a global insurance leader to reimagine and automate critical processes, to significantly speed up their claim resolution, and reduce the level of overpayments that result from incomplete data sets. A third example, for a global life sciences company, we are developing an artificial intelligence based platform to completely reimagine the way they monitor, detect, assess and prevent adverse effects from pharma drugs.

Our innovative Lean Digital approach and solutions for our clients is being recognized by lead industry analysts and research firms. HFS Research placed Genpact in the winner's circle ranking for our leadership in intelligent automation. IDC ranked us number one on capability in business analytic services, and Gartner placed Genpact in their magic quadrant for intelligent business process management suites for dynamic work flow solutions.

Our capability investment in digital analytics and transformation services are strengthening our position as thought leaders in the industry. For example, we built our critical mass within our digital organization with almost 1,000 team members, more than doubling the number from the end of 2015. Additionally, we implemented various training programs to ramp our sales practice and consulting teams on Lean Digital.

We opened our world-class digital and analytics innovation center in Silicon Valley, where we demonstrate to clients the disruptive value of transformative journeys, and showcase innovative solutions that leverage a core set of digital assets, built with advanced technologies, including robotics, artificial intelligence, machine learning, dynamic work flows and mobility. We built a leading design thinking program that hosted several workshops at our Silicon Valley innovation center, with multiple clients, to help them understand and solve for critical business problems. This program is gaining traction with clients, and we are ramping towards three to four client CXO visits per week.

And finally, we acquired two digital companies to expand our capabilities in dynamic work flow and mobility, that we are incorporating into our solutions. Both these companies brought into Genpact great leaders and talent in the digital space, that we have quickly leveraged across multiple client wins.

By bringing our digital and analytics solutions to our strategic client relationships, we are increasingly becoming a thought partner for our clients. We have seen these relationships grow at rates significantly exceeding the Company average. During 2016, we achieved total bookings of approximately $2.65 billion, up 3% year over year, or approximately 5% up on a constant currency basis from $2.59 billion in 2015.

Global Client BPO bookings saw solid growth, including three large deal wins in the fourth quarter. GE and Global Client ITO bookings declined in 2016. Let me frame for you how we are thinking about our top line growth for 2017.

We expect Global Client revenue growth will continue to be driven by our core global client BPO business, resulting from ongoing momentum in our transformational services and consulting digital, and analytics. In the case of GE, the delay in the timing of work that was expected to be phased out in 2016, together with additional winding down of corporate work, primarily related to planned divestitures accelerated into 2017, as well as the work related to the divestiture that we didn't retain, will be a drag on our GE top line results during the year.

As our Global Client ITO business stabilizes, we expect revenues to decline, given the full-year impact of the accelerated second-half decline in 2016. Ed will provide further details of all of our expectations for 2017 in a few minutes.

Before I turn it over to Ed, let me outline our strategic capital allocation priorities for 2017. Apart from reinvesting in the business, we expect M&A to play a larger part in our strategic journey going forward.

We have honed our focus on where we want to play and where the most significant opportunities are to enhance digital and analytics capabilities. These have been prioritized by our business leaders, in consultation with our clients. We have a robust pipeline of opportunities, and are well positioned to increase capital allocation to M&A in 2017.

We are also committed to returning cash to our shareholders. As we announced this morning, we're increasing the size of our share repurchase program by $500 million, bringing the total size of the program to approximately $1.3 billion.

In addition, I'm excited that we are initiating a dividend program. Given the confidence and the stability of our cash flows, we announced a quarterly cash dividend of $0.06 per share, starting in the first quarter.

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

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

Thank you, Tiger, and good morning, everyone. Today I'll review our fourth quarter and 2016 full-year results, followed by key balance sheet and cash flow highlights. I'll also provide our financial outlook for 2017.

Before I get into the details of the quarter's performance, I want to remind everyone that at the end of 2016 we reclassified revenue related to the GE business divestitures to Global Client revenue for year-over-year comparison purposes. Along with this, we've also reclassified revenue related to our recent acquisitions of Endeavour Software Technologies and PNMsoft from IT services to BPO revenue, as these services are being embedded into our BPO digital solutions.

2016 revenues for these businesses have been reclassified to BPO revenue, to allow for better year-over-year comparisons. Our fourth quarter and full-year 2016 results for our GE, BPO and ITO businesses are reported without these adjustments, to provide a consistent view of the underlying growth trends for 2016.

Note, however, the effect of these reclassifications to our 2016 revenue will be the basis for which we provide our 2017 year-over-year growth, guidance and actual results. To help clarify the impact of these changes, we have provided a supplemental schedule in our fourth-quarter earnings press release that reconciles the impact for the four quarters and full year of 2016.

Let me begin with a review of our fourth quarter results. We generated total revenues of $682 million, an increase of 5% year over year or 7% on a constant currency basis. Revenues from global clients, which represent 85% of our total revenue, increased 9% year-over-year or 11% on a constant currency basis.

Within Global Clients, Business Process Outsourcing revenues grew 12% year over year or 14% on a constant currency basis. Our Global Client IT services revenues declined 3%. GE revenues, which represent 15% of total revenue, decreased 10%.

During the quarter, overall Business Process Outsourcing revenues, which represent 80% of our total revenues, increased 8% year over year, while total IT services revenue declined 4%. Adjusted income from operations for the quarter was $114 million, up 19% year over year, with the corresponding margin of 16.7%, up from 14.8% during the same period last year. The 190 basis point year-over-year improvement was primarily due to improved productivity, G&A leverage, and favorable impact of foreign currency.

Sequentially, we drove significant operating margin improvements by ramping revenues and driving operating and G&A cost leverage. Gross margins grew 140 basis points year over year to 40.5%, primarily driven by productivity improvements.

SG&A expenses totaled $171 million, compared to $165 million in the fourth quarter of last year. Our sales and marketing expense as a percentage of revenue this quarter was 6.9%, flat year over year. Total G&A expense as a percentage of sales declined by 50 basis points year over year due to leverage on the higher revenue base.

