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# G - Q4 2008 GENPACT LIMITED Earnings Conference Call

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen and welcome to the fourth quarter 2008 Genpact Limited earnings conference call. My name is Katie and I'll be your coordinator for today. (Operator Instructions) We will be conducting a question-and-answer session towards the end of this conference. (Operator Instructions). I would like to you now hand the call over your host for today, Mr. Anil Nayar. Mr. Nayar, please begin.

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**Anil Nayar** - *Genpact Limited - Director of Investor Relations*

Thanks very much, Katie. Welcome to Genpact's earnings call to discuss our results for the fourth quarter and full year ended December 31st, 2008. My name is Anil Nayar, head of Investor Relations and with me I have Pramod Bhasin, our President and Chief Executive Officer, and Vivek Gour, our Chief Financial Officer. We hope you have had an opportunity to review our press release. If not, you will find it in our website at Genpact.com.

Our agenda for today is as follows. Pramod will begin with an overview of our results, provide a perspective on the current environment in our industry and a progress in implementing our strategies. Vivek will then take you through our financial performance in greater detail. Finally, Pramod will make a few closing remarks, including commentary on our initial guidance for the full year 2009, after which we will take your questions. As you have seen from our press release a few days ago, Tiger Tyagarajan Genpact's Chief Operating Officer will join us for the Q&A session today. We expect the call to last about an hour.

Please note that some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include, but are not limited to, general economic conditions and those factors set forth in our press release and discussed under the risk factors section of our annual report on Form 10-K and other SEC filings. Genpact assumes no obligation to update 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 operating performance of the business. You can find a reconciliation of those measures to GAAP as well as related information in our press release under the Investor Relations section of our website at Genpact.com.

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

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

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

Genpact completed 2008 with strong growth in revenue, margins and earnings, despite the continuing challenges in the global economy. We are seeing client needs changing in this environment with decisions delayed and a greater focus on cost control and cash preservation. We're also seeing greater sea level focus on these issues, which is good news since we are well positioned to respond with effective solutions to meet these needs. We are staying close to our clients and are aligned with them to ensure that the execution is flawless and we drive business outcomes that are relevant to them, especially cash improvement and cost management.

Here are the highlights - revenues grew 22% for the fourth quarter versus last year, and 26% for the full year, driven primarily by Global Client revenue growth. In 2008, Global Client revenues totaled $551 million, representing more than half of our total, up from almost a standing start four years ago. GE revenue also continued to grow in 2008. Our balanced revenue growth in 2008 reflects Genpact's ability to expand existing client relationships and build new business. Existing clients represented approximately 85% of our growth in 2008, but we also added a substantial number of key clients during the year.

We continued to diversify geographically in 2008, including growth of 34% in Europe & 66% in the Asia-Pacific region. This includes emerging growth markets, such as China and India, where we continued to build our book in 2008. We are also investing in new global delivery centers to respond to client needs for geographic diversification. An example is our investment earlier in the year in Guatemala, to strengthen our presence in Latin America, and our more recent opening of facilities in Morocco and Poland.

Adjusted income from operations margin increased 20.8% in the fourth quarter and 17.1% for the full year, compared to 20.4% for the previous quarter and 16.3% for the previous full year. The margin expansion arose primarily from driving higher value services and reflects our discipline in managing cost and improving productivity. For example, as we gain more experience with a client over time, we're able to streamline our processes, increase our managerial span-of-control and thereby improve productivity.

Vivek will review our financial results in great detail in his comments. But in summary, our results were on target with our guidance for 2008, and we think this is a strong performance in the current environment by any standard.

I also wanted to say how pleased I am to have Tiger Tyagarajan with us on the call today. As many of you may know, we announced last week that Tiger has been named Chief Operating Officer of Genpact. Tiger has built Genpact up from the early years and he established our sales team that has achieved all of the growth in our Global Client business. This change will help us balance our focus on key strategic initiatives, drive global operational excellence and further strengthen our pipeline for growth. As Anil said, Tiger will join us for the Q&A portion of this call.

We also announced that Bob Pryor has joined Genpact as Executive Vice President, responsible for sales, marketing and new business development. Bob has extensive experience in this area, most recently at HP and prior to that with Capgemini and we welcome Bob to Genpact.

Now I'll turn to the current environment. As we all know, the environment changed over the course of the year and those changes accelerated dramatically in the fourth quarter due to the liquidity crisis and resulting recession.

The good news is that we are continuing to see a strong deal pipeline, though with a slower cycle for closing. Clients are even more focused on potential business impact, especially in the short term. There is also a difference in the environment for IT versus business process services. IT tends to be more of a discretionary spend that is more easily delayed, so this business is tougher today, in terms of both pricing and competition. Business process services are generally non discretionary and focused on cost and improving productivity, and our services are well aligned to meet that need. We have customers in financial services that are impacted by this environment. We have strong relationships and connect with these customers and are aware of their changing requirements. Our financial services portfolio is diversified by both geography and by products. For example, we grew our insurance practice by 28% last year, and provide a variety of services which are generally non discretionary. Clients are faced with numerous challenges right now and we believe that once they calibrate their business operations and stability, they will start to take decisive steps which should work in our favor, as we are an obvious solution to help them maximize productivity.

The current environment is also producing new opportunities, such as re-engineering projects focused on increasing cash flow, deflation focused sourcing and spend analytics and increased collection work, which links directly to our solution focused on 'cash is king'. We're continuing to close new deals, as well as grow from expanding existing relationships. Our focus on staying close to the customer with our client management teams will ensure we are able to understand the issues and create the relevant solutions.

