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Genpact Ltd. (G)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Welcome to the 2021 Fourth Quarter Genpact Limited Earnings Conference Call. My name is Catherine. And I'll be your conference moderator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this call. As a reminder, this call is being recorded for replay purposes. The replay of the call will be archived and made available on the IR section of Genpact's website.

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

Roger Sachs
Head-Investor Relations, Genpact Ltd.

Thank you, Catherine. And good morning, everyone. And welcome to our earnings call to discuss results for the fourth quarter and full year ended December 31, 2021. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

Speakers on today's call are Tiger Tyagarajan, our President and CEO; and Mike Weiner, our Chief Financial Officer. Today's agenda will be as follows: Tiger will provide an overview of our results and an update on our strategic initiatives, Mike will then walk you through our financial performance in greater detail and provide our outlook for 2022. Tiger will then come back with some closing comments. And then we'll take your questions. We expect our call to last roughly an hour.

Some of the matters we will discuss in today's call are forward-looking and involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those in such forward-looking statements. These risks and uncertainties are set forth in our press release. In addition, during our call today, we will refer to certain non-GAAP financial measures that we believe provide additional information to enhance the understanding of the way management use the operating performance of our business. You can find a reconciliation of these measures to GAAP in today's earnings release posted to the IR section of our website.

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

N. V. Tyagarajan

Chief Executive Officer & Director, Genpact Ltd.

Thank you, Roger. Good afternoon, everyone. And thank you for joining us today for our fourth quarter and yearend 2021 earnings call. We are very pleased with our full year 2021 financial results with revenue, adjusted diluted EPS, and cash flow ahead of our expectation. We continue to strategically invest for long-term growth while meaningfully expanding our adjusted operating income margin.

For the fourth consecutive year our analytics, digital and consulting businesses, which make up Transformation Services, led our Global Client growth. As we look at 2022 and beyond, we see further expansion into multiple buying centers of our clients with cloud, SaaS, and data and analytics led solutions driving even greater value for them.

For the fourth quarter 2021, we delivered total revenues of $1.1 billion, up 13% on a constant currency basis, Global Client's revenue of $979 million, up 16% on a constant currency basis, adjusted operating income margin of 14.4%, and adjusted diluted earnings per share of $0.54.

For the full year 2021, we delivered total revenue of $4 billion, up 7% on a constant currency basis, Global Client revenue of $3.6 billion, up 11% on a constant currency basis, adjusted operating income margin of 16.5% expanding 60 basis points year-over-year, and adjusted diluted earnings per share of $2.45, up 16% year-over-year.

Our Global Clients revenue was up 11% for the year. This performance was primarily driven by Transformation Services that grew 33%, including the impact from the Enquero acquisition up from 21% in 2020, and represents now 36% of total Global Client revenue, up from 30% in 2020.

Intelligent Operations grew 3% and represented 64% of total Global Client revenue. We saw double-digit growth across most of our verticals, including consumer goods and retail, life sciences and healthcare, high-tech and manufacturing and services. As we mentioned last year, banking and capital markets performance was impacted by the restructured relationship with a client that resized its asset management business at the end of 2020; the impact of which we expect to completely roll off by second quarter.

As we expected, revenue from GE businesses declined 18% for the full year 2021. We continue to have a strong relationship with GE and believe it's announced separation into three independent companies will provide us with opportunities to win new work to support the spinoff.

Throughout the year, we saw a continued acceleration of digital transformation across all industries. Companies are striving to innovate rapidly to serve their end customers in new ways given the shift to virtualization and increased expectations in user and customer experience. Our clients are leveraging disruptive technologies and predictive analytics to drive actionable insights that lead to superior outcomes in order to establish a competitive advantage in their markets.

Our bookings accelerated in line with these trends, with total new bookings for 2021 of $3.7 billion, up a healthy 20% from 2020. Apart from an increase in inflows and pipeline, our win rate for 2021 was 52%, up from 47% in 2020. Sole source sold deals continued to represent approximately half of our bookings. Global Client bookings increased by 21% from 2020 levels, and were up 12% versus our pre-pandemic 2019 level. Large deal bookings also grew as we signed nine new engagements with total contract value greater than $50 million during the year across our industry verticals. All but one of these started with analytics, consulting and digital engagements, demonstrating that client relationships that start with Transformation Services often lead to significant subsequent growth.

In 2021, we added 97 new client logos, up from 72 in 2020. Each of these new logos represents an initial average booking of approximately $3 million. We're excited about these new relationships as it allows us to grow with these clients into the future.

Transformation Services represented 45% of our total Global Client bookings, up from 36% in 2020. During 2021, approximately two-thirds of new accounts that started with a standalone Transformation Services engagement either short-term or annuity-based, led to a follow-on booking including Intelligent Operations deals, which are annuity-based in nature. Almost 50% of Transformation Services bookings are longer-term annuity engagements providing us with very good visibility to future revenue.

Our performance during 2021 was a result of our continued focus on our chosen set of industry verticals and services with large addressable markets as well as our strength in data and analytics. We believe the sharp focus we have provides the depth in industry and process knowledge that is needed to drive deeper value for clients. While we continue to see growth in our original strategic focus area of finance and accounting, we are seeing very strong momentum across newer growth areas such as sales and commercial, supply chain management, financial crimes and risk and financial planning and analysis.

The combined target addressable market in these areas is more than double that of finance and accounting alone, and they are much less penetrated. Across all these areas, we have very significant expertise through both organic and inorganic investments and by tapping into growing partnership ecosystem. These grew more than 43% in quarter four and 36% for 2021. We have continued to have a very healthy and growing pipeline of new opportunities in these services.

