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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q3 2012 Genpact Limited earnings conference call. My name is Laura and I will be your operator for today. At this time all participants are in listen-only mode and we will conduct a question-and-session toward the end of this conference. (Operator Instructions). As a reminder, this call is being recorded for replay purposes. I would now like to turn the call over to Mr. Bharani Bobba, head of Investor Relations at Genpact. Please proceed, sir.

Bharani Bobba - *Genpact Ltd. - IR*

Thank you, Laura. Welcome to Genpact's earnings call to discuss our results for the third quarter ended September 30, 2012. We hope you have all had a chance to review our earnings release, but if you have not, you'll find it in the IR section of our website, genpact.com. With me on the call are Tiger Tyagarajan, our President and Chief Executive Officer, and Mohit Bhatia, our Chief Financial Officer.

Our agenda for today is as follows - Tiger will begin with an overview of our results in the context of our long-term strategy, with a perspective on the current environment, followed by Mohit, who will discuss our financial performance in greater detail, and then Tiger will have some closing comments. Finally Tiger and Mohit will be available to take your questions. We expect the call to last about an hour.

Please note that some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include, but are not limited to, general economic conditions and those factors set forth in our press release and discussed under the Risk Factors section of our Annual Report on Form 10-K and other SEC filings. Genpact assumes no obligation to update the information presented on this conference call.

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

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

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

Thank you, Bharani. Good morning, good afternoon, good evening, everyone, and thank you for joining us on our earnings call today.

Before I turn to the quarter, I want to acknowledge the unprecedented events that took place in the New York tri-state area which is where we are today where Genpact has many employees, investors, analysts, and other constituents. On behalf of Genpact, our thoughts are with everyone impacted by the hurricane as well as those working hard to get things back to normal again.

Genpact continued to deliver solid financial results in the third quarter of 2012, with strong growth in revenues and adjusted operating income. Overall revenues of $491 million increased 14.3% year-over-year, and 5% sequentially. Revenues from our Global Clients business increased 19.3% year-over-year, while GE revenues grew 1.9% over the same period last year. Revenue growth was led by a 24% increase in Global Clients Business Process Management revenues including 29% growth in Smart Decision Services, as well as strong client demand for traditional annuity services, such as Finance&Accounting and Banking and Insurance Operations. In addition to the strong year-over-year growth, Global Client BPM revenues increased 8% sequentially. Growth in the third quarter was particularly strong in our Consumer Goods, Life Sciences, Retail, and Insurance verticals. IT services revenue increased 7% year-over-year in Q3, also reflecting solid growth across many of our verticals, offset by continuing softness in Capital Markets that was in line with industry trends. Excluding Capital Markets, IT services revenue grew 18% year-over-year.

We continued to expand relationships with existing clients across a broad range of our verticals. Clients representing more than $1 million in annual revenue increased to 189, up from 172 in Q3 of 2011 within which clients representing more than $25 million in annual revenue increased to 11 from 8 in the same quarter last year. This was an evidence of our ability to expand our relationships as clients continue to undertake transformation. In addition, we established 34 new client relationships this quarter across industry verticals, up from 27 in Q3 of 2011.

These results continue the momentum we have had since the beginning of 2011.

There were two other significant events that took place since our last call. First, we returned capital to shareholders in the form of a special cash dividend of $2.24 per share. Our business model generates substantial operating and free cash flow. Combined with our strong cash position, we concluded that a special dividend, funded in part by modest additional leverage, would enhance shareholder value, while leaving us financial flexibility to pursue our growth strategies. As we heard from many of you directly, our special dividend was well received. Second, Bain Capital completed their purchase of our shares from General Atlantic and Oak Hill. Bain's investment is a strong vote of confidence in Genpact's business model, our management team and our future strategic opportunities. I want to welcome our four new Board members appointed by Bain. We look forward to many years of working together to create value for all shareholders. These events, which we view as extremely positive, had several impacts that affected our earnings per share this quarter, which we outlined in our release, and Mohit will discuss in detail in his comments.

In summary, our results in the third quarter showed continued strong client demand, solid growth in revenues and operating income, and the resiliency of our diversified business model.

Our results this quarter also demonstrated that the five key elements of our growth strategy are resonating with the marketplace. We have evolved this growth strategy over time and with consistent implementation and investment, we are increasingly differentiating our business model and building the foundation for sustainable growth.

The key elements of our growth strategy are --

First, guide global enterprises to best in class, through our proprietary Smart Enterprise Processes framework that delivers improved outcomes for them.

Our clients are looking for partners to help migrate their businesses to a more variable cost structure and jointly develop innovative solutions to help balance the challenges of lower growth in developed economies while, simultaneously, helping them capture higher growth in emerging markets; all in the context of driving a comprehensive agenda of transformation. Our key differentiator as a partner is the ability to deliver better outcomes and effectiveness, not just in the specific services we manage for the clients, but across the client's entire delivery footprint.