As a result, we continue to win deals across industry sectors and geographies. Clients are choosing us because in this environment, we can provide end-to-end process improvements, a clear differentiator and opportunity for growth.

Let me explain what I mean by that. End-to-end means that we look at improving the overall process from start to finish, rather than only trying to improve a part of the process that has been transferred to us. Take a very simple example, accounts payable. We have the expertise to improve an entire procurement process, for example, from purchase order to receipt of goods to payment and finally, to usage and tracking of inventory, even though we may only have the accounts payable transferred to us. Many of our new deals start small but grow with our capability to demonstrate end-to-end process thinking. For example, an accounts payable win may eventually link to overall procurement and then to supply chain management. We can build and grow in this way because we have the expertise in the broader end-to-end processes.

Our differentiated approach also means driving process effectiveness, rather than just process efficiency. We look at end-to-end process optimization with a focus on efficiency and genuine process effectiveness, taken to a new level of granularity to deliver real business results. Again, if I go back to my simple accounts payable example, process efficiency, which is traditionally what people look at in this business, means doing that function well, measured by transactional metrics, for example, timeliness or accuracy or per transaction cost. Process effectiveness, instead, means creating real impact to see how that accounts payable process can really deliver improvements in working capital and cash flow, which translates to, capturing discounts, reviewing vendor management strategies, and measuring indirect spending. For instance, in looking at the process of indirect procurement, we know that Best-in-Class companies are twice better than others, which translates into millions of dollars of incremental savings that we know how to deliver. This is where we believe we are far ahead of competition. We invest in this expertise, which is not easily replicated, year-in and year-out.

Our differentiated capabilities reflect and rests on a culture that excels at six sigma process and technology expertise and re-engineering capability. This allows us to deepen our client relationships, move up the value chain, increase productivity, improve margins and truly provide business value to our customers. As one measure of this investment, revenue per employee increased 9% to $30,800 for 2008, from $28,200 in 2007.

Our financial position continues to be strong, clearly an advantage in the current environment and one of the characteristics of our business model that incorporates high visibility and a significant level of recurring revenue. For the full year, operating cash flow increased 41% to $211 million, free cash flow increased 71% to $149 million, and as of December 31st, 2008, we had approximately $385 million in cash on hand. This gives us the liquidity and flexibility to continue to invest in operational initiatives, or other opportunities that may arise to expand our capabilities and grow market share.

Let me take a moment to talk about Genpact's governance policy and process. First, we have a strong, independent 11 member Board. As you may know, other than myself, all of our directors are independent, including four directors- two each representing a two large private equity share holders. Each Board committee, audit, governance and compensation, is chaired by the independent director with members who have considerable global experience and reputation. We also have an independent internal audit function reporting directly to the audit committee. Our corporate governance process is structured for business integrity, and provides for overall policy setting, oversight and interaction with management, with multiple checks and balances. Integrity is non-negotiable at Genpact and has been built up from our early life as part of GE.

Our people management practices continue to lead the industry, with an attrition rate for 2008 of approximately 26%, down significantly from 30% in 2007. The lower attrition has been felt across the industry as market uncertainties are causing people to reassess job changes, which is likely to result in less pressure on wage increases. The reduced attrition is having a positive impact on our business, with increased client satisfaction through improved quality and lower cost of hiring and training.

We have now completed our second year-end as a public company and through an increasingly turbulent economic environment we have established a proven track record of sustainable growth. We attribute this performance first and foremost to the strength of our business model that combines high visibility and a relatively large percent of highly sticky, non-discretionary work, with process and technology expertise. This model is the basis of our performance and growth. It strengthens our ability to navigate through the near-term environment as we help our clients rethink their business processes to improve productivity in a changed world.

Our strategy for growth is to provide the services that our clients need, and to start small with clients where we can build a relationship over time, enabled by the depth of our resources, including our Six Sigma process and technology expertise. An example of this is a major US insurance Company. The relationship with this carrier started in 2006 with providing limited analytic support for one of the market research groups. In the following year, the relationship grew to support several finance and accounting transaction processes. 2008 was a pivotal year, as the relationship continued to grow stronger, with joint strategy sessions where each party gained insight into the other's culture and the mutual focus each company had on delivering end customer value. Through the year, we added several new processes, supporting policyholder services and claims and by the year end, the relationship had achieved over $10 million in revenue, with the current plan increasing by a further 25%, and an additional delivery location to be added during 2009.

This strategy drives our focus on end-to-end capability, both horizontal- that is, our specific capabilities across a business process, such as F&A and Supply Chain Management, which our clients require to operate their businesses, and vertical- meaning the breadth of industries we serve in which we have deep domain expertise. We intend to accelerate our investment in our end-to-end capabilities this year.

Now I will turn the call over to Vivek. I will come back and make a few closing remarks and provide a view of our guidance for 2009 before we open the call for question and answers.

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**Vivek Gour** - *Genpact Limited - Chief Financial Officer*

Thank you, Pramod and good morning, everybody.

We continue to deliver strong results despite growth slowing down in Q4 in difficult market conditions. In this call, I will highlight our fourth quarter performance, then review the full year results in detail, and conclude with balance sheet and cash flow highlights.

Let me start with the fourth quarter 2008 highlights. Our Net Net Revenues for the fourth quarter were at $282 million, a 22% increase from the fourth quarter of 2007. Our Global Client revenues increased 31% year-over-year in the fourth quarter and 5% sequentially, as compared to the third quarter. Reported GE revenues increased 12% compared to the prior year for the fourth quarter and 15% when GE divestitures are excluded. GE revenue increased 2% sequentially.

