FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the first-quarter 2011 Genpact earnings conference call. My name is Erica and I will be your coordinator for today. At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. (Operator Instructions). I would now like to turn the presentation over to your host for today's call, Mr. Shishir Verma, Head of Investor Relations. Please proceed.

Shishir Verma - *Genpact Limited - VP, IR*

Thank you, Erica. Welcome to Genpact's earnings call to discuss our results for the first quarter ended March 31, 2011. My name is Shishir Verma, Head of Investor Relations and with me I have Pramod Bhasin, our President and Chief Executive Officer; Tiger Tyagarajan, Genpact's Chief Operating Officer; and Mohit Bhatia, our Chief Financial Officer. We hope you have had an opportunity to review our earnings release. If not, you will find it on our website at genpact.com.

Our agenda for today is as follows. Pramod will begin with an overview of our results and pipeline; Tiger will update you on our new product initiatives and the Headstrong acquisition. Mohit will discuss our financial performance in greater detail and then

Pramod will have some closing comments. Finally Pramod, 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 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 to 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 news release on the Investor Relations site 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, which we hope you will find useful. This includes, among other things, geographic, industry vertical and BPM and ITO revenue details. With that, let me turn the call over to Pramod.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thank you and good morning, everyone. Thank you for joining us on our call today. Genpact delivered a very good quarter with strong growth in revenues, income, earnings per share and cash flows. We are also excited to have closed our acquisition of Headstrong Corporation on Tuesday, which brings us exceptional high-end capital markets domain and technology expertise and a compelling differentiated value proposition. This acquisition is consistent with our strategy of building deep domain expertise, a key growth vertical, in this case, capital markets and healthcare.

Here are the results. Quarter-one revenues increased 15% year-over-year to $331 million, driven by strong demand for business process management and exceptional growth for Smart Decision Services, which includes our reengineering, analytics and enterprise risk business lines. Global Clients BPM continues to be the growth engine accelerating to 28% growth. Adjusted operating income increased by 17% from last year to $51.2 million, and adjusted operating income margin improved by 25 basis points driven by the productivity and efficiency improvements we implemented late last year. Net income, diluted earnings per share and adjusted diluted earnings per share increased 28%, 27% and 18% respectively.

Growth was broad-based across geographies and most industry verticals driven by Global Clients BPM and Smart Decision Services. The Global Clients business grew by 24% overall. This was led by [key] Global Clients BPM at 28%, including approximately 50% growth in Smart Decision Services, especially in reengineering and analytics.

We also saw solid demand for core offerings such as finance and accounting services and in key growth verticals such as CPG, retail and pharma. Growth was also particularly strong in Europe, Asia-Pacific and India.

As you know, we also have clients in Japan. I am glad to report that all of our employees, our clients are safe and thus far, the disruption to business has been minimal. However, we are monitoring the situation there since it is still too early to tell us the full impact.

Our business with GE increased this quarter by 1% demonstrating the strength and stability of our relationship with GE. Growth was led by a 5% increase in the IT business as new budgets expanded, especially in corporate and commercial finance.

We also continued to see signs of improvement in the current environment, especially in terms of demand for Smart Decision Services and the expansion of relationships with existing clients. This includes more activity in the pipeline with particular strength in mining, faster client decisions and improved cycle times.

We are also beginning to see broader interest in larger annuity projects and won several of these in the first quarter. The environment for new deals remains competitive and pricing has generally been stable.

Our high-value Smart Decision Services, or SDS offering, differentiates us from the competition by leveraging our deep capabilities in lean and Six Sigma, reengineering analytics where we have a long history of success and one of the largest teams of Ph.D.s, postgraduates and graduates in the industry.

As a recent example, we won a multiyear contract with a global online sampling and data collection company to provide software programming and market service design services for their core offering. We were selected because of our deep expertise in survey data analytics combined with our ability to implement and manage a business intelligence technology platform.

The combination of Smart Decision Services with our BPM skills is helping us in this environment with existing and new clients. These engagements are serving as an entry point into large clients where we can demonstrate new insights and strong execution to further the relationship. This quarter, we have increased our client relationships over $5 million to 45 in the first quarter from 37 a year ago and client relationships from $1 million to $5 million went up to 70 from 49 a year earlier.

Adjusted operating income increased 17% in the first quarter and adjusted operating income margin improved by 25 basis points to 15.5% compared to last year as the cost savings and productivity improvements we put in place more than offset lower gross margins. Gross margin results reflected our investment in increased training, new client transitions, especially some that required onshore delivery. This was partially offset, of course, by higher margin products such as Smart Decision Services. We expect gross margins to improve sequentially over the course of the year.

Our wins in Q1 give us good momentum for 2011. We added 16 logos in the quarter compared to 20 in Q1 in the prior year and 12 in quarter four, including a large US-based retailer and clients in consumer packaged goods, healthcare, financial and professional services and pharmaceuticals. Two of these annuity wins were directly attributable to the strength and differentiation of our integrated IT and Smart Decision Services offerings.