Adjusted EPS for the quarter was up 24% year over year to $0.43 per share compared to $0.34 per share last year. Our fourth-quarter EPS included a $0.02 benefit from nonrecurring discrete tax items that lowered our effective tax rate during the quarter. Excluding this impact, our fourth quarter EPS would have improved by $0.07, driven by higher operating income of $0.07, the impact from share repurchases of $0.02, partially offset by a balance sheet-related FX loss and higher net interest expense representing approximately $0.01 each.

I'll now turn to our full-year 2016 results. Revenues were $2.57 billion, an increase of 4% year over year, including the adverse effect from FX of approximately $45 million, driven by the declines in the Euro, British pound and Australian dollar. On a constant currency basis, total revenues were up 6% year over year.

Business Process Outsourcing, which represents approximately 81% of total revenue for the full year of 2016, increased 7% year over year. IT services revenues declined 5% year over year. Revenue from Global Clients, which represented approximately 83% of total revenue for the full year 2016, increased 7% year over year, or approximately 9% on a constant currency basis.

Within Global Clients, our core BPO revenue increased 11% year over year or approximately 13% on a constant currency basis, while IT services revenue declined 6%. GE revenues declined 7%. For the 12-month period ending December 31, 2016, we grew the number of Global Client relationships with annual revenues over [$5 million] to 109 from 103. We also grew the number of Global Clients with more than $50 million in annual revenue from four to six during the year.

Adjusted income from operations totaled $397 million, up 5% year over year, with a corresponding margin of 15.5%, up from 15.3% in 2015. The 20 basis point operating margin increase was primarily driven by productivity, G&A leverage and tighter spend management that we drove due to the lower than expected revenue ramp. Our full-year gross margin for the year was 39.5%, compared to 39.3% in 2015, due primarily to operating leverage.

Sales and marketing expenses as a percentage of revenue was 7%, in line with the level we reported during 2015. Total G&A expense increased by 60 basis points year over year, largely driven by our continued investments in R&D related spending on domain expertise, digital, and analytics capabilities. This ramp in spend was partly offset by leverage in other G&A functional spending.

Adjusted EPS was up 16% year over year to $1.46 per share, compared to $1.26 in 2015. This $0.20 increase was primarily driven by higher operating income of $0.07, net share repurchase activity of $0.06, lower net interest expense of $0.05, due to one-time costs during 2015 associated with our debt refinancing, and lower tax expense of $0.03, partially offset by the impact of balance sheet-related FX losses of $0.01.

Again, a lower tax expense for the year was due in large part to the nonrecurring discrete tax adjustments we recorded in the fourth quarter of approximately $0.02 per share. For the full year 2016, we repurchased approximately 14 million shares, totaling $345 million, at a weighted average price of $24.76 per share, including 4.3 million shares repurchased during the fourth quarter totaling $103 million, or an average price of $23.73 per share.

Since launching our buyback program in the first quarter of 2015, we have repurchased approximately 24 million shares at a weighted average price of $24.03 per share, for total repurchases to date of $572 million. Our effective tax rate for the year was 18.7%, down from 20.5% last year, reflecting changes in our jurisdictional mix of income, and favorable resolution of certain tax matters from discrete period items in the fourth quarter.

Turning to our balance sheet, our cash and liquid assets totaled $423 million compared to $419 million at the end of the third quarter of 2016. With undrawn debt capacity of $189 million and existing cash balances, we continue to have ample flexibility to pursue growth opportunities and execute on our capital allocation strategy. Our net debt to EBITDA ratio for the last four rolling quarters was 1.1.

We generated $346 million of cash from operations in 2016, up from $327 million last year, primarily due to increased operating earnings and improved DSO, offset by higher net cash outflows related to large contract activity that fluctuates from year to year. Capital expenditures as a percentage of revenue were 3.3% in 2016, up slightly from prior years, due to capital expenditures directly related to customer operations and related platforms. This also included the continued development of our Lean Digital assets, as well as adding capacity for growth. Our days sales outstanding were 81 days which was in line with our expected improvement from second and third-quarter levels.

Finally, let me update you on our outlook for 2017. We expect total revenues to be between $2.61 billion and $2.68 billion, which assumes an adverse foreign exchange impact of approximately $33 million or 130 basis points at today's exchange rates. For Global Clients, we expect revenue growth to be in the range of 4% to 7%, or approximately 5% to 8% on a constant currency basis.

Within Global Clients, we expect Global Client BPO to grow at approximately 10% on a constant currency basis, and Global Client ITO revenues to decline approximately 5% to 7%, due primarily to the full-year impact of the accelerated second-half decline in 2016.

As Tiger mentioned earlier, GE's divestiture of much of its GE Capital business will continue to impact our GE revenue in 2017. As a result, we expect GE to be down 13% to 15%. This year-over-year decline is calculated based upon the reclassified GE revenue base, as if all the GE dispositions occurred on January 1, 2016.

With continuing G&A operating leverage offsetting the investments in digital capabilities, analytics and domain expertise, we expect our adjusted operating margin to improve to approximately 15.7% in 2017. Our 2017 effective tax rate is expected to be approximately 20% to 21%, largely aligned with the normalized tax rate in 2016.

Given the outlook I just provided, we expect adjusted earnings per share to be between $1.53 and $1.57. This includes the impact of higher interest rates and interest expense of approximately $0.04, and a $0.05 benefit from expected share repurchases during 2017, which are assumed to be at similar levels to what we repurchased in 2016.

Cash flow from operations is expected to grow approximately 4% in 2017. Capital expenditures as a percentage of revenues are expected to be approximately 3% to 3.5%. We continue to expect free cash flow to net income ratio to be approximately 1 to 1, on average, over time.

Lastly, dividend payments are expected to be approximately $48 million during the year or approximately a 1% yield based on yesterday's closing price. With that, I'll hand it over to Tiger for his closing comments.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Thank you, Ed. In 2017, we expect the macro environment to continue to be volatile. Operating in this uncertain environment, there is no question that digital transformation is mandatory for businesses to stay competitive in every industry.

Key technology trends shaping business transformations include the growing importance of big data and analytics, providing companies with real-time predictive insights to drive actions. Second, transformation driven by the Internet of Things across a range of industries. We're already developing many IoT driven solutions, helping clients optimize inventory levels and grow aftermarket service revenues, et cetera.