Our ability to organize and orchestrate data and develop cloud-based analytics solutions with industry and process depth differentiates us in the market. Analytics is the fastest-growing component of our Global Client Transformation Services portfolio, growing 58% in 2021, up from 29% in 2020 and now makes up about half of total Global Client Transformation Services. We're helping clients use complex datasets to derive actionable insights that lead to meaningful business outcomes beyond just cost and productivity. For example, preventing fraud, improving pricing, reducing losses, improving sales targeting, and improving customer satisfaction and retention.

Let me give a couple of examples of highly replicable work where we are driving meaningful value for our clients. For our life sciences company, we are redesigning its global supply chain operations as it moves to the cloud. Leveraging our deep domain expertise, we will validate the client's data and refine processes to enhance its demand and supply planning and forecast with accuracy and improve product fulfillment and trade compliance.

For multiple insurance clients we are using AI and machine learning to analyze pictures of vehicle damage for real-time auto claims estimates, coupled with an end-to-end cloud-based workflow solution on Microsoft Azure that automatically creates and routes new claim status. This has dramatically reduced cycle time for claims, increasing customer satisfaction and retention, while also reducing fraud.

For a large aerospace manufacturer, we are leveraging our deep process domain and digital expertise to transform their receivables process with HighRadius' order to cash SaaS platform. This helps our clients reduce their DSOs and unlock cash faster to support strategic initiatives.

Extending our reach into client's marketing and sales organization, last quarter we acquired Hoodoo Digital to augment our Rightpoint Experience team's capabilities in digital content. We are now providing clients with a full end-to-end solution that seamlessly integrates digital content, e-commerce and marketing operations to generate better insights and drive growth. Our Experience acquisitions have been successful in allowing us to enter new buying centers like sales and commercial and grow both our Transformation Services and Intelligent Operations engagement. Similarly, our acquisition of Enquero has supplemented our high organic growth in data and analytics. These acquisitions have also helped us bolster our talent in these areas.

Let me talk about our competitive position in the global talent market. During 2021, we welcomed approximately 42,000 new team members, reflecting the strength of Genpact brand in a very competitive environment for talent. We continue to invest in the learning and development of our employees to provide them with the critical skills needed for the future to build their careers.

For the second consecutive year, our global workforce completed over 10 million training hours, leveraging our Genome online, on-demand learning platform. This led to approximately 10,000 of our employees being trained in cloud basics, about 25,000 trained and tested in Lean and Six Sigma, and more than 52,000 becoming certified in data and analytics. Additionally, through our TalentMatch platform, 14,000 newly reskilled employees were redeployed to new roles. The combination of reskilling and redeployment is a competitive advantage in this challenging talent market.

Our attrition rate in the fourth quarter was 33%, remaining steady versus the third quarter. With our ability to reskill, redeploy and hire at scale, we continue to successfully serve our clients and convert new opportunities.

Turning to 2022. I believe we are well-positioned to build on the momentum we saw in Global Client revenue last year, which saw a return to double-digit growth ahead of our initial expectations. Given strong market demand for our services leading to the expansion of existing client relationships as well as the addition of new client logos to our portfolio, we expect Global Client revenue growth to be between 9% and 12% on a constant currency basis. This includes a recovery in our banking and capital market verticals where we are seeing great traction.

I'd like to take a minute to comment on how rapidly the world has changed since we last spoke in early November. Inflationary pressures across all industries have increased in an unprecedented way as confirmed by yesterday's US economic data. We're absorbing higher expenses related to the current inflationary environment, including increased labor costs while continuing investments in our growth.

For example, we won a spate of new deals at the end of the year leading to advance hiring in order to support those deals as they ramp up, including onshore in multiple geographies. Travel levels are on their way to normalize as our teams have begun to once again engage with clients in person on a regular basis. With our strength in bookings including new client logos and our ability to diligently manage our costs as revenue ramps through 2022, we expect our full year adjusted operating income margin to be between 16% and 16.5%

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

Michael Weiner

Chief Financial Officer, Genpact Ltd.

Thank you, Tiger. And good morning, everyone. Today, I'll review our fourth quarter results and discuss highlights of our full year performance and provide you with our outlook for 2022.

Beginning with fourth quarter results, total revenue was $1.1 billion, up 13% year-over-year, both as reported and on a constant currency basis. Global Client revenue, which represents 91% of total revenue, increased 16% year-over-year, both as reported and on a constant currency basis. This was primarily driven by ongoing movement in our Transformation Services that grew ahead of expectations at more than 45%. Total Global Client revenue growth in the quarter included approximately 1 point contribution from revenue related to certain divested GE businesses that we began including Global Client portfolio, as of January 1, 2021.

During the quarter, we continue to expand the size of our Global Client relationships. For example, during the 12-month period ending December 31, 2021, we grew the number of Global Client relationships with annual revenue over $5 million from 129 to 144, this includes clients with more than $25 million in annual revenue, increasing from 23 to 32, with 11 of those over $50 million in annual revenue, same as last year.

Revenue from GE businesses declined 14% year-over-year, above our expectations, primarily due to short cycle project work in the quarter. Excluding the effect of revenue related to divested businesses, revenue from GE businesses would have declined 6% during the quarter. As expected, adjusted operating income margin declined sequentially to 14.4%, primarily driven by higher investment activity in sales and marketing and research and development, increased travel expense, and a higher level of transaction (sic) [transition] costs related to recent deal wins, and a notable increase in wage inflation during the latter part of the fourth quarter.

Gross margins in the quarter declined 110 basis points sequentially to 34.5%, primarily due to investment-related deal ramp-ups and supporting new deal activity. Adjusted EPS was $0.54, up 6% year-over-year compared to $0.51 in 2020. This $0.03 increase was primarily driven by higher adjusted operating income of $0.02, a foreign exchange re-measurement gain of $0.02, and the impact of lower share count of $0.01, partly offset by higher interest expense and higher taxes together to equate to $0.02. Our effective tax rate was 29.6%, compared to 25.3% last year due to return-to-provision adjustments realized in the fourth quarter of 2021, as well as certain nonrecurring discrete items in the fourth quarter of 2020.

