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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2019 Genpact Limited Earnings Conference Call. My name is Michelle, and I'll be your conference moderator for today. (Operator Instructions) We expect the call to last for about an hour. As a reminder, this call is being recorded for replay purposes. The replay of the call will be archived and made available on the IR section of Genpact's website.

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

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

Thank you, Michelle, and good afternoon, everybody, and welcome to Genpact's First Quarter earnings call to discuss our results for the quarter ended March 31, 2019. We hope you 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 for today is as follows: Tiger will provide a high-level overview of our first quarter results and update you on our strategies. Ed will then discuss our financial performance in greater detail and provide an update on our outlook for the year. Tiger will then come back for some closing comments and then we'll take your questions. As Michelle just said, we expect our call to last for 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. We believe these non-GAAP measures provide additional information to enhance the understanding of the way management views the operating performance of our business. You can find a reconciliation of these measures to GAAP in today's earnings release posted to the IR section of our website.

And with that, let me turn the call over to Tiger.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our 2019 first quarter earnings call. We had a great start to the year, and I'm very excited with the momentum we are seeing in our business. Strong top line performance from both Global Clients and GE led us to our highest year-over-year revenue growth rate in any quarter in the last 6 years. We believe our strategy to concentrate and build depth in a few select industry verticals and service lines, combined with our 2 highly synergistic routes to market. Transformation Services and Intelligent Operations is working really well, leading to great traction in our underpenetrated target markets.

In the first quarter, on a constant currency basis, total revenues increased 19%, Global Client revenue increased 12% and Global Client BPO revenues increased 14%. We also delivered adjusted operating income margin of 15%, up 90 basis points year-over-year and adjusted EPS of $0.43, up 10% year-over-year. Since we laid out our strategic road map 5 years ago, we have been focused on a chosen set of industry verticals, end-to-end services and geographic markets. We have also been investing in high-impact client-facing leaders at the front end and been increasing our spend in domain and process R&D as well as digital and analytics. We have also added new digital capabilities through a series of acquisitions and partnerships. All of these new capabilities have allowed us to reimagine our solutions to dramatically improve outcomes for our clients. This strategy has driven low- to mid-teen annual growth in our Global Clients BPO revenues. With operating and financial discipline, we have been able to slowly and deliberately improve our adjusted operating income margins and deliver double-digit EPS growth. This has always been and continues to be our long-term financial goal. First quarter Global Client growth was led by strong growth in consumer goods and retail, High Tech and industrial manufacturing verticals. Within Global Clients, Transformation Services that includes analytics, digital and consulting, had a fantastic growth in excess of 35%. I am particularly pleased with the growth in analytics, which was the highest we have seen in 5 years. Additionally, our IT business, with sharper strategic clarity, continues to progress in the right direction and delivered a solid quarterly performance. GE revenue growth almost doubled on the back of the new long-term contract we signed in December 2018. We have sustained the momentum of new bookings that we saw last year led by Intelligent Operations with embedded Transformation Services. Our pipeline continues to expand, driven by new deal additions, including new high-value services like supply chain management and financial crimes and risk management, which we believe positions us well for the future. More than 80% of our bookings in the first quarter had Transformation Services embedded in them, up from 60% range during 2018 and 50% range in quarter 1 of 2018.

Overall win rates continues to be very strong in the first quarter with sole-source deals as in the recent past accounting for approximately half our bookings. Highlighting the impact of Transformation Services on our business, our fastest growing relationships have greater than 20% of revenues coming from Transformation Services. These accounts are growing at more than double the company average. This clearly demonstrates that the higher the levels of Transformation Services penetration, the more we gain credibility with clients and the more that drives growth in Intelligent Operations with that client. Additionally, many of these engagements provide the opportunity to leverage new and more profitable commercial models that are becoming more prevalent than in the past given the changing nature of work.

Genpact Cora, our automation and AI platform that pulls together a set of flexible digital technologies, along with a governance layer, has now become integral to many of our deals and solutions.