Our SEP framework leads to deeper client relationships and impact over time, and is increasingly recognized by the industry. Most recently, our SEP framework and methodology was the reason we won the prestigious Award for Innovation in Outsourcing at the European Outsourcing Association Awards, which focuses on pan-European outsourcing best practices. At the same time, we are seeing our client satisfaction reach a historic high as measured by Net Promoter Score. Our Net Promoter Score has improved almost 50% over the last five years, placing Genpact in the top tier among B2B companies.

For example, with a global Pharmaceutical company, who has been a client for several years, we are collaborating to design and implement a broad transformation roadmap across six of their finance processes. While the relationship started many years ago with one service line, a consistently high NPS has grown that relationship to multiple domain areas.

A second key element of our growth strategy is to invest in and build targeted vertical industry and domain expertise. Clients want partners who know their industry and processes at a granular level. We have continued to enhance our vertical industry and domain capabilities through continued investments in experienced professionals in our targeted verticals to improve client intimacy and increase mining and cross-sell opportunities.

We also continue to make significant investments in our core horizontal domains of Finance&Accounting and Procurement&Supply chain. We recently partnered with Centrica, one of the world's leading energy companies, to drive end-to-end process excellence through our SEP framework and be Centrica's strategic partner in providing Finance&Accounting and management reporting services.

A third vital element of our growth strategy is to combine data analytics, process expertise and technology solutions to create meaningful insights for our clients.

Clients increasingly face an environment of uncertainty and change, which requires them to better leverage existing costs and investments, and make more informed decisions that address challenges around regulations and risk, while they continue to drive top-line growth and profitability. The combination of smarter processes, analytics, and technology, and the insights we can derive from our experience and expertise, provide a differentiating solution to these challenges.

As an example, we are currently working with three major global public companies that are going through significant restructurings, including in some cases splitting themselves up into two public companies. Our process expertise in multiple domains, from finance and accounting to procurement to reporting, combined with technology solutions and analytical insights are critical in helping them manage these complex transitions smoothly.

The fourth element of our growth strategy is to expand geographically in both our markets and delivery capabilities. We deliver our services and solutions from 20 countries, including four locations in the U.S. We continue to expand and diversify our delivery capabilities in order to be closer to our clients, particularly as the nature of our work becomes increasingly complex. As an example, we now have one of the most comprehensive delivery footprints in Europe, including every major market. Our European delivery centers support clients seamlessly with near-shore presence and language skills, all tied to a global network.

This capability is a key differentiator and helped us win an engagement with Telefonica, the third-largest telecommunications provider in the world, to deliver pan-European Finance&Accounting Business Process Management services.

The final key element of our growth strategy is to add or expand upon our capabilities through investments or acquisitions. We will continue to expand our targeted vertical industry, domain and geographic capabilities through systematic investments.

In Q1, we acquired a business that provided additional European language skills, retail expertise and a marquee client with whom we can grow. Our Q3 investment in engineering and technical services expertise gives us capabilities in the high-growth sectors of aerospace, energy and oil & gas, and broadens our domain expertise within our Manufacturing vertical.

Our results in the second quarter demonstrate that these five key elements of our growth strategy are resonating with the marketplace. With consistent implementation and investment, we are winning client engagements and creating a differentiated business model that will help drive sustainable growth beyond 2012.

The macro environment continues to be challenging. The general slowdown in global GDP, including continuing challenges in Europe and anticipated slower growth in China, as well as uncertainty in the U.S., have affected client budgets and decision-making, notably in capital markets. Despite these uncertainties, clients continue to focus on transforming their business models to adapt to this challenging environment, with continued strong demand for short-term re-engineering and cost-reduction opportunities, as well as increasing interest in longer term, more transformative engagements. That we continue to achieve strong results in a volatile macro-economic environment is a testament to our business model, which is resilient, diversified and differentiated, and drives value for our clients.

Our pipeline remains healthy and stable, driven by investments in our front end teams with deep vertical industry and domain expertise. This stability is broad-based across most of our key industry verticals and strong domain areas. Of particular note is the growth in mortgage volumes in the U.S. Client decision cycle-times, while stable overall, have shown pockets of delayed decisions as clients continue to deal with the uncertainties in their businesses globally. Deal sizes have been steady, and pricing, as always, is competitive, but has been generally stable as well.

In the Capital Markets vertical, we are seeing a decline in discretionary projects, but continuing discussions of long-term partnerships that will help clients permanently reduce their cost structures as that industry goes through a secular change.

With that, I will turn the call over to Mohit.