Now, let me provide you with some color around our full year performance in 2021. Total revenue was up 8% year-over-year, 7% on a constant currency basis. Global Client revenue, which represents 91% of total revenue, increased 12% year-over-year or 11% on a constant currency basis. This better-than-expected performance was largely driven by Transformation Services. Total Global Client revenue for the full year included approximately 1 point contribution from revenue related to certain divested GE businesses that we began to include in our Global Client portfolio as of January 1, 2021.

Revenue from GE businesses declined 18% year-over-year, primarily due to the prior productivity commitments and the macroeconomic environment. As we expected, adjusted operating income margin expanded 60 basis points year-over-year to 16.5%, primarily attributable to higher gross margins and lower travel expenses.

Gross margin for the year expanded 80 basis points to 35.6%, slightly ahead of our expectations due to better mix of revenue towards Transformation Services and reflecting digital (sic) [digitization]-led productivity. During the latter part of the fourth quarter, we saw escalating inflation pressure relating to general wage increases, medical and insurance expenses as well as increased hiring costs connected to new deal signings and other growth opportunities.

These elevated costs, coupled with the ramp-up of onshore deals over the next few quarters, are expected to have a disproportional impact on our first quarter gross margin. We expect our gross margin to improve through the balance of the year due to operating leverage and increasingly higher margin Transformation Services revenue. As a percentage of revenue, SG&A increased 20 basis points year-over-year as we dialed up investments to take advantage of long-term growth opportunities.

Adjusted EPS was $2.45, up 16% year-over-year, compared to $2.12 during 2020. This $0.33 increase was primarily driven by higher adjusted operating income of $0.29, the impact of lower share count of $0.03, and foreign exchange re-measurement gain of $0.02, partly offset by higher net interest expense of $0.01. Our full year effective tax rate was 23.5%, up from 23% last year, primarily due to the impact of expiration of special economic zones.

Turning to the balance sheet and cash flow. At yearend, cash and cash equivalents totaled $899 million, compared to $680 million at the end of fourth quarter 2020. Our net debt-to-EBITDA ratio was 1.1 times, including the impact of our recently announced Hoodoo Digital that closed in December. Days sales outstanding improved to 74 days, down from 82 days last year. This was primarily driven by reduced billing cycle times, overall improvement in collection processes, as well as the benefit of more short-cycle revenue booked in the fourth quarter. We expect DSOs to be in the high-70 range in 2022.

We generated record level of cash from operations of $694 million, up 19% year-over-year. This better-than-expected performance was primarily driven by higher operating income and more favorable working capital position related to the improved days outstanding and lower cash taxes.

During the quarter, we returned $171 million and $379 million of capital to shareholders respectively. This includes dividend payments of $20 million in the fourth quarter and $80 million in the full year. We also repurchased 3 million shares at a cost of $151 million at a weighted average price of $50.56 of shares during the quarter and 6.6 million shares at a cost of $298 million at a weighted average price of $45.32 for the full year. Year-to-date during 2022, we've repurchased an additional 0.5 million shares, totaling $28 million at an average price of $52.44.

Our capital allocation priorities to drive long-term shareholder value are as follows: First, we are investing in our business to support organic, long-term growth initiatives. Next, we will continue to go after strategic M&A to add to our domain and operations depth in our chosen verticals. And lastly, we are committed to returning capital to shareholders through quarterly dividends.

With respect to share repurchases, given our strong cash flow generation, we expect to implement a more regular cadence of buybacks with a minimum of 30% of our cash flow from operations allocated to purchases for the full year. Capital expenditures as a percentage of revenue equates to 1.3% for full year 2021. That compares to 2.1% during 2020. This was slightly lower than our expected range of 1.5% to 2% of revenue.

Finally, I'll provide you with an outlook for 2022. We expect total revenue to be between $4.3 billion and $4.4 billion, representing a year-over-year growth of 7% to 9% or 8% to 10% on a constant currency basis. For Global Clients, we expect revenue growth to be between 8% and 11% or 9% and 12% on a constant currency basis. Revenue from GE businesses are expected to decline 5%.

With inflation rising at the fastest pace in decades, based on the latest data we're assuming higher labor costs and other costs will continue for the balance of 2022. While we're offsetting some of these increased costs with price adjustments, commercial models linked to outcomes versus inputs like FTEs, our focus on rationalization of expenses, our visibility into the full year impact of these inflationary pressures is limited, as it is for the entire market.

Therefore, we currently expect our full year 2022 adjusted operating income margins to fall within the range of 16% to 16.5%. This is a market-based adjustment. As we get better visibility during the year, we expect to tighten this range. We anticipate pricing and other actions will mitigate current inflationary pressures. We continue to believe our margins will expand in line with our strategy over the medium-term.

Our 2022 effective tax rate is expected to be 23.5% to 24.5%, up from 23% (sic) [23.5%] in 2021. We're estimating adjusted earnings per share for the full year 2022 to be between $2.53 and $2.71, this represents year-over-year growth of 3% to 11%, and includes the positive impact related to lower expected net expense – net interest expense of $0.02 and lower anticipated share count of $0.02, offset by the impact of higher taxes of $0.03 and the negative FX impact of $0.05 per share due to an approximate $13 million gain recorded last year.

We're forecasting cash flow from operations to be approximately $600 million, compared to $694 million for the full year 2021. We anticipate free cash flow of approximately 1.2 times to 1.3 times net income, above our historical 1:1. Capital expenditures as a percentage of revenue is expected to be approximately 1.5% to 2.0% in 2022, as we expect a higher level of infrastructure spending related to 2021, related to an increase in employees returning to the office as part of a hybrid delivery model and continued investments in digital solutions.