Clients accounting for revenues of $5 million or more increased from 18 in 2007 to 29 in 2008. Of these, four clients account for $25 million or more in annual revenues.

Adjusted operating income for the fourth quarter of 2008 was $58.7 million, up 24% from the corresponding quarter of 2007. Our adjusted operating income margin improved 40 basis points to 20.8%, compared to 20.4% in the fourth quarter of 2007. This improvement reflects the productivity measures that we have been driving through the year.

Now for the full year 2008. In 2008, our revenues grew 26.4%, to $1.041 billion. Global Client revenues grew 62% and accounted for $551 million. This represented 53% of total Genpact revenues. GE revenues adjusted for divestitures increased by 7%.

Our portfolio continues to be balanced with a client base diversified across industries, sectors and geographies. During 2008, both BSFI and manufacturing clients accounted for approximately 42% of revenues each. The remaining 16% of revenues came from customers in other services such as telecom, media, transportation, retail and hospitality. The concentration in BSFI revenues have dropped by two percentage points in favor of the service sector compared to 2007, reflecting the diversity of the client base that we have grown with during 2008.

The business services portion of our business grew from 76% in 2007 to 80% of revenues in 2008, reflecting the strengthening of the annuity base in our revenue. IT services accounted for the balance 20%, down from 24% in 2007. The decrease in IT revenues reflected the continuing industry softness in discretionary spending in areas such as software services.

Moving to the income statement, our gross profit for 2008 was $422 million, representing a 40.5% margin. This is a decrease from the 41.3% gross profit margin from 2007. This marginal decline is due to one time write-off of software licenses that we no longer needed in 2008 and certain subsidies we had received from the Hungarian government in 2007. Adjusted for these the gross profit margin remained approximately flat when compared to 2007.

Our SG&A expenses for 2008 were $255 million, representing 24.5% of revenue, as compared to 26.5% in '07. This improvement in SG&A represents approximately a productivity of 10%. This productivity was driven by maintaining a tight control on support costs and discretionary spend.

Our adjusted income from operations improved from $134.4 million in 2007, to $178.4 million in 2008., An an increase of 32.8%. Our adjusted operating income margin for 2008 stood at 17.1%, this is an 80 basis point increase from the 16.3% in 2007.

Our tax expense for 2008 was $8.8 million, again, $16.5 million in 2007. This represents an effective tax rate of 7%, compared to 23% in '07. During the fourth quarter of 2008, we had a few one-off items, tax benefits relating to stock-based compensation that reduced our tax expense. But for these, our tax expense would have represented an effective tax rate of approximately 12% as we had expected. For 2009, we expect our effective tax rate to be in the range of 17% to 19%.

Our net income to that $125.1 million for the full year of 2008, compared to $56.4 million in 2007., An an increase of 122%. Our diluted EPS improved from $0.12 to the dollar $0.57 to the dollar. Our adjusted diluted EPS was $0.79, compared to $0.51 per share in 2007.

In extraordinary market condition, we believe this is the right time to invest, build and equip us for future growth. We have invested in the past in people, infrastructure and new capabilities and these have yielded solid results for us. We plan to continue those investments in these tough market conditions to counter new challenges and emerge a stronger player when the economic environment improves.

Let me take a moment to discuss the impact of foreign exchange movement on our financials. In line with our hedging strategy, we substantially hedged on non-US dollar costs, to the extent market conditions allow us and to the extent needed for compliance with FAS 133 permits us to do. Our hedges are long-term, non-speculative and compliant with FAS 133. The aim of these hedges is to ensure that by and large, our non-US dollar cost of production is substantially hedged to the dollar, protect us from short term (inaudible) currency swings. Our hedging strategy is not opportunistic. The current depreciation in the Indian Rupee, therefore, does not have any significant benefit on our margin. Just like in the first half of 2008, we did not see any significant impact and the Rupee was strengthening against the dollar. For 2009, we believe we are adequately hedged, substantially protect our margins and we continue to hedge prudently through 2011.

We have a strong balance sheet with approximately $385 million of liquidity, this is available to us in cash. Invested in US Treasury bills, and in short-term deposits with the State Bank of India, General Electric and China Construction Bank which is owned by the government of China. We also have access to undrawn credit lines of approximately $145 million. Our practice is not to invest in mutual funds, equity or any other risk instrument.

Our accounts receivables increase in line with our growth and our days sales outstanding measure improved to 73 days, down from 75 days in '07. While we face pressure from clients on increased credit periods, we have invested in systems to improve billing and collections efficiency and this has contributed to the improvement in our DSOs.

Our gross capital Capex expenditures for 2008 totaled to $69 million, representing 7% of revenues. This included the investment we are making in special economic zones in India. During the year, as Pramod mentioned, we added new sites in Guatemala, Morocco and Poland and this reflects our commitment to expand to in new geography geographies and offer wider language skills.

Our cash flow from operations for the 12 months ended December 31st, '08 was $211 million, compared to $150 million in the same period in '07. This significant increase was driven primarily by our higher operating income generated in '08. We maintain a prudent and conservative approach to managing cash balances and working capital and we will be even more vigilant in the months ahead, in light of the current market environment. I now turn the call back over to Pramod for his closing remarks.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thank you, Vivek.