Mohit Bhatia - *Genpact Ltd. - CFO*

Thank you, Tiger, and good morning, everyone. Today I will review our third-quarter performance, followed by a summary of key highlights on the balance sheet and statements of cash flow.

On a year-to-date basis, our revenues were $1.394 billion, up 20% compared to the first nine months of 2011. Our adjusted operating income for the first nine months of 2012 was $229.2 million, up 22% compared to the same period last year, representing a margin of 16.4%, up 20 basis points.

We closed the third quarter of 2012 with net revenues of $491.2 million, an increase of 14.3% year-over-year and 5% sequentially.

Global Clients revenue increased 19% in the third quarter, representing 74% of Genpact's total business. Growth was driven by strong demand for nearly all major service lines and industries, except for capital markets. We also saw double-digit revenue growth across Europe and the Americas.

Revenue from GE in the third quarter totaled $125 million, up 2% year-over-year, driven by growth from Smart Decision Services and IT.

Business Process Management revenue increased 17%, driven by strong Global Client BPM growth of 24%, which included Smart Decision Services growth of 29%. In addition, our overall IT Services business continued to grow, with revenues increasing 7%, compared to a strong Q3 in 2011, and 4.5% sequentially. Within the overall IT Services business, Global Clients grew 6% and GE grew 9% year-over-year. Excluding Capital Markets, the overall IT Services business grew 18% year-over-year.

Adjusted income from operations totaled $79.7 million in the third quarter of 2012, an increase of $8.9 million, or 12.6% from the prior year quarter. This represents a margin of 16.2% compared to 16.5% in the third quarter of 2011. The margin decline was driven by planned investments in resources and capabilities in the second half of 2012. As we noted in our second-quarter call, these investments, along with relatively lower foreign exchange gains versus the first half of 2012, have this year changed the sequential AOI margin improvement that we typically see in the second half of the year.

Our gross profit for the third quarter totaled $194 million, representing a gross margin of 39.5%, up 200 basis points from 37.5% last year, due to better supervision spans, higher margin contribution from Smart Decision Services, and favorable foreign exchange versus last year that more than offset the impact of wage inflation. We would note that the strong performance in gross margin is partially a result of favorable foreign exchange gains, which may not continue in future quarters.

SG&A expenses totaled $119 million in the third quarter of 2012, representing 24.1% of revenues, compared to $96 million, or 22.3% in the third quarter of 2011, with the increase from the third quarter of 2011 primarily driven by planned investments for growth in front end sales, domain expertise, lean Six Sigma and new product development.

Our sales and marketing expenditure as a percentage of revenue was approximately 5.1% in the third quarter, up from 4.2% in the same quarter last year as we continued to ramp up investments in our front end teams.

As I discuss the remainder of the income statement, we recognize that there are a number of puts and takes this quarter, so please note that I will call out expenses related to the recapitalization, such as fee, interest related to financing the special dividend, and the sale of shares by original sponsors.

Our tax expense for the second quarter was $15.2 million, down from $18.9 million in 2011, representing an effective tax rate of 37.7% compared to 28.2% in 2011. The increase in ETR is primarily due to internal withholding taxes and expenses related to the recapitalization that were partially tax-deductible. There is also the effect of the complete sunset of our STPI tax holiday, which we have previously discussed. Excluding the recapitalization-related impact, the ETR in the third quarter would have been 27.9%.

For the full year 2012, we now expect our effective tax rate to be in the range of 29% to 31%, compared to our previous estimate of 27% to 29% with the higher rate entirely due to the impact of the recapitalization.

GAAP net income was $25.2 million or $0.11 per diluted share in the third quarter of 2012, compared to $48 million or $0.21 per diluted share in the third quarter of 2011. The year-over-year contribution from higher operating income and lower stock comp expenses were more than offset by a year-over-year adverse impact of approximately $0.08 per share from foreign exchange re-measurement that is reflected below the income from operations line and another $0.06 per share from the recapitalization event in the third quarter of 2012.

The $0.08 adverse impact from foreign exchange re-measurement was due to a loss of $13.2 million, or $0.05 per share in quarter three this year, compared to a gain of $9.7 million or $0.03 per share in the third quarter of 2011.

The $0.06 per share impact of the recapitalization event was primarily due to the following -- one, professional fees associated with the recapitalization equal to approximately $7.3 million or $0.03 per share; two, incremental interest cost of $2.1 million associated with the new debt facility and a write-off of $5.5 million in upfront fees relating to our previous debt facility, or a combined impact of $0.02 per share; and third, the withholding taxes relating to movement of funds internally to pay the cash dividend equal to approximately $2.3 million or $0.01 per share.

Our adjusted EPS for the quarter was $0.18. Excluding the impact of incremental interest of $0.02 per share and foreign exchange re-measurement loss of $0.05 per share, it would have been $0.25.

