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G.N - Q4 2020 Genpact Ltd Earnings Call

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OVERVIEW:

Co. reported 4Q20 total revenues of $951m and adjusted diluted EPS of $0.51. Expects FY21 total revenue to be $3.93-3.99b and adjusted EPS to be $2.26-2.29.

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the 2020 Fourth Quarter and Full Year Genpact Limited Earnings Conference Call. My name is Towanda, and I will be your conference moderator for today. (Operator Instructions) As a reminder, this call is being recorded for replay purposes. The replay of the call will be archived and made available on the IR section of Genpact's website.

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

Roger Sachs - *Genpact Limited - Head of IR*

Thank you, Towanda, and good afternoon, everyone, and welcome to Genpact's call to discuss our results for the fourth quarter and full year ended December 31, 2020. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com.

Speakers on today's call are Tiger Tyagarajan, our President and CEO; and Ed Fitzpatrick, our Chief Financial Officer. Today's agenda will be as follows. Tiger will provide an overview of our results and an update on our strategic initiatives. Ed will then walk you through our financial performance in greater detail and provide our outlook for 2021. Tiger will then come back for some closing comments, and then we will take your questions. And as Towanda just mentioned, we expect the call to last roughly an hour.

Some of the matters we will discuss in today's call are forward-looking, and involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties are set forth in our press release.

In addition, during our call today, we will refer to certain non-GAAP financial measures that we believe provide additional information to enhance the understanding of the way management views the operating performance of our business. You can find a reconciliation of those measures to GAAP in today's earnings release posted to the IR section of our website.

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

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our 2020 Fourth Quarter and Year-end Earnings Call. We are very pleased with our fourth quarter and full year 2020 results especially in the face of the challenging macroeconomic environment. Our performance reflects our agility and culture of embracing change that allowed us to rapidly meet client needs and successfully pivot to new ways of working. Led by the dedication of our global workforce, our ability to grow our top and bottom line is a testament to the resiliency of our business. The acceleration of digital transformation into new buying centers across all industries has expanded our total addressable market, providing us with many more opportunities to drive sustainable and profitable long-term growth.

In summary, for the full year 2020, we delivered total revenue of $3.7 billion, up 6% on a constant currency basis; Global Client revenue of $3.3 billion, up 7% on a constant currency basis; adjusted operating income margin of 15.9%, ahead of our expectations and in line with pre-COVID levels in 2019; and finally, adjusted diluted earnings per share of $2.12, up 3% year-over-year.

Our Global Client revenue growth was led by consumer goods, retail, life sciences, health care, high-tech and insurance. At the same time, inflows of new deals during the year hit an all-time high, leading to 20% plus year-over-year pipeline growth by the end of the year. During 2020, we signed total new bookings of more than $3 billion. As we had expected, the impact of COVID-19 crisis led to total bookings coming in lower than last year's levels. However, we saw strong momentum in Global Client bookings in the fourth quarter as client decision cycles return to more normalized pre-COVID levels.

As a result, Global Client deals signed in the fourth quarter were almost 3x above our third quarter bookings and were more than 20% above quarter 4 2019 Global Client bookings. We signed 6 large deals in the fourth quarter alone, which helped fuel this growth.

Let me give you some color on a few of these large deals we signed. First, building on our successful relationship with Walmart in North and Latin America, we will manage and transform finance and accounting for their majority-owned African operations, Massmart. We will leverage digital technology and analytics to create completely new ways of working to support their growth strategy.

Second, expanding our partnership and relationship with a global CPG ecosystem into Japan, we will rapidly transform their finance and accounting, procurement and supply chain operations to drive better customer relationships and accelerate new product introductions to grow the business, drive profitability and maximize cash flow, leveraging both transformation services and intelligent operations for the long term.

And finally, for a high-tech distribution company, after conducting an initial consulting engagement, we will now drive transformation across finance, supply chain and procurement, leveraging our digital Cora platform to bring standardization, automation and risk controls across the organization.

As expected, GE bookings declined in 2020 due to the large GE deals we signed in 2018 and 2019. Transformation services made up of our consulting, digital and analytics businesses grew more than 20% during 2020 and expanded to over 30% of total Global Client revenue. Analytics continued to be the fastest-growing transformation services engine throughout 2020. I'm excited about the momentum we saw for the fourth consecutive year in transformation services. Approximately 70% of the value of Global Client bookings, higher transformation services embedded in them. And these types of deals make up the fastest-growing segment of our pipeline. As we said before, a good portion of our transformation services business is also annuity based.

During 2020, we significantly expanded our transformation services offerings to meet the accelerated demand for digital solutions that we've seen across all industry verticals. Coupled with our broader end-to-end intelligent operation services, our large transformation services engagement have expanded our relationships with many of our strategic clients. The best demonstration of this is that more than 50% of our bookings were from sole-source deals in 2020.

These differentiated solutions that have gained traction with our clients allowed us to grow the number of Global Client relationships with annual revenues over $5 million from 121 to 129. This included clients with more than $50 million in annual revenue, growing from 9 to 11.

