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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Second-Quarter 2010 Genpact Limited Earnings Conference Call. My name is Erica, and I'll be your coordinator for today. At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. (Operator Instructions)

I would now like to turn the presentation over to your host for today's call, Mr. Shishir Verma, Head of Investor Relations. Please proceed, sir.

Shishir Verma - *Genpact Limited - VP - IR*

Thank you, Erica. Welcome to Genpact's earnings call to discuss our results for the second quarter ended June 30, 2010. My name is Shishir Verma, Head of Investor Relations, and with me I have Pramod Bhasin, our President and Chief Executive Officer;

Tiger Tyagarajan, Genpact's Chief Operating Officer; and Mohit Bhatia, our Chief Financial Officer. We hope you have had an opportunity to review our earnings release, which you will find on our website at genpact.com.

Our agenda for today is as follows; Pramod will begin with an overview of our results and provide a perspective on the current environment. Mohit will then take you through our financial performance in greater detail. Finally, Pramod will make a few closing remarks, after which Tiger, Pramod 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 news release on the Investor Relations section of our website, genpact.com.

Please also refer to the Investor Fact Sheet on the front page of the IR section of our website for further details on our quarter results, which we hope you will find useful. This includes, among other things, geographic, industry verticals, and BPM and ITO revenue details.

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

Pramod Bhasin - *Genpact Limited - President & CEO*

Thank you, Shishir, and good morning everyone, and thank you for joining us on our call today.

We had strong revenue growth this quarter as momentum continues to build. Business process management work for Global Clients is the primary driver of this growth. And GE revenues also grew across all major service lines. Our pipeline remains healthy, particularly with current clients. This is exactly in line with our strategy of serving global customers. We partner with them initially in one area and then through operating excellence, Re-engineering and driving business process improvements, we are able to expand with them across service lines and geographies. Given the pedigree of our clients and the range of our products and services, we believe this gives us a terrific runway for future growth. We also have seen traction in our short-cycle businesses such as Analytics and Re-engineering. Smart Enterprise Processes, our unique framework for managing and improving business processes, is resonating with clients and is a key differentiator in helping us to win deals. We have also begun investing in and expanding our capabilities around cloud-based services and business process as a service.

Here are the highlights. Second-quarter revenues of $308 million represented 13% growth year-over-year and 7% sequentially. Growth was led by Global Client revenues, which grew at 17% year-over-year, led by increasing revenues from recent client wins such as Walgreens and SABMiller. Global Clients Business Process Management revenues grew at an industry-leading 21% year-over-year. GE revenues increased 7% overall, driven by increases in both BPM at 9%, as well as ITO.

Revenue growth was broad based across many industry verticals, including Healthcare, Pharma and Manufacturing and multiple service lines, particularly F&A, Analytics, as well as geographic areas, notably India.

We had strong growth in Global Clients BPM and GE, but this has been offset somewhat by softness from Europe in our Global Client ITO business.

Our healthy pipeline has a good balance between opportunities with new clients and those with existing clients. These are coming from our traditional growth areas like BFSI, as that industry recovers, as well as from emerging markets such as India. As clients focus on improving their operating efficiency and unlocking new growth opportunities, this will be played to our overall strategy of starting small and growing with a customer.

One, significant ramp-ups during the quarter, which are higher than the first quarter and almost twice as many transitions as were happening in the second quarter of 2009. Investments will grow especially in our front-end sales teams, SEP and our India business, and unprecedented foreign exchange volatility.

We manage our business with a long-term view. Our strategy has always been to invest for growth and we will choose to do so when the opportunities arise. We do not prioritize quarterly results over long-term growth, which is one of the many reasons why our clients have such high customer satisfaction levels and net promoter scores. We have very significant ramp-ups happening during this quarter. As an example, we are currently in the middle of moving processes for a client that spans 55 countries, 15 different languages and cut across multiple functional silos, each with varying service requirements. These ramp-ups require us to invest upfront, but that investment will ultimately convert to production revenues, as well as production efficiencies. In the prior year, transitions were much lower due to a slowing economy and as we indicated before, had led to higher margins in that period.

This year, we expect margin growth in the second half of the year as revenues increase. Typically, our margins improve as transition revenues, which are largely billed at cost, are converted to production revenues and as we scale up with each individual client.

Revenue growth in the second quarter was driven by Global Client Business Process Management and GE. Global Client revenues increased 17% year-over-year, driven by Global Client BPM growth of 21%, which had strong demand in vertical markets. Global Client ITO business declined by $3 million due to softness in Europe, while other regions grew.

GE revenues increased 7% from the prior year. It is a reflection of the strength of our business model that we can continue to grow with a company like GE after so many years. This gain reflected 9% growth in GE BPM and 2% in GE ITO. The growth was broad based across service lines in F&A, Analytics and Procurement, coupled with ITO wins in Commercial Finance and Healthcare.

Global Clients revenues accounted for approximately 62% of our total revenues in the second quarter, compared to 60% in Q2 2009, with GE revenues accounting for the balance 38%. Overall, BPM, where Genpact holds the global leadership position, grew by 16% in the second quarter, while our overall ITO business declined by 6%.

We added 14 new logos this quarter and continue to diversify our business across geographies and vertical markets.

We are continually also expanding the breadth and depth of our services, and as part of this are starting to offer business process as a service. This quarter, we expanded our engagement with an existing North American Manufacturing client for providing them with a scalable, flexible and integrated business process as a service solution. Genpact will manage their entire end-to-end requirements across F&A functions such as order-to-cash, procure-to-pay, payroll, cash, inventory, et cetera for the accounting -- general accounting and SOX compliance services over a hosted ERP platform.

SEP continues to differentiate us in the marketplace and has greatly increased our cross-selling capabilities and created new opportunities with clients. It represents an approach that is unique to us, consistent with our DNA and is very hard to replicate by our competitors. We are engaged with a range of clients across a variety of industries like Pharma, Insurance, Manufacturing and telecom to diagnose gaps in the key business processes like source-to-pay and Collections. Clients recognize the value of the SEP framework, which enables them to measure the health of their business processes. And we will continue to dedicate resources to SEP as it is a key competitive differentiator.