There will be continuing costs relating to the recapitalization in the fourth quarter. However, as of now we expect these additional costs to have a minimal impact on reported earnings.

Going forward, pretax interest expense under our new facility will increase by $6.5 million to approximately $9 million a quarter.

I will now turn to our balance sheet. At the end of the third quarter of 2012, our cash and liquid assets totaled approximately $395 million, compared to $442 million at the end of the second quarter. This balance is after retiring $340 million (sic -- see script) of the previous loan facility, paying for the special cash dividend of $502 million and incurring $14 million in recapitalization related fees and expenses, as well as $18 million for acquisitions and $19 million for capital expenditures.

These items were partly funded through a new debt facility of $925 million, of which $755 million was drawn as of September 30. We chose the U.S. institutional market for this financing because of its depth and liquidity and attractive terms. Our debt was priced at an all-in rate of approximately 4.6% inclusive of all amortized fees. After payment of the dividend, we still have $395 million of cash and together with the undrawn capacity of approximately $161 million, ample resources to pursue growth opportunities. We expect our pro forma net debt to EBITDA for the year to be approximately 1.1X, which is prudent and manageable given our cash-generating capability.

Our days sales outstanding stood at 84 days for the third quarter of 2012, compared to 83 days for the same quarter last year and 82 for the second quarter of 2012. The sequential increase in DSO is largely due to the September month end falling on a weekend and the impact of a recent acquisition. We are working to improve our DSO by one to two days by the end of this year.

Cash from operations in the third quarter of 2012 totaled $77.4 million, compared to $95.1 million in the prior year third quarter. This decrease primarily reflects higher working capital requirements due to the higher DSO and some nonrecurring inflows in 2011. We continue to expect our cash flows to grow in line with revenue in 2012, after adjusting for certain nonrecurring and period items between 2011 and 2012, as referred to in my earlier calls.

Capital expenditure as a percentage of revenue totaled approximately 3.9% in the first nine months of 2012. This was mostly invested in creating additional capacity for growth in China, the Americas, Europe, and our SEZ locations in India, and also investments in digitization initiatives and new technology. We now expect capital expenditure as a percentage of revenue to be in the range of 4% to 4.5% for the full year compared to 4% to 5% mentioned in the last quarter call.

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

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

Thank you, Mohit. In closing, our third-quarter results continue the great momentum we have established since the beginning of 2011 and we are well-positioned to partner with clients on their transformational journeys, especially through continued implementation of our key growth strategies and our targeted investments.

Genpact helps clients weather economic storms as they continue to face volatility and uncertainty that is forcing them to control costs, develop more competitive insights, drive growth, and even re-think their business models. Like our clients, we remain cautious about the global economy in the near term. As a result, we continue to expect our full-year revenues to be in the range of $1.86-$1.90 billion, and adjusted operating income margin in a range of 16%-16.5%.

I will now hand the call back to Bharani.

Bharani Bobba - *Genpact Ltd. - IR*

Thank you, Tiger. We would like to open up the call for Q&A at this time. Laura, can you please give the instructions?

QUESTIONS AND ANSWERS

Operator

Certainly, thank you. (Operator Instructions). Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

My first question here is just around guidance for 2012. I think it implies a sequentially stable growth rate year-over-year in the fourth quarter. How should we think about guidance? Is the business steady or are you being conservative? And then just in line with that, what are your expectations for capital markets?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

The context of all of this is, as we explained the situation that our clients continue to face in terms of volatility and uncertainty in the whole macro-economic environment, obviously it is more accentuated in some industrial verticals like Capital Markets. But broadly if you look at Europe, if you look at China, there are enough volatility and, therefore, our guidance and our expectations for the year remains the same, which is $1.86 billion to $1.9 billion. And that -- it is in the context of what we are seeing around in the macro-economic environment.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

And then just if we -- what was the organic growth rate for the quarter? And I know you had added or your focus was adding to the sales force and driving that growth rate. Where do we stand with that three quarters of the way through the year?

Mohit Bhatia - *Genpact Ltd. - CFO*

Let me take that. Our organic growth here for the quarter was about 11.3%. I do want to mention at this point that there was a lot of volatility in currency this quarter and we took a hit from a constant currency perspective about $7.6 million. So on constant currency, this 11.3% would have gone to 13.1%. Does that help?

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Yes. That helps.

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

And Joe, the question -- on the question of investments and the sales force, we started that journey 18 months back. We are probably, I would say, halfway through that journey in the investment, not just in the sales force, but in sales and marketing as a total expense as a percentage of revenue. We are probably halfway through that journey. Payback on that we expect typically in our long cycle business in terms of revenue growth takes about 24 months.

