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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2, 2014 Genpact Limited earnings conference call. My name is Janada, and I will be your Operator for today. At this time, all participants are in a listen-only mode, and we will conduct a question and answer session towards the end of this conference. We will expect the call to conclude in an hour.

As a reminder, this call is being recorded for replay purposes. I will now like to turn the call over to Bharani Bobba, Head of Investor Relations at Genpact. Please proceed, Sir.

Bharani Bobba - *Genpact Ltd - VP, IR*

Thank you, Operator. Welcome to Genpact's earnings call to discuss our results for the second quarter ended June 30, 2014. We hope you've had a chance to review our earnings release, which you will also find in the IR section of our website, Genpact.com. With me in New York today are Tiger Tyagarajan, our President and Chief Executive Officer; Mohit Bhatia, our outgoing Chief Financial Officer; and Ed Fitzpatrick, who joined us two weeks ago as our new Chief Financial Officer, succeeding Mohit who is transitioning into another leadership role within Genpact.

Our agenda today is as follows: Tiger will provide an overview of our results and address our progress in executing our more focused strategy, followed by Mohit, who will discuss our financial performance in greater detail, and Tiger will then have some closing comments. Finally, we will all be available to take your questions. We expect the call to last about an hour.

Please note that we've also included slides, which you can find on the webcast version of our call and you will be able to download them after the call is concluded.

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 factor section of our annual report on Form 10-K and other SEC filings. Genpact assumes no obligation to update the information presented on this conference call.

In our call today, we will refer to certain non-GAAP financial measures which we believe provide additional information for investors and better reflect the way management views the operating performance of the business. You can find a reconciliation of those measures to GAAP as well as related information in our earnings release, in the IR section of our website, Genpact.com. Please also refer to the Investor fact sheet on the front page of the IR section of our website for further details on our results.

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

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Thank you, Bharani. Good afternoon, everyone, and thank you for joining us today.

Genpact delivered solid results in the second quarter of 2014. Our revenue growth and adjusted operating income and net income levels are all tracking in-line with our stated expectations for the full year as well as the longer term objectives of our strategic plan. We are being disciplined in executing our strategy, with particular emphasis on investments in our chosen verticals, geographies, and service lines. Our increased focus has resulted in signing two large deals in our chosen area this past quarter, in addition to the one we signed in the first quarter. Our new hires have enabled us to accelerate our re-allocation of resources to focus areas. This has allowed us to close deals in the pipeline while also creating additional opportunities, including new large deal discussions. As we conclude the first half of 2014, I am very excited about the investments we are making in Client Facing teams as well as Capabilities. We are well positioned to meet our objective of investing at least 6% of our revenue for the full year in Sales and Marketing. These investments are beginning to translate into a new level of transformative discussions with existing and prospective clients, which we expect to drive long-term profitable growth.

During the quarter, we made significant progress in our strategy execution journey. Some of our highlights-

- We are making good progress in our big deal pipeline, and in the second quarter, we signed two large transformation engagements in our chosen verticals. We have also ramped up our new engagement in Consumer Packaged Goods, which we mentioned last quarter. Our work on this engagement is resonating within the CPG industry, as we are quickly building unique Core Operations capabilities that help clients grow revenue faster by combining industry expertise with cutting edge technology and analytics to improve customer service and sales support for our client.

- We continue to add domain and subject matter experts in our focused industry verticals, service lines and geographies, and depth to our client-facing teams. We are very well positioned to meet our objective of investing at least 6% of our revenue for the full year in Sales and Marketing.

- We are taking a balanced approach in expanding our leadership ranks, both grooming and developing our internal team and bringing in outside talent and new DNA to accelerate our journey in areas of strategic focus. This quarter, we added two new business leaders, Jim Mapes, who joined us as the leader of Healthcare business, and Paul Burton, who is responsible for our Analytics business. Both of these senior leaders bring specific, deep domain expertise and industry knowledge.

- We also announced that Ed Fitzpatrick has joined us as CFO succeeding Mohit, who will become SVP, Internal Transformation. Ed brings deep finance experience from a large global corporation. We are very excited to welcome him and look forward to his contribution to our leadership team and to Genpact. Ed will make a few comments later in the call.

- And, finally, we completed our announced acquisition in the life sciences regulatory affairs space and the integration is on track. This is a great example of adding strategic capabilities in one of our chosen verticals through market-leading domain expertise in a growing area of client demand.