Our pipeline remains healthy in terms of number and size of deals and clients, geographic diversity and breadth of offerings represented. Mining opportunities have had a strong resurgence in the pipeline, virtually doubling in total contract value this year. This suggests that clients are making decisions and transacting deals with good business cases to improve the cost structure and variability of their business and placing a high priority on quick payback and high return on investment initiatives. Based on what we have seen, they are also often working only with current suppliers. Industries that have been hit the hardest in 2009 such as BFSI and Automotive are generally recovering and experiencing increased business volumes, which is reflected in our mining pipeline.

Our average penetration with existing clients still has substantial opportunity to grow. We have been keenly focused on our strategy of growing with existing clients, as it plays to our strength. New engagements with existing clients tend to be sole sourced at faster service cycles and transitions and lower upfront investments. We have seen our investments in industry and domain expertise, global relationship managers and cross-selling efforts paying back in terms of an increasing mining pipeline.

Our hunting pipeline remains strong with a 26% increase in the number of clients we are pursuing since the second quarter of last year. Sales cycles that held steady will remain longer than we would like and have seen in the past.

This pipeline growth is reflected broadly in most industries, including BFSI, hospitality, technology and business services; in new growth areas such as Healthcare and Pharma, which is benefiting from the era of US Healthcare reform, and an increasing demand for information Analytics capabilities; in product offerings such as SEP, Collections, Mortgage Services, Analytics where we've added expertise from our recent acquisition of Symphony Marketing Solutions, Re-engineering and Insurance, and in geographic areas such as China and India and Asia-Pacific.

While our growth is consistent with our expectations and our outlook remains positive, the overall environment is less positive than it was a quarter ago and we are watching this situation very carefully.

We are confirming our 2010 full-year guidance. We expect revenue growth to be in a range of 14% to 17%, and adjusted operating income margins to be in a range of 17% to 18%.

With that, I will now turn the call over to Mohit and following that, I will make a few closing comments and remarks before we open the call to your questions. Mohit?

Mohit Bhatia - *Genpact Limited - CFO*

Thank you, Pramod, and good morning everyone. Today, I will review our second-quarter results in detail followed by a summary of key highlights on the balance sheet and statements of cash flow.

On a year-to-date basis, our revenues for the first half of 2010 were $596 million, up 11% as compared to the first six months of 2009. Our adjusted operating income for the first six months of 2010 was $90.5 million, equal to the adjusted operating income for the same period last year and representing a margin of 15.2%.

In the second quarter of 2010, our net revenues were $307.6 million, a solid increase of 12.7% year-over-year and 6.7% sequentially and in line with our expectations. Our Global Clients revenue growth, adjusted for divestitures, continued to be strong at 16% with increases coming from the business services, Pharma, Healthcare and Manufacturing verticals. Within Global Clients, we grew Business Process Management revenues by 21%. Our Global Client ITO revenues declined by $3 million, primarily in our Europe ITO business. Global Clients contributed 62% of our revenues in the second quarter, up from 60% in the prior-year second quarter, as we continue to broaden and expand our blue-chip client base.

Revenues from GE in the second quarter totaled $118 million, up 7% year-over-year and 4% sequentially. GE revenue growth was driven by Business Process Management offerings from across the GE businesses increasing by 9% year-over-year. We also had 2% growth in GE ITO revenues. GE business process growth came from Supply Chain and Finance & Accounting Service offerings, as we increased penetration into new geographies as well.

Overall, Business Process Management revenues increased 16% in the second quarter, led by Finance & Accounting, which continues to be our larger service offering. Our first-quarter acquisition of Symphony Marketing Solutions helped drive growth in high-end Analytics and Business Intelligence.

ITO revenues declined by 6% in the second quarter, largely on account of slowdown in Europe ITO business, as I mentioned before. Business Process Management revenues represent 86% of our total in the second quarter, with ITO revenues accounting for the remaining 14%.

Adjusted income from operations totaled $46.6 million for the second quarter of 2010, a decline of $1.8 million over the prior-year quarter. This represents a margin of 15.1% for Q2 this year compared to 17.7% for Q2 last year. As Pramod mentioned, the margin decline reflects significant ramp-ups during the quarter, almost twice as many as the second quarter of 2009, investments for growth in our front-end sales team, SEP and our India businesses, and foreign exchange volatility.

This quarter we saw unprecedented foreign exchange movements, exacerbated by the euro crisis with the dollar strengthening sharply against a range of currencies, including the Indian rupee. Our long-term rupee hedge programs, where we accumulate forward contracts at market rates over several years to hedge our estimated inter-company cost for the year, allow us to know what our dollar cost will be as we enter the year.

To the extent the hedge balances are any different from these forecasted costs, we are exposed to some impact from currency volatility. In the past, the impact has been minor, as the currency movements have occurred over an extended period of time. However, where there is substantial short-term volatility, as there has been this quarter, the impact can be meaningful.

Additionally, given the second quarter's sudden volatility, particularly in May, the spread between the translation rate we used during the month and the spot rate used to settle the hedge contracts increased beyond normal levels and caused a more significant loss than previously experienced. In quarter two, as a result of currency movements, we had a negative impact of approximately $3.5 million, as compared to our earlier estimates and plans.

We still have a lot of room and are executing on many ways to get productivity and improve margins over the next five months. These include better utilization of our infrastructure, new technology design that would reduce our cost per seat, a change in our operating architecture through improved spans of our managers, better resource utilization and more efficient training models, our work-from-home initiative and continued tight control over discretionary spends.

Our gross profit for the second quarter of 2010 totaled $117 million, compared to $107 million in the prior-year second quarter. This represented a gross margin of 37.9%, a decline of 130 basis points year-over-year. While we are seeing productivity benefits, we have some impact from foreign exchange as mentioned earlier and also continue to invest in training and transitions, especially, to stabilize our new accounts.