Let me share with you a very typical example of how Transformation Services drives growth and Intelligent Operations, and therefore, the whole relationship grows. Building on our more than decade-long relationship with Aon, a leading professional services firm, providing a broad range of risk, retirement and health solutions. We have significantly expanded the scope of work across our core set of insurance, reassurance and brokerage end-to-end services. Our high Net Promoter Score in our Intelligent Operations helped us increase our penetration with this client versus a number of our competitors. Leveraging the par of Genpact Cora, we will develop solutions that increase efficiencies and processes such as underwriting, claims management, premium administration and accounting, thereby improving customer experience and driving competitive growth across the enterprise. We have built significant traction with a number of clients in our insurance pipeline with solutions we have developed that embed advanced predictive analytics and dynamic workflows to reduce underwriting cycle times to improve customer experience and drive growth for our clients. We've always talked about the long-term annuity based nature of our business. Annuity revenues have been around 75% of total for the past several years, and we believe this trend will continue or even grow based on the growing percentage of annuity deals we have won recently, and given the mix we see in our pipeline. This has been driven by our BPO business leading our growth versus our IT business. Even more importantly, more of our Transformation Services business is becoming annuity in nature. We had started seeing this in early 2018 as more and more Transformation Services work gets embedded in our BPO Intelligent Operations deals. Therefore, over the long term, we expect to continue to be a predictable annuity business. As we had expected, digital and analytics is unlocking new opportunities for us, increasing our total addressable market. This is leading to increased new deal inflows, significant growth in our pipeline and very high win rates. We believe almost every large global enterprise is motivated to partner with companies such as Genpact to transform and capture the benefits from these new disruptive technologies. For the last 18 months, new and expanding relationships with clients have further increased our global delivery capabilities with the addition of Budapest, Shanghai, Cairo and Manchester in the U.K. as well as a number of industry-specific operating centers of excellence in the U.S. and Canada. This footprint strengthens our Intelligent Operations value proposition. We signed 3 new large Global Client deals in the first quarter, including our innovative partnership with Bridgewater Associates. Many of our services and relationships that leverage AI, machine learning, robotics and cloud-based solutions are beginning to change our commercial models. Transaction and outcome based pricing have grown from approximately 30% to 40% of our total revenue over the last 2 years.

In the banking and capital markets verticals, we have been focused on financial crimes and risk management as a huge opportunity to drive transformative outcomes for clients. Over the past several years, legacy ways of dealing with anti-money laundering and KYC requirements have become increasingly complicated, leading to significant operational risk and monetary damages to many institutions. We have seen nice traction building up in this area that we believe should drive growth in our banking vertical through 2019 and beyond.

And finally, our acquisitions that added new capabilities in digital and design thinking and experience consulting are doing really well and are contributing to the value added solutions we are taking to our clients that's winning us more business. For example, our supply chain service line has seen tremendous acceleration of the pipeline ever since we did the Barkawi acquisition.

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

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Thank you, Tiger, and good afternoon, everyone. Today, I'll review our first quarter results as well as provide our financial outlook for 2019. Let me begin with a review of our first quarter results. We generated total revenue of $809 million, an increase of 17% year-over-year or 19% on a constant currency basis. Overall business process outsourcing revenues, which represent 84% of our total revenues, increased 19% year-over-year and total IT services revenue increased 11%. Revenues from Global Clients, which represent 87% of our total revenue, increased 11% year-over-year or 12% on a constant currency basis to $700 million. Within Global Clients, BPO revenues grew 12% year-over-year or 14% on a constant currency basis, largely driven by Transformation Services that represented approximately 25% of total Global Client revenue. Global Client IT services revenue was up 5% year-over-year. We continue to expand relationships with our Global Clients across a range of our targeted industry verticals.

For the 12-month period ending March 31, 2019, we grew the number of Global Client relationships with annual revenues over $15 million to 49 from 41, including client relationships with more than $25 million in annual revenue, increasing to 24 from 20.

Revenue from GE was $109 million, up 88% year-over-year, driven by a full quarter of work related to the new large deal we won late last year as well as additional Transformation Services project work we added during the quarter. We are pleased with the strong start to the year on GE activity, including the higher-than-expected project work. This gives us great confidence in meeting or exceeding the full year range we gave on total GE revenue expectations last quarter.