Other key highlights for the second quarter demonstrate our steady revenue progress. Revenues increased 5% year-over-year and 6% sequentially in the second quarter. Revenue growth was 6% in constant currency terms year over year and our Global Client revenue grew 7% year over year. Four of our target verticals led second-quarter revenue growth, namely CPG, Life Sciences, Insurance, and Capital Markets, which all grew in double-digits, year over year. From a service line perspective, our core Finance and Accounting service line led growth, as did Consulting Service. GE revenues declined approximately 1% year-over-year, with strong growth in Regulatory and Risk engagements partially offsetting expected declines in other parts of the business.

Adjusted Operating Income margins totaled 15.6% in the second quarter, reflecting planned investments. Sales and marketing expenses increased year-over-year to approximately 6.6% of revenue in the second quarter, up from 4.3% in the year-ago second quarter and 5.5% in 2014 first quarter. We hired 37 new sales people this quarter across our key service lines and verticals, each of whom adds significant domain expertise. With these high caliber new hires, just this quarter, we've increased our client coverage by approximately 10% which enables us to better serve our current and future clients. We also increased our Capabilities investments focused on integrating technology and analytics into our solutions. We expect to continue to make these investments over the remainder of the year.

Our pipeline continues to be healthy, with good inflows of larger complex deals. The momentum in our pipeline reflects our focus on our chosen verticals, geographies, and service lines and gives us confidence that we are partnering with our clients in the right areas with value-added, differentiated capabilities to help them on their transformative journeys. As we bring in more seasoned client-partners and other client-facing leaders, we are increasingly involved in more strategic dialogues at the C-suite level. We are bolstering our capabilities with consulting services we are adding, particularly in the area of Finance and Accounting and in Risk and Regulatory arena in Financial Services. This is all playing out in transformative engagements representing an increasing proportion of our pipeline. In the second quarter, pipeline inflows were strong and win rates improved. With that said, the large deals in our pipeline continue to have the same characteristics we have been talking about over the last several quarters, namely longer cycle times to sign and frequently, longer conversion time to revenue.

We continue to be intensely focused on execution of our strategy to capture a bigger set of opportunities in our large and still highly under-penetrated growth markets.

Our strategy is about running our business with a more targeted focus, so we can drive faster growth in key areas and deepen client relationships.

The four pillars of our strategy are -

- To concentrate our investments on specific market leadership opportunities,

- To enhance our domain expertise,

- To further differentiate our solutions and,

- To deepen our client relationships.

To briefly recap, for the first pillar, we are directing our investments to ensure market leadership in select key industry verticals, focused service lines, and targeted geographic markets. We narrowed our investment focus to nine targeted vertical markets from, 23 previously. We've also integrated 1,500 point solutions into approximately 55 key service lines and, geographically, we are concentrating on large developed economies, such as North America, Europe, Australia, and Japan. Our strategy in the emerging economies will be to align our services to support our clients' growth in those geographies.

For the second pillar, we are expanding our team of experts-matter experts and lead solution architects who bring extensive knowledge and domain expertise to clients. These domain experts and lead solution architects are building new technology and analytics-embedded solutions in our chosen service lines, as well as partnering with our client-facing teams to drive strategic conservations with our clients.

A great example of the first two pillars is a transformational big deal we won this quarter with one of the largest global insurance companies. We are creating a Finance Center of Excellence for them, which once fully ramped up, will provide complex services such as Statutory and Regulatory Reporting, Corporate Accounting, Reinsurance Accounting, Tax, and Financial Planning and Analysis. These types of engagements require true partnership approach, where we invest alongside our client to be a value-added extension of their business. In this specific case, our insurance industry knowledge along with our depth of understanding complex Finance and Accounting in this vertical, coupled with our DNA of transforming clients processes to generate better outcomes, allowed us to become the chosen partner.

For the third pillar, we are differentiating our solutions by building capabilities that solve the complex challenges our clients are facing and integrating our core operations, technology, and analytics offerings. We are building some of these capabilities organically, but also by leveraging partnerships and through acquisitions. These solutions will help transform our clients' businesses, help us move from providing incremental solutions, to solving big problems that are relevant to our clients, and allow us to create much larger, sole-source deals.