SG&A expenses increased 18% year-over-year to $75 million in the second quarter, and represented 24.5% of revenues compared to 23.4% in the second quarter of 2009. The increase primarily reflects our continued investments in SEP, business development and domain expertise that we started in the second half of 2009. We believe that these investments are critical to our future growth. SG&A was also impacted by foreign exchange volatility.

As mentioned in the last quarter's call, we expect to see both higher attrition and wage inflation. In the first half, wage inflation has been in the 6% to 8% range and in line with our expectations. Attrition in the first of the year was 26% compared to 22% last year, reflecting economic improvements in India, China and the Philippines, particularly as it relates to the demand for labor. We planned for both higher attrition and wage inflation in 2010 and the levels we are seeing are in line with our expectations.

Our net income was $28 million or $0.12 per diluted share in the second quarter of 2010, compared to $30 million and $0.14 per share in the prior-year second quarter. The decline was primarily due to a higher foreign exchange re-measurement loss that is reflected below the income from operations line. We recorded a re-measurement loss of $4.9 million in the second quarter of 2010, compared to a re-measurement loss of $2.2 million in the prior-year second quarter reflective of the US dollar strengthening versus the Indian rupee.

Our tax expense for this quarter was $5 million, compared to $6 million in the second quarter of 2009, representing an effective tax rate of 15%, marginally down from 16%. This decrease is primarily driven by higher revenues in tax-exempt locations, as well as the effect of certain period items, including foreign exchange fluctuations. This has been partly offset by the expiry of the Indian tax holiday for our major site at Hyderabad and the lapsing of certain other tax benefits that we were able to use in prior years. We now expect our full-year effective tax rate to be in the range of 19% to 20%, as against our earlier expectation of 20% to 22%.

Turning to our balance sheet. At quarter two end, cash and liquid assets totaled approximately $352 million, compared to $341 million at the end of the previous quarter. This is largely available in the form of deposits in banks and US treasury bills. The increase of $11 million is after scheduled repayment of $10 million of debt and also planned capital expenditure of $12 million.

Our capital expenditure for the first half of 2010 was $29 million or approximately 4.9% of revenues. This amount was mostly invested for growth in our India sites in Hyderabad, our SEZ in Gurgaon, and in Europe and the Philippines. As stated in the quarter one call, we expect capital expenditure as a percentage of revenue to be in the range of 5% to 5.5% for the full year. While our days sales outstanding have improved from 85 days in the first quarter to 84 days in quarter two, they're still higher by six days as compared to the same period last year. As mentioned before, we changed our credit terms with GE and this has been gradually implemented for different statements of work. Additionally, as we also previously noted, we are moving from a GE-affiliate billing system to a third-party system. In the second quarter, a lot of effort was put in by the teams to streamline the process and systems for Billing and Collections overall. This project is still under way and we are confident that the result of the effort will show up in the second half and we should get our DSOs down by another two to four days by the end of the year.

Turning to operating cash flows, we generated $30 million of cash this quarter from operations compared to $49 million in the same period last year, and a negative $20 million in the first quarter. The difference as compared to last year was primarily on account of increase in receivables of $18 million together with a lower net income and some lower non-cash items, including depreciation and amortization of $3 million. Our receivables are higher mainly on two accounts, increase in DSOs and increase in the scale and level of transition activity leading to higher initial cash expenses that we expect to recover over time.

We mentioned in the past that we expect our free cash flow to increase in line with revenues, while we believe that cash generation will continue to be strong, especially in the second half, as is the case every year. We now expect full-year free cash flows to be similar to what was generated in 2009. We are playing offense and continue to invest in resources, infrastructure and investments, which we believe will pay off in the long run.

Now, I will turn the call over to Pramod for his closing comments.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thank you, Mohit. In closing, we are experiencing good momentum on the revenue side, as evidenced by the 7% sequential growth and 13% year-over-year growth, and we expect this trend to continue. This momentum confirms our leadership position in Business Process Management and the revenue momentum also reflects an improving economy. Although we are continuing to monitor the macro environment, which does appear to have weakened somewhat since the earlier quarter. We are watching this very carefully for any impact it may have on us or our customers. We maintain a relentless focus on operating excellence and delivering value to our clients, and are being rewarded in terms of expanding relationships, as well as our good reputation, which helps us win new deals.

Our pipeline is healthy and increasing from 2009 levels, driven by our strategy of growing with existing clients, as well as adding new ones. Our business model has always been to start small and grow the relationship, and the increasing acceptance of globalization of services coupled with demographic trends will continue to drive opportunities for us in existing and new workflows and geography.

We are pleased with the level of transitions. These transitions are often complex with many moving parts often across multiple geographies, which require increased upfront investments and this is reflected in our margins this quarter. As we said earlier, our strategy is to invest for growth and we will continue to do so as needed and not to manage our business on a quarterly basis. These investments, which we believe will translate into future revenues, as well as the strength of our leadership team, people, and operating and financial models will keep us on track for sustained growth and profitability.

Our focus on innovating and improving business processes and SEP allows us to continually expand our expertise and offerings and stay on the cutting edge of our industry. Our outlook overall remains positive.

With that, I would now like to open the floor to questions.

QUESTIONS AND ANSWERS

Operator

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

Tien-Tsin Huang - *JPMorgan - Analyst*

Hi, thanks so much. Pramod, I wanted to ask a little bit about the revenue outlook more specifically. Just wanted to test your confidence level for delivering faster second-half revenue growth that's basically implied in your revenue range for the year. Can you maybe go into a little bit more detail around that?

Pramod Bhasin - *Genpact Limited - President & CEO*

Sure, a couple of things I would say, firstly, we tend to have a long view of our -- we tend to have a lot of visibility into our revenue growth, which is the case today. Given the number of transitions happening, we are also fairly positive about -- we know when and how they will convert to revenues. So it gives us again very good visibility. I think the area where we worry a little bit more is short-cycle business, how can that go and Europe.

