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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2013 Genpact Limited Earnings Conference Call. My name is [Cheverli] and I will be your Operator for today. At this time, all participants are in a listen-only mode and we will conduct a question and answer session towards the end of this conference. We will expect the call to conclude in an hour. As a reminder, this call is being recorded for replay purposes. I would now like to turn the call over to Bharani Bobba, Head of Investor Relations at Genpact. Please proceed, sir.

Bharani Bobba - *Genpact Limited - IR*

Thank you. Welcome to Genpact's earnings call to discuss our results for the first quarter ended March 31, 2013. We hope you have had a chance to review our earnings release, which you will also find in the IR section of our website, Genpact.com. With me on the call are Tiger Tyagarajan, our President and Chief Executive Officer, and Mohit Bhatia, our Chief Financial Officer.

Our agenda for today is as follows. Tiger will begin with an overview of our results in the context of our long-term strategy, with a perspective on the current environment, followed by Mohit, who will discuss our financial performance in greater detail, and then Tiger will have some closing comments. Finally Tiger and Mohit will be available to take your questions. We expect the call to last about an hour.

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

In our call today, we will 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 earnings release in the IR 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 results.

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

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Thank you, Bharani. Good morning, good afternoon and good evening, everyone, and thank you for joining us on our earnings call today.

Genpact's financial results in the first quarter included solid growth in revenues, adjusted operating income and cash flow from operations. Quarter 1 marked a good start to 2013 and another quarter of consistent growth for Genpact, as we continued to-

Deliver clear measurable business outcomes for clients,

Differentiate our approach by strengthening our capabilities and expertise,

Refine our growth strategies, and

Build on Genpact's strong position in our large and underpenetrated target markets.

Our first-quarter financial highlights are as follows. Overall revenues of $504 million increased 16% from the first quarter of 2012. Revenues from our Global Clients businesses increased 21% year over year. Revenue growth was broad-based across all vertical markets, with particular strength in Consumer Goods, Life Sciences, Insurance, and Banking and Financial Services. Within Global Clients, Business Process Management revenues increased 22%, while ITO revenues increased 19%. Momentum was also broad-based across most of our enterprise services offerings, with particular strength in Banking and Insurance Operations, as well as Finance and Accounting. The exception was Smart Decision Services, which was flat in the first quarter. Two of our clients decided to move some of their work in-house and the impact from one of those decisions was reflected in our first quarter results. Smart Decision Services continues to be a growth opportunity for us, and we anticipate that it will resume more robust growth over the remainder of the year.

GE revenues increased 1% in the first quarter, with growth in ITO more than offsetting flat GE BPM revenues. Total BPM revenues, excluding Smart Decision Services, increased 20% in the first quarter, representing the highest growth rate over the last several quarters, as we continue to build our longer-cycle annuity business. Overall ITO revenues grew 16% year over year. Adjusted operating income increased 16%, and our Adjusted Operating Income margin totaled 16.4%.

In the first quarter, we continued to expand relationships with existing clients across a broad range of our verticals. Clients representing more than $1 million in annual revenue increased to 204, up from 182 for the prior year quarter, within which clients representing more than $25 million in annual revenue increased to 12 from 10. This is evidence of our ability to expand relationships as we partner with clients to undertake transformational journeys and drive better performance.

In summary, our first quarter results demonstrate that the key elements of our growth strategy are resonating with the marketplace, providing the leadership and capabilities our clients' value, and helping to truly differentiate Genpact. We continue to evolve and refine this growth strategy. With consistent implementation and investment, we are increasingly unlocking innovation, driving client loyalty, differentiating our business model and strengthening our foundation for long-term, sustainable growth. The key elements of our growth strategy are as follows.

First, as industry thought leaders, we guide global enterprises to best in class, through our proprietary Smart Enterprise Processes framework that delivers improved, measurable business outcomes and insights. Our clients are looking for partners to help them migrate their businesses to a flexible structure and jointly develop innovative solutions to simultaneously balance the challenges of lower growth in developed economies while capturing higher growth in emerging markets, all of this in the context of driving a comprehensive agenda of transformation. One of our key differentiators as a partner is our ability to deliver better outcomes and effectiveness, not just in the specific services we manage for the client, but across the client's entire delivery footprint.

As an example, we have set up two shared service centers in high-growth developing markets with the global beverage company Diageo. The innovative shared services model allows us to support Diageo as they deploy Global Business Services closer to developing markets. Additionally, this shared services model delivers operating cost efficiencies, improved customer service levels, and streamlined operating process controls. We will utilize our SEP framework, which is built on the foundation of thousands of Lean Six Sigma-based improvement ideas and benchmarks around granular process performance, to help transform and guide Diageo's Financial and Accounting operations in important growth markets to best in class.