Now more than ever, our investment in talent, operating expertise and end-to-end process improvements, as well as a sense of our business model will differentiate our performance from our competition. We are partnering with our clients to drive improvement in cost and cash. Get back is well positioned to meet these needs and we have a disciplined process to manage through the current environment.

First and foremost, we are staying close to our clients, delivering superior service, value and results and continue to grow these relationships.

Secondly, we are utilizing our relationship management team which has tremendous operating experience as well to convert our pipeline. Our pipeline, which increased to record levels in the fourth quarter, gives us a great opportunity for continued growth in 2009.

Third, we are well positioned with our end-to-end solutions to help clients with cost reductions, product production efficiencies and cash flow improvement and we intend to continue to expand those end-to-end capabilities to fill in any gap. We also have expertise in areas such as integration of operations, risk management and compliance, which will all have bigger customer focus in today's environment.

Fourth, while we are seeing pricing pressures, we have multiple levels such as managing wage inflation, utilization of infrastructure and managing discretionary expense to offset these trends and we will continue our relentless focus on cost discipline and improved productivity.

And fifth, we will continue to reinvest in the business to enhance our capability capabilities and build domain specific expertise as well as diversify our business geographically, especially in emerging growth markets.

We are today providing the first look at our guidance for 2009.

This is the most turbulent economic environment of our times. Our products and services are ideally positioned to meet the needs of our clients in these times and our focus in key areas of cash and cost containment will drive growth. We also see new opportunities in specific areas such as collections, supply chain, India, China, and we intend to put renewed focus on these areas to drive growth. We believe this is the right time to invest for long-term growth including acquiring outstanding talent, building out our end-to-end capabilities, investing in marketing and business development, expansion into new geographic areas. We believe that businesses that invest during difficult economic times will emerge stronger as market leaders as the economy recovers.

The immediate environment, however, remains turbulent and it is difficult to predict the macroeconomic environment. Consequently, as you would expect, we will take a cautious view in providing guidance. We believe that pricing is and will be under pressure this year and we have anticipated this in our guidance. However, I must assure you we have a very disciplined pricing model to drive fair returns over the course of our client relationships and we expect to continue to follow this model.

Based on our current view of our markets, we expect revenue growth of 10% to 15% from a base of $1.04 billion in 2008, and adjusted operating income margin of 16% to 17%.

We are very optimistic about the opportunities for Genpact. Particularly, in a recessionary environment. Both with existing clients and potential new ones, but we are taking a cautious approach for the present.

Lastly, I want to personally invite all of you to our second Investor Day event which will be held in New York on Tuesday, March 17th, starting first thing in the morning. Anil will provide you with the details. We wanted to make sure to ask you to save the date. We look forward to meeting you then and to providing more insight into the nearative near-term outlook, our global market approach and our strategies for growth, especially building out our end-to-end capabilities. With that I would like to now open the floor to questions.

## QUESTIONS AND ANSWERS

**Operator**

Thank you, sir. (Operator Instructions). Your first question comes from the line of David Conan from Robert W. Baird. Sir, you may proceed.

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**David Conan** - *Robert W. Baird - Analyst*

Good morning, guys and nice job.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thanks, David.

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**David Conan** - *Robert W. Baird - Analyst*

I guess my first question, just as we think about revenues during 2009, it looks like first of all, if we just annualize your Q4 run rate of $282 million, you would get to about 8% to 9% growth, just keeping that constant throughout '09. So on the surface it looks like there's some conservatism built into that 10% to 15% growth target and I'm just wondering if you could talk a little bit about what's embedded in that assumption, if you assume some clients will actually decline revenues, some will grow and how you think about GE versus non-GE and maybe a little bit about FX. I'm just wondering how we look at all these different moving parts and how you built up the revenue assumptions?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Sure, David. Good point. The run rate that we have going into 2009 will have to include some deletions of project runoff, re-engineering projects, analytical work and particularly in the IT area, we anticipate and know that some of our work will actually drop away. So in fact, the fourth quarter is not the run rate we would enter into 2009 with, it's going to be lower than that.

At the same time, when we look out, you know, what do we see? We're seeing in some companies volume declines in terms of the amount of volume we are processing for them and, therefore, that will impact us. In some cases, we expect a few deletions but it's not material. It's not big. But certainly, there's going to be volume declines and I think we expect certain pricing pressures, also as we go forward in the market. Some clients who are facing extraordinarily severe times are going to look for pricing relief.

Now, we will offset that with volume. We will offset that with other cost out initiatives that we take, with productivity drivers, et cetera. But that's where we're coming to the 10% to 15%. It is also partially just, the fact that it is a harder economic environment in which to predict. And, therefore, we have to be cautious.

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**David Conan** - *Robert W. Baird - Analyst*

Okay. That's great. Appreciate that answer. And then secondly, this quarter SG&A was quite a bit lower. It had been trending in the mid 20%, 25%, 26% of revenues for several quarters. This quarter it dipped quite a bit. I'm wondering if that line item is going to stay at this lower run rate, given some of the productivity enhancements you've been working on or if that should ramp back up to a more normalized rate in '09?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

I think it will ramp back up to a more normalized rate but it's not going to ramp back up necessarily to the same levels that we may have been at during the year. You know, we've been -- one of the things we pride ourselves on is our ability to take cost out and become more productive, streamline our own systems, et cetera and you're seeing the impact of that on the SG&A line in the fourth quarter.