Europe continues to be sluggish particularly on IT, and that's really the key area, which we worry about the most. But GE's strength is real, mining strength is real, transitions are in progress. So we would tell you that we have a pretty good high level of confidence in what we are seeing in our revenue numbers on an overall basis, particularly given the bulk of our business is focused on Business Process Management and annuity business.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay, good. Just a follow-up on that, your commentary around the macro being a little bit weaker than before is a little bit different from some of the other ITO offshore peers are saying, which sounds like demand -- things stable to up. So what do you think is driving the difference there?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes, I agree, I agree. We are saying it a little differently from the other guys. But you know the fact is when we talk to clients in Europe, after the European crisis, after Spain, after all of that, one - that macro environment has deteriorated. I think if you -- if we ignore the IT companies, but you ask to anybody else in the industry, they'll all agree it's deteriorated, and I think there's greater uncertainty in the US as well.

Now, we are not seeing an impact on us yet or we don't think there should be because I think at this point in the year, as I said earlier, we have strong visibility. But we worry about will it affect long-term projects, what will it do, perhaps the IT guys have a shorter cycle, perhaps they come out of that faster. So I can -- the point we will make to you again is, without being an impact in us, our outlook remains positive. We are very pleased with transitions, we are very pleased with our revenues.

But there's no question that the macroeconomic environment and that's nothing to do with our industry. I'm talking about our macroeconomic environment and there's problems that have happened in Greece, et cetera and the currency issues, et cetera and the US unemployment issue. Those seem to have somewhat worsened and that's just what we are reading from our customers.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay. I appreciate your candidness. Just real quick on GE, that did come in much better than we expected. At this point, do you think you're sort of a back to a more normal spending pattern with GE based on your conversations with them?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes. I think we are returning to normal levels where we would expect pretty much low single-digit growth with GE overall. We've had a terrific quarter, it's an outstanding growth. And I think it's worked really well. But as GE and GE Capital revive themselves, get sorted out and those things solve for themselves, I think we're coming back to more normal levels of growth. This growth was offset unfortunately by weakness in IT in Europe and otherwise we are delighted obviously with this kind of growth and we think we can sustain it.

Tien-Tsin Huang - *JPMorgan - Analyst*

Okay, great. That's terrific. Just really quick last one, I apologize. The hedging, just a couple of clarifications there, the $3.5 million in efficiency. Any of that show up in the margin at all or was it all below the line? And any potential change here in the way that you're going to hedge going forward? That's all I have. Thanks so much.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thanks.

Mohit Bhatia - *Genpact Limited - CFO*

The impact of the volatility was indeed above the line in our cost of revenue and our SG&A. We also had an impact below the line, which I mentioned of $4.9 million, which was re-measurement of our balance sheet. But the volatility clearly impacted our cost line above the line.

Tien-Tsin Huang - *JPMorgan - Analyst*

Great. Good to know. Thanks so much, guys.

Operator

And our next question comes from the line of Tim Fox with Deutsche Bank. Please proceed.

Tim Fox - *Deutsche Bank - Analyst*

Hi, thanks. My first question was around investments. Just wondering at the level that you've been making investments, particularly in the front end and SEP. What are the plans for the back half this year, maybe even going into 2011? Are those investments, on an absolute basis, going to start to decelerate or are you just going to continue to invest as heavily into the back half of this year?

Pramod Bhasin - *Genpact Limited - President & CEO*

No. I think we've done a lot of our investments back half. We're really going to focus on -- back half what we will need more of, Tim, is going to be investments in people to manage the revenues as they come through. Operations, relationship managers, project managers, all of the stuff that needs to happen for specific client purposes rather than just sales and marketing.

So we will not be investing continually -- increasing our investment continually. We've done a lot and we'd like to stay with that. We think these will take time to pay off and we want to monitor that. SEP investments will not again fit a lot -- what we're talking about is accelerating the investment. We would remain at these kinds of levels is what I would say.

Tim Fox - *Deutsche Bank - Analyst*

Okay. That's helpful. And just a follow-up on Tien-Tsin's question about the topline. Just to be clear, you're acknowledging the fact that the macros have weakened in Europe and slightly in the US. Will that affect the transitions that you have going in place now? Or are you more concerned about the shorter-cycle business? I'm just trying to get a sense of whether the BPM business has a potential to see a little bit of weakness in a cautionary environment or are you feeling particularly confident about that portion of the business, it's more of the discretionary spending that's at risk?

Pramod Bhasin - *Genpact Limited - President & CEO*

The BPM business we are confident about Tim. We're not worried about that. I think we are more worried about the discretionary spend, shorter-cycle stuff. Typically, a lot of these transitions, once they've got going, our customers and we are spending a lot of money and putting in a lot of investments. So those don't get delayed, people tend to continue with those.

New deals, will they -- will conversion times accelerate the way we have liked them to, that hasn't happened yet and I think new deals may not accelerate as fast. But this really will start impacting 2011 more than 2010 at least for BPM. Shorter-cycle business is the only area where we would have some concerns, particularly in Europe.

Tim Fox - *Deutsche Bank - Analyst*

Okay, got it. And just lastly for Mohit, on the cash flow just to clarify, you're saying now that you'll be looking at a flat free cash flow for 2009 over last year. Could you just give us a little bit more color as to what exactly is driving flat versus up with the broader revenue growth?

Mohit Bhatia - *Genpact Limited - CFO*

Absolutely. This is Mohit, let me take that. There are two real reasons here. One is that I mentioned our DSOs have deteriorated by six days, okay? So our accounts receivables are up. We have changed some credit terms, and we are, as I mentioned, gradually transitioning to a new third-party affiliate system, which -- where we tend to lose some of our benefits.

The other key activity though, is that the overall scale of our revenue and our transitions and the investments that we spoke about are much higher than the previous year. And that means that we have to invest upfront and recover from our clients only over a period of time.