And third, artificial intelligence, making the leap from science fiction to reality, with solutions being developed to work collaboratively with humans to solve intensely complex problems. Combining advanced digital technologies with design thinking, deep domain expertise, and operations expertise represents the core of our unique Lean Digital approach to drive disruptive transformation for clients.

We have created strong momentum in the market, as evidenced by our industry-leading Global Client BPO growth rates. As we look to our future, we are continuing to evaluate our business portfolio, taking a deep dive to determine where to double down and increase our focus, as we drive long-term growth and create shareholder value.

Before signing off, my team and I look forward to seeing you at our upcoming 2017 Investor Day on March 2 at our innovation center in Palo Alto, California. We have a great day planned for you to experience Lean Digital, interact with members of our leadership team, and provide you with an update on our growth strategy and financial initiatives. With that, I'll turn the call back to Roger.

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**Roger Sachs** - *Genpact Limited - VP of IR*

Thank you, Tiger. We'd now like to open the call for your questions. Sonya, can you please provide us with the instructions?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Our first question comes from Ashwin Shirvaikar of Citi. Your line is now open.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

My first question is with regards to the GE contract renewal. Did that involve either significant pricing impact, or perhaps has it been restructured and more in the form of an outcome, output based as a service type contract, given the Predix comment?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

No, Ashwin, the renewal at the MSA level has not changed anything on the topic of outcome-based, or on the topic of any structural change. That actually is something that is ongoing at a specific SOW process level. As you can imagine, the diversity and the range of work we do, it cannot be addressed at the MSA level.





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And we've been doing that, just as the world has been evolving to outcome based, transaction based, gain share based, particularly as we do more and more work around the Internet of Things, remote monitoring, Predix as a platform, as GE becomes much more of a digital industrial enterprise. At the MSA level, it's a very regular renewal, which we are thrilled with.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Got it. And the three large contracts, the global BPO contracts that you mentioned, just in terms of timing, did they sign late in the quarter, post elections? Before? Any comments on recent client or prospect interactions, how they're viewing outsourcing? Is there more focus on automation versus off-shoring?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Actually, it's a great question, Ashwin. The three specific contracts happened during the quarter. I think as the contracts were being signed, I would say the US political environment had actually already unfolded, so that didn't change the signing of those contracts.

However, as we've seen the last two or three months, clearly apart from digital being a big conversation, obviously, a lot of other potential macro changes are also big conversations in every Company, whether it's taxes, integration, trade, protectionism, and therefore, how do you run a global Company. But remember, that is in the construct of already those being big conversations driven by digital.

This is just one more element of what I would call a need to think about business models, and did that, therefore, change the way clients think about the way to run their companies? Absolutely yes. Does that therefore change the speed at which sometimes they come to decisions? Yes, it does slow some decisions down. And do we need more options to solve for different problems? The answer is yes.

Here's the good news, we have a history of US operating delivery that goes back 15-plus years. We have 4,500 odd operating folks and seven operating centers in the US that have done and run operations for our clients for 15-plus years. And therefore, our ability to actually offer those to our clients, which we've done in the past in many, many situations, but to change the scale of those is something that positions us in a competitive advantage position in those conversations, and we've actually taken those to some of our clients.

For some clients, it becomes a conversation that is important for them, given their situation. For other clients, that's not what they want. They want digital transformation.

For a third client, they're really more interested in global delivery. I don't think one size fits all. The reality is we have many options that allow our clients to pick and choose, based on their situation.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Last quick question. Any thoughts on how we should think about the cadence of how revenues and costs work through the year, given the continuing volatility?

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

The pacing throughout the year, again, affected by how 2016 rolled out, so first half of the year, given the full-year guidance on a constant currency basis 3% to 6%, will be lower in first half and higher in the second. First quarter likely flattish, and then up slightly in Q1 and then the growth will come, the more material growth in that 3% to 6% range will come in the second half of the year.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Got it. Thank you.

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**Operator**

Thank you. Our next question comes from Joseph Foresi of Cantors Fitzgerald. Your line is now open.

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**Joseph Foresi** - *Cantor Fitzgerald - Analyst*

Maybe you could quantify for us where you're seeing the biggest pain in IT services, and maybe what actions are being taken there?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Joe, for us, the pain in IT services would start with two verticals that are material in IT services for us, capital markets and healthcare. Those two verticals have been the most impacted for us in our IT business. And in those verticals, IT is a material portion of those verticals. Obviously those verticals also tend to be at the lower end of growth for us across our range of verticals.

Outside of healthcare and capital markets, and those two, I think the reason for those we've I think talked about many times. I think it's pretty obvious in the macroeconomic environment, both in terms of the way the capital markets industry has been over the last year, and the healthcare industry, with all the mergers and changes, and therefore the start and stop on decision making.

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

On that, Tiger, we hadn't planned for it getting worse, Joe. Last year, having the full year effect, as you know, it happened the second half of last year and the revenues ranged down.

So it's a run rate. We haven't planned for it to get worse. We haven't planned for it to get better, either. It's really status quo is what we assumed right now.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Outside of that, if we line up industry by industry and service by service within our IT services, there are clearly segments of those services that are actually doing exceedingly well, and they tend to be those where we have deep domain in that industry, deep domain in that service, and therefore we actually understand the way applications have to be used, the way application design happens, the way you actually leverage the technology better, and actually maintain and run it and manage it better, and that's where we tend to win.

So the portfolio analysis that I talked about, we are actually undergoing it right now, where we will actually double and triple down in some of those areas in IT, and reduce our focus in some of the other areas where we don't have that competitive advantage.

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**Joseph Foresi** - *Cantor Fitzgerald - Analyst*

Okay. And then on GE, is 2017 going to be the trough year from a decline perspective in GE? What are your long-term expectations post 2017?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

That's a great question, Joe. So first of all, the transformation that we have undergone in our overall portfolio, as GE has undergone its transformation with GE Capital, is worth noting. 2.5 years back, just 2.5 years back our total are revenue from GE was 20% plus of our business.