We see no reason to let it ramp back up all the way because we think we can be very effective. As we said, we want to make some investments, we think this is an ideal time for instance to acquire terrific talent that is becoming available, particularly in the US and Europe. Therefore, it will go back up a little bit, but it's never going to go all the way. The main reason for the dropoff in the fourth quarter was a lot of the productivity we were able to get out of our support costs and our binge bench out of hiring and training and things like that.

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**David Conan** - *Robert W. Baird - Analyst*

Great. Thank you. And finally, as we look at GE versus non-GE are you thinking kind of another mid single digit growth expectation for GE in '09 and with non-GE clients growing much faster and as we think about that, should we exit '09 with GE being closer to 40% of revenue?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

GE is going to grow at low to mid single digits at this point in time. That would be correct, David. And non-GE clients, again, in this environment will be growing much faster.

Equally, I would just add that the IT business may not have any growth at all because that is where the real pressure is being felt and consequently, the business process side of Global Client and GE is going to grow really amazingly well, given the environment they're in. I hope that's helpful.

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**David Conan** - *Robert W. Baird - Analyst*

That's great. Thanks so much.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thank you.

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**Operator**

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

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**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

Hello, guys. I was just curious, and again just going back the to sort of the guidance, maybe you could give us some idea of what gets you to that 10% lower end and what you need to happen to get you to the upper end, maybe you can give us those two different scenarios.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

I think the -- let me try and explain how we got here. It is harder to predict because decisions are getting slowed. Some companies are in significant internal reorganization and structuring so it is, frankly, easy for something to slip by a month or two or decisions to be delayed by a quarter. That's the problem.

And, therefore, we have widened the range precisely because it is harder to predict. What we have done is gone client by client, account by account, customer by customer and looked at what is their state of health, how well or badly are they doing in this environment and therefore, what are their likely responses. Having done that, we factored in certain risks that we believe are there, both in terms of pricing pressures that we may see, volume declines that we may see as a result of their volumes, as well as what we can -- what they need our help in to drive productivity. What can we do on the re-engineering side? So, it's in fact a wider range specifically because I think it is just a much tougher environment to predict in.

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**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

So it's based on level of visibility?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Yes, it's based on level of visibility and factoring in risk of lower predictability, particularly, as new business and other things come through.

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**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

Okay. And then are you seeing any pricing pressure out there in the current market, maybe you can give us an order of magnitude if you are.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Definitely. There's definitely pricing pressure, as you would expect.

I mean, frankly, if anybody says they are not seeing pricing pressure, I don't know -- I'd like to meet them and find out which business they're in because it's in every -- when customers are off revenues by 20%, 30% at a time, you know, you're going to see pricing pressure, right? That's just -- that's normal, common sense and we should expect it.

Now, it is patchy, depending on the severity of the pain a customer is going through and depending on how discretionary or switchable the work is. So customers whose work is very switchable is going to come to you and say, "Give me 15% off otherwise I'm moving, because somebody else will." Equally, competitively, we're seeing increased pricing pressure but I think we're very comfortable that we know how to handle that. We've handled it in the past. We'll handle it you now. We know how to grow into profitable relationships with customers. We're not concerned about that.

We're also in many cases, you know, not seeing too much pricing pressure refresh your because we recently concluded the agreements, the rates have been good, or we recently re-negotiated rates and those will hold for the duration of the year. But where we see pricing pressure and discussions is in all those companies where their revenues have been badly hit and that is as expected. And then, in those instances, the pricing pressure can be pretty severe.

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**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

As far as -- I assume that's built into your guidance. Can you give us sort of some idea of the order of magnitude, is pricing down 3%? 5%? It is coming from the IT services guys who are getting into the business or is it coming from the customer base itself?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

It is baked into the guidance. The overall impact is quite small. We believe it's going to be in the low to mid single digits. We're seeing it more on the IT side from customers and we're seeing it more competitively from all the majors that we are competing against, they're all showing a remarkable willingness to compete on price. And so you're seeing that, but the bulk of it is really coming from customers who are saying, "Guys, you are our partners for the long-term, we're going through deep pain, you need to find ways to help us." Now there are may options to this, there are times where we say, "Okay, we'll give you price, commit a lot more volume to offset it," or, "We'll give you price, but let us give it you in what we call transactional product productivity." We'll drive process re-engineering by delivering on your process on the net cost of delivery to you is reduced.

That's what the eventual impact is. There are many customers where we recently negotiated price or there is no change in pricing.

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**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

One last quick question. I know the IT services business seems to be dropping off a little bit more than BPO. Any thoughts on where you take that business from here? Do you plan on continuing to grow it or do you plan on having it as a nice addition to your current offerings, just any thoughts on where you see that business, let's say a year from now?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

We'll continue to grow it and we'll go out to the market and make sure that we continue to grow it. We do see it as a necessary tool towards our whole end-to-end strategy and that's the key. You know, our end-to-end strategy of driving process improvement for companies across the complete process needs process expertise, needs technology expertise, needs our analytics capability, needs our fix in the lean capabilities, and then needs our business insight and experience to get from many customers. So we will continue to build out in those specific areas where we can use that technology to drive more of the end-to-end processes that we are focused on for our customers. We think it is essential to that strategy.

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**Joseph Foresi** - *Janney Montgomery Scott - Analyst*

Okay. Thank you, guys.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thanks.

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**Operator**

Your next question comes from the line of Ashwin Shirvaikar from CitiGroup. Please proceed.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Hi. Hi, Pramod, hi, Vivek. Congratulations on the appointment. I wanted to go back one more time to the guidance. At first glance, obviously it seems disappointing relative to consensus and just want to repeat a prior question you got. What is the currency assumption you said that is -- as it relates to your revenue growth? I mean, are you making a specific currency assumption?