As we expand these relationships, we continue to build our reputation as a trusted adviser and thought leader to the C-suite and boards of our clients, especially now when they are seeking guidance the most. As we called out over the last few quarters, we see 5 trends driving our CxO conversations: first, a significant shift from off-line to online across every industry; second, the virtualization of all technology services and solution delivery; third, an accelerated consumption of cloud-based services and solutions; fourth, an exponential growth in real-time predictive analytics; and finally, the above the move to human-centered design that creates superior experiences for customers, users and employees.

Let me share a few examples of how our agile response to these trends is allowing us to drive value for our clients and further fuel our growth. For a leading provider of personal fitness equipment experiencing tremendous product demand and growth, we are designing and deploying a future state supply chain solution, leveraging data and predictive analytics, reducing cycle time for new product introductions. For LIVEKINDLY, a collective of plant-based food and media brands, we are leveraging cloud technology and predictive analytics to reimagine end-to-end operations, drive competitive growth and co-innovate to create a digital-first data-led organization in the food industry.

For various health care and pharma clients, we are partnering on a variety of initiatives related to COVID-19. Such as building a mobile app that allows rapid access to tests and results, integrating our AI-based pharmacovigilance platform to process adverse vaccine reactions for the U.K. regulator MHRA, and leveraging digital technologies to increase the speed and accuracy of clinical trial submissions for vaccines.

Our industry-leading 2020 growth clearly demonstrates the resilience of our business and the nondiscretionary nature of our services. We are in a growth market that is highly underpenetrated and that has further expanded in response to the challenges of 2020. This market expansion is primarily driven by the changing needs of 2 different sets of clients: first, existing clients who want to accelerate their transformation journey, leading to increased engagement with us on more services and in more buying centers than before; and second, new clients who are now much more open to partnerships in order to change, transform and respond to the 5 trends I called out. In 2020, we added 11 new client logos, greater than $5 million, all of whom are first-time buyers for our kinds of services, including mature services like finance and accounting.

We continue to drive investments in strategic areas like supply chain services, financial crimes and risk services, sales and commercial services and financial planning and analysis. And we are seeing great traction in all of them. In our more mature service lines, such as finance and accounting and insurance underwriting and claims, we continue to deepen our advantage by accelerating the fusion of domain, digital and data.

As I mentioned last quarter, we have doubled down on our cloud service offerings to bring domain-led as a service solutions in our key focus areas. Our recent acquisitions demonstrate our continued commitment to build out our capabilities in the cloud. In the fourth quarter, we acquired Something Digital, bolstering our digital commerce capabilities. Combined with the strength of Rightpoint's experience offerings, we are seeing our pipeline and bookings grow meaningfully as many of our clients completely reimagined their commercial and supply chain operations, driven by their journey to online commerce.

We also recently closed the acquisition of Enquero, an industry-leading data engineering and analytics firm, enhancing our ability to develop new cloud-based data and analytics solutions for clients as well as execute on last mile connections using digital technologies. We are already seeing the benefits and new joint deals in the pipeline.

Turning to profitability. The agility with which we restructured our costs during the second quarter of 2020 and reskilled and redeployed talent for new client work allowed us to deliver strong adjusted operating income margins, adjusted EPS and cash flows in a challenging environment. By the time we reached the fourth quarter, we began dialing up our investments in R&D, transformation services and the front end. This has allowed us to enter 2021 with the robust pipeline I spoke about.

As we look at growth in 2021, we are mindful of 3 factors: first, as expected, a tough year-over-year first quarter pre-COVID comparison; second, the impact from clients in the hardest hit industries, such as hospitality, travel, leisure and energy, that will affect the year-over-year comparison of the first half; and third, one of our banking and capital markets clients recently resized and restructured their asset management business. We responded as a true partner and scaled down our operations for them, and now will have a more focused relationship, which remains very strong.

As a result, we expect our banking capital markets vertical to be down year-over-year. We are, however, encouraged by the expansion of our banking capital markets pipeline during the latter part of 2020.

Even after fully considering these factors, we continue to believe our Global Client revenue will come back to double-digit growth by the time we hit the fourth quarter of 2021. Our bookings momentum in the fourth quarter of 2020 indicates that we could possibly hit that milestone even earlier. At a high level, we are, therefore, expecting to deliver global client growth that is in line or better than 2020 and drive an improvement to our adjusted operating income margin.

With that, let me turn the call over to Ed, who will take you through our 2020 performance and 2021 outlook in detail.

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

Thank you, Tiger, and good afternoon, everyone. Today, I'll review our fourth quarter results and then discuss highlights of our full year performance and provide our financial outlook for 2021.

Beginning with our fourth quarter results. Total revenue was $951 million, up 1% year-over-year, both on an as-reported and constant currency basis, a bit higher than we were anticipating. Revenues increased sequentially by approximately 2%. Global Client revenue increased 4% year-over-year or 3% on a constant currency basis, largely driven by demand for transmission services across many of our chosen verticals. Global Client revenues grew approximately 2% sequentially, also due to higher transformation services revenue. As a reminder, Global Client revenue in the third quarter included the benefit of surge activity related to a set of banking clients that, as expected, did not recur during the fourth quarter.