So with these continued investments, with the transitions that are going on right now, and with the DSOs deteriorating, we feel it's more realistic that our free cash flows will be in line with last year. Having said that, our capital expenditure is well under control and we continue to be confident that will remain in the range of 5% to 5.5% of revenues, as I mentioned earlier.

Tim Fox - *Deutsche Bank - Analyst*

Great. Thank you.

Operator

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

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi, guys. I just wanted to come back to some of the commentary about ITO in Europe. Maybe you could just give us a little more color on how big your client base is over there and maybe where it is and if you're seeing any specific geographies? I'm trying to get a sense of whether this is a client-specific issue versus what we're hearing from some of the other vendors where they've just talked about things being still solid?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes. I think -- no, it's not a client-specific issue. I think it's more around couple of countries, such as the Netherlands, Benelux, Spain, those countries that have got it, where we had business, where we had goals -- where our SAP business is broadly based. I think it's a bit of a change in how those countries and companies and those countries are spending their money. We need to change with it. It's not a huge amount of dollars, but obviously right now it can have an impact on our overall revenues. But it is spread across many clients and it is more focused on discretionary spending that we would otherwise have seen happen in those countries.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Have you seen any projects get pulled or is this just a delay in new starts?

Pramod Bhasin - *Genpact Limited - President & CEO*

I think we've seen projects pulled or companies saying, I can do it myself or I have in-house resources, then allow me to do this. And I'm going to use those because my severance costs are too high and I don't want to get rid of those in-house resources, I'd rather do them myself. So I think we've seen that happen.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

And just to be clear, this is just on the ITO side?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And then --

Mohit Bhatia - *Genpact Limited - CFO*

Just Europe.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

I'm sorry.

Pramod Bhasin - *Genpact Limited - President & CEO*

It was not in the US.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Just in Europe and not in the US, okay. And then I think, I think the way the business if I understand it is, there's some heavy upfront reinvestment and then you get the benefit of that going forward. Given your commentary in the past about sort of a large pipeline, are we through the initial heavy reinvestment to sort of see -- and should we start to see the benefit of that pipeline going forward, certainly your guidance would imply that?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes. I think you should expect that from us. We've made a lot of investments. There are two things happening here. One is we've made a lot of investments -- we've made a lot of investments, but I think we shouldn't feel -- we don't need to grow our investment dollars at the same pace as we have done in the past, that's one.

Two, the only other point I would just make about this is last year was a slow growth year as we all know, there was a slowing economy. Consequently, if that had been a normal year, we would have seen all those revenues kicking in now, which would have offset some of the investments we are making at this time in heavy translations. That haven't -- because that haven't happened, you're seeing this sort of impact of slow growth last year, fast -- much faster growth this year, twice the number of transitions this year. And therefore now we certainly expect to see the benefit of these transitions showing up in revenues not only at the back end of this year, but also into next year.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

So revenue growth should outpace the investment that you're making going forward?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes.

Mohit Bhatia - *Genpact Limited - CFO*

Absolutely.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

And just one last one if you guys could provide any color on what you think FX -- I mean, obviously not the currency movement, but any expectations for what FX could potentially do in the next quarter and going forward, if you have any?

Pramod Bhasin - *Genpact Limited - President & CEO*

Sure. I'll turn it to Mohit.

Mohit Bhatia - *Genpact Limited - CFO*

Yes, predicting for the second half is tough, it's uncertain, we don't know what will be the degree of volatility. We are working out at this point in time, as we speak, different scenarios to see what different puts and takes could mean for our margin. Quarter two was unique. What happened in May, the volatility that we saw in May was substantive. I mean, just the rupee-dollar movement within the month of May was almost 7%, and that caused a huge spread between the translation rate that we use every day to translate our accounts and the spot rate that we use at the end of month to settle. And that went straight to the income statement. We hope that volatility will not be so substantive in the second half, but like I mentioned earlier, it's uncertain, we don't know and we're working the different scenarios.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. But if rates stay where they are now, you don't expect the same sort of impact going forward?

Mohit Bhatia - *Genpact Limited - CFO*

So like I said, to actually calculate this math, theres intra-month volatility to be taken into account, there are hedges to be taken into account, there are settlement rates to be taken into account. So it's actually not easy to estimate what the impact might be in quarter three and quarter four quite frankly. We know our hedge rate, that's a given, and to that extent we can plan for Q3 and Q4 like we have.

What we don't know is what the settlement days are going to be and at the end of every month forward to the balance five months in this year. And if they are stable, that should be good; if they are not stable and there is volatility, intra-month like we saw in quarter two, then you bet we could see an impact.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. Thank you.

Operator

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

Bhavan Suri - *William Blair & Company - Analyst*

Hey, guys. Thanks for taking my call. Just a couple of --

Pramod Bhasin - *Genpact Limited - President & CEO*

How are you, Bhavan?

Bhavan Suri - *William Blair & Company - Analyst*

Hey, thanks. And just a couple of questions on the pipeline. I know you mentioned that there was a healthy mix between new clients and mining. Any color on sort of what that mix is and has it changed over the last, say, six to 12 months?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes, it has, Bhavan. I'm going to ask Tiger to respond to this and a little preamble for me. It has actually changed over the last three years is what I would say. So it was one thing in 2008 and then changed in 2009 and now changing back, but Tiger I'll turn it to you.

Tiger Tyagarajan - *Genpact Limited - COO*

So that's the summary of our results. What it's now back to and what it was in the 2007 and early part of 2008, that's for the first statement I would make. What happened in 2009 was an aberration. As we all know, 2009 was an aberration year, where existing customers really said, I have nothing more to do right now.

They all shrank back in terms of new stuff to be done, so at that point the mining pipeline actually came down as a proportion of the overall pipeline. That's resurging back, it's resurging back to levels that we were seeing in 2007 and early part of 2008. And therefore, the balance now is what we would expect in a healthy growth environment.

Bhavan Suri - *William Blair & Company - Analyst*

Great. And then when you look at that, the mining pipeline there within the customers, what's the -- so the initial project, the initial BPM deals $3 million, $5 million, $6 million. What size are these kind of next sort of set of deals?