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**Vivek Gour** - *Genpact Limited - Chief Financial Officer*

Actually, as you know we adjust our currencies well before hand.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

I mean on the revenue side, impact of currencies on revenues.

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**Vivek Gour** - *Genpact Limited - Chief Financial Officer*

You know, a small part of our currency, our revenues remain unhedged because compliance of FAS 133 doesn't allow us to go all the way to 100% so there will be a minor impact on currency movement but you know we operate in so many currencies, some go up and some go down.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

So your revenue guidance is -- we shouldn't really, you're saying, adjust it for currency or anything like that, I mean it is -- you're not making a very conservative assumption about revenue impact from currency?

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**Vivek Gour** - *Genpact Limited - Chief Financial Officer*

No, we are not. And you know, we are a dollar assumptional functional balance sheet. Maybe unlike some of our other competitors. So revenues that flow into dollars do not give us a currency impact on the revenue line.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Okay. And on the non-GE side of the business, you have obviously Wachovia and Nissan, Genworth Jenworth, all were sort of blue chips in the past but have -- the markets are tending, telling us considerable forward uncertainty with regards to those contracts. What is the assumption you're making with regards to those? Any progress with regards to the Wachovia contract at Wells, if you could update us on that?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Sure. Let me take a minute, I'm going to ask Tiger to comment on it. We actually unfortunately can't comment on the -- because of the confidentiality nature of what's happening with Wells/Wachovia. Suffice it to say that we've really gone through client by client and looked at each on the financial services side, as I said earlier. We are seeing healthy growth which we are very happy about. There are areas in the auto sector and other areas where you will see a decline in volume given the environment we have. That's how we positioned it. At the same time we continue to win some very good business that we are very happy with.

Before I hand the call over, I want to respond to one thing. I think you were saying that perhaps it was disappointing in our guidance with versus consensus, but candidly, I think having looked at other companies and other results, these are terrific results at this point in time. In this environment. The environment has changed dramatically over every month. From what I've seen of other competitors and other people in this industry, we are way ahead of the pack right now. I believe that will hold the case,that will hold true as we go forward. Tiger, I don't know if you wanted to add.

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**Tiger Tyagarajan** - *Genpact Limited - Chief Operating Officer*

I think the way I would respond is similar to what Pramod is saying. Customer by customer build-up is the way we went about both volume as well as price and what we expect for the year. So your question on Nissan and Wells, they're all factored into the overall number that we have guided to.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Okay. And then, just to talk about the roll-off of existing contracts that you sort of mentioned or alluded to in your remarks, are you expecting a sort of a normal level of roll-off going from 4Q to 1Q or is it maybe exacerbated by new contracts not coming on as fast? Is the ramp of contracts that you have signed slower, if you could comment on the ramp of new contracts?

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**Tiger Tyagarajan** - *Genpact Limited - Chief Operating Officer*

There are really three elements, Ashwin. One is most importantly IT and discretionary spend on IT, re-engineering where projects are getting over, as we go from fourth quarter to quarter 1 that drops off. Second, the replacement of those with new discretionary spend doesn't come through as normal. And third, in general, there is a slowdown in decision making that we've been talking about and that continues.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Okay. And with regards to the outlook for adjusted operating margin, given that you indicated that you do have offsets in various different levels that you can use to offset pricing pressure and so on, can you walk us through the elements that are leading you to guide down, essentially, from what you could achieve in 2008?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Sure, I'll be happy to. Just on the last question, I assume that you were asking also, I just wanted to add to Tiger's points. Roll-offs are normalized. They happen every year. They will continue to happen every year. I want to make sure we answer that. There isn't anything big and unusual happening in that area.

Just on what we're seeing in terms of where our margins and adjusted operating margins are coming in, there are two elements to that. One is the pricing pressure that we continue to see from companies and customers, existing customers, who are asking for price. And two is our keenness not to -- so could we make that up with lower investments that we would normally make every year? Of course. But we don't want to drop that off. We want to make sure that we continue to get great talent and build for the future.

We believe these are temporary. You know, we believe the economic environment is temporary and that as clients get much more realistic about their own situations, they will start making some decisive steps towards using our services more and more and accelerating what we're doing. Logic tells us that our services are perfectly matched for what they need. And therefore, we're making a decision here in our own heads of we're widening the range because we're not sure exactly where the pricing pressure will come in but we want to make sure we built that in. And, two, saying we like to continue to invest because from what we have seen, leading companies anywhere in the world become leaders in a recessionary environment when they continue to invest, not when they just pull back completely.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Okay. That's fair. My last question is with regards to transition costs on contract. As you negotiate with clients, have you seen an increase in number of clients maybe asking for transition costs to be financed by yourselves? And what is your opinion on using your balance sheet, which obviously a lot of cash on the balance sheet and so on, to do that?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

We see, clearly, companies saying these upfront costs make the project less viable. We don't have the money, et cetera, et cetera. So we don't -- we use our -- and we talked about this last year. And so this is something we've been doing for a while. You know, where we've looked at on transaction costs, instead of billing them up front, can we bill them over the course of the contract over the next three years. Because that frankly how we will account for it anyway, so it has no accounting implications. It has some cash flow implications but they're very limited and from a company's perspective or a customer's perspective I think it can be really helpful in moving the ball forward because they may or may not have any cash to do this and we are going to be spending the money and then we bill them over three years or two years as the case may be. We With he have been doing this for a while, though. This is not a new event for us.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Okay. I know I said last question, but when you say they may or may not have any cash to do this, I just want to make sure your client due diligence has not -- you're not implying anything about your client due diligence process there.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Not at all. What I'm saying is every client has budgets and programs, et cetera and they're saying I'm not going to spend,-- I don't have $2 million to spend here and take it as an expense. And I don't want to take that $1million or $2 million as an expense this year. That's really where they come from, more than -- you're right, it's not necessarily a cash issue, it's really that expense and that cash hitting that year.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Got it. Okay. Thank you, guys.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thanks.