Our Board of Directors has approved a 16% increase in our dividends to $0.125 per quarter or $0.50 on an annual basis. Our dividend has increased by a compound annual rate of 16% since we began paying dividend in the first quarter of 2017.

Lastly, let me share some color on how revenue and adjusted operating income margin will play out in the first quarter. We continue to anticipate mid-single-digit sequential decline in Global Client first quarter revenue due to the typical seasonality we see in our business, with the expectation that the quarter-over-quarter growth will ramp up [throughout the balance of the year].

Additionally, we currently expect adjusted operating income margin to follow our pre-COVID historical pattern of being low in the first quarter and expanding sequentially through the year. We currently expect our adjusted operating income margin [for the first quarter to] [ph] to fall in the (00:25:53) quarter be in the low 14% range based on historical seasonality.

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

N. V. Tyagarajan

Chief Executive Officer & Director, Genpact Ltd.

Thank you, Mike. Summing up the world we are in, the pandemic continues to linger, digital dominates CXO and Board agendas, analytics has taken center stage, and the war for talent has intensified.

Given that backdrop, it is no surprise that we are seeing traction in our inflows pipeline on bookings in the following five areas: One, end-to-end supply chain transformation and consumer goods, semiconductor industries, and the broad industrial manufacturing industry. Two, financial crimes, regulatory compliance, and transaction monitoring not only in banks and financial institutions, but also new age fintechs and payment and e-commerce platforms.

Number three, experience and analytics-driven transformation of sales and commercial in our B2B clients, particularly leveraging new digital and data-driven marketing capabilities. Four, moving data to the cloud and orchestrating that data with technology to generate predictive, actionable insights using analytics to deliver better outcome.

And finally, driving value and transformation as large enterprises across the globe undertake portfolio actions that lead to spin-offs, divestitures, M&A and IPOs. We believe we are well-positioned to grow in these areas as we continue to leverage our deep industry and process knowledge, expertise in data and analytics, and digital capabilities to drive value for our clients beyond just cost and productivity.

Despite the inflationary environment, we continue to invest in the capabilities we need to fuel growth and margin expansion in the long-term. In an increasingly complex environment, helping our clients navigate challenges today and build resilience for the future deepens our long-term client relationships.

Similarly, ensuring we continue to have the best talent to enable those relationships, especially in the tight talent market, is a critical differentiator. We continue to evolve our talent management practices, including areas like employee engagement, training and development, and building a more inclusive environment where our employees can thrive. Our commitment to driving a more diverse and inclusive workplace was once again recognized in January with our inclusion in Bloomberg's 2022 Gender Equality Index. The wellness of our employees as well as their health and safety throughout this prolonged pandemic, continues to be a top priority.

Our commitment to serve communities in which we operate was strong, with tens of thousands of passionate employees participating in our Corporate Social Responsibility initiatives throughout the year, resulting in meaningful outcomes, for example, providing 30 million meals for the hungry across the globe. We continue to be excited about our progress on our ongoing ESG commitments. We are even more excited about the work we are doing to help clients on their own ESG agendas, another area of value generation beyond cost and productivity for them and their stakeholders.

We truly believe that driving value for all of our stakeholders, our clients, employees, communities, and shareholders is fundamental to our long-term success. Like our response to the pandemic, we continue to approach new challenges like the inflationary environment through this lens. Our strong results for 2021 would not have been possible without the unwavering commitment of our more than 100,000 global employee base.

As we look beyond 2022, our actions around pricing, continuous growth in higher value-added services including analytics, digital and consulting; and value-based commercial models strengthens our belief that we will be back to our increased margin trajectory with 16.5% as the base. While 2022 has already surfaced a new set of challenges for the world, I believe in our ability to manage those and our position to achieve our long-term growth and profitability goals.

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

Roger Sachs

Head-Investor Relations, Genpact Ltd.

Great. Thank you, Tiger. We now like to open up our call for your questions. Catherine, can you please provide the instructions?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Tien-Tsin Huang with JPMorgan. Your line is open.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks so much. Good morning, everyone. Good bookings results here. I was curious, given your prepared remarks, Tiger, just with this inflationary market, obvious for everyone [ph] it's a theme for (00:30:39) this earnings season, is that good for Genpact? I mean I would imagine that the selling environment that that should actually bode well for Genpact. I'd love your thoughts in general. And do you see a shift beyond the secular between short-term projects as well as longer-term bigger projects given what's happening with inflation?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Tien-Tsin, thank you. And great question by the way, and it's something that we have thought through deeply as well as watched the environment. So; one, in this environment it's very clear that every one of our clients is facing the same challenge that everyone else is facing, which is a need for talent to drive all the transformation agenda that they have on the table, probably an acceleration of that agenda and, therefore, an even more need for talent. So, there is no question that that provides what one could call a tailwind to partner with people like us, both on Transformation Services as well as on Intelligent Operations.

The other thing that we have seen is some of our most recent wins at the end or the fag end of the fourth quarter, had cycle times that were shorter than before and more importantly, a ramp off from our clients that is much faster than we've seen before. And I think that's a reflection of the kind of environment we are in. So, I believe that this environment does provide that opportunity, particularly to digitize operations, to automate operations, to use better forecasting using data in a volatile environment, all of those play out.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah. No, that's great. That's a very complete answer. Thank you. Just my quick follow up, just recognizing the gross margin commentary and your pricing, just how about the back-book on pricing, do you feel like there's an opportunity to change the back-book from a pricing standpoint, understand that the front book comments that you made. Thank you.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Yeah. Just to clarify...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

You're existing base of business, Tiger.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

...back-book.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yes.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah, your existing...