Turning to the pipeline, new inflows of opportunities are increasing and conversion times are improving. Our front-end teams are seeing improving market demand and converting a higher percentage of client meetings into new pipeline opportunities. We believe this increase is attributable to greater market demand for our services, coupled with better targeting and a more focused sales effort.

The number and value of new deals coming into the pipeline has increased sequentially over the past two quarters, especially for mining and we are converting these now at a faster rate. We are also seeing more what we would call second-generation outsourcing buyers coming into the market, primarily those whose existing agreements may be ending within the next year or 24 months.

Pipeline growth has been strong in Europe and Asia-Pacific and F&A has experienced a good recovery in Europe accounting for over 50% of new deals in that geographic area. Our mining pipeline is up sequentially year-over-year and the total dollar value of mining opportunities for clients continues to increase, indicating better cross-selling, as well as our clients' continued interest in expanding their relationships with us.

Mining opportunities now represent approximately 60% of the pipeline and the sharp increase in the number of clients over one million, as mentioned before, gives us even greater runway for growth. However, our overall pipeline was actually flat in the first quarter due to faster decisions being made and smaller average deal sizes. Overall, we see improving market sentiment with a good infusion of opportunities and most indicators of demand being either stable or trending positive. With that, I will now turn the call over to Tiger Tyagarajan, our COO.

Tiger Tyagarajan - *Genpact Limited - COO*

Thanks, Pramod and good morning, good evening, everyone. I want to talk about two things -- first, an update on investments we are making in new products and services that we discussed on our last earnings call and second, the Headstrong acquisition.

New product innovation is one of the cornerstones of our growth strategy, bringing together our process and analytics capabilities with our deep domain vertical expertise, along with innovative technology and creating a portfolio of repeatable service offerings that deliver a real business impact for our clients.

Each new product becomes an entry point into a client from which we can expand our relationship or it allows us to expand our existing client relationships through mining. Let me give you three examples. The first is an example of a company driving its sales-force effectiveness without incurring additional investments. A number of companies in the pharmaceutical industry that are facing consolidation and profit pressures caused by the patent cliff are doing exactly this. We are helping a large global pharma client increase the effectiveness of their sales and marketing spend by optimizing a range of functions, including sales incentive compensation, alignment and deployment of their sales-force, improving their market mix models and forecasting and then managing it for them.

The second example is parts inventory optimization for the manufacturing and transportation industries. For a global equipment manufacturing client operating in a distributed environment, we provided the end-to-end workflow tools and technology and the analytical models to give front-line service managers the granularity and intelligence to manage spare parts inventory, minimize carrying costs and make more effective decisions while improving service levels.

The third example is helping companies migrate entire processes, including the technology to the cloud where business process as a service is the answer. This is especially of interest to medium-sized businesses, as well as new divisions and new businesses and new markets of large corporations. We are beginning to create an ecosystem to deliver business process as a service through partnerships and platform acquisitions.

In the last three months, we completed the acquisition of Aktitiv Technologies that have given us an audited cash solution on the Force.com platform, which accelerates our ability to improve collections, optimize credit risk and leverage actionable analytics to drive working capital improvements for our clients.

We announced a partnership with Smart Stream, which provides CFOs greater visibility and shortens their closing process by leveraging our general ledger account reconciliation capabilities with a cost-effective and scalable technology solution.

And finally, we announced a partnership with IASTA, which leverages a comprehensive source-to-pay offering based on our proprietary SEP framework and their e-sourcing platform to reduce cycle times for sourcing and analytics.

There are many such new product innovation ideas that include fraud detection and claims processing, end-to-end customer loyalty programs, etc. that are all in the pipeline, in each case, tied to a scalable platform. In each of these, our unique knowledge of these processes and business insights derived from managing these processes positions us uniquely to offer differentiated services to our clients.

Smart enterprise processes continue to resonate with clients. We kicked off 11 new diagnostics in quarter one of this year compared to 15 in the whole of the second half of 2010. As we develop and take these to market, they will help us penetrate new clients and expand relationships with existing clients. All these are replicable across lines within an industry or across industry verticals.

Now let me turn to the Headstrong acquisition. We are thrilled to welcome the highly talented employees from Headstrong to the Genpact team. Headstrong is a complementary high-growth business that is an excellent fit strategically, financially, operationally and culturally. Strategically, we are gaining critical deep domain and technology expertise in the complex, but highly attractive capital markets industry vertical, as well as Headstrong's strong client base that includes nine of the top 10 investment banks, two of the top five asset managers and several Fortune 500 companies.