Our partnership discussions with Markit in the Capital Markets space are progressing well. This is a great example of investing to build an industry utility solution to solve not just a single client pain point, but an industry-wide issue - namely client onboarding that solves 'know your customer' requirements and regulations. We expect to be able to take our services to the market in the second half of this year.

The fourth pillar of our strategy is to deepen client relationships. Having our organization focused on the right relationships with the right people allows us to help our clients embark on transformational journeys. This past quarter, the other big deal we won was becoming a partner to a leading Information Services company, where we are helping them transition from a portfolio of disparate businesses into an integrated enterprise, including shedding and further streamlining non-core processes. As part of this engagement, we have partnered with them to take over a captive shared services center with a mutual objective of driving capital benefits and providing enhanced controllership and visibility within their finance organization.

In summary, we believe we have the right strategy, with the right areas of focus, to increase our share and drive growth in our under-penetrated markets, and we are demonstrating progress on this very exciting journey.

I will now turn the call over to Mohit.

Mohit Bhatia - *Genpact Ltd - CFO*

Thank you, Tiger, and good afternoon, everyone. Today, I will review our second quarter performance followed by summary of key highlights on the balance sheet and cash flows.

On a year-to-date basis our revenues were $1.09 billion, up 5% compared to the first six months of 2013. Our adjusted operating income for the first six months of 2014 was $174 million, up 1% compared to the same period last year, representing a margin of 16%, down 60 basis points from last year.

We closed the second quarter of 2014 with revenues of $561.6 million, an increase of 5% year over year. Revenue growth was 4.5%, excluding Pharmalink, which we acquired in June 2014. Foreign exchange had an adverse impact on revenues this quarter with revenues increasing 5.6% year-over-year in constant currency terms.

Second quarter revenues from Global Clients increased 7% year-over-year.

Within Global Clients, the business process outsourcing revenues increased 9%. Our Global Clients IT services revenues increased 2%. GE revenues performed better than expected with a decline of 1% year-over-year.

Our overall business process outsourcing revenues increased 6%. Our overall IT services revenues increased 3% driven by growth in both Global Clients and GE.

We continued to expand relationships with Global Clients in 2014 across a range of our industry verticals. In the second quarter, we grew client relationships, with revenues over $5 million from 81 to 85, compared to last year. This includes clients with greater than $15 million revenue increasing from 26 to 27, and clients with greater than $25 million in annual revenue increasing from 12 to 14.

Adjusted income from operations totaled $87.6 million, a decrease of $1.6 million from the prior year. This represents a margin of 15.6%, down from 16.7% in the second quarter of 2013. This was in line with our expectations and driven by investments in client-facing teams, and domain experts partially offset by operating efficiencies and favorable foreign exchange. We expect our operating margins for the balance of the year to be lower than the second quarter level, as we continue to drive investments to accelerated growth.

Our gross profit for the quarter totaled $221.5 million, representing gross margin of 39.4%, up from 37.8% last year aided by operating efficiencies and favorable foreign exchange.

Our sales and marketing expense as a percentage of revenue this quarter was approximately 6.6%, up from 4.3% in the same quarter last year driven by accelerated hiring of client-facing teams.

SG&A expenses totaled $143 million compared to $118 million in the second quarter of last year. This represents 25.4% of revenue, up from 22.1% primarily driven by investments in client-facing teams, subject matter experts, and other investments in resources and capabilities for growth, partially offset by favorable foreign exchange. We expect to see our investment in client-facing teams and R&D capabilities to continue as the year progresses.

Net income was $49 million or $0.22 per diluted share, in the second quarter of 2014, down from $63.9 million or $0.27 per diluted in the second quarter of 2013.

The year-over-year decrease of $0.05 in earnings per share was driven by the following-

- Foreign exchange re-measurement loss recorded below the Income - from - operations line of $3.8 million this quarter, versus a gain of $17.2 million same quarter last year- -$0.07.

- Impact of Pharmalink acquisition- -$0.01

Offset by contribution from -

- Lower stock option costs- $0.01

- Change in share count including buy back- $0.01

- Others- $0.01.

Our adjusted EPS for second quarter 2014 was $0.27 per share down from $0.32 per share in the second quarter of 2013. The decrease of adjusted EPS was due to the reasons stated earlier.

Our tax expense for the second quarter was $13.9 million, down from $19.2 million in the second quarter of 2013, representing effective tax rate of 22%, down from 23.1% in the second quarter of last year. This improvement was primarily driven by the continued growth of our operations in lower tax locations compared to the second quarter 2013, and reflects the benefits recorded on non-operational one-time items in this period.