By the time we get to the end of 2017, it will be high single digits percentage of our business. That is a material shift and a reduction from our perspective on concentration with one client, all of which is good for all of us. Having said that, as I said, our renewal of the GE contract positions us well.

More importantly, I think, the work we've been doing in building out a team of people on the Predix platform, people who understand the platform, people who understand the development of apps on that platform, people who understand how to use analytics on that platform, and being able to have those conversations, not just with GE, but also those other global industrial majors who want to us use an Internet of Things platform such as Predix, in order to be able to drive the software value for their business models. And you can imagine, IoT is a big theme. So with that context and background to answer your question, I would say there would be follow-through effect --

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

In 2018 but not nearly the extent we're seeing in 2017.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

I would not expect any new event to happen with GE. That positions us well for a stable GE and then growth.

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**Joseph Foresi** - *Cantor Fitzgerald - Analyst*

And then the last one from me. You put out a bookings growth number, and I'm just wondering, is it even possible to break that out into global client BPO versus ITO and GE? I imagine there's a lot more in there, and it's an aggregate number. I'm trying to get some clarity on how those different businesses are set up going forward.

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

I missed the first part of the he question. Are you asking about Global Client ITO versus GE ITO?

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**Joseph Foresi** - *Cantor Fitzgerald - Analyst*

No, I'm more concerned about the bookings for Global Client BPO versus ITO and GE. I imagine the bookings number, which has been much larger growth in past years was being held back by those two areas.

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

Joe, I would say the bookings numbers are congruent largely with what you're seeing from a revenue perspective. GE and IT being down, and Global Client BPO growth driving the actual growth, being offset by those two. I would I say largely congruent.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Just to add to what Ed said, Joe. As we always maintain, post the ramp-up on bookings that we had between 2014, 2015 and then into -- sorry, 2013, 2014, and then 2015, we had said that longer term revenue growth and bookings growth will track each other, and that's what we're seeing, as we look at booking between GE bookings, IT bookings, and Global Client BPM bookings. Global Client BPM bookings are tracking exactly what revenue is tracking for 2017.

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**Joseph Foresi** - *Cantor Fitzgerald - Analyst*

Thank you.

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**Operator**

The next question comes from George Tong of Piper Jaffray. Your line is now open.

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**George Tong** - *Piper Jaffray - Analyst*

Can you provide some details around how the pipeline conversion rates and renewal rates are trending?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Let me use some color, George. Let's start with win rates. Our win rates are broadly holding. As you can imagine, our win rates on Global Client BPM, Global Client transformational type of work, versus Global Client IT, those tend to be different, and they are holding exactly the way they are. I don't think there is any material change in win rates.

Conversion rates are broadly fine. There is clearly in the last, I would say three months, extension of time in some of that conversion. So we are seeing, and we have seen material extension of time, where clients are taking longer to actually get to finally signing the contract.

And that's, as I said, to the question that I think Joe was asking, a combination of thinking through digital and transformation, and the sequencing of all of that, as well as the landscape of where work needs to be done, et cetera, et cetera, and the timing of all of that. So we are seeing an extension of time.

And the third thing is clearly, as clients think about sequencing, there has been a trend for some time now where clients are saying, why don't we re architect the business first, which therefore means, why don't we have a deeper consulting transformational engagement, where we actually use digital to redesign our business, in order to drive significantly disruptive outcomes? And as something that comes out of that, there's a managed services component, it's a material managed services component, that we end up managing.

By definition therefore, you would have transformational engagement first, then followed by managed services engagement. That changes the profile of what comes into the pipeline first, which tends to be transformational services, which then becomes managed services later, but it enters the pipeline later. By definition therefore, the inflows and the pipeline will have different sizes, will have different total size, all of that being reflected also finally in growth rates and global client transformation being higher than overall Global Client BPO.

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**George Tong** - *Piper Jaffray - Analyst*

Makes sense. You've indicated that your digital transformation services are about 20% of Global Client revenue, and are growing significantly above Global Client revenue growth rates. How much of your pipeline do these revenues represent, and where do you see that converging over time?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

So actually, George, it's a little difficult question to answer, because, remember, in transformational type engagements and consulting type engagements, the cycle time of, I'm ready to talk to you, I think it's interesting to find a way to solve this problem, versus -- well, actually, work starts, is far, far shorter than in a classic Global Client BPM deal. So the notion of a pipeline has to be very carefully thought through, because the classic Global Client BPM pipeline would last, let's pick a number, 12, 15 months from the time the first conversation starts, right at the top of the funnel, versus a Global Client transformation pipeline could have as short a time line as 60 days.

It's a much tougher -- I don't think it's a real comparison, because you'll end up doing an apples to orange comparison. The right way to think about it is are we getting enough throughput on the Global Client transformation type of work. Are we getting those in a sole source way.

Are we being able to create enough of a disruptive impact for our clients? And then are they converting into managed services relationships? And those are all good for us.

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**George Tong** - *Piper Jaffray - Analyst*

Very helpful.

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

You asked a question on renewal rates. No real change in the renewal rates. Still real high, 90%-plus. No change there.

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**George Tong** - *Piper Jaffray - Analyst*

Got it. That's helpful. You indicated for IT services you expect no real improvement or deterioration in trends for the full year of 2017, as reflected in your guidance. How would you think about the trajectory of the recovery, as you move through the year?

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

I don't know that it's recovery. I think it's just the normal rollout of that. So the year-over-year comparisons will be a bit tougher the first half of the year versus the second.

So I'd say you'll see that trend, that year-over-year comparison should improve as we get throughout the balance of the year. So pretty steady. Q1's typically the lowest quarter, Q4's typically the highest, George. That doesn't change.

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**George Tong** - *Piper Jaffray - Analyst*

Just a quick last one from me. Can you frame how you believe the proposed border adjustment tax under the new administration may impact the business?

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

George, you probably heard everybody respond to this with it's too early to tell on things that are being proposed. Obviously, we'll read everything that's out there and come back to you once things actually get proposed, and/or become law. But we're watching it very closely.

We are a global Company. We will assess and if we have to adjust and do our strategic tax planning and operations planning based upon what's best for our shareholders, to drive value. So we'll come back to you once facts become available.