GE revenue declined, as expected, 16% year-over-year due to the macroeconomic impact on their businesses and planned productivity commitments we discussed last quarter. GE revenue declined approximately 2% sequentially, slightly better than we expected. Adjusted operating income margin was 15.5%, better than we expected, primarily due to higher-than-expected revenues. As we discussed on our last earnings call, we began to dial up investments in the fourth quarter in both R&D as well as sales and marketing to more normalized levels, and we restarted salary increases for our global workforce.

Additionally, we incurred approximately $4 million of net other operating expenses during the fourth quarter compared to an approximate $4 million net gain last quarter. The fourth quarter net other operating expense is primarily related to an impairment charge for certain leased properties, we no longer plan to occupy. As a result, operating margins were lower sequentially.

Gross margin improved by 20 basis points sequentially and 240 basis points year-over-year to 35.4%. The sequential improvement was largely driven by better transmission services utilization. The year-over-year improvement was also primarily due to higher transformation services utilization levels as well as an unusually low gross margin level during the fourth quarter last year, due primarily to an impairment charge related to a European wealth management platform.

Adjusted EPS was $0.51, a $0.06 year-over-year decline. During the current quarter, we generated higher gross profit of approximately $0.10 year-over-year. This higher gross profit level in the current quarter was offset by higher other operating income of $0.13 last year, primarily related to a gain on land monetization and a negative FX re-measurement impact of $0.03. Our effective tax rate during the quarter was [25.3%] (corrected by company after the call) compared to 28.1% last year, due to certain higher discrete items in the prior year.

Now let me provide some color around our full year 2020 performance. Despite the uncertain environment, total revenue was up 5% year-over-year or 6% on a constant currency basis. Global Client revenue, which represented 88% of total revenue, increased 7%, both on as reported and constant currency basis, coming in at the high end of our full year outlook. This performance was largely driven by transmission services, bolstered by strong growth in our analytics services.

GE revenue declined 4% year-over-year primarily due to productivity commitments and the macroeconomic impact on GE's businesses. Adjusted operating income margin was 15.9% for the full year, consistent with the prior year and above our 15.7% expectation for the current year, largely due to the incremental revenues generated during the quarter. We are really pleased that we were able to continue to drive growth and maintain our operating margin level in a very challenging year.

Gross margin for the year was 34.8%, in line with the prior year level. We were able to stabilize margins despite absorbing early year challenges related to certain customers initially not approving work from home delivery in our banking and capital markets vertical as well as utilization challenge in our transformation services due to the impact of COVID-19, particularly in consulting services.

As a percent of revenue, SG&A expenses declined 130 basis points year-over-year, largely driven by cost containment initiatives taken during the year and lower travel expenses as a result of COVID-19. Adjusted EPS was $2.12, up 3% year-over-year compared to $2.05 in 2019. The $0.07 increase was driven primarily by higher adjusted operating income of $0.11, partially offset by higher net interest expense of $0.02 and higher taxes of $0.02.

Our effective full year tax rate during the year was 23%, slightly lower compared to 23.7% last year, due primarily to jurisdictional mix of income.

Turning to our balance sheet and cash flows. At year-end, cash and cash equivalents totaled $680 million, up from $467 million at the end of the fourth quarter 2019. Our net debt-to-EBITDA ratio for the last 4 rolling quarters was 1.5, including the impact from our recent acquisition of Enquero that closed at the end of December.

Days sales outstanding were 82 days, which improved from 86 days last year, due primarily to a reduction in billing cycle time, driven by an initiative we kicked off earlier this year.

With better DSOs and higher year-over-year adjusted operating income, we generated $584 million of cash from operations this year, up from $428 million last year, with growth of 36%. The favorable impact to working capital from lower year-over-year revenue growth in the fourth quarter this year versus the growth rate last year, also helped operating cash flow well above our typical 10% range. We expect free cash flows to revert closer to the 1:1 ratio to net income in 2021 that we've historically seen in our business in comparison to be approximately 1.6:1 level this year.

During the quarter and full year, we returned $82 million and $211 million of capital to shareholders, respectively. This included dividend payments of $18 million in the fourth quarter and $74 million for the full year. We also repurchased approximately 1.6 million shares at a total cost of $63 million at an average -- at a weighted average price of $38.94 per share during the quarter, and 3.4 million shares at a total cost of $137 million at a weighted average price of $40.16 per share for the full year.

Year-to-date through February 5, we repurchased another [0.9 million shares totaling $38 million at an average price of $40.45 per share] (corrected by company after the call). Since we initiated our share buyback program in 2015, we've reduced our net outstanding shares by 19%. Over this period, we repurchased [42 million shares at an average price of approximately $27.57 per share or a total of $1.2 billion. With the increase in share repurchase authority, the Board of Directors just approved, we currently have approximately $599 million] (corrected by company after the call) of authorized capacity remaining under our share repurchase program.

The Board of Directors has also approved a 10% increase to our quarterly dividend to $0.1075 per share, which equates to an annual dividend of $0.43. We have increased our dividends per share 10% or greater every year since we first initiated our dividend in the first quarter of 2017.