Adjusted income from operations for the quarter grew 25% to $122 million, and our adjusted operating margin expanded by 90 basis points to 15% compared to the prior year. This performance was driven by top line growth, improved gross margin and operating leverage, which more than offset an expected $11 million decline in export subsidy income this quarter versus the prior year. Gross margin for the quarter was 35.8% compared to 35.5% during the same period last year, which was slightly better than our initial expectations, and includes 40 basis points of incremental cost associated with stock-based compensation. The year-over-year increase was driven primarily by improved utilization of Transformation Services resources. Favorable rupee hedge rates and operating leverage also contributed. SG&A expenses totaled $191 million compared to $171 million in the same quarter of last year. Our sales and marketing expense as a percentage of revenue this quarter was approximately 7%, in-line with the same quarter last year. Total G&A expenses as a percent of revenue declined 130 basis points year-over-year during the first quarter even after absorbing approximately 90 basis points of incremental stock-based compensation expense. Significant operating leverage, driven by strong top line growth and efficient functional spending drove this year-over-year improvement. Adjusted EPS for the first quarter was $0.43 compared to $0.39 last year. The $0.04 increase was driven by higher operating profits of $0.10, partially offset by a foreign exchange balance sheet remeasurement loss of $0.01 this quarter in comparison to $0.02 gain last year. A higher effective tax rate year-over-year of $0.02 and higher net interest expense of $0.01.

As expected, our effective tax rate during the first quarter was approximately 23% compared to 15.7% during the same quarter last year and approximately 22% for the full year ended December 31, 2018. The increase in our effective tax rate is primarily due to the expiration of certain special economic zone benefits in India as well as several discrete tax benefits in the prior year period.

During the quarter, we returned approximately $16 million to shareholders by our quarterly dividend of $0.085 per share that equates to a current annual yield of approximately 1%.

Now let me turn to our cash flows and the balance sheet. During the first quarter, we utilized $5 million of cash from operations compared to utilizing $27 million during the same period last year. Cash flows are historically at the lowest levels in the first quarter, due in part to the payment of annual bonuses during the quarter. Following our historical trend, our day sales outstanding increased in the year-end level and ended the quarter at 93 days. As we saw in the first quarter of the prior year, DSOs also increased due to certain late payments that we received in early April and the impact from higher third month revenues related to large deal ramps. We expect our DSOs will recover throughout the balance of the year, ending in a low 80-day range by the fourth quarter. There is no change to our full year outlook for cash flow from operations to grow at approximately 10% to 15% in 2019. Our cash and cash equivalents totaled $325 million compared to $424 million at the end of the first quarter of 2018. Our net debt-to-EBITDA ratio for the last 4 rolling quarters was 1.94. With undrawn debt capacity of $178 million and existing cash balances, we continue to have ample liquidity to pursue growth opportunities and execute on our capital allocation strategy.

Capital expenditures as a percentage of revenue was 2.5% in the first quarter of 2019 compared to 2.8% during the first quarter of last year. Our capital allocation priority to drive long-term shareholder value have not changed. First, we are investing in our business in support of organic long-term growth initiatives. Next, we'll continue to go after strategic M&A, enabling us to enhance our digital and analytics capabilities as well as add to our domain and operations depth in our chosen verticals. And lastly, we are committed to returning capital to shareholders through our quarterly dividend that we anticipate over the long-term will grow directionally along with our net income and cash flow growth. Also with respect to share repurchases, we are not anticipating a net increase in our share count over time. If our track record over the past few years has any indication, we'd expect that over time, future buybacks will result in a net reduction of our outstanding shares. Any future share repurchases will be based on availability of capital, using a price sensitivity based model.

I'll now turn to our full year 2019 outlook. We continue to expect total revenue to be between $3.33 billion and $3.39 billion, representing year-over-year growth of 11% to 13% or 12% to 14% on a constant currency basis. We're very pleased with a robust top line growth that we generated during the first quarter. The strong start to the year gives us even greater confidence in our ability to drive total revenue growth in the 12% to 14% range.

Given our first quarter performance, we now expect revenue growth in the second half of the year to be more in line with the first half level.

For Global Clients, we continue to expect revenue growth to be in the range of 9% to 10.5% or 10% to 11.5% on a constant currency basis in 2019. With strong bookings growth in 2019, current record pipeline levels and an attractive underpenetrated market, we remain optimistic in our ability to generate sustainable double-digit Global Client growth. We continue to expect adjusted operating margins to be approximately 16% for the full year. We continue to expect full year adjusted earnings per share to be in the range of $1.96 to $2 per share.