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

George, one thing that we pride ourselves on, and I think our Board is part of the statement I'm going to make, is agility and nimbleness. We will be able to, once we know what the facts are, be able to react and shape our thinking in that new world.

**George Tong** - *Piper Jaffray - Analyst*

Very helpful. Thank you.

**Operator**

Thank you. And our next question comes from Anil Doradla of William Blair.

**Anil Doradla** - *William Blair & Company - Analyst*

Last year, if I got my numbers right Global Client BPO business grew about 12% to 14% on constant currency. This year for 2017, we're talking about 10%. So I totally get what's happening with GE, what's happening with ITO. But why are we seeing almost this 300 BPs of deceleration on the BPO part of the business with Global Clients?

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

First of all, your numbers are, by the way, correct. The reality is that we are taking into account the combination of what digital is doing in terms of the sequencing that I talked about, and what that means is that managed services work is actually being sequenced in some of these cases, particularly in the larger deals, which as we'll explain, we're doing a lot more of the $40 million, $50 million deals versus the $50 million plus deals.

We did three of the $50 million plus deals in the fourth quarter, but some of that is getting converted into bigger consulting digital transformation engagements. That does change the growth cadence in terms of the sequencing of that across our portfolio.

The second is that actually the nature of work itself is changing, where a lot of that work is getting automated, and we are driving that with our clients, for the work that we do as well as the work that the client does. And the combination of those two, not to talk about the last two or three months around re-evaluation by some of our clients, around the specificity and the nature of sequencing again for global delivery.

As they look at their overall global footprint between the US and Europe and Asia and for example, in some cases some clients are saying, let's do Europe and Asia first, let's sequence the US later. We're taking all of that into account and I would say that double-digit Global Client BPM growth, we are really excited with because we think that would position us very well in the competitive landscape, given what's happening in the world.

**Ed Fitzpatrick** - *Genpact Limited - CFO*

Anil, to clarify, our process for giving you our outlook for the year has not changed. We know what's in backlog at the beginning of the year. So that same percentage applies. We're in the low 70% in terms of visibility for the full year and then we get after what is unsold and what is our opportunity to convert that to a sale during the year. That has not changed.

So the pipeline, being a bit less robust than where it was, is what causes that. It's effectively how do we convert that to revenue during the year. For us to get back to that level, we need that to become more robust. We're looking at the facts in front of us, and that's what's bringing us to the double-digit, which is pretty terrific top line growth for Global Clients.





THOMSON REUTERS

**Anil Doradla** - *William Blair & Company - Analyst*

Great, and as a follow-up Tiger, and Ed. You know I love BPO. I love what you are doing, but when I step back and look at it from a strategic point of view, and I want to be critical of what's going on, the issues around GE and the issues around IT were well-known. It's been going around for some time.

And now we find the Company a little bit in a dire straits situation where some of these things are declining very rapidly. From a strategy point of view, when you look at the business, what do you think you've gotten wrong here, and Tiger, you talk about big strategic moves here.

So help us understand how you're thinking strategically. Because are you caught in a tough situation that you didn't anticipate, and therefore you're going to have to rush towards making a decision to grow back the revenues, or help us understand from a strategic point of view.

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

So from a strategic point of view, Anil, I think we've got it all right. Sorry. If we step back, four years back, we decided to refocus our energies on a few defined verticals, and a few defined services, and a few defined geographic markets. Those haven't changed, and we love the fact that we chose those, and we love the fact that we narrowed our focus down.

Then we said in those narrow focused areas we will invest. We said we will invest in the front end, in very senior client-facing teams that can have very strategic conversations, because we knew that's where the world was going. Then we said we want to invest in capabilities and we picked digital, analytics, consulting and domain as the lead capabilities to build.

If you look at the world today, we are growing at Global Client BPM growth of 10% because we made those choices. In the absence of those choices, I would argue that companies that haven't made sharp choices on where they focus their energies on, and then built the capabilities around digital analytics and consulting and domain, and haven't led with that in transformational services, would I think have a problem dealing with the world of today, but more importantly, the world of tomorrow.

So I understand the overall context of your statement. We obviously would love Global Client BPM to be mid-teens, which is the direction that we've always been in, but in the macro environment that we are in with the changes that are being -- that are happening, we think we are very well positioned, because of the strategic moves we made.

That doesn't stop us from continuing to evaluate, which is a discussion I had around portfolio evaluation and deeper dive into specifics on IT and where to double down in some areas. That we will continue to do, like anyone else.

**Anil Doradla** - *William Blair & Company - Analyst*

Very good. And looking forward to the Analyst Day, where we can understand some of these things.

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Thank you.

**Operator**

Thank you. And our next question come from Tien-tsin Huang with JPMorgan. Your line is now open.

**Tien-tsin Huang** - *JPMorgan - Analyst*

Just Tiger, on of your comments with M&A and the bigger appetite to do deals, I'm curious just your willingness to do -- to have EPS dilution with a deal, or even sacrifice margins, as you evaluate prospects, any consideration there?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

So Tien-tsin, I wouldn't start by saying that we would have that as a goal, for obvious reasons, Tien-tsin.

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**Tien-tsin Huang** - *JPMorgan - Analyst*

Sure.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

But given the type of honing in on specifics that we've done, both from a specific capabilities and verticals perspective, but also more importantly the specifics around digital capabilities and analytical capabilities that we now have clearly defined, and we now have in our funnel, I think your statement around margins is a relevant one, and we would and we have actually in the last couple of tuck-in acquisitions that we did, not had margin as a driver of those acquisitions, and we will not have margin as a driver of those acquisitions.

A lot of the acquisitions that we are looking at are digital in nature, analytics in nature, that are actually going to continue to fuel and turbo charge the direction that the world is going in, and the direction that we are taking the Company in its relationship with clients, around the whole digital transformation agenda. And filling some of the gaps that we have in specific deep domains, be it insurance or banking, et cetera. Margin would not be the top criteria in those choices, for obvious reasons.

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

Tien-tsin, the cost of capital is still very attractive. So using our cash and/or debt is not hard to get to EPS accretion. But what Tiger said is valid, it's capability though, it's not coming with a lot of margin potentially out of the gate.