This expertise combined with our capabilities in business process management and Smart Decision Services creates a uniquely powerful value proposition for these clients. Headstrong also expands our operations in the US and helps shift our center of gravity to be even closer to our clients. We have already had Headstrong's clients request for meetings to discuss what Genpact can bring to them. Dedicated senior leaders from Headstrong and Genpact are working together on integration plans with a focus on cross-selling.

The acquisition of Headstrong creates a global capital markets vertical for Genpact, just like our banking and insurance, CPG, retail and pharma verticals, amongst others. With their deep domain expertise in capital markets, the primary growth opportunity is bringing Genpact's products, services and process expertise to the capital markets vertical and Headstrong's clients through cross-selling. The joint teams have already had multiple discussions with clients, many at client's initiation.

In addition to capital markets, we see great opportunity to bring Headstrong's technology and domain capabilities in the healthcare vertical market to our healthcare clients, as well as our process and analytics capabilities to theirs. This opportunity potentially accelerates our growth in the healthcare vertical.

Here are two examples that illustrate the cross-sell opportunity in the capital markets vertical. First, together, we can deliver comprehensive transformation solutions to prime brokers in the trade processing function by combining our existing reengineering services with Headstrong's domain and IT capabilities to improve processing efficiencies, accuracy of trade books, cycle time for confirmations and settlements and collateral efficiency.

Second, regulatory changes and internal risk and compliance needs have changed significantly over the last two years and will continue to do so. There is a strong demand for products and services around know your customer, anti-money laundering, segregation of duties, enterprise risk management and enhanced and accurate reporting by all parties. We can combine Headstrong's relationships with more than 50 prime brokers and asset managers and their deep domain and technology expertise with our risk analytics and compliance solutions to uniquely help these clients.

The teams are culturally aligned as this is already helping in the integration. As part of the integration process, we are also bringing our expertise and scale in infrastructure, hiring, training and lean Six Sigma to this capital markets vertical, accelerating growth by removing some of the infrastructure and hiring-related constraints of a smaller company.

There are also some obvious cost synergy opportunities for centralizing some support functions and processes. Now that we have officially closed, we are all excited about moving ahead with the opportunities we see. By combining forces, we can better deliver for our clients who seek a nimble provider with global scale, specialist knowledge and end-to-end solutions. With that, let me turn over the call to Mohit.

Mohit Bhatia - *Genpact Limited - CFO*

Thank you, Tiger and good morning, everyone. Today, I will speak about our first-quarter results in detail, including a summary of key highlights on the balance sheet and statements of cash flow. In addition, I will provide some financial detail on our recent acquisition of Headstrong Corporation.

Overall, the first quarter of 2011 was a very good one for us where we saw growth in revenues, earnings and cash flows and continued leverage from cost actions.

Our business process management growth was 17%, driven by strong global client BPM growth of 28%. ITO revenues remained flat versus the first quarter of 2010 due to continued softness in our European ITO operations. Outside of Europe, our ITO business increased by 6%, representing an increase in overall win rates.

Adjusted income from operations increased 17% to $51.2 million and represented a margin of 15.5% compared to 15.3% in the first quarter of 2010. The uptick in margin percentage was primarily due to the continued benefit of cost control measures in G&A and an improved mix of business more than offsetting a lower gross margin.

Our gross profit for the first quarter totaled $116 million and represented a margin of 35.1%. Our gross margins are typically lower in the first quarter than later quarters as project revenues run off and utilization rates drop. Gross margin was lower in quarter one of 2011 as compared to 2010 mainly due to the following factors -- first, a planned increase in our on-site resources, including local delivery for new client wins and hiring of niche skills in our ITO business to build capabilities that will help us reach our goals; second, continued investment in resources for new accounts and our domestic business in India; and third, investment in employee-facing spends in training, staff welfare and rewards and recognition that we believe will create the right incentives for our employees and help reduce attrition.

SG&A expenses totaled $67 million in the first quarter of 2011, representing 20.4% of revenues versus $73 million and 25.3% in the first quarter of 2010. The improvement was driven by productivity from our cost control actions initiated in the second half of 2010 that we discussed in the last call. Sequentially, we have invested $4 million more this quarter mainly in sales, training and recruitment and we continue to do so as we gear up for future growth. Wage inflation continues to be in the range of 7% to 8% as we had planned for in 2011.

Our tax expense for this quarter was $13.1 million compared to $7.2 million in quarter one of 2010. Our effective tax rate was 26.6% for the first quarter of 2011, up from 20.4% in 2010. The year-over-year increase was in line with our expectations after accounting for certain one-time items booked in the first quarter of 2011.

Net income was $36.1 million, or $0.16 per diluted share in the first quarter of 2011 compared to $28.2 million and $0.13 per share in the first quarter of 2010. The 28% increase in net income was primarily due to lower formation amortization charges and lower stock-option expenses, higher interest income and a foreign exchange re-measurement gain that is reflected below the income from operations line.