With that, let me turn the call back to Tiger for his closing comments.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Thank you, Ed. We've had a great start to the year. All of our pipeline and booking activity has further raised our brand awareness in the marketplace. While we have always had a great reputation with our clients for operating excellence, we are increasingly seen as an innovative thought leader, driving solutions that help our clients reimagine and redesign their business models. This is resulting in more relationships growing meaningfully in size. At the end of the first quarter, we have 9 clients with annual revenue greater than $50 million, up from 6 during the same period last year. GE and IT have both not only stabilized, but are back to growth and play a critical role in our overall portfolio of leverageable capabilities. We feel very good about our positioning in the market and the huge opportunities ahead for both the balance of this year, and more importantly, over the medium and long term.

With that, let me turn the call back over to Roger.

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

Thank you, Tiger. We now open our call for your questions. Michelle, can you please provide the instructions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ashwin Shirvaikar of Citibank.

Ashwin Vassant Shirvaikar ***Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst***

This is quite solid results. Congratulations. And I think my question is you've kind of beaten top line by a significant level. You're talking in a positive way about the future quarters. You have cumulatively just a $60 million range for revenues for the full year. So would it be a safe thing to say you're at least confident at the upper end of the range if you're not raising your outlook fully? What conclusions should we reach about for the rest of the year?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Yes. To -- I'll start Ashwin. First of all, thank you for your compliments, but I'll start by saying that it's only 1 quarter. And as we've always maintained, our business, one should look at least 1 year if not even longer in terms of its cycle. But you're right, we've had a strong start for the year. When we guided for the year, we had said that the second half will climb up versus the first half. What we're saying now is that the second half is steady as compared to the first half. And that's a great position to be in. So yes, we feel really good about the business and we feel really good about the guide.

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

It's certainly a better -- it's a better position that we've been for the past several years in terms of the trajectory being less back-end loaded than we saw. So yes, we're pleased with the way we started out. It's good to get out of the gate fast.

Ashwin Vassant Shirvaikar ***Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst***

Okay. I get that. With regards to some of the comments that you had, Tiger, and this has been the direction you're moving in for some time with regards to, say, Transformation Services and the annuity nature of the Transformation Services increasing. Could you talk a little bit about what the margin impact of that kind of transition is going forward?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

I think longer term, clearly, things like analytics, digital just as 2 examples would tend to move overall margins up. But that takes time. And there are 2 big drivers of that, particularly when you get to digital, it requires upfront investment in the solution, in the deployment of that solution, and then in the scaling up of that solution. And therefore, it actually starts with lower margins and takes time to climb up. The fact that it is annuity is actually a great benefit because as you bring on more clients with similar solutions, that also helps driving up that margin. The second thing I would say is, as you know, we have signed and we are now on-boarding significant large relationships. We announced Walmart, we announced Bridgewater as 2 examples in the fourth quarter of last year. And as those start their journey and ramp, they tend to require upfront investments as they ramp. So the combination of all of that ends up delivering our overall margin. So going back to your question, I think, the nature of our business, the nature of Transformation Services gives us the confidence of longer term where the margin has headed.

Ashwin Vassant Shirvaikar ***Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst***

Got it. And if I can quickly ask you to size the project based nature of work that you got in the quarter on both sides, on the GE and global side.

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

So you're saying GE, but on both sides. Tiger and I both talk about Transformation Services revenue growing at a greater than 35% clip. So that was terrific. And also in that regard, we talked about utilization of the resources, and particularly consulting being an area of focus for us, and you saw that come through into space in the first quarter so we are both really -- all of us really pleased with the way that, that came through. In GE, we also saw some of that, right? So the project work that we started in December on a large deal came through in a nice way for the full quarter as well as some incremental project work that helped it. It won't size it, but it helped us be better than we had expected for GE to start out the year.

Operator

Our next question comes from Dave Koning of Baird.

David John Koning ***Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst***

Congrats. And so I guess my first question, I guess, it's sort of 2 parts. But you said the back half will look a little like -- a lot like the first half. And so if both halves end up being about 13% and you did 19% in Q1, it kind of implies Q2 might only be like 7% or 8% or something. I'm just wondering if anything was unsustainable in Q1 whether part of that GE lift falls off because Q1 was just so good, I'm just wondering how we should think about Q2.

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Yes. So I think a little bit -- you'd mentioned a little bit of the GE piece of it was project-related. So I would say, as you model for the balance of the year, we were thinking first half growth to be a little lower, second half higher. Now we're looking at -- as we look at the latest outlooks that we have, each quarter growing sequentially in the low single digit is probably a better way to model it, if I'm doing it, Dave. If I was modeling it and I were you, that's the way I'd think about it.