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

No, that's a...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

...your existing book of business. Excuse me. Yeah.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

...yeah. As you know, Tien-Tsin, we have in our Intelligent Operations business, which is 65% of our business – 65% of all of our business, it's a long-term contract. Those contracts typically have inflation adjusters in them. And those in any case, we contractually at regular periods, depending on the contract, would get and those continue to come through. This environment is different from what those contracts have assumed. So we have started talking to clients, and the fact that this is an environment that everyone is facing means that is a [ph] sit down (00:33:30) conversation. And at the end of the day, it's going to be a combination of what incremental value can we drive, how much more can we digitize and automate together, and that should end up being a win-win.

So back to your question on the back-book, the back-book is something that we are systematically going through and we believe that we will systemically go through. But as you can imagine, this takes time and there is a lag, which is one of the reasons why I think Mike in his prepared remarks talked about inflationary pressures coming in and then pricing being a longer term discussion that actually plays out through the year.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

That's great.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. I'd like to just...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Thank you.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

... just like to add. And we've had some early successes in this. And again, early today is February 11, right. So we continue to have a very active dialogue with our clients about this.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Understood. Thank you.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Thank you.

Operator: Thank you. Our next question comes from Keith Bachman with BMO. Your line is open.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Yes. Thank you. I wanted to follow on that. If you could just talk about – you mentioned the margin context for 2022. It's a wider range and obviously some pressure there. Are there other forces at work or is this – is the variance you think really driven by the wage pressure in terms of the 16% to 16.5%?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Sure. So it's really – that's correct. It's really all driven by the wage pressure right, which is also we're estimating a mitigation against that wage pressure why the range is so high with increased pricing that we're getting on existing agreements that we have, right. Normal COLA-based adjustments that are indexed at some frequency, as well as what we call – what we just talked about a minute or so ago, existing agreements and trying to get rate there. So, it's a combination of all of those things. But again the sole driver of all this is this hyperinflationary environment that we're in right now.

One note is that since we all talked, and as Tiger alluded to in early November, things have changed very, very rapidly in terms of us – you've heard from many, many companies in our industry and others, with regard to inflationary pressures. And when we thought about our guidance for this particular year, right, we're looking not just at information as of the end of December 31, we're looking at information again, as of early February, we're seeing in our daily hirings. And we're extrapolating that on a go-forward basis. So that's why the range is as large as it for us based on historical patterns.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Okay. Well, my follow up relates to that then. Other companies that, granted, have a different business model such as INFY or Cognizant or even Accenture have talked about wage inflation, and I think we all – it's quite visible, so, it's no surprise, yet seem to have a better ability to absorb it.

Is that driven by, you think, a different business model or do you think you just have more up-to-date data? I mean, keep in mind that Cognizant just reported two weeks ago as well. So, I'm just trying to understand why Genpact is incorporating the wage inflation more so than some of the other broader IT service providers in its margin targets for CY 2022? And that's it for me. Thank you.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So to – I can't really talk about other competitors, right. Some of the competitor information that you need is really related to information that potentially could be out of date, right. So as you mentioned [ph] is their – or (00:37:11) fundamentally some of those competitors have different operating models than we have, right, and if you look at the average life of a contract.

So, I don't know, Tiger, if you want to add on to that.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

No. And what we are assuming, Keith, is that this is the environment. We're not making assumptions about any change as to when this inflationary environment is going to go down. I think – I mean, we're not in a position to be able to make that call. So, we've taken that current environment as the basis of our view on 2022 and our actions that we laid out, both in terms of our own cost structure as well as discussions with clients moving up to higher value-added services that we continue to do with analytics, and all of those into account in order to come up with our view of where we think the range of margin is going to be. As you can imagine in the past – recent past, we've always given a point margin view of the year. This is after many years that we're giving a range.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Right.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

And that is a reflection of the world we are in.

Keith Bachman
Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you, Tiger.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Thanks, Keith.

Operator: Thank you. And our next question comes from Dave Koning with Baird. Your line is open.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Hey, guys. Thanks, and nice Q4.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Thank you, Dave.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

I guess – yeah. Yeah. You're welcome. I guess my question, when we think about – you were talking all through kind of last year, and even before, getting back to 10%-plus Global Client and it's a little splitting hairs, you're talking about 9% to 11% this year, but I guess it's a little below. And I know Hoodoo, I think maybe 0.5% or so to Global Client revenue growth, maybe the ability to reprice a little bit in a demand environment that seems probably better than normal, maybe talk a little bit about why revenue growth isn't a little better?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

No. Great question. Great question. And the apple-to-apple comparison would basically say that our organic growth is stepping up. On a constant currency basis, we are seeing our Global Client growth will be 9% to 12%. And you are right, Hoodoo is small, so it doesn't contribute that much into total growth. So most of that is organic. And we believe that that's a good step-up from what organic growth for 2021 has been. And as we described, that total growth for Global Clients in 2021 where we have said at the beginning of the year that maybe by the fourth quarter, we'll get to double-digits, we actually got to double-digits much earlier.

We are in a long cycle business, as you know, and we actually feel really good that we are – this takes us closer and closer to what we always say is our long-term trajectory, which is Global Client growth of double-digit to low teens and this gets in that ZIP code. So I think this is a – we feel really, really good about this as well as the fact that we've had strength in our Global Client bookings that we called out.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Thank you. And maybe just a quick follow-up on – I think did you make a comment about 16.5% adjusted margin is sort of the base to grow from into the out-year. So is it – did I catch that right?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Yes, you did. Yes, you did. Well, basically the way to think about it is that the world is going through a pretty unique, now let's call it a three decades or four decades first-time inflationary environment. And it takes time for the world to adjust to that and for us to adjust to that. And we have been firm believers in our secular margin trajectory.