Finally, let me provide our full year outlook for 2021. We expect total revenues to be between $3.93 billion and $3.99 billion, representing year-over-year growth of 6% to 7.5% or 5% to 6.5% on a constant currency basis. Recent acquisition activity is expected to contribute approximately 200 basis points to our total company growth rate in 2021. Acquisitions contributed approximately 250 basis points of growth in 2020. For Global Clients, we expect revenue growth to be in the range of 8% to 10% or 7% to 9% on a constant currency basis.

Let me provide our current thinking on the expected cadence to provide some perspective on how we see growth progressing throughout the year. Similar to our historical pattern, we expect global client revenue to decline in the low single digits sequentially in the first quarter and then ramp up each quarter throughout the year. The first quarter will be a tough year-over-year comparison due to our very strong first quarter performance last year. Given that, we anticipate 1% to 2% year-over-year growth in Global Client revenue for the first year of 2021.

We expect to see a meaningful step-up in growth in the second quarter to high single digits, given the expected sequential revenue growth, coupled with the revenue impact caused by COVID-19 in the second quarter of last year. The large deal signing that took place during the fourth quarter of 2020, which represented the highest level of bookings we have seen in any quarter, coupled with a robust pipeline entering this year, gave us even greater confidence that we will return to double-digit global client year-over-year revenue growth by the fourth quarter, if not sooner.

GE revenues are expected to decline approximately 10% to 12%. As we mentioned on our prior call, we expect quarterly GE revenue levels to be relatively stable throughout 2021. We expect to return to our strategic objective of deliberately driving adjusted operating margin expansion, balancing long-term profitable growth with appropriate investment activity. As such, we are expecting to improve adjusted operating income margin in 2021 to approximately 16%, driven largely by improved gross margin. We're expecting our full year gross margins to improve by approximately 50 basis points in 2021, while at the same time, investing more in R&D and sales and marketing.

Due to the seasonality we see in our business, we currently expect our adjusted operating margin for the first quarter of 2021 to be in a similar 14% to 15% range we have seen in the last 2 years. Our 2021 effective tax rate is expected to be approximately 23.5% to 24.5%, up from 23% in 2020, primarily driven by the expiration of special economic zones in India. We continue to expect our effective tax rate to stabilize in the mid-20% range as the special economic zone expirations reduce over time.

Given the outlook I just provided, we're estimating adjusted earnings per share for the full year 2021 to between $2.26 and $2.29. This represents year-over-year growth of 7% to 8% and includes the negative impact of the higher tax rate of approximately $0.02 and a negative FX impact of $0.03 per share due to the gains recorded in 2020. We have assumed our 2020 year-end outstanding shares, adjusted for the share repurchases we have executed through February 5 for this calculation.

We are forecasting cash flow from operations of approximately $450 million to $500 million or approximately 1.3 to 1.4x net income, in line with our historical range. This equates to free cash flow of approximately 1 to 1.1x net income, as I mentioned earlier.

Capital expenditures as a percentage of revenue is expected to be approximately 2% to 2.5% in 2021. This percent is lower than our historical average as we expect some impact from agreed work-from-home mix longer term. In addition, since our digital solution developments have largely migrated to agile methodologies during 2020 and are being expensed as incurred, we expect capital expenditures to continue to be lower than the rates we saw in 2019 and prior periods. We'll continue to update you on this estimate as we progress through 2021 and beyond. We do expect some reduction from our historical range of approximately 2.5% to 3% going forward.

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

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

Thank you, Ed. During 2020, we rose to the challenge and quickly adopted a distributed global delivery model without sacrificing productivity or service level performance. Our strategic choices made over the last few years, the nondiscretionary nature of our services and our strong execution drove our industry-leading global client growth for the year while preserving margins.

The disruption caused by COVID-19 is opening new doors for our unique domain-led transformation services and intelligent operation solutions that incorporate digital automation and AI, data and analytics, all wrapped in a great experience and delivered in the cloud. Our achievements have been recognized by industry analysts with 18 leadership positions awarded in 2020, and most recently being ranked #1 in finance and accounting by industry research from HFS.

Viewing client challenges as information and process problems, we are able to make digital transformation real by connecting data to domain-specific insights, deriving real-time predictive analytics that speed up decisions and actions. All of this has expanded our total addressable market for 2021 and beyond.

2020 further reinforce the importance of serving all 4 of our stakeholders: clients, employees, investors and our communities. Over the last 10-plus years, we have made great strides in promoting a diverse and inclusive workplace. We have long-held the belief that our diverse team builds the best solutions for our clients. Women now represent more than 40% of our global workforce, with many of our senior leadership team and 40% of our Board seats being held by women.

During the year, we also elevated racial equity as a high priority and identified various actions to drive change, including new programs to attract, build and retain great racially diverse talent.

Providing professional growth opportunities to our global workforce has always been a top priority for us. Our investments in our flexible digital learning platform, Genome and our proprietary redeployment platform Talent Match paid off this year, with trading hours increasing by 35% year-over-year to more than 10 million hours and more than 10,000 employees redeployed.