David John Koning ***Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst***

Okay. No, that's a great -- that's great help. And then I guess the second question is a little related to. You had a lot of -- pretty big signings in the last quarter to now, brand names. Is most of that fully on board or is 80% onboard or more maybe give us a little color of what either is on-board or what's still to come?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

So there's lots of puts and takes in the way that on-boarding then ends up on the top line, Dave. When you have transition of BPO services that moves from a spread out set of locations to us, that is a ramp that sometime takes as you remember, 18 months. So that's one nature of the business that still exists with us and we win as part of our deal. The second is projects like the one that Ed described with GE where it starts and ends. And that some of our extra revenue that we got, particularly in GE in the year. And the third is when we take over work that is being done by our client, an example is the Walmart Bentonville example, then that whole revenue gets in at one shot, which is exactly what happened in the case of the Walmart relationship.

Operator

Our next question comes from Tien-Tsin Huang of JPMorgan.

Tien-Tsin Huang ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Good start to the year, obviously. I was curious on the employee takeover deals. How hard or easy or flexible it is for you to introduce tools, automation, offshore, et cetera. Just to follow on Ashwin's question to give some of the margin enhancement sooner rather than later. Just curious if there are any constraints or flexibility there?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

So Tien-Tsin, the reason why we focus and we do start relationships is actually the first 2 things that you pointed out, which is automation and things like AI, machine learning because -- and we do it where we think, that actually we leverage the talent that actually comes in. So it's actually less about global delivery. It's more about we want the team in Bentonville that has been doing work for Walmart. And what we bring to the team is our capabilities around process, Lean Six Sigma and then automation, machine learning, AI, design thinking. Our ability to do that with that team has been demonstrated over many years, over many relationships. We feel really good about the repeatability of that and it's shown success. And then we leverage that with other clients. We leverage that domain with other people. Typically, those centers tend to grow. So I don't know if I'm answering your question, but our objective there is actually not to take over and then to offshore. It's a very different model.

Tien-Tsin Huang ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Understood. No, that's helpful clarification. Just as my follow-up then for you also, Tiger. Just -- I know you're always great about meeting with prospective clients, existing clients, et cetera. Just given pretty busy backlog, your appetite to do big deals still from here. I know you mentioned that your -- the feedback is better and activity levels are up, et cetera. So I'm just curious by your appetite to do bigger stuff.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

I always remain hungry. Now, I'm just kidding, Tien-Tsin. One of the advantages of scale is that, that scale allows you to scale more. So if you think about us as a company today versus 3 years back, we have more people who are higher quality, who are deeper experts facing clients. We have a deeper bench of consulting-type folks. We have a much deeper bench of digital and analytics folks that we've been investing in. We have a very strong operating bench across more than 100 operating centers across the globe now, across 29, 30 countries across the globe. So our ability to deploy and do these big deals in a range of countries, in a range of verticals. The other advantage we have, I think is, as I said, over the last 5 years, we've been very focused on our choices. And we haven't deviated from those choices. I fundamentally believe that the choices that the company made, the strategy that we've adopted is actually helping us scale much better and our ability therefore, to you deal with that scale. So ready to do more of the same as long as it fits in, in the strike zone that we've defined.

Operator

Our next question comes from Joseph Foresi of Cantor Fitzgerald.

Drew Kootman ***Cantor Fitzgerald & Co., Research Division - Research Analyst***

This is Drew Kootman on for Joe. I wanted to touch back on GE just given that it was above even where you guys expected. Can you provide a little more color on what you're thinking for that moving forward and how everything's looking with it?

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Yes. So we gave an outlook on the last quarter and we're kind of holding to that. We're pleased with the way as we said we get out of the gate, fast out of the gate. But with this, there is some short cycle work there that we would need to continue to win as we go throughout the year. And with GE, there are moving pieces, right? You read daily the things that are happening there and some of the structure they are looking to do. So from our perspective, kind of maintaining our outlook to where we were at the beginning of the year is where we want to be. But really happy that we're kind of out of the gate to where we are in the project work we've won so far. So we're kind of just continuing to execute and support them whatever they're looking to do and we'll update as appropriate going forward.