The second key element of our growth strategy is to continue to invest in vertical industry and domain expertise. Clients want partners who are experts in their industry and processes at a granular level. Our strategy is to focus our investments and resources on specific targeted vertical markets with long-term growth potential where our capabilities and services are truly differentiating. Our investments include professionals with deep industry knowledge, building capabilities internally and through acquisitions to deliver end-to-end services, and developing innovative solutions that combine process, technology, and data analytics.

With a financial services client, we have recently begun a large engagement to manage their end-to-end quarterly filing and regulatory reporting to government agencies for their business entities across the US, Europe, and Asia-Pacific. This is a testament to our proven accounting and regulatory domain expertise, but more importantly is a result of the incredibly strong working partnership with this client, and their confidence in our ability to optimize their regulatory reporting processes.

The third element of our growth strategy is to continue to allocate capital and resources to support profitable growth and return on investment. Our clients face an environment of uncertainty and change, which requires them to better leverage existing costs and investments while they continue to drive top-line growth and profitability. Our strategy is to invest in our targeted vertical markets and industry-leading capabilities where we can further differentiate our expertise and deliver ROI for our clients. We apply rigorous discipline in our capital allocation, as well as our operating expense management, in order to balance investments in driving sustainable revenue growth in our underpenetrated markets with above-average return for our shareholders.

The fourth key element of our growth strategy is to execute seamlessly for clients across service lines and geographies. This is in our DNA and a hallmark of our reputation for process excellence as we apply years of learning and experience in Lean Six Sigma. The entire organization is unified in support of driving client outcomes and best practices, while providing seamless delivery day to day from any of our global delivery centers. A unified approach to clients allows us to better combine data analytics, process expertise and technology to create more robust integrated solutions, insights and value. This unified approach to delivery helps us meet our commitments, build client loyalty, and create strong marquee client references, while also driving efficiencies. Our relentless focus on operational excellence has been critical to our achieving industry-leading and continuously improving net promoter scores.

We recently developed a new client relationship with one of the largest Continental European headquartered consumer goods companies. The scope of our long-term engagement covers management of Finance and Accounting for their global operations outside of Europe, which includes more than 30 countries. We are also providing a transformational reengineering project to standardize and bring their Finance and Accounting processes to best in class. We will be delivering our services across five of our delivery centers, including centers in Latin America, Eastern Europe, India, and China. Process and industry knowledge, along with our history of seamless execution and putting clients first were keys to this new relationship.

Our results for the first quarter demonstrate that these four key elements of our growth strategy are resonating with the marketplace. With consistent focus, implementation, and investment, we are expanding client engagements and creating a clearly differentiated business model that will help drive sustainable, profitable growth in 2013 and beyond.

Turning to the future, the macro environment appears not to have changed much over the last quarter and continues to be mixed, challenging for some industries and improving in others, and also somewhat mixed geographically. We are encouraged by pockets of improvement in the US economy and many of our targeted vertical markets. However, GDP growth is still sluggish in many industries and countries, for example across Europe, leading clients to exercise caution in making new investments. In industries undergoing secular change, such as capital markets, where our clients are focused on adapting and transforming their business models, we see more large deals that take many quarters to reach a decision, as well as continued demand for short-term reengineering, risk management, and cost reduction engagements. In a number of industries, leadership teams are focused on driving longer term transformational journeys to address the prospects for low growth and continuing economic uncertainty. We engage with these clients in multiple ways, from transformation architecture to more specific processes and work streams, including analytics and technology. Achieving strong results in a volatile macroeconomic environment is a testament to our business model, which is resilient, diversified, and differentiated and drives value for our clients.

Our pipeline remains healthy and stable, driven by investment in our client-facing teams. This stability is broad-based across most of our key industry verticals, such as Consumer Goods, Life Sciences, and Manufacturing, while inflows for capital markets deals have improved. Finance and Accounting remains strong, as does non-capital markets IT, and inflows for Smart Decision Services have picked up, while projects tied to consumer spending-related retail banking remains muted. Geographically, our US and Europe pipelines continue to grow year over year and sequentially. Client decision cycle-times, while stable overall, have shown pockets of delayed decisions, especially on larger deals. Deal sizes and win rates have been steady, and pricing is competitive, but stable.