I will now turn to our balance sheet.

Our cash and liquid assets totaled approximately $377 million, down from $567 million at the end of the first quarter. This balance was after utilizing $303 million for buyback of our stock and $124 million for our recent acquisition of Pharmalink. These transactions were partly funded by an additional short-term debt of $175 million. With the undrawn debt capacity of $73 million and the existing cash as stated earlier, we continue to have flexibility to pursue growth opportunities. Our net debt to EBITDA for the last four rolling quarters was approximately 1.2x.

Our day sales outstanding stood at 84 days, an increase of four days compared to the second quarter of last year. This represents an improvement of three days over the first quarter of 2014, and we expect a further one- to two-day improvement over the next two quarters.

Turning to operating cash flow, we generated $79 million of cash from operations in the second quarter of 2014 compared to $76 million in the same quarter last year, in line with growth in our revenues.

At the beginning of the year our expectation was that cash flows would be down 10% to 13% for the full year compared to last year, primarily driven by lower margins as a result of planned investments of growth together with certain one-time influence in 2013.

We now expect our cash flow from operations for the full year to be approximately 15% to 20% lower than last year. We are winning more large deals and, although positive, these deals require a higher upfront cash outflow. Cash flows are also adversely affected by foreign exchange and, finally, although improving sequentially the pace of DSO improvement is slower than we had expected.

Capital expenditure as a percentage of revenue was approximately 3.5% in the second quarter of 2014. This was mostly invested in creating additional capacity for growth.

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

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Before I give my closing comments, I'd like to again welcome Ed Fitzpatrick to the team. As you know, Ed will be based in New York with a number of other members of our leadership team and me. I will hand it over to Ed to make a few comments.

Ed Fitzpatrick - *Genpact Ltd - CFO*

Thanks, Tiger. I'm really excited to be part of the Genpact team. The thought of joining a company with excellent growth potential, large under-penetrated markets, and leading marking position, was what really attracted me to Genpact. My meetings with the leadership team and the Board of Directors and the energy level of the global team have only reinforced my thinking that this is the right company for me. I am very much looking forward to partnering with Tiger and the team on our operational and strategic initiatives to drive value for our stakeholders. I'm also looking forward to meeting all of you in person.

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Thank you, Ed. I also want to take this opportunity to thank Mohit for his leadership of the finance organization over the last four plus years, for his counsel, and, in particular, for his role in developing our targeted investment strategy. We are fortunate that he is continuing with Genpact in a critical role, that of leading our own internal transformation.

We are positioning Genpact for accelerated long-term growth in the best way possible, and we are making focused investments through the four pillars of our strategy. These investments are expected to be at least $45 million, or an incremental 2% of revenue, in 2014. We expect to spend approximately two-thirds of this on client-facing teams and the rest on building key service line capabilities. We expect to continue to make these investments over the course of the year.

We are funding a portion of these investments through productivity and cost discipline. We are on track to achieve our productivity goals in 2014. We expect these investments to continue through 2016. We firmly believe these investments will position us for long-term accelerated growth.

We continue to expect 2014 to be a pivotal year for Genpact. With the expected contribution from Pharmalink through the remainder of the year, we have increased revenue guidance for 2014 to $2.24 billion to $2.28 billion. Our expectation for adjusted operating income margins continues to be a range of 15% to 15.5%.

Based on the opportunity in our attractive and underpenetrated markets, we believe our focused growth and investment strategy will position Genpact for accelerated Global Client revenue growth in the years ahead. When we look out beyond 2015, we believe Global Client growth will return to a mid-teens rate.

In closing, Genpact works with clients to help them design, transform, and run their business-critical operations to make them more competitive. For clients, our impact is measurable in higher ROI, greater efficiency in effectiveness, cost savings, and better management of risk, regulations, and growth. We are differentiated by our expertise in select industries and service lines, a high level of satisfaction among our Fortune Global 500 clients as measured by industrial-leading Net Promoter Scores, and a passion for operational rigor and excellence. Our goal is to provide world-class service to our clients, and to drive sustainable profitable growth and value for our shareholders in our focused industry verticals, service lines and geographic markets. We are also increasing the integration of technology and analytics into our solutions to solve big client and industry problems. I will now hand the call back to Bharani.