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**Tien-tsin Huang** - *JPMorgan - Analyst*

That makes sense. I'm asking because it does seem like those assets are quite hot, and of course subscale in many cases. But the product and the talent is good. So let me ask as a follow-up.

I know that it's been asked a lot around bookings and your comments around client volatility and uncertainty. Just maybe asking more directly, is there any change in client appetite to, say, outsource in your non-digital, or your traditional business, in the aggregate, whether it's BPO or ITO? Is there any change to client appetite to outsource in those areas? I understand the focus again on digital, but just the legacy stuff. Thank you, Tiger.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Tien-tsin, actually the way I would answer the question is, the bookings do not reflect any change in, don't want to outsource any change in that attitude. Because the bookings are the full year bookings, so that doesn't reflect that. I would say that at the margin, if you think about a typical business like ours, we would probably be talking to 300, 400 specific clients across the globe.

Most of these are global companies, so obviously they either are headquartered in the US or they have US operations. And they have headquarters in the UK and Australia and Japan and so on.

Over the last 60, 90 days, clearly there are at the margin conversations around, should we do this differently. We have not seen a single situation where a client has said we don't want to do anything. I don't think that's an option. In fact, I would argue that the world of today means that the chances of someone saying we don't want to do anything is probably zero. Even more so than just six months back or a year back.

So in effect, you're actually saying everyone needs an ecosystem of partners to undertake journeys of various kinds that make sense for them. Some of that will be outsourcing. Some of that will be, you manage this for me. Some of that will be, you manage it for me later, first help me change it. Some of that change will be driven by digital analytics, et cetera.

So given what's happening in the world, we actually see many more conversations build up. The nature of those conversations are clearly changing and have been changing, and I think over the last 60 days, some of that margin has changed around sequencing of outsourcing.

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**Tien-tsin Huang** - *JPMorgan - Analyst*

Great. Thank you for your insight.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Tien-tsin, one other point obviously is, particularly in the US, and this applies to global customers, but US operations, some of that conversation is changing to, let's actually leverage your Pennsylvania center or Texas center to actually get some of the value around being able to use some of our capabilities, in order to drive transformation in their operations, because that's the value I want to capture right away.

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**Operator**

Thank you. And our next question comes from Edward Caso of Wells Fargo. Your line is now open.

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**Edward Caso** - *Wells Fargo Securities, LLC - Analyst*

Can you talk a little bit about the relative profitability of your Pennsylvania and Texas operations, versus doing it in, say India or the Philippines? Thanks.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

It's a very difficult question the to answer, because it depends on the nature of the work that is done, rather than the location. The reality is that when work gets done very close to a client, and when that work is sensitive, it's high end, it has regulatory components to it, it has a strong digital analytics set of embedded technologies and tools in it, and it has incredibly deep domain expertise associated with it. There is no reason to believe that the profitability of those relationships are any different, irrespective of where it's done.

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

The price charts that we use are different location by location, so that doesn't change. So we're here to make money. We'll save money for clients. We'll also make a profit. So the price differential is there based upon by location, by location.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

And what I would therefore say is if it was just do the same work the same way and just get it done from Pennsylvania, the answer is, that would not be valuable for our clients, most importantly, at all. And therefore by definition, it won't be valuable for us.

**Edward Caso** - *Wells Fargo Securities, LLC - Analyst*

Can you talk a little bit -- in this whole immigration debate, the difference for the IT players versus the BPO players? Just help us out on exposure to visas, the risk of slowing down, work shifting offshore and et cetera. Help us differentiate between IT and BPO. Thanks.

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

I think it's a targeted question you're asking. You got it right. There is a difference between the classic IT players, versus the classic large-scale BPO players.

By definition, we have operating footprints. Those operations are staffed by local US citizens and permanent residents in those locations. They do the same work for years and years.

As I said, they have deep domain expertise in that space, and that makes a huge difference in that debate. It positions us in a differentiated way, positions that portion of the industry in a differentiated way, because the dependence on visas is dramatically lower.

**Edward Caso** - *Wells Fargo Securities, LLC - Analyst*

And just finally, just to be really clear, if I'm to understand what you said earlier, are you seeing a change in the pace of the ramp-up of both in the signing of contracts and the ramping up of those contracts within the last few months? Thank you.

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

I have seen, as I said, it's not all encompassing, but there are clearly situations where the clients have said let's actually talk about a change that we want in a sequence, a change that we want in where this work gets done from, a change that we want in the scale of one versus the scale of another, the scale between their US operations and their European or Asia operations. Any time there is a change discussion of a global relationship, it means you've got to change the solution, change the commercials, change the contract, or change the contract that we were on the verge of signing.

That therefore means an extension of the cycle time which I referred to. So we are seeing that. We've seen that, as I said, in a set of clients.

I wouldn't call it pervasive. There doesn't seem to be a specific pattern to those sets of clients. The good news is, as I said, we need to have as a good partner the ability to be able to provide multiple options and multiple solutions, depending on various situations that our clients are dealing with.

**Edward Caso** - *Wells Fargo Securities, LLC - Analyst*

Thank you.

**Operator**

Thank you.

(Operator Instructions)

And our next question comes from Keith Bachman of BMO. Your line is now open.

**Keith Bachman** - *BMO Capital Markets - Analyst*

Of course when I'm going to ask questions, the one question limit is imposed. I just have one question anyway.

As you think about the IT business, I'm just curious why it doesn't get worse. And a lot of the traditional IT players are under duress, and facing slower growth rates, and frankly have meaningful scale advantages. And so either, A, you feel like you have some unique advantages within the context of the clients you serve, or B, I would think just the other players are going to crowd you out on the IT services side, until it continues to be a long-term challenge. Was hoping to get your response to that thought.

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Keith, I think it's a great question. I would start by saying that every one of the IT deals we have won, that we now have as part of our portfolio, have been won in intense competitive situations, with those same large-scale IT players as our competitors. And the client for a very deliberate reason chose to work with us.