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

Mohit Bhatia - *Genpact Limited - CFO*

Thank you, Tiger, and good morning, everyone. Today I will review our first quarter performance, followed by a summary of key highlights on the balance sheet and statement of cash flow.

In the first quarter of 2013 our revenues were $503.8 million, up 15.7%. Revenue growth was 14% excluding JAWOOD, which we acquired in February 2013. Business Process Management revenues increased 15%. In addition, our overall IT services revenues increased 16%. Within the overall IT services business, GE revenues grew 7% and Global Client revenues grew 19%.

Adjusted income from operations totaled $82.8 million, an increase of $11.2 million from the prior year. This represents a margin of 16.4%, equal to the first quarter of 2012. We expect our margins for the balance of the year to be slightly lower than this, driven by a variety of factors, including the timing of our investments, hedge rates and the expected slight margin dilution from JAWOOD.

With respect to revenues, the growth rate this quarter is higher than the expected average for the year, largely due to the acquisition of Accounting Plaza in the second quarter of 2012.

Our gross profit for the quarter totaled $192 million, representing a gross margin of 38.1%, compared to 39.0% last year. This slight margin decline was expected and was after normal wage inflation and the impact of recent investments and acquisitions.

SG&A expenses totaled $113 million, representing 22.5% of revenue, an improvement of 160 basis points from 24.1%, or $105 million, in the first quarter of last year. The improvement was driven by better utilization of resources and tighter controls on discretionary spends that helped us offset the impact of expected wage inflation.

Our sales and marketing expenditure as a percentage of revenue was approximately 4.4% in the first quarter, compared to 5.0% in the same quarter last year. As mentioned in our previous call, we will continue to ramp up client-facing and domain expert teams in 2013, but in a measured fashion with the intent of first focusing on the investments that we have already made.

Net income was $46.7 million, or $0.20 per diluted share, in the first quarter of 2013, up from $38.5 million and $0.17 per diluted share in the first quarter of 2012. The year over year contribution from higher operating income of $0.04 per share was partly offset by relatively higher net interest expense of $0.01 per share.

In the first quarter of 2013 we incurred a net interest expense of $4.7 million, compared to $0.4 million in same quarter last year, representing an increase of $4.3 million, or $0.01 per share. Our net interest expense was higher primarily because of the new credit facility that we closed in the third quarter of 2012 and funding of the JAWOOD acquisition, partly offset by higher interest income.

Please note that our EPS for the quarter was impacted by foreign exchange re-measurement loss below the income from operations line of $3.4 million, or approximately $0.01 per share, similar to a $3.7 million loss in the first quarter of 2012.

Our adjusted EPS for the first quarter was $0.23 per share, up from $0.21 in the same quarter last year.

Our tax expense for the first quarter was $17.2 million, compared to $16.4 million in the first quarter of 2012, representing an effective tax rate of 27%, down from 29.8% in 2012. The improvement in the ETR was driven by-

1) A relatively higher ETR in the first quarter of 2012 due to some non-deductible, non-recurring expenses in that quarter, and

2) Growth in tax-exempt and low-tax jurisdictions, and some period items.

In 2013, we expect our effective tax rate to be in the range of 27% to 29%. We expect continued growth in tax-exempt and low-tax jurisdictions.

I will now turn to our balance sheet. Our cash and liquid assets totaled approximately $493 million, up from $478 million at the end of 2012. This balance was after utilizing $15 million towards capital expenditure and $46 million for our recent acquisition of JAWOOD. This acquisition was partly funded through an additional draw down of $35 million from the existing revolver facility.

At the end of the quarter we still had $493 million of cash, and together with the undrawn debt capacity of approximately $128 million, we continue to have the necessary resources to pursue growth opportunities. Our net debt to EBITDA for the last four rolling quarters was approximately 0.8 X.

Our days sales outstanding stood at 82 days, compared to 92 days in the first quarter, and 80 days in the fourth quarter of 2012. In the first quarter last year we had discussed a seven day increase in our DSOs due to a substantial receivable relating to an upfront client payment. Normalizing for this, our DSOs have improved by 3 days, driven by continued process improvements.

Turning to operating cash flows, we generated $32 million of cash from operations in the first quarter of 2013, up from $5 million at the same time last year. Part of the increase in the quarter 1 cash from operations is due to accelerated payments from clients, as well as a portion of the annual employee bonuses which are being paid in quarter 2 this year, instead of the first quarter.

As already detailed in our previous call, we expect our full year 2013 cash flow from operations to be 10% to 15% lower than 2012. This is driven by the receipt of an upfront client payment of approximately $45 million and some other non-recurring benefits in 2012, along with higher debt servicing costs in 2013.