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**Operator**

(Operator Instructions). Your next question comes from the line of Ed Caso from Wachovia. Please proceed.

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**Edward Caso** - *Wachovia Securities - Analyst*

I have a few questions. I'll make them short. I'd like to revisit the expense -- the SG&A level in Q4, it was a fairly dramatic dropoff and I was wondering if there's some reversals in there, some comp reversals or anything like that?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

No, Ed, there aren't any. They're not reversals. Frankly, for every year for the last few years, we have been very clear about becoming more efficient and reducing our costs. We felt that the environment was difficult. We felt we must take actions, appropriately, in that environment on our own cost side.

We've been able to drive this through a reduction of support costs, through a reduction of the bench that we have, through a reduction of hiring and training costs because as attrition has come down, we've had to train fewer people as we provide higher value services, we have to hire fewer people than perhaps expected and, there are -- and that's been the bulk of the cost reduction that is reflected in the numbers. Now, they will go back up. We intend to make investments at the front end and get new talent in as we chase down more and more deals, that will happen. We were able to perhaps reduce some of that because of the timing and nature of our business when discussions perhaps in December on new deals certainly quieted down as people look at closing their books, et cetera and now they revise in January. As well as our focus on China to China, India to India, all of those are businesses where we can reduce our T&L.

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**Edward Caso** - *Wachovia Securities - Analyst*

Can you provide the components in your guidance between operating margin and adjusted operating margin, in other words, amort, stock comp, FBT and minority interest?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Yes. I think we have a reconciliation as part of the press release. We'll be happy to provide it.

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**Edward Caso** - *Wachovia Securities - Analyst*

From a guidance perspective.

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**Vivek Gour** - *Genpact Limited - Chief Financial Officer*

So Ed, our stock compensation which is the primary item between operating margin and adjusted operating margin will be approximately $25 million to $28 million in 2009. And our original foundation formation accounting number will be in the range of about $26 million.

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**Edward Caso** - *Wachovia Securities - Analyst*

And an assumption on FBT?

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**Vivek Gour** - *Genpact Limited - Chief Financial Officer*

Sorry, assumption on?

**Edward Caso** - *Wachovia Securities - Analyst*

Fringe benefits tax.

**Vivek Gour** - *Genpact Limited - Chief Financial Officer*

It will be constant in '09 versus '08. It might decline a little bit, depending on how people exercise their options.

**Edward Caso** - *Wachovia Securities - Analyst*

Great. Last question. Share repurchase or other priorities for your cash?

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

No such plans. At present, we haven't really thought about it. I'm sorry, I shouldn't say we haven't really thought about it.

No such plans at present. We think in time acquisitions will be a great opportunity and will be a great way to add to our end to end-to-end capabilities but we're very prudent about these things. We're very cautious and we'll take it as it comes.

**Edward Caso** - *Wachovia Securities - Analyst*

Thank you.

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thanks.

**Operator**

Your next question comes from the line of Jason Kupferberg of UBS, please proceed.

**Steve Formes** - *UBS - Analyst*

This is Steve Formes sitting in for Jason Kupferberg.

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Steve, hi.

**Steve Formes** - *UBS - Analyst*

First question, historically GE has spent quite a bit more with Genpact on an annual basis than the contractually required minimums and in 2009 the minimum is about $360 million. Do you have any visibility into whether or not that will again prove to be conservative?

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

The GE revenues have been well above their minimum for a long time, Steve. And yes, absolutely, they will stay well above that minimum. We're very comfortable with that.

**Steve Formes** - *UBS - Analyst*

Okay. Thank you. And the second question is just related to balance sheet strategy. You mentioned earlier that acquisitions may be something as a priority. Would that be more like captives or something bigger?

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

You know, we're interested in captives. We're very interested in adding to our end-to-end capabilities in areas such as procurement or analytics or financial finance & accounting. I think the key to us is to get it at the right values, given this environment where it's hard to predict one year out and two years out as to what their revenues and other numbers will be.

So the key for us -- there are many areas where we could look at, we believe, where a captive might help us. It could be a small bolt-on or it could be a larger piece. I clearly think that captive may eventually come up as a lot of banks and other people look to release equity. We're in no hurry. We're going to do this the right way at the right time with no rush behind it. We have a very strong team in M&A. They will keep hunting until we get the right value and the right strategic fit.

**Steve Formes** - *UBS - Analyst*

That's it, thanks.

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thanks

**Operator**

(Operator Instructions). Your next question comes from the line of Bryan Keane from Credit Suisse. Please proceed.

**Bryan Keane** - *Credit Suisse - Analyst*

Hi, just wanted to follow up on the pricing pressure comments. I guess I'm most surprised that you're cutting price on existing deals. I would have thought BPO deals would have been sticky and therefore you wouldn't have had to negotiate price down and I don't think I heard those comments in the third quarter. So it sounds like in the fourth quarter and the first couple months here, you've decided to really drop that price. Can you just clarify that?