Pramod Bhasin - *Genpact Limited - President & CEO*

Bhavan, it could range from an equal amount if it's, for example, moving from Finance & Accounting through to Procurement. It could be moving from one part of financial services, Insurance processing to -- on the application side to claims, in which case a $5 million to $10 million a contract could get repeated again.

All it could be a series of Analytics engagements or Re-engineering engagements, as you go more upstream or downstream. One of the ways to think about it is that, historically 80% of our growth has come from our mining and from existing customers. And we're seeing that resurgence back.

Bhavan Suri - *William Blair & Company - Analyst*

Okay. And then turning to sales force and maybe, Tiger, this is for you, too. A little bit on how the investments you're making, are they more for the miners or hunters? And then how is productivity ramped for the guys you've added, say, in the last six months?

Tiger Tyagarajan - *Genpact Limited - COO*

Bhavan, there are two areas in which we are investing, one is in global relationship management, so that we have very strong people fronting key customers. That's going to be in those mining sides. But in Europe and in America, we've hired a lot of new people into our organization, which are really the hunters. So that where we can go out, get sole sourced deals, connect with customers at early stages, so that we are connected with them in terms of deals and things and thoughts they may be having about offshoring and outsourcing. And we will continue to take this forward, because I think at the end of the day, we need the hunters in there. That really is not impacting 2011. But we've put an enormous rigor behind mining and managing existing customers.

So this is typical, I would say, GE style, which we've obviously borrowed. We have enormous rigor, we have metrics, we have follow-ups, we have mechanisms to check, what we are cross selling to which customer. And as we go through all these pieces, you're beginning to see the result of these minings, because the pedigree of our customers is excellent.

Our runway for growth with them should be great, because we are vastly underpenetrated and we have an expanding list of clients we can go to. So I would say it's in both, no question, but it's also a lot about the rigor and management review and other mechanisms that we put into really chasing down where we are getting more deals both in hunting and mining.

Bhavan Suri - *William Blair & Company - Analyst*

And then, just on that sort of productivity for the folks you've added in US and Europe, these new hunters. Have they -- how many of them are sort of ramped to where they're actually delivering or selling at quota and how many are sort of below quota and they've still got sort of a ramp to a) understand the business and b) sort of build a pipeline and sell?

Tiger Tyagarajan - *Genpact Limited - COO*

Well, I would say there are quite a few which have some ways to go to ramp to their full potential. They will obviously come to us with their backgrounds, they have clients they can bring to us, they can talk to us. They will go and talk to their customers, they will go and talk to their connections. So this is a long-cycle stuff, it will actually take six to nine to 12 months for people to get into full production and full impact. We haven't seen that yet, frankly.

Bhavan Suri - *William Blair & Company - Analyst*

Okay. And then one quick question, if I may. You've talked a little bit about the BPO, software-as-a-service, BPaaS, a little bit on how margins in that business trend? Are they similar to the current business or are they little better because you're managing the end-to-end and the technology or the platform for them? How should we think of that?

Pramod Bhasin - *Genpact Limited - President & CEO*

Typically, margins will be a little better. And typically if it's an ERP-hosted platform service, Netsuite or an Oracle or an SAP or something, the margins should be a little better. And the complexity and volumes should also be better. So I think overall, it's a great business that we -- we will go into increasingly and that's why, for instance, we had announced earlier alliance with Netsuite a couple of quarters ago, I think. Yes, and we've also talked about buying some platforms as we've done in the revenue cycle management, as well as in mortgages.

Bhavan Suri - *William Blair & Company - Analyst*

Right, right. And I think it's fair to say that the platform-as-a-service or the BPO-as-a-service revenue is still pretty minimal for the company as a contribution?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes, Bhavan, it's actually -- we just started off, so it's not material to any of the revenues.

Bhavan Suri - *William Blair & Company - Analyst*

Okay.

Pramod Bhasin - *Genpact Limited - President & CEO*

But it's obviously a long-term strategy.

Bhavan Suri - *William Blair & Company - Analyst*

Great. Thanks for taking my question, guys.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thanks.

Operator

Our next question comes from the line of Bryan Keane with Credit Suisse. Please proceed.

Bryan Keane - *Credit Suisse - Analyst*

Yes. Hi, good morning and good afternoon to you guys. I guess -- or evening maybe. I guess the thing that comes out on Europe in the short-cycle business that you talked about for weakness, can you quantify that? How big is Europe for you guys again? And then how big is that short-cycle business that you guys have in revenue?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes. Is everybody getting this bad connection? I'm sorry, we've got some very -- a lot of static here.

Bryan Keane - *Credit Suisse - Analyst*

Yes, can you hear me?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes, we can.

Operator

It's coming from Bryan's line.

Pramod Bhasin - *Genpact Limited - President & CEO*

Okay.

Bryan Keane - *Credit Suisse - Analyst*

Yes. Sorry. I was just asking about -- I don't know why we have a bad connection, but I was just asking about Europe, the percentage of revenue and then the short-cycle business as a percentage of revenue for that as well?

Pramod Bhasin - *Genpact Limited - President & CEO*

European revenues are less than 10% for the overall company. Or about 10% to 12%, sorry. And this short-cycle business that we're talking about is probably less than half of that, just to give you a broad idea.

Bryan Keane - *Credit Suisse - Analyst*

And did Europe slow year-over-year this quarter, maybe you can give us the growth rate for Europe this quarter versus last?

Pramod Bhasin - *Genpact Limited - President & CEO*

I'm sorry.

Bryan Keane - *Credit Suisse - Analyst*

The growth rate year-over-year for Europe this quarter versus last quarter?

Pramod Bhasin - *Genpact Limited - President & CEO*

No, overall, Europe would have grown; it's just in this IT business that it has declined.

Bryan Keane - *Credit Suisse - Analyst*

Okay. And then just finally, you're talking about a big ramp-up in margins in the third and the fourth quarter in order to hit your targets. When we grow into fiscal year 2011, do we see the margins drop back down or is that a more sustainable kind of margin level?