We have become increasingly focused on sustainability as a corporate priority. We are driving initiatives to minimize our carbon footprint, eliminate the use of nonessential single-use plastics and make our operating facilities more green. Our sustainable sourcing practices have received recognition, and for the third consecutive year, Genpact was chosen by Frost & Sullivan and the Energy Research Institute as a leader in sustainability.

Our global teams are passionately engaged in their communities through a variety of programs. An example is our Feed a Million project, a volunteer program, providing meals to underprivileged communities globally. We are strongly committed to leveraging technology for the greater good, creating sustainable, meaningful transformation that builds resilient companies and communities.

We are proud to be named the world's most ethical company by the Ethisphere Institute in 2019 and 2020. We will continue to provide regular updates on our progress on our ESG efforts as we formalize targets across our environmental, social and governance initiatives over and above our sustainability report that we have been publishing for the last 10 years.

In summary, I couldn't be more pleased with our performance in 2020, where we grew our top and bottom line in an extremely challenging macroeconomic environment. We believe we are well positioned to return to double-digit global client growth during the latter part of 2021 and continue on our deliberate path of improving operating margins. We see an expansion in our total addressable market.

We are bringing more solutions in transformation services and intelligent operations to our clients, and we are working with more buying centers than ever before, all of which sets the stage to continue our long-term journey of delivering annual double-digit to low teens Global Client growth and deliberate adjusted operating income margin expansion. While we have accomplished a lot, we are excited by the opportunities ahead to act as trusted advisers to our clients as they continue to transform themselves.

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

Roger Sachs - *Genpact Limited - Head of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ashwin Shirvaikar with Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc., Research Division - MD & Lead Analyst*

So both of you used the phrase fourth quarter, if not sooner, in describing the timing of Global Client growth. So what would drive this sooner? Are you looking for a higher level of discretionary work? Is this just more about converting the bookings that you talked about revenues with greater velocity? What are some of the factors that drive that?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

So Ashwin, we are very, very pleased with the velocity of decision-making that we saw in the fourth quarter, which led to the bookings that we talked about. And we think fourth quarter is a demonstration of what we would call back normal decision-making. Our pipeline is strong, our inflows are strong. So if the momentum that we saw in Q4 continues, and you know that our bookings lead to a ramp-up in revenue as we go through the next 3 or 4 quarters, we see that fourth quarter are being pulled forward.

So to answer your question, we continue to see the same momentum, we continue to see the movement in the pipeline because the pipeline is there and that trend starts ramping up. And of course, transformation services continues to be a lead engine for us. Those are shorter cycles. So I would say we feel very good about the fourth quarter. And unlike the last time when both Ed and I said fourth quarter, we are now saying it could be a little earlier than fourth quarter as well.

Ashwin Vassant Shirvaikar - *Citigroup Inc., Research Division - MD & Lead Analyst*

Got it. Got it. Okay. And then could you provide more details on Enquero. That seems like a very solid data visualization engineering company, seems to have meaningful Tableau and Anaplan relationships. Any incremental info you can provide on the combination? Any financial metrics would be great.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

So I'll talk a little bit about the capabilities itself, and maybe I'll turn to Ed on the financials. But you captured a lot of what the company really stands for and got us excited. We've known the company for almost 2 years now. We've worked with them in the past. So we know the team. They've known us. We know the value that the 2 of us together can bring to a set of clients in the same verticals that we serve and they serve. And that's what got us together.

And already in the month of January, we are seeing joint propositions to common clients in the area of supply chain, in the area of digital commerce, in the area of moving to online, around the platform, such as Anaplan and Tableau and so on that you already called out. So the fact that it's moving data to the cloud and helping clients access the cloud and then build analytics on the cloud and visualization on the cloud across disparate technology platforms that they have is the exciting part here.

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

And on the financial side, we talked about it being accretive, it is going to be accretive. It's largely aligned with our profitability, Ashwin. And the first, it will be a little bit less but still accretive as we do the integration. As you might expect, the first year will be a little bit less than we would grow from there.

And I think the other thing just to add is I talked about the analytics business being kind of one of our fastest-growing and just add strength to that strength. So I feel really good about this one.

Operator

Our next question comes from the line of Maggie Nolan with William Blair.

Margaret Marie Niesen Nolan - *William Blair & Company L.L.C., Research Division - Analyst*

Nice to hear about the progress you're making in your ESG initiatives.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

Thank you, Maggie.

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

Thank you, Maggie.

Margaret Marie Niesen Nolan - *William Blair & Company L.L.C., Research Division - Analyst*

Can you quantify the headwind from the banking and capital markets client or maybe more importantly, how do you expect the rest of the business to perform outside of that account?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

Yes. So I would say the banking capital markets client is a very unique situation. And it was driven by their reevaluation of their business, restructuring the way they run it, et cetera. And like any good partner, and we've done this so many times in the past, we came to the table, we restructured our operations. The impact on our business overall would be 2 to 3 percentage points of growth on the Global Client side. And therefore, if you take that out, our Global Clients is growing even better than what we just described. And all the verticals are pumping in. Ed, do you want to add to that?