I will now turn to our balance sheet. As of March 31, our cash and liquid assets totaled approximately $481 million. This balance is after a scheduled repayment of debt of $12.5 million, various acquisition expenses of $1.6 million and capital expenditures of $6 million. We had planned for a low CapEx spend in quarter one of '11 as we drive improvements in infrastructure utilization, as well as overall IT optimization.

Compared to the previous full-year expectation of 4.5% to 5.5%, we now believe that our CapEx as a percentage of revenue will be in the range of 3.5% to 4.5%. Technology driven CapEx efficiencies and better shift utilization of our production staff have enabled this smaller CapEx investment in 2011 while not impacting our growth.

Our days sales outstanding in the first quarter stood at 84 days in 2011 compared to 85 days in the same quarter last year and 81 days in the fourth quarter of 2010. Our DSOs are typically highest in the first quarter of each year as purchase orders go through their internal process of renewals on the client side.

Turning to operating cash flows, we generated $21 million of cash from operations in the first quarter compared to $20 million utilized in the same quarter last year. This improvement of $41 million was due to better earnings and better working capital management. Last year, we also had certain one-time payments related to an acquisition. We continue to expect our free cash flows to grow in line with revenues.

I will now turn to our acquisition of Headstrong Corporation. While this requires a detailed analysis and evaluation of assets, intangibles and goodwill, I will comment on some aspects of what this means for us. This transaction was completed at a purchase price of $550 million net of cash received. This will be partly funded from borrowings under a new secure credit facility aggregating $380 million with the balance from internal cash reserves.

Our cash position post the acquisition is approximately $270 million. Given Headstrong's higher onshore mix, we do expect that our combined ETR will increase. We will provide further updates on our expectations once we have completed the analysis. We estimate that our combined cash flows will continue to grow in line with overall revenues. We expect the acquisition to be accretive to GAAP earnings per share. With that, I will turn the call back to Pramod for his closing comments.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thank you, Mohit. And in closing, as we have said before, this was a very good quarter for us and a great start to the year. We delivered strong growth in all our key financial metrics and closed the significant strategic acquisition of Headstrong. Headstrong, as we said earlier, gives us deep domain expertise in the capital markets vertical and it aligns really well with our growth strategy along with moving up closer to our clients because of its greater onshore capabilities. This acquisition also obviously diversifies our client base with an estimated approximately 70% of our pro forma revenues coming from our Global Client business compared to 62% in 2010.

We will aggressively add sales and relationship management resources during the year, as well as vertical expertise. And we expect to increase our front-end teams by approximately 20% from 2010. We will also continue to invest in new products and services where we can differentiate Genpact such as Smart Decision Services, Smart Enterprise Processes and our growing offerings in business process as a service. In addition, we have also increased our training budgets by two times versus 2010 because we believe this is critical to improve retention and drive better value to our clients.

As we said earlier, Smart Decision Services is also well aligned with what our clients are seeking in the current environment. These are the types of engagement that will allow us to demonstrate our capabilities and lead to subsequent cross-selling opportunities and deep client relationships.

We increasingly see demand globalizing for BPM with current growth strong, very strong in Europe and Asia and initial client interest growing in South Africa and Latin America. And we continue to shift our center of gravity to be closer to our clients in the geographies in which we serve them. This environment -- the environment is improving and our pipeline conversion rates are high and steady, which gives us optimism for 2011 and beyond.

The global BPM market, as we have said many times in the past, is large and relatively underpenetrated. Our breadth of services and sharp increase in the number of clients above $1 million gives us an excellent runway for growth. We have a unique DNA based on innovation, lean and Six Sigma and operating excellence, which is difficult to replicate and positions us as one of the best in the business in overall business process management. This gives us a tremendous amount of encouragement to capture the long-term opportunity and Genpact's leadership role in that market.

Based on current trends and incorporating the Headstrong acquisition, our updated outlook for 2010 includes the following -

one, organic revenue growth unchanged in the range of 10% to 13%;

two, total Company revenue growth of 23% to 25%, which includes the contribution from the Headstrong acquisition for the remainder of the year;

three, a range to 16-16.5% for adjusted operating income margin, which includes the impact from Headstrong and our continuation of investment in our front-end vertical expertise, new products and training.

As we said earlier, again, we expect the Headstrong acquisition to be marginally accretive to GAAP EPS this year.

Lastly, we are planning to hold an Investor Day in New York on June 7 where we plan to share more details on our plan for growth and especially our strategy for building deep vertical domain expertise to increase our competitive advantage and improve our differentiated value proposition. We hope we will see many of you there. On that, I will turn it back to Shishir.

Shishir Verma - *Genpact Limited - VP, IR*

Erica, please open the floor for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bryan Keane, Credit Suisse.

Bryan Keane - *Credit Suisse - Analyst*

Yes, hi, guys. I just want to ask about the European IT business. I know that business has been sluggish for a while and it kind of dragged down the IT results this quarter. Can you just talk about the outlook there and any improvements on the horizon?