Bharani Bobba - *Genpact Ltd - VP, IR*

Thank you, Tiger. Operator, can you give the instructions to open the call up for Q&A?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

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

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. I was wondering if you could talk a little bit about now that you're starting to put the investments to work where you're starting to see some of the changes from those investments and maybe you can give us qualitatively or quantitatively about how it's making its your way into your results?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Joe, thanks for your question. As you know, our business really is a long cycle annuity business, particularly on the business process outsourcing side and, therefore, the initial impact that we would have would be in the level of conversations and the level of discussions and dialogues, particularly with existing clients and then as time passes by with new clients in the hunting arena. These conversations then lead to additions to the pipeline which then leads to a competitive situation where should lead to us winning bookings and then finally revenue. And as I just described this, that is a long cycle.

So, where we will see action is initial conversation and activity which we are seeing when we've added these client-facing resources into our verticals, geographies, and service lines. We also see obviously faster impact in the shorter cycles side of our business, namely the consulting services side, the analytics side, the re-engineering side. And as we pointed out, our consulting services growth has been very good for the first two quarters, so I think we're seeing the right level of conversations that are beginning to happen as these people come in. In terms of it actually making its way into the revenue stream of the Company, that will take time.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. And you announced some large deal signings. I wonder if you can give us an update on what the backlog looks like there and how you're seeing sales cycle conversion times?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

So, as I said sale cycle times haven't changed. They are long for the larger deals for the reasons that we talked about earlier. So, those haven't changed. There is a natural pipeline flow and as part of the natural pipeline flow we had closed one deal that we talked about in the CPG vertical in the first quarter and we closed two deals in the second quarter.

The deal in the first quarter, as I said, ramped up very nicely and in fact now it's allowing us to demonstrate some of those capabilities which are very unique in the core operations arena for the CPG vertical to other clients. We expect the same thing to happen as we ramp up the Insurance client we talked about and Information Services client we talked about. Those ramps will be much longer ramp cycles as compared to the first one, that we signed in the first quarter, which is a very fast ramp.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Got it. And then a last one for me is we look at 2015, and I am not really looking for guidance, just general thoughts. How should we think about relationship between revenue growth and the margin profile? I know that you've said that you're going to continue to invest in this cycle. Will you review that at the end of the year? How should we think about sort of the general revenue growth and margin trajectory for the business in light of all the investments?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Joe, obviously there are a lot of moving parts in trying to come to the right answer for 2015 and I think we are sometime away from being able to provide visibility to that as you rightly pointed out. There are three things that are for sure.

One, the ramp in new deals and big deals, et cetera, will by definition, as you know in our business, require early investments as those deals ramp. Two, we will continue to journey through these investments into 2015 as well. Three, as we had pointed out earlier, as we work through these investments and as the pipeline flows through, that should help revenue, but I think there are so many moving parts that relative visibility to that will become better as we get to the end of the year and the beginning of next year.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Your next question comes from the line of Edward Caso with Wells Fargo Securities. Please proceed.

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

Hi. Thanks for taking my call and congrats on the numbers here.

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Thank you, Ed.

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

How much are you hearing from clients about let's call it BPS, Business Processes Service, that approach as opposed to sort of taking over and optimizing existing systems? I believe the CPG deal sounded like sort of a lift and ship kind of opportunity and I think one of the ones in the second quarter was a captive takeover, so how much are you seeing in the BPS area, how much are you investing to pursue that, how much do you view it as a threat to the Genpact model?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Ed, I don't think we are seeing an either/or situation. We see in most clients both and the reason for that is very simple. If we take the CPG example, it is very important to continue to run the back-ended operations of a large CPG company or an insurance company and drive optimization that delivers value immediately. At the same time, there is no question that in specific areas we continue to find ways to take those services to the cloud, bundle technology and analytics and the process to make it a BPS.

The reality is that we are talking about large corporations with multiple geographies and countries that they deal with, multiple business units, often a history of acquisitions. So while the vision could be BPS, the journey to BPS actually requires exactly the kind of deals that we are talking about. So, it is not an either/or, so our investments are in both. It's investing and making sure that we can optimize and, two, it's actually taking the services that we have started optimizing and standardizing to the cloud. The reality is unless you optimize and standardize, you can't take it to the cloud.

So, for us it is not a threat, it's actually is an opportunity and that's the way we view it. We take BPS to the client in the same conversation where we are actually taking over their operations or moving their operations.