So the first step of that payback is you start seeing in the pipeline and we have seen some nice movement in the pipeline over the last 12 months. And then subsequently conversion into revenue. So we are happy with the investments we have made, we are pacing our investments as we go forward, because integration of these great leaders that we are bringing, it is important and we will continue that journey.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

And the last question for me, just on 2013, what can you give us for color around your pipeline at this point heading into next year versus last year? Any color you want to provide from a numerical standpoint. And how should we think about interest expense in 2013?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

So, I will talk about the pipeline and I will turn to Mohit on interest expense. Our pipeline as we have articulated, Joe, remains stable. It obviously has grown as compared to last year, but that you would expect in a growing business. It is too early to talk about 2013 from a revenue expectation perspective. We normally use quarter four and the end of quarter four to do a bottoms-up build up, which is the exercise that we are actually going through right now.

So I think more color on 2013 will have to wait until the early part of -- very early part of next year.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay and just on the interest expense?

Mohit Bhatia - *Genpact Ltd. - CFO*

And on the interest expense we expect approximately about $9 million a quarter. So between, say, $35 million to $37 million annually for 2013. And this is a pretax number.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Great. Thank you.

Operator

Edward Caso, WFC.

Rick Eskelsen - *Wells Fargo Securities, LLC - Analyst*

It is actually Rick Eskelsen on for Ed. Thank you for taking my question. Just following up on the demand you are seeing. Can you compare it to what you were seeing from your clients last quarter? Are your clients being incrementally cautious or are you just adding conservatism to your guidance?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

No, I don't think they are being incrementally cautious across the board. We have been talking about the macro-economic environment the way we see it and the way we think our clients see it from a volatility and uncertainty perspective right through 2012, and actually going back to late 2011 itself. So I don't think there's any change in that. The one definite change is in Capital Markets where there is a clear reduction in smaller discretionary spends and projects, and there is a real dialogue around large transformational partnerships that will change the way that industry works and which is expected given the secular change that the industry is going through.

Rick Eskelsen - *Wells Fargo Securities, LLC - Analyst*

Thanks, and then just following up on the Capital Markets. Can you talk about what you are seeing in the two sides of your business on the BPM side and also on the IT side? You touched on it a little bit there, but more color and especially on what your Headstrong business is seeing?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

So our Capital Markets business is weighted predominantly on the IT side. So therefore most of our commentary is actually referencing the IT business. Our BPM engagements in capital markets are still very early days. A lot of the partnership discussions and transformational discussions that I referred to in capital markets include BPM as well. And as you can imagine those decision cycle times are -- have always been long. They take time and for the Capital Markets industry, they are often new discussions.

So most of the commentary around cutback and reduction in discretionary spend is all around the IT business in Capital Markets.

Rick Eskelsen - *Wells Fargo Securities, LLC - Analyst*

Last one for me. You talked about seeing some largely stable client decision-making timelines, but there were some pockets. Was it anything outside of Capital Markets? I think I missed that. Thank you.

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

No, I would say Capital Markets stands out. I would also say maybe, in some cases, technology discretionary spend, maybe a little bit analytics discretionary spend in pockets of discretionary spend that are there in IT or analytics across any verticals. But other than that, really the one that stands out is Capital Markets.

Rick Eskelsen - *Wells Fargo Securities, LLC - Analyst*

Thank you very much.

Operator

Nathan Novak, Baird.

Nathan Novak - *Robert W. Baird & Company, Inc. - Analyst*

I was wondering if you could give any color around expected FX gains for Q4 and potentially 2013 and how you're looking at that.

Mohit Bhatia - *Genpact Ltd. - CFO*

Sure. You know the foreign exchange re-measurement gain or loss that we report every quarter is predicated by what the rate is at the end of the quarter as compared to the end of the previous quarter. And it is really hard to predict. So the loss that we made in this quarter of $13.2 million as compared to a $9.7 million gain in Q3 last year was really a result of the rupee volatility which, at the end of the previous quarter, was beyond INR56 to $1.00 and by the time we closed the third quarter it was just ahead of INR52 to $1.00. So that appreciation of the Indian rupee caused this $13 million of loss.

Now we have closed the quarter at about INR52.7. It all depends on what we closed the fourth quarter at. If we close the fourth quarter at that same rate, there will be no gain and no loss. If we close at INR55 we will make a gain. And if we close lower than INR52.7, say at INR50, we will make a loss. So it is hard to predict, but I just want to put it out there for you.

Nathan Novak - *Robert W. Baird & Company, Inc. - Analyst*

Got you, that makes sense. Thanks for the color. And one more for me. It looks like IT growth decelerated pretty meaningfully this quarter. I know you talked about Capital Markets quite a bit so far this call. Is that essentially the large majority of the growth deceleration, or is there something else going on there?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

No, it is primarily Capital Markets. If you take off IT in Capital Markets our growth rate has been 18% year over-year-quarter three to quarter three and has been 4.5% sequentially which, in comparison to a lot of the IT growth that we see around, is on the good side. So I would say broadly Capital Markets driven.