Pramod Bhasin - *Genpact Limited - President & CEO*

Yes, I think what we are doing is putting changes in management and improving the training that we need to do in that area. The actual decline that we have had in that business is actually quite marginal in totality because our IT business isn't such a large piece, but it still had a dampening effect on overall growth rates. But we think it is about to turn. We think it is beginning to turn. We think our win rates in the overall IT business are high. So even if Europe doesn't turn as much, I think the rest of the IT business is growing very nicely. GE is growing well. So we are beginning to see the impact of all the stuff that we had done there beginning to come through now.

Bryan Keane - *Credit Suisse - Analyst*

And just the overall IT business, that is more the actions you guys have done or more just the pickup in the economy that is making that turnaround possible?

Pramod Bhasin - *Genpact Limited - President & CEO*

I think the pickup in the economy happened last year and the year before frankly. So we should have seen that, but now it is a lot about the actions we have put into place, new leadership in place, new sales-force, selling better products, more focus on who we sell to, higher win rates. It's showing up in things like higher win rates, etc., which to us is a real test here.

Bryan Keane - *Credit Suisse - Analyst*

Okay. And just wanted to ask on the acquisition of Headstrong, I have down $217 million in revenues for 2010. Should we expect about a 20% growth rate this year? Just curious because if that is the case, I get a little higher number than your guidance for

Headstrong. So I guess the overall question is just what should Headstrong -- how fast should that $217 million be growing in 2011?

Pramod Bhasin - *Genpact Limited - President & CEO*

I think what we have said about Headstrong in the past is that we should expect a medium to long-term growth rate of 20% plus from Headstrong. That is the gain. I think as we get into this year -- obviously, it's a new acquisition, we are going to watch it and see how it plays out. That is why we have come out with the guidance we have. We just -- it is early days. We want to make sure that we are getting to know it well, understand the business well, and really we expect to be able to do cross-sell opportunities. I think those are going to kick in again next year. So medium to long term, yes, 20% plus. Right now, we really want to watch and see how it all comes together.

Bryan Keane - *Credit Suisse - Analyst*

Okay, congratulations on the solid results.

Pramod Bhasin - *Genpact Limited - President & CEO*

Thanks.

Operator

Tim Fox, Deutsche Bank.

Tim Fox - *Deutsche Bank - Analyst*

Thanks for taking my question. On Headstrong and thinking about that business from a seasonal perspective, is there anything materially different from your core business as we model that out over time?

Pramod Bhasin - *Genpact Limited - President & CEO*

No, I wouldn't say that. I think it may not have the same fourth-quarter to first-quarter jump and I think given its size, we should see stronger, steadier growth as we go forward. Typically, in a growth business, obviously second half will be higher than first half, but that is just sort of arithmetic. So I don't think there is anything unique or terribly different that you would see except perhaps the fourth-quarter to first-quarter swing may not be as pronounced with Headstrong.

Tim Fox - *Deutsche Bank - Analyst*

Okay. And also relative to the guidance, how should we think about the margin structure for Headstrong on a gross margin perspective? Is that something you can share at this point or wait for your Analyst Day? Just as we think about -- obviously, your margin structure guidance from an operating perspective is in line, but how should we think about the gross margins for that business?

Pramod Bhasin - *Genpact Limited - President & CEO*

One, I would like to do that, if I may, at the Analyst Day. I think that is the right day when we can get into this more. We can make changes -- that is the other thing. We are going to make some investments. We would like to put some more efforts in -- it may change a little bit, not a lot. Right now, on adjusted operating margin, as we have said, we are holding to the same level that we had with Genpact earlier, but ideally I would like to comment on it -- we just closed the deal Tuesday. So on June 7, we will be delighted to talk about it more.

Tim Fox - *Deutsche Bank - Analyst*

That's fair. And then finally, obviously, the business is starting to cycle a little bit faster. How would you compare win rates and deal close rates this past quarter relative to say the 2006, 2007 timeframe when things were really cranking?

Pramod Bhasin - *Genpact Limited - President & CEO*

I think win rates are not as strong as 2006, 2007. I think competition is more fair, there is a lot more competition out there. So win rates in some of the core areas are not as strong, but, for instance, on Smart Decision Services and mining, our win rates are much, much better. The cycle times are actually now I would say even faster than 2006 and 2007. Would you agree, Tiger?

Tiger Tyagarajan - *Genpact Limited - COO*

So when it comes to Smart Decision Services and IT, cycle times are much faster than '06 and '07. When it comes to the larger annuity deals, it is definitely faster than it was 12 months back, but not probably still at the 2007 levels.

Tim Fox - *Deutsche Bank - Analyst*

Got it. Thank you. Congrats on the quarter.

Operator

Tien-Tsin Huang.