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

No. I think that was the key comment, Tiger. I think bank and capital markets will be down year-over-year, probably as a result of that, probably in the 10% to 15% slot. So the rest of the business, you can do the math. Feel really good about comprehensive growth over 10% in all the verticals. So it's almost like we're back to Q1 last year in every business, except bank and capital markets. But as Tiger said on the call, also feel good that we're kind of at the point where we know -- we don't know bank and capital markets and now we're building, right? So hopefully, we'll see that progress sequentially with growth as well as we go through 2021 in bank and capital markets.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

And Maggie, just to finish off. So the inflows in the latter part of 2020, and therefore, the buildup of the pipeline in bank and capital markets was really good. So all of us and the team feel really good about that.

Margaret Marie Niesen Nolan - *William Blair & Company L.L.C., Research Division - Analyst*

Great. And then you've had a lot of successful announcements about expanding relationships like the Massmart announcement. But you've also highlighted strong new client logo additions. And you're highlighting a growing total addressable market. So I'm wondering, as you look at where the next couple of years, how much growth do you expect to come from kind of that existing client base versus new logo additions? And is that different from what you've seen in the past?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

I don't think so, Maggie, and this is a little bit crystal ball gazing, but I don't think so. I would say 3 things are noticeable. Number one is if you take any client, it's very clear to us that even after 15 years of our relationship, there is still things to be done that the clients want, that we can bring to the table because we are also adding more and more capabilities to ourselves that are relevant for them. So we continue to grow with clients even after 15 years. So that's the first element of growth that I would talk about. And that runway just keeps expanding.

Number two, when we add a new client and I talked about 11 new logos, but I called out 11, not new logos, but new logos that haven't outsourced before. New logos will be a much bigger number, but new logos who've never outsourced before. And those logos set the stage for very long-term growth, and I'm talking about 5-, 10-year growth trajectory. So this is less about any change in proportion from existing clients or new clients because that cadence hasn't changed. It's just the fact that, that runway is just getting longer and longer.

Operator

Our next question comes from Puneet Jain with JPMorgan.

Puneet Jain - *JPMorgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

Can you share some margins, puts and takes for this year, like subsidies or any margin considerations as it relates to the banking contract that's going to ramp down? And any other cost or use of cash considerations from the recent Indian budget?

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

Okay. I missed the last one, but I'll cover the first two, and then you can tell me the third piece of it. I'll start with the banking piece. We don't expect there to be an impact on overall margins. And our progression from 59% to 60% holds true. We don't expect that to move the needle, largely consistent with company margins.

And then the give and take -- I think the big give and take, as you all probably recall, is the other operating income item last year and in prior periods, the export subsidy, which went away. The export subsidy was 2018 and '19. Last year, we had the gain on the land that we had talked about in other income, that went away. We didn't have that this year. This year, we replaced -- that was effectively replaced by gross profits being strong. We expect that to continue going into next year as well as SG&A leverage continuing to drive operating margin.

So that piece -- that other operating income item, we don't expect that to be at a big level of the numbers that we've seen in the past going forward. Those are the 2 biggest give and takes in the year. Anything else, Tiger -- anything else to that?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

No. I just -- if I've understood Puneet's question, and once I answer, Ed, if you can add to that, if you can.

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

Sure.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

I think on the Indian budget, I don't think there is anything material as it relates specifically to our industry that we would call out on either the positive or the impact side. Is that true, Ed? Is that fair?

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

That's fair.

Puneet Jain - *JPMorgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

Got you. And what do you expect for long-term changes in the delivery model as a result of the pandemic, maybe in terms of on-site support required during transition. So are employees working from offices versus home or even delivering services from gig economy model?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

So Puneet, I think I would answer that question in probably 2 ways. One, if you look at what happened in 2020, we've transitioned remotely without anyone visiting anyone anywhere, about 8,000 to 10,000 people. And this is knowledge transfer, as I said, a number of new logos, new clients, new services. And that is a demonstration that, that can be done. And it can be done really well. By the way, the industry has demonstrated this, not just us. And to me, that means that going forward, that will be a pretty significant portion of the model, and that has a lot of ramifications in terms of speed, in terms of actually the intensity with which you can do knowledge transfer as well as obviously, value.

The second is when you have a situation where for a year, every one of our clients has teams working from home in their operations and in their business, doing really complex work, and every one of our teams serving them also working from home, all barriers of resistance saying, where can this work be done from, which often used to be the conversation in some cases, is gone. One of the reasons why I think the total addressable market goes up, is that there is no debate about which work can be done from where. The debate is actually what are the best way to do it, what are the best technologies to apply, what is the sequence, who does what? Those are the conversations. This is a big change, and COVID-19 has completely changed that dialogue.

Operator

Our next question comes from the line of Keith Bachman with Bank of Montreal.

Keith Frances Bachman - *BMO Capital Markets Equity Research - MD & Senior Research Analyst*

I have 2 questions. The 2 questions I had is, first, you mentioned that the bookings were up 20% year-over-year in Q4. That's a terrific outcome. But I was wondering -- and I was wondering if you could talk a little bit about the book-to-bill and how you see -- is there any changes on how you see that work filtering into the P&L or revenues? Is there any elongation of fulfillment? Or is anything unusual that should be happening there?