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

Very helpful. Thanks. Are you seeing a greater capital intensity? You're obviously going after larger, more complex deals and we're hearing almost it sounds like a return to the old EDS days, a very capital intensive opportunity. So, is there an upward drift in that?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

So, Ed, actually a great question. I would say no because you're comparing it to the example that you took, the EDS days example, and the no is because these are not asset takeovers and I'm talking about technology assets and real estate assets which then makes it very, very capital intensive. There is more capital intensity here in terms of the up-front investment, then a regular small BPO deal and that's what had an impact on cash through the year that we talked about, but materially very different than the old EDS. I think the old EDS, those types of deals we don't see much. We've never seen them, and I think they're much less in the world these days.

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

Great. Last question. A framework on Pharmalink. How big is it? Run rate contribution this year and then the run rate contribution? I think I heard that it was you bought it, you had one month's worth, but it's already been a penny accretive. Is that correct?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

No. So, let me first talk about the revenue side. As you can see, we have increased our guidance by $20 million which basically reflects broadly our expectation from the revenue side of the house from Pharmalink for this year. As far as the broad profile of the company is concerned, the expectation for Pharmalink, is in a regular running business, it would be similar margin profile to Genpact.

The reality is like you would expect an acquisition of capabilities, we are immediately and have actually immediately started investing in the taking of those capabilities to the market and, therefore, in the first year it will actually not be accretive to the company.

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

I'm sorry, I wanted to slip one more in. On these large outsourcing deals do you assume a few of them in your annual guidance so you have to do a few to hit the number before they become incremental to at least revenues?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Yes, absolutely Ed because they are a significant part of our pipeline. We all have to convert a certain fair share of that pipeline so the answer is yes, we do assume, some of that happening during the year.

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

Thank you. Congrats.

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Thank you, Ed.

Operator

Your next question comes from the line of Tien-tsin Huang with JPMorgan. Please proceed.

Puneet Jain - *JP Morgan - Analyst*

Hey, this is Puneet filling in for Tien-tsin. Thank you for taking my question. Nice to see this addition to sales team as a percentage of revenue is also within your target, should we expect continued net addition to sales force from here on?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Your question wasn't very clear, but I am hoping I got it right. So, the expectation for the balance of the year is to continue to add to our client-facing teams the way we had planned. And as I pointed out, our objective was originally when we set out at the beginning of the year the investment plan we had said we would hit 6% as a percentage of revenue. So, we will definitely at least hit 6% sales and marketing expenses as a percentage of revenue for the full year.

Puneet Jain - *JP Morgan - Analyst*

Right. And this $45 million of investment that you talked about for this year, what does that represent on annualized basis for year end? $45 million I assume is year over year number.

Mohit Bhatia - *Genpact Ltd - CFO*

This is Mohit. The $45 million is approximately 2% of revenue investment that we had committed to make and to Tiger's point, two-thirds of that investment was going to our sales and marketing, a third of it was going towards building capability and domain expertise and we are on track and we expect to at least invest $45 million if not more by the end of the year.

Puneet Jain - *JP Morgan - Analyst*

Understood. And, last, GE continues to come in better than what you thought, better than the decline that you pointed toward here this year, so is there an improvement in outlook for GE for this year or you think GE could deteriorate the rest of the year?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

So, I think the way we should think about GE is the way we thought about GE at the beginning of the year. We are very happy with the first half, but the first half had some very nice growth on the tech IT side of GE and on risk and regulatory projects, given the regulatory work that a lot of the financial services institutions are doing across the globe. By its very nature both on the IT side and regulatory risk side, some of these may not continue into the second half. So, the way we would still continue to think about GE is the way we thought about GE at the beginning of the year. We do feel very good about the first half.

Puneet Jain - *JP Morgan - Analyst*

Thank you.

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Thanks.

Operator

Your next question comes from the line of George Tong with Piper Jaffray. Please proceed.

George Tong - *Piper Jaffray - Analyst*

Hi. Thanks for taking my questions. Mohit, we all wish you well in your new role and, Ed, welcome to the company.

Mohit Bhatia - *Genpact Ltd - CFO*

Thank you.