Unidentified Participant

Hi, this is Puneet for Tien-Tsin. Nice quarter. So Q1 revenue came in a little higher than our expectations and also seems a little high given where your annual revenue guidance is for the core business and what the given contribution has been in the past to annual revenue dollars. Should we expect slightly different seasonal trends this year related to what you have delivered in the past?

Pramod Bhasin - *Genpact Limited - President & CEO*

It will be slightly different I think. I think the acceleration we have seen in Smart Decision Services is a change than what it has been in the past, no question about it, in the first quarter. Now the impact of that isn't huge because it is still sort of 15%, 18% of our business overall at this point in time.

Unidentified Participant

Sure. And also you talked about cost control efforts and improved business mix as the drivers for overall lower G&A expenses. Should we expect given expenses at the Q1 level as a new baseline for rest of the year for your SG&A expenses?

Pramod Bhasin - *Genpact Limited - President & CEO*

We would expect SG&A expenses to increase. Certainly, the sales expenses we will actually invest and increase very deliberately.

Unidentified Participant

But overall SG&A will also increase with that, with higher...?

Pramod Bhasin - *Genpact Limited - President & CEO*

G&A should increase -- we should get leverage on G&A and it should be -- we should get some leverage on G&A. It shouldn't increase as much as sales, but -- as much as revenues, but the sales side will increase.

Unidentified Participant

Okay. And you also mentioned that gross margin should expand sequentially from Q1 levels. Can you comment on when do you increase your offshore wages and what magnitude you expect to increase wages this year?

Pramod Bhasin - *Genpact Limited - President & CEO*

We don't increase wages one time firstly. It is a very important point that we differentiate. We don't do it like most other where you take a one-time increase. We increase it during the year. As we have said in the past, our wage inflation will be 7% to 8%.

Unidentified Participant

Okay, nice. Good quarter, guys. Thank you.

Operator

Edward Caso, Wells Fargo.

Rick Escilson - *Wells Fargo Securities - Analyst*

Yes, hi. It's actually Rick Escilson on for Ed. First, just a question on attrition. It seems like you are still having some things with attrition. Can you sort of comment on what the outlook is for attrition?

Tiger Tyagarajan - *Genpact Limited - COO*

So Ed, this is Tiger. I think if we go back to the last earnings call, we had said that, as we go from quarter four to quarter one, our attrition will come down as we invest back in training and bring back some of our core capabilities around managing attrition and workforce. And that is exactly what happened from Q4 to Q1. We expect this attrition to continue to come down one more

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notch so that by the end of the year, we are talking about a 26% to 27% odd attrition rate, which is something that we ran the Company with if you go back to the 2006, 2007 period.

Rick Escilson - *Wells Fargo Securities - Analyst*

Okay, great. And then just on the tax rate side, the tax rate was a little bit above where we had it. So do you have an update for guidance on the tax rate?

Mohit Bhatia - *Genpact Limited - CFO*

Our guidance is unchanged from what we gave you last time for the organic piece of Genpact, but like I mentioned earlier, we do expect the ETR to go up when we combine the Headstrong financials with ours. And these involve a fair amount of complexity, so we are still doing the analysis and we will get back to you on how much we expect that increase to be. It will definitely be an increase given the fact that Headstrong has a much higher onshore presence across the US and other countries.

Rick Escilson - *Wells Fargo Securities - Analyst*

For now is sort of a run rate with quarter one a fair assumption or should we be looking for something a little bit different than that?

Mohit Bhatia - *Genpact Limited - CFO*

Quarter-one tax rate is higher at 26.6% because of certain one-time and period items we had to take in the first quarter. Even for standalone Genpact, you should expect the tax rate to come down in the subsequent quarters to be within the guidance that we gave you.

Rick Escilson - *Wells Fargo Securities - Analyst*

Okay, thank you.

Operator

Dave Koning, Baird.

Dave Koning - *Robert W. Baird - Analyst*

Yes, hey, guys, nice job. I just want to ask about -- the other income line this quarter was a little higher than normal too. It was about $3 million and I am just wondering was there anything nonrecurring in that line or was that just a higher interest rate or something on all the cash that you currently have?

Mohit Bhatia - *Genpact Limited - CFO*

That is accurate actually. The reason for the upside was higher interest income as the distribution of our cash globally was in sites that do accrue a high interest income. It is hard to say whether that is permanent because the cash is fungible and it keeps moving geographically. And if and when we do consolidate that cash in the US, the interest income would come down.

Dave Koning - *Robert W. Baird - Analyst*

Okay. And then in the next quarter, obviously, we would start factoring in the Headstrong acquisition there. So we would expect that to turn into a negative item once you enter into the debt -- once you start borrowing for Headstrong, etc., right?

Mohit Bhatia - *Genpact Limited - CFO*

That is correct.