Capital expenditure as a percentage of revenue was approximately 1.9%. This was mostly invested in creating additional capacity for growth in Europe and our SEZ locations in India.

We continue to expect to close the year with capital expenditure as a percentage of revenue in the range of 3% to 4%.

With that, I hand it back to Tiger for his closing comments.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Thank you, Mohit. In closing, our first quarter results extend the steady momentum we have established and get us off to a solid start for 2013. Our relentless focus on operational excellence drives high client satisfaction levels, as reflected in our high net promoter scores, and we are well positioned to partner with our clients on their transformational journeys. We are strategically investing to provide clients in our targeted vertical markets with the insights and services that will enable them to run a more intelligent enterprise, one that is more globally effective, connected, innovative, and adaptive.

Although in the near term, global GDP may be sluggish, we are very excited about the long-term opportunity in our large, underpenetrated target markets and, in particular, we are excited about the growth we are seeing in our core global client BPM business. Our focus is to provide world-class services to our clients, which we believe will position us to take advantage of this long runway to drive sustainable growth in revenues and cash flow.

As we continue our journey, you will see us becoming even more focused on our vertical markets strategy, and our investments to support that strategy, while aligning all of our capabilities to provide a unified solution for our clients and deliver the value and outcome that will help make them become successful.

Now, let me turn to our 2013 guidance. Genpact helps clients navigate economic and secular change. Our clients continue to face volatility and uncertainty that is forcing them to demand better returns on investment, develop more competitive insights, drive growth, and even rethink their business models. While we continue to remain cautious, as are many of our clients, about the total global economy in the near term, we do see signs of improvement, and we are bullish about the long term.

For the full year 2013, we continue to expect revenues to be in a range of $2.15 to $2.20 billion, and adjusted operating income margin in a range of 15.8% to 16.3%.

With that, I will hand the call back to Bharani.

Bharani Bobba - *Genpact Limited - IR*

Thank you, Tiger. I'd like to open it up for Q&A. Operator, can you please give the instructions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Paul Thomas with Goldman Sachs. Please proceed.

Paul Thomas - *Goldman Sachs - Analyst*

Good morning, guys. Thanks for taking my question. I guess starting in the prepared remarks you talked about SDS growth being flat. Can you talk a little more about why you decided to take those services in-house? Was there anything in particular they felt they could do better analytics or reengineering? What's the timing for the second client to take their business in-house?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Let me first address the first part, Paul. When you think about particularly the analytics side of Smart Decision Services which is what the type of work that we do for these two clients, there are aspects of the work which sometimes the client decides is better done by them primarily driven by IP and the fact that some of them are very core to their business. In this particular case that's why the client decided that aspect of the work they wanted to take back driven by their desire to keep it in house and build the IP around it over time. Those types of ins and outs actually happen across our business. It happens in the case of analytics driven sometimes by IP considerations, things they want to keep core. Once they decide that's what they want to build. The second client, we expect that to get executed during Q2, Q3, well before we enter Q4.

Paul Thomas - *Goldman Sachs - Analyst*

Thanks for that. And could you share some of your thoughts on immigration reform here in the US and what impact that could have on you or your competitors?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Paul, I think I'll talk about the way we think about it which is probably more important for a lot of our business in terms of thinking about any of these changes and the impact it would have and how we think about it for our business.

First of all, these are complex changes. The first thing we're doing is obviously monitoring a bill like this as it goes through the Congress and so on. Our portion that impacts our kind of a business is a segment of a much bigger immigration bill and as you know, these things take time to get shaped over time and obviously therefore it's important for us to monitor it.

But if you step back and look at our business, the core of our business in terms of size and scale is business process management. We are 4,000 people, close to 4,000 people on the ground in the US, providing services with a majority of these services being business process management and then of course we also have IT.

But our operating centers in Illinois and Pennsylvania and California and Texas and Detroit, all of those are operating centers that deliver services that are very close to our clients with local staff. So, from our perspective, given our weightage towards business process management we are a little different as compared to only IT or predominantly IT and technology players. We will continue to monitor the situation as we go forward but that's the way we think about it.

Paul Thomas - *Goldman Sachs - Analyst*

Great. Thanks a lot, guys.

Operator

Your next question comes from the line of Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang - *JPMorgan - Analyst*

Hi. Thanks. Thanks for the update. I guess I'll follow-up on the immigration question just to be more specific. Your dependence on visa employees, I'm guessing it's relatively low but of the 4,000 can you comment on your dependency on visas there?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

I don't want to get into specific numbers but clearly our dependency would be materially lower on the whole than a business that has much more of an IT footprint versus ours being BPM local delivery footprint. It obviously makes a big difference, the way the bill is going to be written, because we have so much more of a local delivery footprint in operations with local operating centers.