And let's right now for this portion of the discussion I'm going to leave out capital markets and healthcare. I'll come to that. Those advantages, typically as it relates to domain, as it relates to our knowledge of -- for example, if you're working with a client where we manage all of their finance globally and all of their procurement globally, and all of it interconnection by the way with HR and the people side of the process, though we not may not manage all of the HR processes, then there's a very good likelihood that the management of the financial suite, the procurement suite, the applications that sit there, the highest end of -- the upper end of the infrastructure that sits there, they tend to work with us in those situations, depending on the size of the client.

And these would typically be not necessarily the top 100 clients in the world, Fortune 100, but as you get to the Fortune 500, there are clear relationships we have with those. That competitive dynamic hasn't changed. They see value when we do that, because we tend to then find ways to drive true effectiveness more than anything else in their technology transformation. Given what's happening with technology, because of digital, again. And at the end, domain led.

I don't see that competitive situation changing. In fact, as I said, our portfolio analysis that we're doing right now is to identify the specific spots, because we think we can double and triple down on those, and win more in those spaces.

Then you have spots where there is no such competitive advantage. The first statement I would make is, that's where we got hit the most in 2016, when we declined revenues. And that's going to flow through into 2017. Obviously as that happened in 2016, there is less of that to happen in 2017.

And then the capital markets business, if I can refer to that one, our view is that the real crunch down on capital markets as an industry, and now I'm talking about industry, has probably been happening for a year, 1.5 years, two years now. Hopefully it's at its bottom and if one assumes that, and that's an assumption that we're making, that it's not going to get any worse in the capital markets industry, then I would assume that our relationships are strong enough to hold that we're doing.

The work that we do by the way is outstanding and the clients give us extremely high scores for that. So we don't expect that to change.

**Keith Bachman** - *BMO Capital Markets - Analyst*

Okay. So it sounds like you think it's gone through the process of right sizing for the areas you're exposed in 2017, get a little bit more, but then it will be balanced to where you think you have competitive advantage. Is that a fair summary?

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

That is a very fair summary.

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**Keith Bachman** - *BMO Capital Markets - Analyst*

Many thanks, team.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

For 2017. Good summary. Thanks.

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**Operator**

Thank you. And our next question comes from Frank Atkins of SunTrust. Your line is now open.

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**Frank Atkins** - *SunTrust Robinson Humphrey - Analyst*

Thanks for sneaking me in. Wanted to ask about margin. Given some of the headwinds on GE and ITO that you're forecasting on the revenue side, what gives you confidence that you can drive margin improvement, given some of the dynamics on the top line?

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

Consistent with what we've done the last few years, the margin improvement is not based upon gross margin improvement. It's based upon leveraging with the growth, not growing the bottom line spend, particularly in G&A, to the extent of top line. It's really that leverage that we're planning to drive to improve the operating margins. The GE work going down, does have some effect because it was higher level work that we were doing for GE, within GE Capital, that's going away. That's been factored into that outlook.

I'd say the EPS ranges that we gave do assume, even at the low end of our revenue guidance at $2.61 billion, that we'll have to manage our cost structure to ensure that we still hit that 15.7% to get to the EPS at the low end of the range. That's what we're going to plan to do, because as you remember, we have dialed up our capability investment, and some of that is also baked into what we're doing in 2017. So we'll need to meter that spend and manage the G&A spend to offset, to ensure we get those numbers.

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Frank, first of all, it's a great question because the question is actually the right question. And apart from everything that Ed said, clearly the investments we've made on the front end and on R&D capabilities, we have said that as we get to steady state, and we are actually at that steady state point, we would actually start getting some leverage. So you're seeing some of that come through.

You're obviously continuing to see as we always had for 15-plus years, continued focus on driving productivity in a range of our operations, as well as our other G&A, and you're seeing that in our gross margin performance. But most importantly is our gross margin performance is also driven by the quality of our revenue, and part of that is driven by the type of work that we've been talking about through this call.

The more digitally embedded those relationships are, the more transformative those relationships are, with transformation being one of the drivers of our growth. You would expect some of that to flow through into the gross margin line, into the margin line, that then offsets some of the portfolio changes that we just described.

**Frank Atkins** - *SunTrust Robinson Humphrey - Analyst*

All right. Great. Thank you very much.

**Operator**

Thank you. Our next question comes from Jason Kupferberg of Jefferies. Your line is now open.

**Jason Kupferberg** - *Jefferies & Co. - Analyst*

I just want to come back to the comment around the sequencing, and the changes in some of the client behavior there, because I'm not sure I'm completely understanding it. So sounds like what you are saying is that more clients want to prioritize upfront transformational consulting work, before they get into the larger, longer-term managed services deals.

But if we just look at the guidance for 2017, the Global Client ITO is still going to be down 5% to 7% in constant currency. So I'm just trying to understand some of the puts and takes there. Are you getting the front end work, or are you more waiting for the managed services piece, while perhaps others are doing some of the front end work for the customer?

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

So I don't think there's are any relationship Jason between the Global Client IT work, meaning there's zero relationship between the Global Client IT work, and the transformation work that our clients want or do, at least in our business. The transformation work that clients want from people like us is, I'd like to redesign the way my global claims operations runs in the property and casualty insurance business that I have.

And that's an effort that would be a six, nine month effort, which starts with a complete study of the way claims is being done, the way those processes are run, the technologies that I use, the tools that I use, the distribution of that work into the field versus into central groups, the analytical basis of some of those decisions, et cetera. And then, creating a road map of change. And in many cases, begin to drive that change.

That doesn't figure anywhere in our IT business, and it would not. So there is no connection at all. We are seeing that in our Global Client transformation piece of the business, within Global Client BPM business, getting a 20% plus growth rate. That then subsequently leads to more managed services deals within that Global Client BPM portfolio.

By the way, the sequencing and the change in that sequencing started a couple of years back. There's now one more element to that sequencing that a few clients have raised, which is in some of their minds, they're saying given, the current political environment I actually would like to do that first, so I've decided to do that first. In many other cases, people don't want to do that first, because that is the right thing for them to do, because they would get faster value and then they would hand it over to someone else to manage.

And by the way, this has many shapes and forms in the way this plays out. But it's exactly the way we see it in our financials as well. So it's exactly playing out exactly that way.