Drew Kootman ***Cantor Fitzgerald & Co., Research Division - Research Analyst***

Great. And then just any color you guys might have additional from the prepared remarks on the pipeline specifically, maybe around digital and analytics?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Drew, our overall pipeline, as I said, is up versus the first quarter of last year. Our inflows are up. And as a proportion of our pipeline and as a proportion of our inflows, Transformation Services is up. And within that, analytics has had significant strength. I talked about quarter 1 revenue having significant strength. But it has strength both in our inflows and in our pipeline. Digital as always had strength in the last couple of years. But now analytics has also got there, which we had expected because our belief is that digital and analytics become a feedback loop to each other. The more we do digital, the more the ability of our clients to actually leverage data to build insight and then drive back to action. So we're seeing that play out exactly the way we expected.

Operator

Our next question comes from Maggie Nolan of William Blair.

Margaret Marie Niesen Nolan ***William Blair & Company L.L.C., Research Division - Analyst***

Congrats. I wanted to dig into the growth and analytics. So you said it's the highest that you've seen in 5 years. What's kind of changing in there? Is it Genpact's approach? Is it customer adoption? And then I suspect this increased growth rate in analytics is hopefully more of a trend than a onetime event. So can you comment a little bit on that as well?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

So Maggie, the pipeline and inflows that I talked about gives us the belief and the confidence that it would be more than just a quarter. So you're right. And from a macro perspective, there is a clear desire for a lot of our clients in the world of digital to actually use that digital to drive more analytics, more insights. AI and machine learning helps that for sure. But even traditional analytics, the better visualization of that analytics, the ability to actually use newer technologies to clean up the data and then use both outside and inside the company data. So there is a clear macro trend there. We've been building up to be able to ride the wave and our build up has been both in terms of capabilities, the acquisitions that we did and the digital solutions that we've been building. Most importantly, our ability to leverage all that comes from the fact that we run these processes. We understand the domain. And that's what we believe is our secret sauce to be able to leverage all of that, both macro trends and the capabilities we have. Because without that, we really can't build through analytical insights and drive that to action.

Margaret Marie Niesen Nolan ***William Blair & Company L.L.C., Research Division - Analyst***

Okay. And then add on the utilization and Transformation Services. I suspect some of that was helped by just the strong demand that you saw in the quarter in general, that work from GE that you picked up. So I kind of wanted to understand the sustainability of any improvements that you made, any structural improvements that you made to utilization and how we can expect TS utilization to kind of proceed for the rest of the year? But also do we return to kind of normal seasonality in Q1 of next year or is this a structural improvement that we saw?

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Well, I think, the incremental demand wasn't accidental, right? The incremental demand came from the focus of -- we can't see a big dip from Q4, Q1 like we saw last year. And it will give full credit to the teams that went after it, came up with the plans and drove Q1 as if it was Q5. So that was what we talked about. So that's part of it. The teams in the field's doing it and then the processes behind the scenes being worked, still in the process of automating, but knowing what we need to do differently, knowing that utilization of every employee, what it is, seeing around the corners a bit better. So we'll see how the rest of the year plays out, but we feel good again at about the start of the year. The structural changes that we're making are happening and they're only partially complete to date. The system still aren't fully in place yet. As we talked about, that will take another quarter or so. So I think that will continue to improve. The demand environment is partially a factor of our driving and going to the clients and showing what we can do, but also the demand environment in general. So we'll see how that plays out for the balance of the year. But they come out of the gate with the overall TS growing at a rate it is and consulting being a great contributor to that, we feel good.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

Yes, and Maggie, I mean, I think we are better positioned because of the changes that we did in the second half of last year and flowed through into the first quarter of this year. To manage the demand that we're getting and if that were to be a lower demand, I think, our ability to forecast and adjust to that is much better than it was, let's say, in the first quarter of last year. There is no question that we made significant improvements through our understanding of the first half of last year. So -- and I think we have worked on demand as well. So both sides of the equation.

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

The visibility of the utilization metrics across the board are widely available and much more regulated there now as well for the teams to look at. So it's something that's getting full focus and I think we've made good progress.

Operator

(Operator Instructions) Our next question comes from Justin Donati of Wells Fargo.