Tien-Tsin Huang - *JPMorgan - Analyst*

That was our assumption that your exposure to that outplacement provision was significantly lower. Just checking in on that. Also with I guess sticking with employees and I had another question on SDS. Just employees were flat quarter on quarter and the revenue per was about the same as well. Anything to read into there? Has the hiring plan changed at all for the year?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

The hiring plan, as it relates to the SDS business, is that your question?

Tien-Tsin Huang - *JPMorgan - Analyst*

I guess overall first before I get into SDS and I guess looking at the overall headcount it was looking like it was relatively flat quarter on quarter. I didn't know what the plans were for the full year.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

First of all, Tien-Tsin, we don't particularly focus our energies around hiring plans. If you go back to our history we rarely -- I don't think we ever talked about hiring plans. Our view is that depending on the mix of business, the type of value add in the services we provide and the global delivery of those services, specific hiring plans are less relevant than total revenue growth. As we think about the hiring that we need to do in order to deliver the revenue growth for the year, we like the fact that actually we've grown revenues without necessarily growing headcount. That's a good thing for us as you can imagine.

It demonstrates additional value-added services. It demonstrates more global delivery of services. It also demonstrates a very efficient set of services that we managed to deliver in quarter 1 given some of our focus on bench in some of our businesses and all that is reflected in the quarter 2 headcount not growing as much as revenue.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay. Fair enough. We'll continue to track the revenue per employee. It's been good. The last one, just Smart Decision Services, I heard the comment on the two clients. Can you give us a little bit of guidance on how the next two quarters might shape out directionally? I know there's some seasonality in that business as well and it can ramp through the year. So, any help on that would be appreciated. Thank you.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

I think the quick answer to that in general would be that business would ramp through the year from a growth perspective from the current position driven by, one, the fact that the second client deletion that we talked about and moving work into an in-house group would take Q2 and Q3.

Second, some of our transformational services, as you think about Smart Decision Services, it consists of our transformational reengineering services which continues to do really well. Our risk and regulatory type services, that is also doing really well in this environment and analytics. I mean, you put all three together, we expect that to be a ramp as we go through the year.

Tien-Tsin Huang - *JPMorgan - Analyst*

Understood. Thank you.

Operator

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

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. Good morning. My first question is any change in client decision making? And then kind of part two of that is given your commentary about large deals and SDS, how should we think about the progression of revenues and earnings through the year. Has that changed at all?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Let me answer the first one, Joe. Client decision making broadly hasn't changed. In fact it hasn't changed much over many quarters now. The reality is that as we look at some of the larger deals, particularly in industries where there's pretty significant secular change, capital markets probably being the best example, those tend to be longer cycle. By definition they would be.

So, if you look at our pipeline in capital markets, it's the largest it's ever been. It's composed of many transformational large deals as one would hope it would be starting off two years back and those transformational deals are big events for our clients and therefore require a longer-term decision making process.

And we are going through that with a number of those clients. I just picked that as an example. So, the more transformation in nature, the larger change management needed in nature tend to create longer cycles in the deals. It's less around clients saying -- I'm not ready to make a decision. It's more around the nature of some of these deals which are all actually very good for the Company and for the industry.

Your second question? Sorry, Joe.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Yes, I was just wondering as we look at the numbers throughout the year typically they build as we go further through the year and the first quarter ends up seasonally light. I want to know with the shifting to larger deals and with SDS being a little bit larger in the first quarter should we expect any change to the seasonality in the business and how should we think about the progression of revenues throughout the year?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Mohit? You want to take that?

Mohit Bhatia - *Genpact Limited - CFO*

Sure, Tiger. So, if you look at the fact that Smart Decision Services was soft in the first quarter and will gradually pick up, it could have an impact overall on the revenues which we feel will ramp through the year gradually with higher ramps in the fourth quarter, just like we have every year with the minor change that there may be a more steeper ramp in the third and fourth quarters than in the previous year just because of our focus more on larger deals and being more selective on what kind of Smart Decision Services we really want to do. And trying to move from small ticket sizes, fragmented stuff and focusing more on supporting SDS in the verticals that are important to us and focusing on slightly higher ticket items which by definition therefore also means that they'll take slightly longer to come into the ledger.