George Tong - *Piper Jaffray - Analyst*

I just want to explore for a bit the competitive landscape. Can you tell us what you are seeing as you compete for these larger deals and how the pricing environment is like?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

George, interesting question. The large deals by definition obviously means that from a cost and from a scale perspective, they would tend to be price competitive. However, by very nature of the fact that they are complex, they are very global and they require, in many cases, integration of deep domain understanding whether it is domain as Finance and Accounting or domain in a vertical like Insurance.

The reality is that competitive landscape actually pins out, so there are a couple of forces acting out there. It is competitive. It is a few players and often the known names, who are there in that competitive landscape, specific to certain domains and specific to global geographies. So, I think it is a fair landscape. It is not necessarily much more price competitive than you would expect any other deal to be.

George Tong - *Piper Jaffray - Analyst*

That's very helpful. You've indicated you can return to mid-teens Global Client growth. Can you share with us how you get to that growth target and what your confidence level is around hitting that target?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

George, these are still very early days because I was talking about beyond 2015. Global Clients mid-teens growth as the trajectory, and that's very similar to what we had talked about at our March investor day. And really it is about continuing to do what we are doing, in terms of the four pillars of our strategy, continuing to drive the investments and as those investments get made, driving the productivity and the outcome and effectiveness of those investments.

Some of the early signs of that, to an earlier question, very early signs, seem good. The large deal wins are another reason and we have to continue to win more of them to allow us to ramp into the future, so a number of those start creating the building blocks of that journey to beyond 2015 mid-teens Global Client growth.

George Tong - *Piper Jaffray - Analyst*

That's helpful. Then lastly, Ed, I know it's still early but could you share what your strategic priorities for Genpact are financially and how they may differ from what they are currently?

Ed Fitzpatrick - *Genpact Ltd - CFO*

I think what Tiger just talked about is probably paramount to success, right. With growth of the company, the rest of it is a lot easier. So, if we're able to move the company forward making the right investments in selling and marketing and in client facing and the capability that Tiger talked about it's really driving that. And if we do the right things in running the business, that should flow to the bottom line, improve cash flows, and obviously improve shareholder value which is what we have to do, right. Improve client relationships, drive top line, that will drive the bottom line.

We'll be disciplined about the way that we operate which will improve cash flows as well and that's what drives value. So, that's really the key initiative. My current thinking now is just come up the curve while understanding the business as best I can and as you might expect drinking from the fire hose now but enjoying every minute of it.

George Tong - *Piper Jaffray - Analyst*

Great. Very helpful. Thank you so much.

Ed Fitzpatrick - *Genpact Ltd - CFO*

Thank you.

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Thanks George.

Operator

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

Evan Bull - *Deutsche Bank - Analyst*

Hi guys. This is Evan Bull on for Bryan. Most of my questions have been answered but just real quick, can you call out which verticals those two large deals that were signed in the quarter were for?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Yes. One of them is the Insurance vertical and the other one is what we call the Manufacturing and services vertical.

Evan Bull - *Deutsche Bank - Analyst*

Great. Thanks. And then I guess just looking ahead for margins for 2015, I know you weren't going to give specific guidance, but is it fair to say to characterize it that you can return to the margin profile that you saw in 2013 kind of exiting the year?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Again, I think it is too early but by definition, given ramps, given our investments that will continue into 2015 to the simple question of will we return to those margins, the answer is no.

Evan Bull - *Deutsche Bank - Analyst*

Great. Thanks.

Operator

Your next question comes from the line of Keith Bachman with BMO. Please proceed.

Keith Bachman - *BMO Capital Markets - Analyst*

Hi. Thanks, guys. It's Keith Bachman from BMO. A clarification and a question. Could you just reiterate what was the constant currency organic growth rate of Global Clients, please?

Mohit Bhatia - *Genpact Ltd - CFO*

Sure. This is Mohit. Global Clients grew 7%. Organically, Global Clients grew 6.1% and at constant currency Global Clients grew a shade under 7%.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay. Okay. Alright. So, as we think about the growth rate, you're hiring sales reps and delivery teams, when do you think investors start to see the benefit of that? Is that a benefit 2015 or since you've been hiring for some time is there some kind of yield that's associated with that exiting this year or is it really first half of next year? I think the reference points are trying to understand is margins and revenues, so if you could just talk about when you just describe if the organic global constant currency revenue growth is in call it the 5% range when does it improve? When do you start to see some yields from the investments that you're making?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

So, the revenue if you think about the revenue profile for Global Client growth, the expectation that one would have is an acceleration from the 2014 Global Client revenue growth as you get to 2015 and then a further acceleration as you get to 2016. So, that's on the revenue side for Global Clients and that acceleration driven by all the investments we are doing both on the capability side building solutions as well as the client-facing side.