Dave Koning - *Robert W. Baird - Analyst*

Okay. And then just one other thing. On the FX gain side, should that continue -- as long as the rupee remains quite strong year-over-year, should we expect that same level, about $1.5 million, the next couple quarters of FX gains too?

Mohit Bhatia - *Genpact Limited - CFO*

No, the ForEx gain below the line is representative of movements versus the previous quarter. So if the foreign exchange rates remain stable, you should see no further upside or downside in the next quarter.

Dave Koning - *Robert W. Baird - Analyst*

Oh, right, right because that is the balance sheet translation at the end of the quarter.

Mohit Bhatia - *Genpact Limited - CFO*

Yes.

Dave Koning - *Robert W. Baird - Analyst*

Okay. Great, well, thank you.

Operator

Jeff Rossetti, Janney.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

Yes, Jeff Rossetti for Joe Foresi. Thanks for taking my question. Just wanted to see if you could talk a little bit more about the pricing environment. I believe you mentioned it was stable. Just wanted to see if there is any change with the pickup in the decisions.

Pramod Bhasin - *Genpact Limited - President & CEO*

It is stable. It is very competitive, but it is stable. I think there are more decisions being made, there are more deals, so I think that is helping the pricing environment. It is still extremely competitive.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

Okay. And is there any other details you can provide about the cost synergies with Headstrong that I believe you mentioned earlier?

Pramod Bhasin - *Genpact Limited - President & CEO*

We didn't mention cost synergies that much. I mean there will be some, but the whole idea of this acquisition was growth, not cost. Absolutely, there will be some in obvious areas like audit fees and company statutory stuff that you don't need for a company. There will be some transition and other costs in the first year certainly that will offset some of that. But this is really about growth and cross-sell and less about cost synergies. We will take what we get, but that is not going to be the focus.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

Okay. And just -- I think you mentioned -- there was an earlier question about Headstrong growing 20% relative to their $217 million in 2010. I just wanted to see if you had any change in your utilization expectations for Headstrong as it sort of gets integrated?

Pramod Bhasin - *Genpact Limited - President & CEO*

No, we wouldn't. I think it is a different business model perhaps from -- perhaps a usual India-based IT company. It is not an India-based IT company; that is one very easy difference. It has a lot more onshore presence. We are not focused as much on utilization as getting very good billing rates and delivering very high-end services. And therefore, our focus is going to be to expand mining growth with current customers and cross-sell. And I don't think we are going to focus that much on -- I don't think we will focus -- we are not focused on utilization rates as such.

Tiger Tyagarajan - *Genpact Limited - COO*

Obviously, when we cross-sell BPM and Smart Decision Services and those types of services that are our Genpact services, those will have the kind of utilization rates that we have because they will obviously be different services from the IT services that Headstrong serves onshore into their capital markets customers.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

Thank you very much.

Operator

Arvind Ramnani, UBS.

Arvind Ramnani - *Bank of America-Merrill Lynch - Analyst*

Hi, I just had a couple of questions. With Headstrong focused on the capital markets, it is obvious that a big opportunity is taking Genpact services to these clients. Now what is the opportunity for taking Headstrong's services to other industries that Genpact focuses on? And also is there a sizable opportunity at GE for Headstrong services?

Tiger Tyagarajan - *Genpact Limited - COO*

So first of all, on the healthcare side, there are clearly -- the biggest opportunities after the capital markets vertical is taking the healthcare and the capabilities that Headstrong has around technology services in the healthcare vertical, which some very strong clients that they have, into our healthcare clients.

The second, and as you know, healthcare is a big vertical for everyone, including for us. The second is taking some of the capabilities that they have on the front end in Japan with the relationship that they have in large corporations in Japan and as you know, our global delivery capability out of China, as well as our reengineering capabilities are great combinations that we can take together to Japanese clients.

And the third would be very specific technology capabilities that are fungible across verticals. I mean obviously some of the capabilities that they have are things like .NET, Java kind of capabilities, which we haven't had before as much in scale. That allows us to take it to those clients where we have a relationship and we can take it in.

I only want to say that the focus of the entire acquisition is our cross-sell into capital markets, taking their healthcare into our customers and our capabilities into their healthcare customers and Asia, Japan. Those are the three big focus areas.

Arvind Ramnani - *Bank of America-Merrill Lynch - Analyst*

And then I just have one more question, essentially going back to the question I asked on your overall guidance for your revenue growth rate. So if I model it out organic revenue growth for Genpact at [11.5], which is the midpoint of your guidance and I model out your overall revenue growth at 24%, I have Headstrong growing at just 7% and the 7% definitely seems very conservative. I know it is early days, but Headstrong growing at 7% just seems overall very conservative, particularly when many of Headstrong's competitors are growing at 20% plus this year.