So, yes, it won't be very different from what you see every year but I would estimate at this point in time it will ramp gradually through the year with higher ramps in the fourth quarter just like we see every year.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

The one other point I would add to what Mohit said is if you look at our first quarter, global client BPM, core process BPO type work has shown higher growth than it's shown over many quarters and what that typically indicates is the beginning of a ramp. That's the nature of the business. So, to Mohit's point, we've always had a ramp as we go through the year. The ramp this year will probably be a little steeper, again I think actually good because it's driven by annuity BPM services doing actually well.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Good. That was helpful. Then on the sales force, I know it's your focus this year on productivity and we're expecting maybe an uptick in organic growth rates in the back half of the year. Maybe you can give us an update on the progress there and any quantitative numbers you could wrap around that would be fantastic.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Joe, let me start by saying if you see the total SG&A spend which is then reflected in our margin being actually a little better than the total for the year, invests tend to ramp as we go through the year. That's the first part of the commentary.

The second is marketing spends as distinct from sales would tend to ramp definitely through the back half of the year because particularly the first quarter it's extremely muted always on marketing spends.

The third is as we've added to the sales force over the last couple of years we obviously monitor performance very acutely, not just individual sales person's performance but also performance of specific sub verticals, geographies, et cetera, to make sure that our allocation resources is where the opportunity is the best and we continue to fine tune that as we go forward. Part of that fine tuning means reallocation of resources, changing resources, which typically tend to happen as you end a year and begin a year.

So, therefore, as you think about the balance of the year, that investment would continue to rise. It's still much lower than our ultimate goal so therefore that trajectory will continue well beyond the end of this year. We feel very good about the addition to the pipeline in the US and Europe. In our core Finance and Accounting and core business operations type work, all of which is a precursor to the way we should think about the business driven by the fact that we've added the sales force which would then add revenue into the future.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Just to be clear, are you seeing an uptick in sales force productivity?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Absolutely, yes. We are seeing -- but remember these are long cycle deals, particularly for those deals focused on the BPM side of the house and therefore they take, as we've said, as much as 2.5 to 3 years to ramp up the full productivity. So, the progress on that productivity is as we would have expected but there's still a runway to growth.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Got it. Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Edward Caso with Wells Fargo.

Edward Caso - *Wells Fargo - Analyst*

I better make it a multi-part question then. I'm sort of curious to stay on this visa topic here. If you could talk a little bit about maybe your exposure to Canada where there's also issues and if you're seeing anything in Europe as well and whether your geographic mix in Europe helps you or hurts you?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

This will be a very simple, quick answer, Ed, actually. No impact in Canada as far as we're concerned. We obviously have business and clients that we serve in Canada but materially actually, nothing. And in Europe, to think about Europe from a visa perspective the right way to think about it is country by country. As you know we have probably one of the best delivery footprints from the right countries to be in, the right cities we're in and the spread of those across Europe. Very local in Europe. Extremely local in Europe.

Again, I would say no impact of any immigration or visa type discussions. In fact I would say some of the countries like Germany are actually becoming easier for companies like us to actually help German companies become more effective. Again, that's a reflection of the German economy actually doing well.

Rick Eskelsen - *Wells Fargo - Analyst*

It's Rick Eskelsen on. Just one follow-up here on GE. Good growth in your ITO business. I wonder if you could talk about what you're seeing in GE overall and if there's a scenario for GE growth to accelerate here over the next couple of years. Thanks.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

We are, as you know, hugely penetrated in GE. So, to some extent our growth in GE would be dependent on growth in the GE businesses themselves and which portfolio or which parts of their portfolio grow. We are in every one of their businesses. We are in discussions with all their businesses globally. I would still continue to say that we should think about GE as flat to very low single digit growth given to the extent that we are penetrated with GE.

Rick Eskelsen - *Wells Fargo - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Ashwin Shirvaikar with Citibank.

Ashwin Shirvaikar - *Citibank - Analyst*

Given the margin performance is it that the ramps in investment are going to be faster than the revenue ramp that takes you back into your range? You've been kind of at the top of provided margin range for I think for now 10, 11 quarters in a row. Is there any thought to when you might take that range up?

Mohit Bhatia - *Genpact Limited - CFO*

Ashwin, this is Mohit. I'd mentioned even in the last call that you should expect Genpact margins to be a lot more even this year, more like they were last year and unlike what has been the trend in prior years. Mainly the reason for that was the saving and timing of various investments, the variation in our quarterly hedge risks, we have monthly contracts and so forth and specifically this year the expected slight dilution from JAWOOD as we start getting the first full quarter impact of that acquisition.