Unidentified Analyst

I am (inaudible) I was wondering if you could shed some color on the growth in your different verticals, what kind of came in better-than-expected or lower-than-expected? I didn't really hear anything in the prepared remarks about the Banking and Financial Services vertical.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

So I would say, nothing came in below our expectations at all across all our key focus verticals. Consumer goods retail, High Tech and industrial manufacturing were the 3 verticals that led the way. And they came in a little better. I mean, Consumer goods retail came in significantly better-than-expected as did High Tech and then industrial manufacturing followed from there. I would say banking and insurance came in exactly as we'd expected.

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Yes. And remember, we talked about already the banking financial services and insurance vertical that's what you'll see and you saw where we called a little bit of that in the second half of last year. You saw that being down. That will continue because the same accounts are not there year-over-year for Q1. So when you look at the factsheet in the Q as well, you'll see that grouping of verticals is -- will likely be down or is going to be down for the quarter. And that might continue for a couple of quarters because of the calling and natural produce that happen -- calling that happened last year and some of the natural produce that happen in the beginning of the year. More of them were in banking financial services, insurance and the other verticals.

Unidentified Analyst

Great. I appreciate the color. And then can you just kind of update us on your hiring targets for the year and how attrition has been playing out?

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

We actually never talk about hiring targets. And the reason for that is because our business if you think about the nature of our business, it's a combination of Transformation Services, projects, digital technology, implementations, digital platforms itself and solutions as well as transitions and taking over employees from some of the deals that we've done with our clients. So we actually don't talk at all about hiring targets. And we don't give those targets out. I mean, there are no targets for hiring. Attrition. And attrition is going exactly as expected. There's no -- there's nothing special in attrition across the board, across our sites and across our verticals.

Operator

Our next question comes from Bryan Bergin of Cowen.

Bryan C. Bergin ***Cowen and Company, LLC, Research Division - Director***

Nice results here. I wanted to ask on margin. It sounds like gross margin came in obviously above your expectations. Can you comment on some of the just the year-on-year contributions there across FX, cross productivity and other factors. And then how should we be think about those contribution buckets for the full year?

Edward J. Fitzpatrick ***Genpact Limited - Senior VP & CFO***

Yes. So I think we saw a nice flow through on gross profits in the quarter. Part of it because of the Transformation Services being a bit better. And as Tiger talked about, things like analytics would drive through at a higher level work, higher level margin. So that was good. Given that we did a bit better on the top line as well. That productivity did better than we expected. So you could expect that to flow through. I'd say on the GE side as well, given that we came out of the gate a bit fast than expected some of that project work also helped. So the what I talked about on the potential drag to gross profit levels on the large deals didn't come to fruition quite as much as we had thought. So more of the improvement that we saw in Transformation Services flowed through to the bottom in comparison to where I said, "Hey, we're expecting it to be roughly flat year-over-year because of that counter." So I think those are the key items. FX was exactly what we expected it to be when we gave guidance, so no change there. I think those are the key: productivity, a bit better project and a little higher-than-expected Transformation Services growth.

Bryan C. Bergin ***Cowen and Company, LLC, Research Division - Director***

Okay. And then Tiger, you mentioned a reference to some of the fastest-growing accounts. And I'm curious on the profile of those accounts as far as the tenure of those are. Are those relatively new clients you're talking about as far as the large new deal wins? Or are these more so a reinvigoration of existing accounts due to the broadening of the transformation consulting offering. I'm really trying to understand the penetration of transformation consulting and the opportunity you have in the existing base of clients.

Nallicheri Vaidyanathan Tyagarajan ***Genpact Limited - President, CEO & Director***

So Bryan, actually, it's a great question. And the answer is it's both. If you think about some of our more tenured relationships in Global Clients, some of them going back to 2005, 2006, 2007. They're now 14, 15 years old undergone couple if not 3 renewals. We are seeing growth at double the company average in some of them. And some of them are well above the $50 million mark. There are some of the accounts that are now greater than $50 million mark. And the reason for that is because they continue to have to find ways to reinvent their business. We've had a significant track record with them. We know them, they know us. We know their processes, we know their domain. And that allows us together to actually reinvigorate that. And the way you reinvigorate is Transformation Services. Clearly, new accounts, we covered a number of them on this call as well as earlier calls. They provide the opportunity of starting from day 1 with different solutions, which is the advantage they get. They leapfrog and pole vault into the new era. So it's both.

Operator

There are no further questions. I'd like to turn the call back over to Roger Sachs for any closing remarks.

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

Thanks, everybody, for joining us on the call today and look forward to speaking with you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.