What I'm really trying to just understand is the 20% is a pretty good number. You talked about Q1 being very -- looking robust as well. Just trying to understand how much risk retention on either side of the revenue guidance you have provided through more near-term work? And then I have a follow-up, if I could.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

Yes. So Keith, we don't look at book-to-bill. It's not that relevant in our long-cycle multiyear annuity contracts that we signed on certainly on intelligent operations, and as I said, on a material portion of transformation services as well. So book-to-bill is not a good -- it's not something that we track and measure and drive.

What I would say is that as we got out of December into January, after a pretty record booking quarter, there is no real difference between the way that booking would convert into revenue, the ramp-up, et cetera, than one would normally expect. There's nothing unique about it. So I would say normal cadence, normal growth trajectory. We just have to go through Q1, which has a comparison of Q1 of last year. And then it will just climb itself up.

Ed, do you want to add to that?

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

Yes. I think this is one of -- your question relates to visibility, too, right? So coming into the year, visibility is consistent, feel good, 70% to 75% bookings -- backlog of revenue to be delivered. And that's good. And then in terms of booking growth required, we'll expect to see bookings come up off of an easier compare year, but not at a level that we're uncomfortable with in the revenue range that we gave you. So feel pretty good based upon the trends that the revenue range is a good one.

Keith Frances Bachman - *BMO Capital Markets Equity Research - MD & Senior Research Analyst*

Okay. Fair enough. Then Tiger, my follow-on question was for you. You mentioned a few times that your TAM has expanded. I was hoping that you could flush that out and just really explain why you think the TAM has expanded? And particularly where you think that serves the interest of Genpact? In other words, as the TAM expands, where do you think your really key opportunities are within that?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

Great question, Keith. So I'll start by saying, when I say TAM has expanded, I'm only referring to areas that are relevant for us. So the definition of TAM that I would have is the industries we serve, the services that we are focused on. That's our definition of TAM and that's our TAM. There's lots of other TAM that I'm sure is there, but that's not a focus for us. That TAM had expanded for a variety of reasons, some that are independent of COVID-19 and some -- because of COVID-19 and some accelerated through COVID-19.

So 3 things. One, our investments in a set of chosen service lines and this is a choice that we made about 3 years back, 4 years back: supply chain services; financial crime services; financial planning and analysis services; and sales and commercial services, deliberately chosen as a follow-on from our strength in finance and accounting procurement and then vertical services like underwriting and insurance and claims and insurance and so on. Those services, we knew was the right bets to make, and we have started investing in those both organically as well as, as an example, the Barkawi acquisition and supply chain inorganically. Those have really played through as we went through 2020. If you look at all 4 of those, all 4 of those have become even more important for clients to think about reimagining each of those services. So that's one.

Two, the digital technology investments and analytics investment that we've done, including the experience investment of Rightpoint, again, have become even more relevant when you're talking about an acceleration of digital transformation that every one of our clients are going through.

And the third is really the market. And the market is basically the one that I answered Puneet's question, which is gone are the days when someone would say finance and accounting, transactional work, yes, I think, Genpact, you can do it, and you can do it really well.Financial planning and analysis, very high-end analytics work in finance or in supply chain, it's too core to us, and it should be done next door to me, and it should be done by my people. Those barriers have really collapsed.

And digital technologies is actually the other reason why it's collapsing because if you want a client to undertake a significant acceleration of digital technology transformation, they need partners, and they need partners that connect the dots between finance, order management, sales and commercial and supply chain to accelerate their journey to online. And those 3 are expanding the market for us.

Operator

Our next question comes from the line of Bryan Bergin with Cowen.

Zachary Ryan Ajzenman - *Cowen and Company, LLC, Research Division - Research Associate*

This is Zack Ajzenman in for Bryan. On the pipeline. Could you maybe provide a little more color on the sustainability of the lift in large deal demand? And also, in terms of the mix early stage deals, we're excited as a greater than normal mix last quarter. Can you maybe provide an update on the pipeline mix as it stands today?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

Both great questions, Zack. Really good questions. And I'm going to start off and then I'll have Ed add to that. So the mix of large deals has come back to, what I would call, normalized levels after being a little slower in the second quarter in the pipeline. The addition in the second quarter was muted, as you would expect, was muted in the first half of the third quarter as well. But has come back, and now we are in the pipeline, similar ratios of large deals that we've always seen for more than 2.5 years now. And we expect that to continue. We don't see any change in that, particularly given the earlier discussion on expansion of TAM, the acceleration of digital transformation and so on.

And as far as early deals versus late-stage deals, the ratio does have probably a tad higher early stage deals than normalized. But it's a question, maybe one more quarter, and it'll get there.

Ed, do you want to add to that?

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

Yes. I think we talked about the late-stage deals being pretty nice mix of that, the third quarter going in the fourth, and we look like we we've got a lot of those on the hurdle given the bookings number that we saw. But as we were looking at the mix earlier this week, I think -- it varies a little bit by vertical, but it looks pretty good. It looks in terms -- it kind of reverted to the mean if you will, in terms of early and late. In 1 or 2, it's more early than usual, but that's a good thing, right, because we refocused in places like banking, as an example. So I think in that regard, it feels pretty good.