I think our actions around value-based pricing, our actions around digital and analytics, businesses growing so much faster than the total company, all the new service lines that add so much more value to the clients, again leveraging data and analytics, I think all of that give us the confidence that we'll continue to be on that long-term secular trajectory, which in the normal course, and we had talked about it in the last earnings call, would assume a base of 16.5%. It's just that there's an aberration that we are calling out for 2022, and we'll be back to the same trajectory.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Got you. Thanks, guys.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Thank you, Dave.

Operator: Thank you. Our next question comes from Maggie Nolan with William Blair. Your line is open.

Ted Starck-King
Analyst, William Blair & Co. LLC

Q

Hey. This is Ted on for Maggie. Thanks for taking our questions. It sounds like you guys have been making some investments in the sales force, so I'm just going to dig into that. I mean, how large is the sales force today? How does that compare to pre-pandemic levels? And I guess how has the profile of the sales force changed in the investments you're making there?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

So, great question. Overall, our sales force continues to keep pace with the way the company has been growing, if you take the total cost base of our frontend teams. I think the more important question is the one that you ask around, what is the composition of those people? So, there is a combination of people who manage large client relationships. Then you have the global relationship managers who manage the next level of relationships. We have people who open up new relationships [ph] we call them undetermined (00:42:44) accounts that they open, let's call them hunters.

And then we have a pretty significant team, now part of Transformation Services who are much more consultative, who are much more Transformation Services, what is the change that the customer is trying to drive, and how do we participate in helping the client drive that change? So, it is a much broader ecosystem, which is a combination of our sales team globally, as well as our consulting lead partners, and it's a combination that works a lot with our clients and focuses on the top line.

Ted Starck-King
Analyst, William Blair & Co. LLC

Q

All right. Great. That's helpful. For my follow-up question, I just wanted to ask about the higher value services that you highlighted, Tiger, supply chain and financial crimes, et cetera. I guess looking at the bookings, what – can you give us kind of just a framework to think about, kind of the percentage of bookings or the business that is in those higher value services? And where do you think that could go longer term?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

So, Ted, I'll talk about some of the metrics we already shared in the prepared remarks; 50% of our bookings or 45% of our bookings is Transformation Services. A significant portion of that is what gets captured in the new service lines that I talked about, which we focused on by the way for three plus years now and all of them are analytics and digital-heavy. So if you think about financial planning and analysis, if you think about supply chain, sales and commercial, financial crimes and risks, [ph] those four service lines, (00:44:26) very heavy analytics and very heavy digital embedded in them. And those are growing at the rate that we called out both in terms of bookings as well as in terms of revenue.

And we also – I also talked about the fact that the total addressable market of those four service lines well exceeds 2 times the market that you think about in finance and accounting which has been our strategic focus area for now 20 years. So all of that bodes very well for our growth trajectory. And then the last thing I would say is, a number of these are very interconnected. So think about financial planning and analysis which is an extension into the CFO's office, and from there using data and analytics, you extend into the kind of improvements that sales and commercial can drive, supply chain can drive, order fulfillment can drive. And that's one of the strengths that we have as we expand into a client once we start working with a client and add value to them.

Ted Starck-King
Analyst, William Blair & Co. LLC

Q

Got it. Thank you very much.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Thank you.

Operator: Thank you. Our next question comes from Bryan Bergin with Cowen. Your line is open.

Bryan C. Bergin
Analyst, Cowen & Co. LLC

Q

Hi. Good morning. Thank you. Tiger, I wanted to dig in first the expansion into new buying centers that you talked about. Can you dig in a little bit, first the revenue scale of finance and accounting for you relative to these other areas like sales and commercial and others that you had mentioned. And then do you have to do things differently in the go-to-market in those new areas given they might not be as mature in outsourcing versus finance and accounting?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Yeah. It's a great question. It's a great question, Bryan. So, first of all, we don't have specific numbers that we share on finance and accounting as I said with service line, but it is 30%-plus of our overall business and our overall book. And continues to grow at obviously a much lower clip than Transformation Services, but continues to grow.

The more important question that you asked is what is the nature of the way we start engaging in those new buying centers. And you rightly pointed out that many of those are less mature, they are less penetrated and, therefore, often starts with Transformation Services, starts with can we design a new operating model, starts with the example of the aerospace company that we talked about, help improve receivables. And in order to do that, need a technology SaaS platform that gets executed where their salespeople have to change the way they engage with their customers.

And that's an improvement not just for DSOs but also for the way they manage their own time and release sales capacity. So, a lot of it then boils down to much more data-intensive selling, much more analytics-intensive selling and solution – a much more digital-intensive selling and solution, which is why a lot of that overlaps a lot with Transformation Services.

Bryan C. Bergin
Analyst, Cowen & Co. LLC

Q

Okay. Helpful. And then, just trying to unpack growth here a little bit, can you remind us what the asset management client headwind was in 2021? How much is that still a partial growth headwind in 2022? And then – just to be clear on the 2022 outlook, inorganic contribution, just anything around that.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

[indiscernible] (00:47:57)

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

[indiscernible] (00:47:58)

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Mike, you want to take both?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So in terms of what its – we're going to roll the vast majority of that, we'll be rolling off in the first quarter of this year. I don't know what the historical impact was in this year. I think it was about 2% or 3% of Global Client. But again, it will be pretty much work through us in the first quarter. As far as what's assumed in that growth rate, it's pretty much all organic. We have some earning associated with Hoodoo, but that's going to be a very small number. So, when we talk about that 9% to 12%, think about it from an organic perspective.

Bryan C. Bergin
Analyst, Cowen & Co. LLC

Q

Okay. Thank you.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Thank you, Bryan.

Operator: Thank you. Our next question comes from Moshe Katri with Wedbush Securities. Your line is open.