Pramod Bhasin - *Genpact Limited - President & CEO*

Our margins are always lower if you go back in history over the last five years. Our margins are low in the first quarter as projects and as we get paid for outcome-based pricing in the fourth quarter of the year, et cetera, et cetera. They start lower, lots of transitions happen, which typically don't happen over the year-end, lots of transitions happen, start to kick off in January, February and then ramp.

So again this year also, our margins will be higher than the third and the fourth quarter. But frankly, they're also higher third and fourth quarter. If you look at last year, you'll see the same trend; if you look at the year before, it'll be the same trend. Next year, I suspect you'll see the same trend.

Bryan Keane - *Credit Suisse - Analyst*

Okay. Just last question on the pipeline, it sounds like the US still is showing no signs of weakness and that continues to be strong and just want to be clear because sounds like the pipeline is pretty good, but be cautioned that if you didn't sign some deal in 2011, it would have some impact there. So I'm just trying to reconcile those two comments. Thanks a lot.

Pramod Bhasin - *Genpact Limited - President & CEO*

Both Europe and US BPM pipeline is good and fine. It's just Europe, IT which was soft, just to reiterate that point. And yes, overall pipeline is good. We're comfortable with that. It's just that the macro environment is difficult. I think we all know that, and I think just -- we just want to stay cautious and watchful about it and it's any potential impact it could have in the future, although we haven't seen any such impact yet.

Bryan Keane - *Credit Suisse - Analyst*

Okay. Thank you.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thanks.

Operator

Our next question comes from the line of Jason Kupferberg with UBS. Please proceed.

Arvind Ramnani - *UBS - Analyst*

Hi, this is Arvind sitting in for Jason.

Pramod Bhasin - *Genpact Limited - President & CEO*

Hi.

Arvind Ramnani - *UBS - Analyst*

Hi.

Mohit Bhatia - *Genpact Limited - CFO*

Hi, Arvind.

Arvind Ramnani - *UBS - Analyst*

Hi. Just a couple of questions. Is it fair to say that margins for the full year should be in the lower end of the 17% to 18% range?

Pramod Bhasin - *Genpact Limited - President & CEO*

Right now we're going to stay with the range, as we've said.

Arvind Ramnani - *UBS - Analyst*

Okay.

Pramod Bhasin - *Genpact Limited - President & CEO*

I think we will make our decisions on how much to invest, where to invest as the year goes through, as we've said. But we're not really interested in managing this business line quarterly, it's a long-cycle business. If we see the right opportunity, absolutely, you would rather go out and invest for growth, than manage our quarterly margins.

Arvind Ramnani - *UBS - Analyst*

Great. And what's given you confidence and visibility that you can get margins of 19% to 20% in the second half?

Pramod Bhasin - *Genpact Limited - President & CEO*

Well, I think if you go back to last year, I think in the last six months of last year our margins were 18.6% for the last six months. I think if you look at any year in our history, you will always have seen margins. In 2008, in the second half, margins were 19.6%. But I think they're not historical precedents for this.

Arvind Ramnani - *UBS - Analyst*

But what happens in the last six months that pushes margins up, is it kind of your investments are more towards the first half and then you're kind of yielding some of the results in the second half or what happens in the second half?

Pramod Bhasin - *Genpact Limited - President & CEO*

No, the basic thing as we've said earlier was transitions are happening now. Transitions are typically built at cost without any profitability. We are scaling up for profits. This is how -- just to give you an example, if a set of processes is going to be moved to us, we need to hire the full management team, the infrastructure, the IP, all of that right upfront. As that revenue ramp increases and as transitions convert into revenues, which are profit making, the margin for the client will go up dramatically. And that's really what's happening right now.

Arvind Ramnani - *UBS - Analyst*

Great. Among the factors that impacted your 2Q margins, can you just quantify the size of impact?

Pramod Bhasin - *Genpact Limited - President & CEO*

We're not quantify the size, but as I said volatility was -- transitions higher, double the volume of transitions is the biggest one. Investments in SEP and other things and BD and front end will also be big. As we said, FX was about $3.5 million, as we said earlier. But that is, and that also is showing up in the ops margin. I will reemphasize, please, we cannot manage this business on a quarterly basis, we have no intention of doing so, this is a long-cycle business.

Arvind Ramnani - *UBS - Analyst*

Great. And then in Europe, is kind of the weakness across countries? I mean across Europe, are there specific countries that are weaker than others?

Pramod Bhasin - *Genpact Limited - President & CEO*

There are specific countries that are weaker, but frankly I think it is across Europe. So the UK is not as weak, but frankly, Netherlands, Benelux, Spain, even Germany are weak. And people are worried about what's happening there. UK was also somewhat weak, so there is a broader weakness, but some countries are actually even more weaker than that.

Arvind Ramnani - *UBS - Analyst*

Great.

Pramod Bhasin - *Genpact Limited - President & CEO*

Having said that, again I just want to reiterate, our impact has really been on our business of SAP in Benelux in Europe and that's just one point I just want to reiterate.

Arvind Ramnani - *UBS - Analyst*

Great. Thank you.

Operator

Our next question comes from the line of Dave Koning with Baird. Please proceed.

Dave Koning - *Robert W. Baird - Analyst*

Yes, hey guys. Just a couple of quick questions. So first of all, just acquisition impact to Q2 revenue, I would guess Symphony was probably at a 2% impact kind of like last quarter. And I'm just wondering Walgreens too in total, maybe what's the acquisition impact to the quarter?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes, Walgreens is not an acquisition, if I may. SMS, you're right, it's about a 2%. Walgreens is not an impact and Walgreens is just a normal ramp-up that we would have done, and you would have seen the transitions going through.

Dave Koning - *Robert W. Baird - Analyst*

Okay. And then FX impact to Q2 revenue, what was that too?

Mohit Bhatia - *Genpact Limited - CFO*

The foreign exchange impact to our quarter revenue was about $2.6 million. So on a constant currency basis, we could be at just over $305 million, which is about 12% year-over-year growth at constant currency.