**Jason Kupferberg** - *Jefferies & Co. - Analyst*

Okay. I got it. So basically that front end stuff is just going into the BPO bucket, not into the ITO bucket.

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Absolutely.

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**Jason Kupferberg** - *Jefferies & Co. - Analyst*

Just a quick follow-up on M&A. How high would you consider taking the leverage ratio. Obviously, you're only at 1.1 right now, so you've got a lot of room, but if the right opportunity arose, how high could that be taken up?

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**Ed Fitzpatrick** - *Genpact Limited - CFO*

I think we've said we wanted to stay between 1 and 2, which is our stated framework. And that aligns to where we are in investment grade rating entity. Once you get to 2, you start to get to a point where, okay, you may be getting high.

Could we go above that if M&A was attractive enough for us to go? I think the answer to that is yes, we could go above that, with a long-term commitment to get back within that 1 to 2 range.

Our view would be getting to 2 is not problematic at all. Going above that is not problematic, if our long-term story is to stay within that 1 to 2, and that's we would like to do, to retain that investment grade rating.

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**Operator**

Thank you. Our next question comes from Bryan Bergin from Cowen and Company. Your line us now open.

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**Bryan Bergin** - *Cowen and Company - Analyst*

On the GE Capital, new clients that you've mentioned and eight contracts signed, can you talk about the prospects for adding new scope to the earlier ones that you signed? And then just help us understand how the reclassification of those engagements into BPM, how that potentially impacts the overall BPM growth rates?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Let me answer the first part, Bryan and then I'll have Ed answer the second one. Clearly, we had always said that as we signed these new contracts, it really opens up great opportunities to have new conversations with new clients. We had also said that it takes time to build those relationships. In many of these situations, not all, but in many of these situations, the buyers of the GE Capital businesses have not done this type of work, and have not had managed services being run by partners like us.

So obviously through this journey of managing the TSA first for GE Capital, for GE, then signing the new contract, then continuing to do the work that we were doing, and now beginning to talk about other opportunities, our objective, like any other new client, would be to build those relationships. And as we've always said, in those relationships, it takes time in our business to then move that into pipeline, et cetera.

Are we beginning to see that? The answer is yes. Those are beginning to get added to our pipeline.

By definition, there will be a slow ramp until we get a breakthrough, in terms of a new deal, and a new relationship with a new client, in terms of a new area. But all of those are conversations that are happening as we speak. We have allocated specific account managers and client partners to each of these eight new relationships, as you would expect. We feel good about the fact that these all are set up for growth.

**Ed Fitzpatrick** - *Genpact Limited - CFO*

On the reclassification of those revenues into a Global Client, about a 50 basis point impact on year-over-year growth.

**Bryan Bergin** - *Cowen and Company - Analyst*

Okay. Thank you.

**Operator**

Thank you. And our next question comes from Bryan Keane of Deutsche Bank. Your line is now open.

**Ashish Sabadra** - *Deutsche Bank - Analyst*

This is Ashish Sabadra calling on behalf of Bryan Keane. My question was more on the competitive environment. Have you seen any shift there, either from smaller players or the IT majors, multinationals and for the Indian heritage, they've been talking about BPO and the operations business a lot. And has that influenced maybe the client decision making? I was just wondering if you could comment on the competitive environment?

**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

I don't think I would call out anything new just in the last quarter, last couple of quarters. We see the same players. They're trying to do the same things that we've seen them do.

I think it's very clear that particularly in the world of today, if you haven't and if you don't continue to invest in vertical domain expertise, and you bring that into the conversation in the context of leveraging and really changing business models, using digital and analytics, or completely automating large swaths of work that gets done in middle and back offices, while ensuring it actually dramatically improves the way those businesses deal with their customers in terms of customer experience, et cetera, if all of that is not brought together in the context of really understanding the domain and the industry, those conversations are becoming more difficult.

The commoditized nature of work is actually going away, and we knew that was going to happen. It was a question of time. Which is why we had decided many years ago to really pivot around industry verticals, and really build depth around those industry verticals.

And then over the last three years, apart from continuing to do that, we've added depth around bringing digital and analytical capabilities that actually, mixed with that domain, makes it a huge differentiator for our clients. So I think those will have that, the competitors of ours who have that combination are the ones who are doing exceedingly well. Some of that is borne out in the results that you see.

**Ashish Sabadra** - *Deutsche Bank - Analyst*

Thanks for the color, Tiger.

**Operator**

Thank you. And our next question comes from Gaurav Rateria of Morgan Stanley. Your line is now open.

**Gaurav Rateria** - *Morgan Stanley - Analyst*

Your comment on double-digit growth in light of various investments made early on is well taken. But my question is do you think the 10% growth in the global client BPO is a new normal? And how long would the interim period before you actually start seeing an inflection point for a sequence of walk to move to big downstream managed services contracts?

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**Tiger Tyagarajan** - *Genpact Limited - President and CEO*

Gaurav, it's a great question. I don't think I'll be able to answer it on a call like this. It is a question we all have to think about. There are multiple forces at play here.

The under-penetration in the market continues to be massive. That hasn't changed. The catalyst for change has changed, which means there are more catalysts for change now. That pressure for change has been building up.

I just think in the last couple of years with what disruption has happened, the use of technology and analytics, the catalyst for change is massive. Then I would actually argue the current macroeconomic and political environment is another catalyst for change. So you put all that together, one would argue that it's set up for long-term growth.

Obviously, when you think about these things, time horizons does make a difference. As I said, it's a longer answer with many puts and takes. We feel very good about that trajectory, and we feel very good about our position to be part of that trajectory.

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**Gaurav Rateria** - *Morgan Stanley - Analyst*

Thank you, Tiger.

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**Operator**

Thank you. And ladies and gentlemen, this does conclude our question-and-answer session. I would now like to turn the call back over to Roger Sachs for any closing remarks.

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**Roger Sachs** - *Genpact Limited - VP of IR*

Thank you everybody for joining us today. We look forward to seeing you in Palo Alto at Investor Day in March, and talking to you at the end of next quarter. Thank you.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's conference. You may all disconnect. Everyone have a great day.

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