From a margin profile perspective that would lag that revenue growth and the lag is driven, one, by the investment that we are doing up front and, two, by definition in our business as you grow revenue and accelerate revenue growth, you have ramps on deals which then leads to margin drag from those ramps, so to cut a long story short here, the margin profile ramp would be a much more extended ramp.

Keith Bachman - *BMO Capital Markets - Analyst*

Yes. So, investors can presume expect improved revenues in 2015 and then perhaps improved revenues off of that and the margins would catch up there after, right?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

Yes.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay. If you could just also revisit on excuse me your capital allocation and balance sheet. You completed a deal and you obviously finished the stock buyback. How are you thinking about debt levels and how should investors be thinking about any potential incremental capital allocation going to shareholders juxtaposed against your aspirations in M&A. And that's it for me.

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

So, we've always said that obviously we generate very healthy cash in our business. That is the nature of the business. We've also said that we -- and we've demonstrated over the last couple of years that, there is a certain level of leverage that makes sense in our kind of a business. And then in terms of use of cash, clearly we've demonstrated that when there is an opportunity to actually add new capabilities and continue to drive growth in the company using those capabilities we will continue to look for the right acquisitions.

At the same time, we will evaluate on an ongoing basis, the right return of incremental cash to shareholders, either through what we did a couple of years back, on special dividend, buy back, so we've always had all the options that are debated by the management team and the Board to come to the right decision and that's the way we've always looked at our balance sheet and capital.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay. So, is there any constraints now if you [tell them] that their $100 million deal or $200 million deal over the next 12 months, is there any constraints against doing something like that on the M&A side?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

No. And in fact that's what Mohit said in his prepared remarks as well which is the combination of the cash we have and the undrawn facility we have, makes it relatively easy for us to continue to look for the right acquisition opportunities and that doesn't take into account any incremental debt that we can take on. The reality is our cash flow position and the strength of that cash flow allows us to take our leverage higher than what we have traditionally run it at if we want to, if the opportunity is right.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay. All right. Good luck, gentlemen. Thank you.

Operator

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

Kunal Doctor - *Oppenheimer - Analyst*

Hi. This is Kunal Doctor on behalf of Manish. Congratulations on the good quarter, guys. Can you share the strength for the client-facing team and what number are you targeting for the year end? Can you give us an idea as how you are measuring its productivity and run rates? Thanks.

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

So, let's see if I understand the question right. In terms of our client-facing teams, as I said for the year it would be more than 6% in total cost of that whole sales and marketing function as a percentage of revenue and that's -- we are clearly on track to be on that road map.

From a -- if I heard your other question, from a productivity perspective that varies a lot by the type of industry you're in, the type of deals that you have in that industry, the size of those deals, the service lines that you're a sales person for, whether it's technology, it's analytics, it's finance and accounting, so the variation of that productivity number is pretty significant depending on what type of a sales person you are and we have benchmarks for different sales teams that we track. We have benchmarks for what is the vintage of the sales person in terms of their experience in the company because it takes time to get to that benchmark for every sales person and that's how we track the movement or productivity for every sales person.

Kunal Doctor - *Oppenheimer - Analyst*

And in your prepared remarks you mentioned win rates have improved. Was it year over year or quarter over quarter?

Tiger Tyagarajan - *Genpact Ltd - President and CEO*

We're talking about year over year.

Kunal Doctor - *Oppenheimer - Analyst*

Year over year. All right. And I may have missed this but can you give some metrics around the Smart Decision Services and what was the growth rate?

Mohit Bhatia - *Genpact Ltd - CFO*

Smart decision services this quarter we grew by 10.6% overall and our Global Clients services smart decision services grew over 14%.

Kunal Doctor - *Oppenheimer - Analyst*

All right, all right. That's all from me. Thank you.

Operator

And at this time we have no further questions. I would now like to turn the call back over to Bharani Bobba for any closing remarks.

Bharani Bobba - *Genpact Ltd - VP, IR*

Thank you, everyone, for joining us on the call today and as always we'll be available post the call to answer further questions.

Operator

Ladies and gentlemen that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.