I would say that it's very similar to what we had said last time. The quarter 1 performance was expected and we still believe we should be in the range of 15.8% to 16.3% given the fact that we do intend to now start making some of those investments which always planned to be done in quarter 2 to quarter 2 as well as the quarterly hedge rates as I see them right now.

Ashwin Shirvaikar - *Citibank - Analyst*

When you look at the M&A pipeline, clearly you've been making a couple acquisitions a year. Any path to what looks attractive here or what kind of areas? How does the pipeline itself look in terms of valuation and so on?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Ashwin, let me take that one. Our M&A focus has always been to bring in capabilities that we think are critical to serve the clients in some of the core focus industry verticals, core focus service lines, and core focus geographies. Our strategy around that hasn't changed. We continue to look at verticals such as healthcare, insurance, capital markets, consumer goods and life sciences, verticals that have been doing well, verticals where we've been continuing to build expertise, verticals where we have a range of marquee clients for whom we already provide a range of services and can continue to bring in new capabilities to add to those services.

Having said that, it is very important that we continue to focus on those acquisitions that do bring capabilities to the table that we can leverage into their client base as well as can be leveraged into our client base. And we continue to be very disciplined around those. We do have a pipeline but they do go through a pretty severe filtration process around strategy, operational delivery are they good? financially do they make sense? And culturally do they fit? Which is also very important. So, it's a tough bar to cross as we look at a range of acquisition opportunities.

Ashwin Shirvaikar - *Citibank - Analyst*

Got it. Thank you, guys.

Operator

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

Manish Hemrajani - *Oppenheimer & Company - Analyst*

Thanks for taking my call. IT was up nicely this quarter directionally. Could you give us some more color there in terms of where you were seeing strength? And if you could comment on the discretionary spend environment in IT? Thanks.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Manish, first of all, that total IT growth includes obviously JAWOOD from the perspective of the global clients. But even without JAWOOD, GE had good IT growth. But even without JAWOOD, you're right. IT did have decent growth. Our growth in IT comes from those areas where we see a strong connection to domain and to processes. Clearly capital markets IT is one example of that. Healthcare IT is another example which is the reason for our JAWOOD acquisition. Insurance, some of the IT work we do in the property and casualty insurance space has been doing really well. Some of the IT work that we do in the commercial lending space, again, an area where both from the process side, the analytics side, and the IT side I think there's real traction.

So, it's less about the industry. It's more about which segments of our IT business do we have real differentiated capability because of this combination with domain where domain and process lead that technology.

Discretionary spend, to your point, continue to be under pressure, obviously a little bit more in some verticals versus others. People are very careful about those and they want returns against all programs and investments.

Manish Hemrajani - *Oppenheimer & Company - Analyst*

Got it. How much was the wage inflation this year? Given that some of the bonuses are being paid out in Q2 versus first quarter of last year what will be the impact on margins if any?

Mohit Bhatia - *Genpact Limited - CFO*

There was no variation on wage inflation. We had wage inflation globally at a rate of approximately 6% plus which was planned for and no significant variation versus last year.

Manish Hemrajani - *Oppenheimer & Company - Analyst*

And the Q2, Q1?

Mohit Bhatia - *Genpact Limited - CFO*

Sorry. The expected rate inflation for the rest of the year is also -- the outlook hasn't changed. We expect it to be -- we have planned for actually 7% to 8% and we think we should average around 7%.

Manish Hemrajani - *Oppenheimer & Company - Analyst*

Okay. Got it. That's all I have. Thanks.

Mohit Bhatia - *Genpact Limited - CFO*

Just as added color I did make a comment both from a cash flow perspective that there were some bonuses that would be paid out in quarter 2. However, that is just a cash flow item. That's not an expense accrual and already been booked in the first quarter so it won't effect margins.

Operator

Your next question comes from the line of Bryan Keane with Deutsche Bank. Please proceed.

Bryan Keane - *Deutsche Bank - Analyst*

Hi, guys. Just wanted to ask for a little clarification. The environment still sounds a little bit mixed but, Tiger, in your comments on the press release you say that you do see signs of improvement. So, I just wanted to make sure what exactly you're talking about there. Where are you seeing those signs?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Bryan, it's less about economic improvement and more about clients in this environment and in the way they think about the future, saying that we need to run our businesses differently, we need to transform and restructure. Be it the capital markets type of secular change or life sciences long-term change that that industry is going through. In every one of those, clients are pulling their teams together and obviously bringing in partners like us to think through and then execute on those transformational journeys. We see traction wherever you see companies in an industry move in that direction.