Nathan Novak - *Robert W. Baird & Company, Inc. - Analyst*

Excellent. Thanks, guys.

Operator

Manish Hemrajani, Oppenheimer.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Thanks for taking the question. Great execution on the BPM side. Can you just highlight some of the challenges you are facing in that business on the IT side, particularly when it comes to Headstrong and what are you doing to address those?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

Manish, I think you will have to repeat the first part of your question. We lost you for a couple of words.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Yes, just wanted to ask you about some of the challenges you are facing in the IT business particularly when it comes to Headstrong. And what are you doing to address those?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

It is not so much about anything new that we are facing, it is what happening in that industry in terms of most investment banks and most capital markets businesses of large banks are looking at every part of their business to make sure that they can deal with all the new regulations, all the capital requirements of the different lines of their businesses. Therefore, they are taking decisions in terms of what investments to continue -- and I am talking about IT investments -- what projects to continue.

And at the same time they are also looking to that -- that obviously has an impact on new projects and new discretionary projects around IT investment. At the same time, they are looking at their entire cost space around IT and saying, is there a better way to run this? Is there a better way to consolidate this and how do we drive lower cost in obviously an environment where being efficient is going to be vital for every one of the participants in that industry.

How are we organizing ourselves for it? We have all the right people focused on these accounts. We have all the right conversations at the right levels. We have great relationships with every one of our clients in that vertical. Our delivery in that vertical is outstanding. Our Net Promoter Score in that vertical is outstanding. That positions us well to be part of these conversations.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Can you remind us again what your exposure to discretionary spending in total?

Mohit Bhatia - *Genpact Ltd. - CFO*

I would say -- you know, we of course don't measure our business like that. Because each of our businesses whether it is analytics or IT have a mix of annuity and project numbers. But broadly if I was to throw a range out there, I would say 15% to 20% would fall in the category of discretionary.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Got it. And, Mohit, you had talked about 39% gross margins being somewhat of a peak a couple of quarters ago and had expected gross margins to actually come down about 100 basis points over the next few quarters. But here we are at 4Q and you reported your highest gross margins since December of 2009.

Is this the new normal as you model out our gross margin expectations going forward? Or do you expect this to moderate a bit going ahead?

Mohit Bhatia - *Genpact Ltd. - CFO*

No, I would definitely expect it to moderate. These gross margins are abnormally high because of some of the benefits that we have got of our great hedging. But I would expect if you go back and look at the trending, the gross margin has really been in the range of 36% to 37% over a couple of years. And if I were to normalize for benefits, I would model in that range.

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

I would also say that in the context of the investments we talked about, and in our business a lot of those investments are in domain expertise, that you ramp up. And therefore in our ramp up of investments, the full impact of those investments is always paid in subsequent quarters. So just to add to what Mohit said, this would be at the highest end of the gross margins. This is not going to be the gross margin going forward.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Got it. And then, one last one for me. We have been hearing about softness in Europe for a while now especially from your IT services peers. You are actually growing there in both delivery and clients. Can you share some of the clients and additions you had in Europe and why is that you are having success versus peers?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

So, we -- some of these we actually called out two of them on this call. We talked about Centrica, we talked about Telefonica. We do think that Europe, corporations in Europe are taking a complete re-look at the way they run themselves and the way they structure themselves and of the way they think about longer-term cost. As we have said many times now, we built out our front end sales team, and we started doing that 3 1/2, 4 years back. We have also said that it takes time to get the benefits of that. Partly some of that benefit is now being reaped. We also think some of the financial services clients in continental Europe are beginning to have conversations.

So I would say we feel good about our Europe performance. Our pipeline is stable in Europe. Part of the reason is because of the transformational agenda that a lot of the clients there have.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Got it. And then on your cash position, any plans to bring some of that cash back to India?

Mohit Bhatia - *Genpact Ltd. - CFO*

Actually the chunk of cash is in India. So the reverse question would be, do I have any intention of taking it to the U.S. That is in fact always the intention. We just look at the right most effective moment of truth when we can do that. Right now -- it is actually well divided. About 40% of the cash is in India. Another 30 odd percent is in the U.S. and Bermuda. So it is well balanced and ultimately we would like our cash to be in the U.S. to take advantage of our opportunities for M&A, or acquisitions and so forth.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

And you said your interest expense would be about $9 million per quarter. Right?