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

Thanks. Just a couple of kind of clarifications here. The 20% booking growth that you mentioned for the year, is that all from new logos or does that include also renewals?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.
A

A lot of that is from existing clients, Moshe, because that's the nature of our business. If you look at the 97 accounts that we talked about, that we opened and there I said that the average entry is about $3 million total contract value, it clearly shows that a bulk of our booking in any particular year tends to be existing clients that we may have entered the previous year or a couple of years back with either another deal or in Intelligent Operations or we could have entered with Transformation Services.

So for us, it's always been incredibly important to start a relationship in one area of our client, and just through delivery of excellence and value, expand it over multiple services, multiple buying centers. And more and more, these are interconnected with data flows and digital cloud flows.

Moshe Katri
Analyst, Wedbush Securities, Inc.
Q

All right. That's helpful. So, if we wanted to get actually just the expansion or scope expansion piece of that 20% growth, is there a way to kind of isolate that? Just because, obviously we're trying to figure out what's driving – I mean the booking numbers look great, but you're guiding for about half of that growth for this year. So, trying to figure out maybe the scope expansion piece in terms of growth rates on a year-over-year basis, is there a way to kind of get that color?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.
A

Yeah. I'm sure we can. We don't have the numbers here, and we haven't shared that before, but I think it's a good question to answer. Mike, any response?

Michael Weiner
Chief Financial Officer, Genpact Ltd.
A

No. We can work on – work on bifurcating that, and we think about it, but I just want to flag that when we talk about bookings, these don't include renewals [indiscernible] (00:50:55)

Moshe Katri
Analyst, Wedbush Securities, Inc.
Q

Yeah. And then...

Michael Weiner
Chief Financial Officer, Genpact Ltd.
A

So, and while – while there's existing clients, this is net new.

Moshe Katri
Analyst, Wedbush Securities, Inc.
Q

That's fine. [indiscernible] (00:51:03)

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.
A

[indiscernible] (00:51:03) and the one other...

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

Yeah.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

The one other metric...

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

Yeah.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

...that I would point to is the one that Mike shared in his prepared remarks where we talk about the growth in number of clients at various revenue cohorts. So, number of clients above $50 million, number of clients above $25 million. And the number that we shared constantly shows a growing number of clients in each of those cohorts.

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

All right. That's fair. And then you're guiding – that's my second question, you're guiding for a significant ramp in margins here in the second half of the year. So you mentioned productivity, you mentioned pricing. Is there any way to kind of gauge what sort of blended pricing increases you're expecting to see during the second half of the year that's going to offset the impact of increasing costs? I think obviously it's inflation, investments, ramp up, et cetera.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So, I don't know if we have the exact percentage for you, right. But we're getting those rate increases above notable historical levels. We again have the COLA adjustments that some of them have been scheduled to move in earlier part of the year. And those will ramp up accordingly, right. But unfortunately, we have that inflation pressure right now as we're committed to delivering to those clients. So, I think we'd probably go back. If you look at some historical patterns in terms of how our margin pre-COVID, it's probably a good basis to kind of model out the year if that's where you're going.

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

Okay. And then final point, attrition. I don't know if you've mentioned that during the call. Is it up? Is it...

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah.

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

...stable? What's the kind of number at this point?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So, a few things. Our attrition rate I think [ph] seems (00:52:48) approximately 33% and it is flat sequentially from the third quarter, which is a good sign in terms of stabilization. And keeping note that our attrition rate, right, is really based from day one. There isn't – we just – that's how we do our calculation. So there's some confusion out there regarding it. So, it's a pretty good number and it's relatively flat from 3Q.

Moshe Katri
Analyst, Wedbush Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from Ashwin Shirvaikar with Citi. Your line is open.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Hey Tiger. Hey Mike.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Hi Ashwin.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Hey. I guess my first question is just a clarification. If you are not able to get adequate adjustments in pricing, can you still be at the lower end of the range? And what sort of pricing adjustments are incorporated in the upper part of the range? And I guess mathematically, you will need to be I guess above range margins in one of the later quarters to be at a reasonable point there? And correlated to the question is, I know you guys are always adding tools and automation for your clients, but given the current environment, are there non-linear growth opportunities you are or should be considering?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Sure. Let me kick that – let me kick it off then I'll flip over the non-linear question back to Tiger. The answer is, it's a complicated algorithm with a lot of puts and takes as opposed to just pricing and labor costs, right. So, as I talked about earlier, the labor costs, inflationary pressures hitting us now as we've been meeting the needs for our clients and we're trying to be as realistic as possible, we'll manage our spend accordingly. There are a number of levers that we have at our discretion.

But again, we're committed to investing in our franchise from sales and marketing, and from an R&D perspective. So, we feel good about that 16% to 16.5%. And again, we don't know ultimately if this will – we're assuming this inflationary pressure is going to continue for the remaining part of the year, right. We continue to manage our bench, our internal hirings, and our skillset allocation [ph] of books (00:55:16). So, there's a number of puts and takes there that will allow us to work within that.

In addition to it, don't forget it's just the business historically has been nonlinear right, and it's going to be even more exacerbated this year and it kind of manifests itself with Tiger's comment at the end that he feels good about that 16.5% just over a longer period of time, as all these actions are going to take place ramping up through the year and into next year, quite frankly.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.
A

Yeah.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

Got it. Thanks.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.
A

And Ashwin, just to add to what Mike said, we haven't made – rightfully so, we haven't made any assumption that across the board, we expect price increases, et cetera. These are very specific conversations. They are dependent on at what stage of the relationship and what is the specific action, together, we and our clients can take so that actually it becomes a win-win. And it can take all kinds of forms. It can take the form of much more aggressive automation journeys on both sides, much more value-creation journeys on both sides that then generates value for both of us to share. It can be an expansion of scope that then leads to better leverage of overall cost and price. So tough to actually say that there is a one cookie cutter solution. And that's why – and the early days of that, as we've started this, it's showing that done the right way, it can really be a win-win in what is obviously a situation that everyone else is dealing with.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

Yes.