And we were joking earlier this week, too, on the percentage of large deals. My view is that, that continues to increase as customers get more comfortable as we do more complex deals the only way that's going to come down from the current level, in my view, over time, if we raise the level of what we consider to be a large deal from 50 to 75 or 100. I just -- I think that's trending in the right way.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

That's right.

Zachary Ryan Ajzenman - *Cowen and Company, LLC, Research Division - Research Associate*

Got it. And then just one follow-up on guidance. What was the level of prudence in formulating the 2021 outlook? And we asked that in the context that it turned out to be consistently stronger performance across 2020 amid what was arguably more uncertainty?

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

I think our methodology is consistent. I think 2020 was a crazy year, right? I think everybody out of the gate after the first quarter, we came out faster than we had expected. And then everybody took a step back and said, okay, we have to reassess what we can do. Growth, obviously, was not as great as we expected, but we were -- as we reset the bar revenues, the stability of our business shown true. And we were able to kind of meet or exceed as we went forward after kind of stepping away from giving guidance in the second quarter.

So I think we've reverted again there to the norm of using the same processes on unsold percentages, pipeline, backlog and business by business bottoms up. So similar process. The range is consistent and top and bottom line. So we've gone back to the way we think it should be. Now we're not -- the world hasn't fully returned to BAU. We're talking about this earlier this week as well as the team. But it's gotten more so back to kind of the way we'd expect it to be.

Our guidance doesn't contemplate another hit, if you will, or a significant change in the environment. But it's continuing, knock on woods, down the favorable improving path that we talked about during Q3 that we wanted to see. I think that's all I'd add. Tiger, anything more to add to that?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

No. I would just -- it doesn't contemplate any significant change in current environment. But at the same time, it doesn't contemplate any other shock heavily being administered as well.

Edward J. Fitzpatrick - *Genpact Limited - Senior VP & CFO*

Right.

Operator

(Operator Instructions) Our next question comes from the line of Mayank Tandon with Needham.

Mayank Tandon - *Needham & Company, LLC, Research Division - Senior Analyst*

Most of my questions have been answered. But Tiger, I was just curious, have you noticed given the effect from the pandemic and you talked about the acceleration in transformation services, are contracts being structured differently now versus pre-COVID levels? And I especially ask in the context of outcome-based pricing, is that becoming more pervasive now across your client base?

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

Mayank, actually, it's a great question. I would start by saying we've been pushing that agenda significantly for many years now. So -- and it would be fair to say that, therefore, even 2020, even before the pandemic, those numbers are outcome-based transaction, pricing-based, nonFTE-based contracts were higher than before. Having said that, it still had a long way to go. COVID-19 has that accelerated. I wouldn't say necessarily it's COVID-19 or the pandemic that has accelerated outcome-based pricing. I would say, when you enter the realm of supply chain, order management, when you enter the realm of financial planning analysis, when you enter the realm of impacting the front end of the customer, driving growth for the customer, the opportunity to actually do outcome-based pricing just goes up. It's no longer about cost. It's no longer about labor arbitrage and cost of input. It's much more about the value you can drive.

And therefore, those contracts have a greater opportunity to actually have outcome-based elements in them, and that's what we are seeing. It's got less to do with the pandemic. It's got more to do with the nature of the work that is now being done by us and in our pipeline. And that's still going to be a journey. It's not that overnight our book is going to become an outcome-based book, but that journey continues.

Mayank Tandon - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. And then given the mix of business and also some of the cost items that might not come back given the hybrid nature of the work environment potentially, maybe potentially for less sales, travel, et cetera. Do you think structurally margins could be better than what you would have thought pre-COVID? And again, I'm not looking for short-term guidance, but just maybe more structural long-term margin outlook.

Nallicheri Vaidyanathan Tyagarajan - *Genpact Limited - President, CEO & Director*

So Mayank, I think that's a great question, but I think I would -- and I've said this before in I think one of the prior earnings calls, I would be very, very careful. And we've done the math. We've had discussions, significant discussions and modeling inside as well as with clients. And we've seen clients themselves model their own businesses on the basis of the fact that you should not assume that a remote work-from-home environment. And the -- you don't require an infrastructure and a facility reduces cost. Because first of all, I think it will drive the wrong decision. And secondly, I think we do ourselves a disservice in many aspects. When we do remote work, I think infosec requirements, privacy and security requirements have to go up and does go up, and all of us are careful about making sure we do those investments.

Second, just because workforce is distributed, doesn't mean you don't need incremental culture-building exercises, bringing teams together all of those are going to be more than ever before, needed. Mental health issues to watch for stress, et cetera, when people do work from home. I don't think it's that simple an answer of saying real estate cost goes away, therefore, more margin on travel goes away. When travel is replaced by virtual, you got to substitute a whole bunch of things by doing many more meetings, many more conversations. I don't think it's a simple math of one gets eliminated, therefore, cost becomes better.

Operator

I'm not showing any further questions in the queue. I would now like to turn the call back over to Roger for closing remarks.

Roger Sachs - *Genpact Limited - Head of IR*

Thank you, everybody, for joining our call today, and we look forward to speaking with you again next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.