Mohit Bhatia - *Genpact Ltd. - CFO*

That is correct. That is our current estimate, yes. This is taking into account the new facility, the new credit facility of $925 million that we have taken. We have drawn down $755 million as of September 30. We took the full term of $675 million and we have drawn down the revolver of about $80 million. I mentioned an all-in interest of about 4.6% including amort and that is really getting us to the $9 million pretax.

Operator

(Operator Instructions). If I can just remind all participants if when you ask a question to restrict your questions to two, please. Rahul Bhangare, William Blair.

Rahul Bhangare - *William Blair & Company - Analyst*

Thanks for taking my question. It was good to see the re-acceleration in SDS during the quarter. Could you maybe split out that segment and talk about the specific demand trends within each?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

We will not be able to split out completely, but I will add some color. Smart Decision Services is really composed as you know of three segments within it. Analytics, which is the largest piece of it, where we do obviously data analytics and insight building for our clients using data across the broad range of domains and verticals. The second is re-engineering, re-designing of processes to deliver a better outcomes. Often using smart enterprise process as the backbone of the framework. And the third is risk and compliance services, audit services, et cetera.

The re-engineering and re-design services, the risk and compliance services are doing exceedingly well in the context of all of the things that we just talked about, both from our regulation and risk services perspective as well as transformational agenda that our clients are on. Re-designing their organization. Re-designing their processes in the context of splitting themselves up into two public companies and so on.

Analytical Services continues to do well in the context of people wanting to build insights. However there are segments within analytical services which we talked about last time as well, which have a discretionary component to it where people are continuing to evaluate whether it is something they need to spend money on. So it is a combination of all of that. Feel good about the fact that there is re-acceleration in quarter three.

Rahul Bhangare - *William Blair & Company - Analyst*

Great, and can you remind us, how much visibility you have to the midpoint of your guidance for the remainder of the year?

Mohit Bhatia - *Genpact Ltd. - CFO*

The question I heard was how much visibility we have to the midpoint of our guidance.

Rahul Bhangare - *William Blair & Company - Analyst*

Correct.

Mohit Bhatia - *Genpact Ltd. - CFO*

You know with the guidance being $1.86 billion to $1.90 billion and the midpoint $1.88 billion I would feel very confident about the midpoint at this stage.

Rahul Bhangare - *William Blair & Company - Analyst*

All right, thanks.

Operator

Bryan Keane, Deutsche Bank.

Matt Diamond - *Deutsche Bank - Analyst*

Good morning. This is actually Matt Diamond for Bryan Keane. I just wanted to touch on the Banking and Capital Markets segment here for a second. It was mentioned last quarter that retail banking seemed to be holding up pretty well and the mortgage volumes this quarter would seem to accelerate that. I just wanted to get your thoughts on how that is holding up this quarter and how it might be positioned for fiscal '13?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

It is holding out well this quarter as well. And it is really giving a nice boost to retail banking. And you would expect it in the U.S. given the interest rate and refinance and so on. So and we have some very nice client relationships in the Mortgage segment. How it is going to play out in 2013 is a little bit of anyone's guess. Our Mortgage business is a very small proportion of the overall market.

So obviously the market is important. But at the same time the reality is that our Mortgage business is a small proportion of that. So we continue to build that business out nicely. A lot of it is focused on technology platform along with process and adding value in that space. So, we feel good about it. We will have to wait as we build our plans out for 2013 to talk about 2013.

Matt Diamond - *Deutsche Bank - Analyst*

In the same vein, it was mentioned kind of as a motif in this call that the client seemed to be really putting the brakes on discretionary spend at least in the Capital Markets. If you could pinpoint -- I know there is a lot of general uncertainty out there with macro and what not, but are you seeing it sort of one thematic issue creep up in your dialogues with clients that is preventing them from putting the pen to the paper and maybe opening up their wallets a little bit discretionarily and do you expect that same theme to play out in 2013?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

I don't think it takes anything more than opening up The Wall Street Journal in the morning to say that there are events that keep happening that cause a lot of our clients to pause, whether it is talking about the fiscal cliff as we think about the next year for the U.S. or it is talking about government spending and austerity measures in Western Europe. So it's a series of each of those things.

To some extent, it depends upon the client and their industry and, therefore, the impact it has whether it is a consumer products industry or it's the retail industry, or it is patents' cliffs in the life sciences industry.

At the same time, it is these things that also cause them to take a look at transformational agendas. So on the one hand, some of these lead to discretionary spend cuts. On the other hand they look at transformational agendas that change the way they run their business.

Matt Diamond - *Deutsche Bank - Analyst*

Understood. Thanks very much.

Operator

Arvind Ramnani, BNP Paribas.

Arvind Ramnani - *BNP Paribas - Analyst*

I just wanted to get a sense of what is a good target growth rate for Smart Decision Services business? 29% growth relative to the rest of the business is certainly impressive. But given that the business is unique, it is off a smaller base, when you think of growth in this business, what kind of target -- how do you think of what kind of growing the business?