Michael Weiner
Chief Financial Officer, Genpact Ltd.
A

One word comes to my mind, it's partnership, right. We keep using the word clients. And if anything, the last few weeks have shown us is how integrated we are [ph] when (00:57:04) we have partnerships with these clients. Sorry to cut you off, I apologize.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.
Q

No. No. I was just going to say, it seems like you guys are being appropriately thoughtful, particularly this being your first full year of outlook, Mike. Is it safe to assume, given your deep relationship with GE, that you are or will be the lead partner to help them break into multiple entities? So as the year progresses, would you expect to again pick up that, I guess, fairly significant work needed to create three F&A departments instead of what you're doing now?

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

[ph] Oh, no (00:57:41) question [indiscernible] (00:57:41)

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

[ph] Tiger, it's (00:57:40)

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

...we are – we are absolutely the leader in F&A, there's no debate on that at all. But that also applies, as a pretty significant player in technology, where we have a pretty significant long-term GE relationship, as well as things like supply chain, aftermarket services, sourcing and procurement. So we aren't the only lead player, but in the topic [ph] where we are lead, (00:58:09) you're absolutely right. And our relationship [ph] have the right level with (00:58:14) the right people in all the businesses that [ph] have – GE has called out (00:58:18) as part of their spinoff journey.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Understood. Thank you. See you guys, soon.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Thank you, Ashwin.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Thank you, Ashwin.

Operator: Thank you. Our next question comes from Surinder Thind with Jefferies. Your line is open.

Surinder Thind
Analyst, Jefferies LLC

Q

Thank you. A question for you, Mike. So when you were putting together your guidance forecast, your revenue forecast, are there other considerations here that we should think about when the markets get volatile? And there's the increased economic uncertainty. When I think back to the first question that was asked, it sounded like an inflationary environment might be a somewhat positive consideration. But can you talk about the push-pull and maybe the confidence in this guide versus maybe previous guides?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So, it's hard for me to articulate exactly how confident we were in previous. I can talk to you about this one, right, So, I think what's kind of unique as a newcomer to the space is really when we think about it, we've seen no deterioration using information [indiscernible] (00:59:26) on people pulling back from anything. We actually think the current – we're using the word inflationary environment, but it's much broader than that in terms of the volatility of the – with the markets and the verticals that we operate in, that there's enhanced opportunities against that as companies are continuing to digitalize, particularly at post – pre-COVID and post-COVID.

So, we think of it as a net positive for us. Did we perfectly bake that into our forecast? It's kind of hard to see. Our forecast is really based on a bottoms up approach of looking at our pipeline and looking at our bookings and looking at what we're targeting. As far as the day by day macro-environment that changes, we think that is a nice tailwind for our business on a go-forward basis.

Surinder Thind
Analyst, Jefferies LLC

Q

That's helpful. And then in terms of – it sounded like you're generally able to, as you negotiate new contracts, pass on the bulk of the cost increases that you're seeing. How should we think about that in terms of how much of a tailwind that potentially is on the new contracts versus where they might have been if we weren't in this environment?

And then how does this impact something like an outcomes-oriented strategy here, meaning that in your existing contracts there is like the COLA numbers are fixed, so do you go to more variable metrics such as benchmarking any gains like a CPI or something like that? How does the negotiations change because if you're entering into three, four or five-year contracts but it's hard to predict what inflation and so forth is going to be even a year up from now.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So every contract's a little different, right. Some of our contracts, the COLA is based on index, whatever that index might be of inflation. So it's hard to talk about it in generality. The vast majority, if not all of them, have that in there.

In addition to it, I think one thing you alluded to in your first comment was, it's not just on new agreements, it's on existing agreements as well as the new agreements were baking in [ph] with this to kind of insulate us (01:01:33). The way to think about it is – I don't want people to think about the inflationary adjustments we're getting is a margin enhancement tool, right. Ultimately, there's productivity commitments and other things against that as we work with our clients.

But the way I would continue to want you to think about it is that – and thinking about Tiger's last comment about, it's just going to be a longer ramp up than we anticipated between the inflationary cost pressures we're dealing with today, that pricing kind of catching up to it. And that's why we continue to think at that 2023 rate getting back to that 16.5% expanding trajectory on a go-forward basis.

Surinder Thind
Analyst, Jefferies LLC

Q

Thank you. That's all.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

And Surind, [ph] also, a (01:02:14) quick couple of more items of color to what Mike just described. The COLA contracts do have, in some cases, indexation but in some other cases they don't. And those are all driven by the particular client methodology that they use, the competitive environment in that particular situation when the contract was signed. What we are doing is systematically figuring out what can we do to make it a win-win, and there are ways of doing that as I described.

And then you have new contracts, new contracts obviously the discussion starts with a new base and new pricings, a new cost base, as well as Transformation Services which also start with a new base and new pricing in a new competitive environment. The thing that is interesting about the discussion on this topic in today's world is that it's global. So, there is really no part of the world that's not impacted by similar inflationary pressures. But that applies to our clients irrespective of where they are, and it applies to competitive environment irrespective of where the delivery comes from. That makes it a little bit of a level playing field for everyone. And then the question is, how do we create value using technology, using data, using analytics and then embed that into the contract.

Surinder Thind
Analyst, Jefferies LLC

Q

Okay. Thank you.

N. V. Tyagarajan
Chief Executive Officer & Director, Genpact Ltd.

A

Thank you, Surinder.

Operator: Thank you. And I'm showing no further questions. I'd like to turn the call back to management for closing remarks.

Roger Sachs
Head-Investor Relations, Genpact Ltd.

Thanks everybody for joining us today. And look forward to speaking with you next quarter. Thanks.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.

*** Editor's note: Texts in square brackets are inserted at the request of the company for additional clarification on the speaker's statements.