Pramod Bhasin - *Genpact Limited - President & CEO*

About a percentage point.

Dave Koning - *Robert W. Baird - Analyst*

Okay, great. And then finally just the M&A pipeline, you obviously have a big cash balance. I'm just wondering seller expectations, if they are still pretty high or just kind of how you're looking at the potential for M&A over the next several quarters?

Pramod Bhasin - *Genpact Limited - President & CEO*

Very interesting stuff out there, frankly, at this point in time. In Healthcare, in mortgages, in BFSI -- BFSI is really strong right now. Very interesting stuff, very interesting stuff in Analytics, in platform that we can leverage to get into BFSI areas, typically small bite-size pieces, I mean I think there are bigger -- I think there are other bigger opportunities as well, but we're really -- we are more focused right now on smaller pieces. And I think that there is some good stuff out there that we are hopeful we can get something close this year or early next year, we'd love to.

Dave Koning - *Robert W. Baird - Analyst*

Sounds great. Thank you.

Operator

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

Vincent Lin - *Goldman Sachs - Analyst*

Great. Thanks for taking my question. Good evening, guys.

Pramod Bhasin - *Genpact Limited - President & CEO*

Hi.

Vincent Lin - *Goldman Sachs - Analyst*

Hi. The first question was just regarding the hiring plans. I think previously you indicated that you are planning to hire about 9,000 to 10,000 for 2010. Are you still on track to -- for the hiring plans for this year?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes, broadly we are.

Vincent Lin - *Goldman Sachs - Analyst*

Okay.

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes, we're on track.

Vincent Lin - *Goldman Sachs - Analyst*

Okay. And then just in terms of -- relative to the 14% to 17% revenue growth guidance for 2010, I'm just wondering how much conservatism or caution is baked into that guidance; meaning the sectors that you talk about in terms of the ITO business specifically in Europe being softer than previous expectations. If Europe and if the IT business stays soft for the rest of the year, are you still able to hit the low end of the revenue guidance?

Pramod Bhasin - *Genpact Limited - President & CEO*

Well, I wouldn't say it's very conservative, I think it's a reasonable guidance. I couldn't tell you that we are hedging all up, et cetera. It's reasonable guidance. I think GE is looking good and we've got Global Clients Business Process Management, which can offset IT softness.

I think we've taken all of those into account. Frankly, if there's a double dip or something big like that happening, then obviously we would worry a lot more about it. Having said that, I would not tell you that we're being unduly conservative here or just being safe.

Vincent Lin - *Goldman Sachs - Analyst*

Got it, that's helpful. And then just lastly on FX, below the line it was $4.9 million this quarter. Mohit, just wondering if FX, the currency rates remain stable for next couple of quarters, should we still be expecting something of the similar magnitude in terms of the re-measurement loss for the next couple of quarters? Thanks.

Mohit Bhatia - *Genpact Limited - CFO*

Yes, the re-measurement loss was $4.9 million in quarter two. I think for the rest of the quarters, it will be hard for you to stay with the same magnitude. It could change depending on the rate in a particular day when we settle, when we do the re-measurement at the end of the quarter.

So frankly it could be lower or higher depending on that rate. And if the rate remains the same, it should be in the same range, obviously the volume of our receivables will change over time and so the actual impact would be the rate, as well as the volume that we have in our balance sheet. So the final answer might change, but yes, it will be in the similar range of what you've seen in quarter two.

Vincent Lin - *Goldman Sachs - Analyst*

Okay, that's helpful. Thanks.

Operator

Our next question comes from the line of Matt McCormack with BGB Securities. Please proceed.

Matt McCormack - *BGB Securities - Analyst*

Yes, hi. In terms of wage inflation and attrition, you did mention that it came in line with your expectations for the quarter. Could you talk about your expectations for those metrics in the back half of the year, and if there's a change at all?

Pramod Bhasin - *Genpact Limited - President & CEO*

Basically they have gone up. Attrition has gone up in line with improved economic environments, et cetera, more opportunities. Wage inflation is up versus last year for the same reason. So wage inflation, we expect to be at the same sort of levels and that's within our plan. And similarly attrition, we really don't think attrition should go up a lot more during the rest of the year. And that is also something that we've planned.

Matt McCormack - *BGB Securities - Analyst*

Okay. And then turning to the Symphony acquisition, I guess could you provide a little more just detail or color on how that's gone, how the integration has gone. What has performed above your expectations and below? And then lastly on that, was that dilutive to margins in this quarter at all?

Pramod Bhasin - *Genpact Limited - President & CEO*

Symphony has been a great acquisition, we are delighted with it. I think integration is also -- we are already on plan in all aspects of function integration, as well as cross-selling in revenues, et cetera. I think there is more work we need to do. We can probably integrate them even more than we have, we can help cross-sell even more than we have. So there's a lot of things like that that we can get done and we will continue to push that button.

Results have been on plan. Results have been good and on plan. And they are -- the results -- their overall margins compare well with the rest of our business and then they remain where they are. Given their size, frankly, it's not a material element in terms of how dilutive or accretive they are to margins because of their total size. It's a very small fraction. But they make good margins, they produce good results and they're happy with the integration and they're very happy with the acquisition.

Shishir Verma - *Genpact Limited - VP - IR*

Hello?

Pramod Bhasin - *Genpact Limited - President & CEO*

Hello?

Operator

Yes, we're still on the line. We're still on the line.

Shishir Verma - *Genpact Limited - VP - IR*

I think Matt dropped.

Pramod Bhasin - *Genpact Limited - President & CEO*

Is Matt on the line still?

Mohit Bhatia - *Genpact Limited - CFO*

No, Matt's dropped out.

Shishir Verma - *Genpact Limited - VP - IR*

Matt's dropped out.

Operator

This concludes today's presentation. Everyone may now disconnect.

Shishir Verma - *Genpact Limited - VP - IR*

Thank you very much for joining today's call.