Mohit Bhatia - *Genpact Ltd. - CFO*

This is Mohit. A, for 2013, we have yet to make our plans. Those plans are very detailed, they are bottoms up. They are done with external breathing. We find out what is happening in the market, what our client thinks, how is some of the short cycle demand coming in. And then, we really plan on what the growth rates are going to be for Smart Decision Services.

Having said that, at this point, the numbers are high; they are off a small base. Over time they will become growth rates on a bigger base. Smart Decision Services is still only about 15% of our revenue. As it becomes bigger, I would expect some of those growth rates to stabilize a little more. But it is a little early to talk about that. I definitely expect Smart Decision Services to grow higher than company average. That much I can say.

Arvind Ramnani - *BNP Paribas - Analyst*

Great. And on the interest expense, earlier you mentioned $9 million per quarter is how we should think of it. But as you start paying off your loan the number obviously reduced so will you start to expect -- are you planning to pay off the loan next year or is it going to take two or three years before you start paying on that loan?

Mohit Bhatia - *Genpact Ltd. - CFO*

The bulk of the loan is a term loan, $675 million is a term loan which is a bullet payment after seven years. Other than I think a 1% principle that has to be paid back every year. So for the most part if we do nothing, 94% of that loan will still be outstanding after seven years. And therefore that is the current assumption.

As per the contract, I am in any case not permitted to repay anything in the first year. If I repay anything in the first year I have some penalties on it. And also beyond that, it is very dependent on our cash flow. Our available opportunities for growth and we will take the call at that time and obviously update you on our intentions.

But at this point the assumption is that the term remains outstanding and that is how the $9 million per quarter has been calculated.

Arvind Ramnani - *BNP Paribas - Analyst*

Great. Great.

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

I just want to add to the earlier commentary around Smart Decision Services to what Mohit had said. You know it is still a big business. I mean, in the context of analytical services as an example, just in terms of size, while it is about on the whole, 15% of our business, that still is a substantial, large-size business. In the context of the world, trying to build insights from data it is a very exciting part of the business. And then when you think about risk services in the contest of risk and regulation and the environment we are in and then you think about redesigning processes to drive effectiveness and outcomes, that is an -- overall Smart Decision Services is a great segment of the business to be in. And it will do much better than the Company for quite some time to come.

Arvind Ramnani - *BNP Paribas - Analyst*

Yes, the thing that gets me excited about this business is I mean the revenue is 15% and that's a reasonable number. But what is exciting with that business is follow-on work that you get to other parts of your business. So that is kind of the reason why I kind of focus a little bit on this business as well.

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

Yes. Good point.

Arvind Ramnani - *BNP Paribas - Analyst*

Great. One last question. Obviously, attrition is moving in the right direction. 25% is certainly a better number than 30% and I think partly some of it is due to the Headstrong mix. But what is an internal target you have for attrition? Is 20% kind of like a baseline number or is it 15% or is it 25%?

Tiger Tyagarajan - *Genpact Ltd. - President and CEO*

So firstly, movement of attrition downwards really has nothing much to do with the capital market side of the business. Broadly attrition has been trending down for some time now driven by a combination of obviously macro in the delivery centers that we have large groups of our people, as well as a number of our initiatives around rewards and training and investments and people. What is the right number? It is great if we get it down to 20%. But remember, these are still nice growing economies. Whether it is 5%, 6% in India or it is 7%, 8% in China. Nice growing economies.

So our objective is obviously to bring it down, but our even more important and equally important objective is to manage the business with the attrition, build the expertise in the people that we want to hold on to and invest in them.

Arvind Ramnani - *BNP Paribas - Analyst*

Great. Thanks. That is all for me and good luck for the rest of the year.

Mohit Bhatia - *Genpact Ltd. - CFO*

Thank you.

Operator

Manish Hemrajani, Oppenheimer.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

One follow-up for me and maybe I will get an answer for this. But any early read in decline buckets for next year from your conversations with customers?

Mohit Bhatia - *Genpact Ltd. - CFO*

No. That is a nice way to figure out 2013. No. It is not that difficult to understand why. Volatility means cycles are shorter and, therefore, people wait a little longer to decide how the quarter and the year is going to look like. So the answer, the simple answer is no.

Operator

Thank you for your question. There are no further questions and I would now like to turn the call over to Bharani Bobba for closing remarks.

Bharani Bobba - *Genpact Ltd. - IR*

Thank you to everyone for joining us on the call today. As always we'll make ourselves available post the call to answer further questions. Thanks once again.

Operator

Thank you for joining today's conference. This concludes the presentation and you may now disconnect.

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