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

No, I don't think that's the case, Bryan. So let me try and explain. BPO at any time there are contracts coming up for renewals, contracts which go forward. They can't take the work away easily but clearly in some case they will push for price.

The biggest price pressure is clearly in the IT side, very clearly and it comes from existing customers who are saying they can move work around, et cetera and it also comes from new customers who are saying look we're having to compete at different price. So it's much more on the IT side, much less on the business process side. But the business process side is not going to be immune to pricing so it can be impacted by clients saying look, we're seeing some revenue issues here and they will come to you and say help us here, folks. So it's not going to be immune but it's nature far more on the IT side than on BPO.

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**Bryan Keane** - *Credit Suisse - Analyst*

Okay that's helpful, and just my last followup question will just be on headcount plans, it looked like headcount growth sequentially didn't grow. Can you just talk about what the plans are for the future?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Headcount growth will always be lower, significantly lower than revenue growth. It is the way our model works because as we look at re-engineering and more global revenues and expansion into new geographies, that's how it will work out. We believe it will be -- our headcount growth will grow to about -- will grow about 10% to about 39,000 in total by the end of next year.

Just one thing I would add is, I don't really look at headcount myself too much because obviously the quality of the revenues is what we want.

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**Bryan Keane** - *Credit Suisse - Analyst*

Okay. Thanks for the color.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thanks.

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**Operator**

Your final question comes from the line of Tim Fox from Deutsche Bank. Please proceed.

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**Tim Fox** - *Deutsche Bank - Analyst*

Thanks, last but not least. Question on visibility into your guidance. Is there any change versus this year from '08 as to the level of visibility that you have, heading into '09?

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Not a lot of change in terms of level of total dollars of visibility, okay? But what we're seeing is more changes in terms of timing of decisions. If that makes any sense.

So can I tell you where 80 - 85% of our revenues is likely to come from next year? Yes. But now, the certainty of those decisions is a little lower because people are saying either new deals, they say, "We're going to have to postpone it because we have a financial problem ourselves," or they're saying, "We can't afford it." The upfront investment as we were talking about it earlier. Or, existing customers are saying this ramp-up will have to be delayed because again we have some existing -- some up-front costs that we have to incur and we don't want to incur this quarter, we'll do it next quarter. So that's really what's changed.

**Tim Fox** - *Deutsche Bank - Analyst*

Just as a follow-up to that question, on the new contracts that you're signing has there been any material change at all to the size or length of those contracts and just regarding that same issue, fixed price versus variable, any kind of changes in the components of how these contracts are getting structured given the environment we're operating in?

**Tiger Tyagarajan** - *Genpact Limited - Chief Operating Officer*

The overall structure of contracts has not changed. There are many more mid-sized companies that continue to enter the pipeline and have discussions and to that extent, the size of those deals and discussions are obviously smaller than larger companies. There's still a lot of larger companies and those size of deals, the term of the deal and the nature of the contract has pretty much remained the same. And the last point I would make is if it's analytics, if it's re-engineering, if it's quick projects that deliver immediate impact, those obviously are smaller in size.

**Tim Fox** - *Deutsche Bank - Analyst*

Thank you.

**Operator**

We will take a final question from the line of Karl Keirstead from Kaufman Brothers. Please proceed.

**Karl Keirstead** - *Kaufman Brothers - Analyst*

Thanks for fitting me in. I have a question about your '09 guidance. You provided it for the full year. Wondering if you just might help us a little bit even directionally on the quarterly guidance. Would you expect revenue to be down sequentially in the first couple of quarters and then turn positive in the back half? Maybe just a little color would help us. Thanks.

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Sure. Typically, what we do see is as you will see it over the last few years, from fourth quarter to the first quarter, it's either flat or slightly down or slightly up and that is what you should expect to see again, certainly in the first quarter and then you will start seeing some of the sequential growth coming up through that. That's what we've guided you to in the past and we've talked about it many times and so our overall business model remains the same.

**Karl Keirstead** - *Kaufman Brothers - Analyst*

Okay. Great. And if I could sneak in one last one. You talked a lot on this call about the SG&A coming in lower than most people anticipated but on the flip side, the gross margins were down year-over-year, about 400 basis points. Could you talk a little bit about whether there is any one-time issues there and how we might think about that in '09?

**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Not really. There aren't any one-time issues in the SG&A line worth talking about.

**Karl Keirstead** - *Kaufman Brothers - Analyst*

The gross margin line.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

What we will do is continue to make investments as we go forward.

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**Karl Keirstead** - *Kaufman Brothers - Analyst*

Okay. I'll follow up with you afterwards. Thanks.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Okay, thanks, Karl.

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**Operator**

At this time, I would like to now turn the call back over to Anil Nayar for closing remarks.

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**Anil Nayar** - *Genpact Limited - Director of Investor Relations*

Thanks. Let me just thank everyone for joining us on the call today. In this environment, we are very pleased with our financial results and our overall growth achieved to date. The short term will have some challenges for our clients as they look to reprioritize their business growth goals and objective but we're confident in our people and our business model to help us climb to achieve even greater heights. If you have any questions please do not hesitate to reach out to me. Thanks very much.

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**Pramod Bhasin** - *Genpact Limited - President, Chief Executive Officer*

Thank you, everyone, really appreciate it.

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**Anil Nayar** - *Genpact Limited - Director of Investor Relations*

Have a good day.

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**Operator**

Ladies and gentlemen, thank you for your participation in today's conference call. (Operator Instructions)

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