Geographically I've said that clearly some of the businesses in the US seem to be doing well, but as you know it's still low growth. It's not growth back to the days prior to the down cycle. Europe continues to be mixed almost by country but again the reality is -- and I've said this before on many calls, Europe corporations are actually coming together and undertaking journeys that their US colleagues undertook probably five plus years back or started undertaking five plus years back.

Bryan Keane - *Deutsche Bank - Analyst*

So, the fact that the clients are now interested in these transformational journeys probably leads to better visibility for you guys, bigger deals. I just want to make sure I understand the importance of that.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

They certainly lead to many more corporations wanting to do something. Some of them probably haven't done something like this before. Therefore, to some extent, it doesn't necessarily mean all of them will lead to big deals because when someone is doing this for the first time they tend to do smaller initial starting points first. It could be a business. It could be a geography, et cetera. And then roll in others over time. But it does mean more activity in the pipeline and more addition to the pipeline as we continue to progress the business.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Last question from me, just on attrition rates, they're still industry standard or the best in the industry, but what kind of plans do you have? Do you guys still think you can get that lower? Or are you at about the range that you expect to be going forward for attrition?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Bryan, the culture in the Company is to never say that anything in the Company cannot get better. So, the simple answer to the question is it can get better and our attempt is always to try to find a way to get it better.

But the reality as you rightly said is it's best in class in the industry. We've kept it at that best in class level for many years now. We know how to do it and by the way we do it across the globe. It doesn't matter which geography we deliver these services from, whether it's Philippines, it's the US, it's Europe, it's China.

The way we run the business is to find a way to continue to drive it down but at the same time find a way to deliver great services and build expertise and domain expertise in spite of that level of attrition. I think that's the balance we strike as we continue to grow the business and our clients comment on our ability to do both when they work with us.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Thanks a lot.

Operator

Your next question comes from the line of Arvind Ramnani with BNP. Please proceed.

Arvind Ramnani - *BNP Paribus - Analyst*

Just another question on the immigration bill. Are any of your clients expressing any concern? Or any prospective clients asking about the impact of the immigration bill? And given that it could potentially impact the IT services firms, are you taking advantage of the uncertainty to compete more effectively with these IT services firms?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

It's too early to answer the latter part of the question. I think the shape of things to come will be seen as we go forward. From our client's perspective, I think our clients understand the way we provide those services. So, therefore, their discussions with us haven't actually been focused on these topics with us and it wouldn't because they know that we don't deliver these services in the US with people other than local US -- a large proportion of local US citizens. So, we aren't the people they have those conversations with.

Arvind Ramnani - *BNP Paribus - Analyst*

Great. Just moving on to your revenue per employee, it certainly increased quite nicely. But how much of the increase is due to like for like bill rate increases versus, increasing your on site footprint, or the changing nature of the business mix?

Mohit Bhatia - *Genpact Limited - CFO*

The revenue per headcount has marginally increased on a business as usual basis. Bill rates are stable. The impact that you're seeing off the revenue by headcount go up approximately $32 actually now to $34.50 is also aided by the fact that we have -- that our recent acquisitions do have a higher revenue per headcount than the legacy Genpact business and we're seeing that come through in the ledger. But if you look at the legacy billing, et cetera, they're stable and marginally improved in terms of revenue by headcount.

Arvind Ramnani - *BNP Paribus - Analyst*

Great. And I know once your margins improved in line with the rest of your business, would you consider again taking your margins up to 16% to 16.5% and have you also considered expanding the margin range to 100 bps versus the current 50 bps. Because you're continuing to make acquisitions and have you considered expanding the margin range as some of your peers have to 100 bps range?

Tiger Tyagarajan - *Genpact Limited - President, CEO*

We talked about this at the investor day. We think the underpenetrated markets that we serve, the runway for growth that we have, therefore the potential to invest to capture that growth and be even more differentiated and a better value proposition to our clients tells us that we should keep our margins in that medium-term, long-term 16% to 16.5% margin range, adjusted operating income margin range. That's the way we would run the business.

Arvind Ramnani - *BNP Paribus - Analyst*

Alright. Very helpful. Good luck for the rest of the year.

Tiger Tyagarajan - *Genpact Limited - President, CEO*

Thank you,

Operator

We have exhausted all the time we have for questions today. Mr. Bobba, please proceed with closing remarks.

Bharani Bobba - *Genpact Limited - IR*

Thank you, everyone, for joining us on the call today. As always, we are available to answer further questions. Thanks again.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may all disconnect and have a wonderful day.