Pramod Bhasin - *Genpact Limited - President & CEO*

No, I agree. Look, there is some level of conservativeness there absolutely. We would certainly hope they don't grow at 7%, grow a hell of a lot faster than that. I just think it is early days. We want to be conservative, we want to be careful in what we go after and say I think it is early days in the acquisition, it's early days in the year. We have had a terrific first quarter, but we want to make sure that the -- the environment is changing, cycle times are changing, lots of things are changing and I think we are just making sure that we are comfortable with our guidance at this point in time. As I said, medium to long term, no question, Headstrong should grow at 20% plus.

Arvind Ramnani - *Bank of America-Merrill Lynch - Analyst*

Excellent. Thank you.

Operator

Kunal Tayal, Bank of America-Merrill Lynch.

Kunal Tayal - *Bank of America-Merrill Lynch - Analyst*

Hi, thank you for taking my question. Firstly, I just want to understand, as Genpact looks to cross-sell into Headstrong's clients, what is the earliest by when we can expect a meaningful benefit to revenues from this opportunity?

Tiger Tyagarajan - *Genpact Limited - COO*

Yes, a lot of the cross-sell, as we said, is going to be business process management type services and as you know, those take a longer cycle time than faster IT services, which has Headstrong already has. So I would expect -- we would expect real revenue on cross-sell coming through as we get into next year.

Kunal Tayal - *Bank of America-Merrill Lynch - Analyst*

Sure, thanks. And just one more question, sequentially, GE revenues have declined by 10%, so was it a surprise for the Company and how should we think of the GE revenue stream playing out over the next several quarters?

Pramod Bhasin - *Genpact Limited - President & CEO*

No, that wasn't a surprise. That is broadly on plan. It is how it works with GE every year. Their projects run off in the fourth quarter. Our gain share pays off, lots of things like that happen in the first quarter, so there are a whole variety of things that come down. Consumer collections ramp down from fourth quarter into first quarter on the GE capital side. So this is pretty standard and as we said earlier, GE should come in at sort of the low single digit growth rates.

Kunal Tayal - *Bank of America-Merrill Lynch - Analyst*

That's helpful. Thanks, Pramod.

Operator

Matt McCormack, BGB Securities.

Matt McCormack - *BGB Securities - Analyst*

Yes, hi, good morning. You mentioned several times I guess the shift onshore to become closer to your clients, part of the Headstrong -- part of the reason for the Headstrong acquisition. I guess could you talk about how you are going to balance moving closer to your clients and also being able to sustain your margins?

Pramod Bhasin - *Genpact Limited - President & CEO*

Sure. I think when we say getting closer to the clients, we really mean getting more of our executive leadership in positions where they are closer to our clients. So when we bring in our software leader, he sits in the US. Our global relationship manager and people, they sit in the US. When we get the right people in healthcare, they'll sit in the US. When we look at capital markets, obviously with Headstrong now, they will be based primarily out of the US. That is really what we talk about.

So it shouldn't impact our margins, in fact, because I think it should just help and grow mining faster, get us into more client discussions faster, put more people on the -- more feet on the street in those geographies in which we play. That is why we are excited about the Headstrong acquisition for instance in Japan because they have got a large bubble of people on the ground in Japan, which is something we never had in the past. So getting close to the customers is just on the relationship management, BD and leadership side. I think it should help margins, not detract from them.

Matt McCormack - *BGB Securities - Analyst*

Okay. And then you made an interesting comment, you said that you are seeing demand from, I guess, the second generation of F&A outsourcing. I guess could you elaborate on that and what would be causing the first generation contract to change and provide an opportunity for you?

Tiger Tyagarajan - *Genpact Limited - COO*

So it is not just F&A, it is actually contracts that were entered into about five years back. Our contracts that are now being re-evaluated by those clients and depending on the nature of those relationships, the size of those relationships, because often the scope at that point in time was smaller, so a lot of them are coming back and saying now I have the confidence to increase the scope. And some of them are saying when we increase scope, we think we need to include other providers who have other capabilities that our current provider doesn't. Actually, that is the most interesting one that we see most often.

Matt McCormack - *BGB Securities - Analyst*

Okay, and then just a few housekeeping questions. Did you provide organic growth for the first quarter?

Pramod Bhasin - *Genpact Limited - President & CEO*

No, we don't -- well, no, you have got -- organic growth would be -- we have had Symphony Marketing Services, you are right, as the acquisition in the first quarter. So organic growth rates would have been 14%.

Matt McCormack - *BGB Securities - Analyst*

Okay. And Smart Decision Services, could you break that out as a percentage of revenue? I know you said it grew 50%.

Pramod Bhasin - *Genpact Limited - President & CEO*

No, we don't. It is broadly in that range. We don't really break it out.

Matt McCormack - *BGB Securities - Analyst*

Okay, and then just lastly, just the Headstrong acquisition, how many employees is that adding and then is there any kind of major difference to the attrition with those type of employees versus Genpact's?

Pramod Bhasin - *Genpact Limited - President & CEO*

It is about 3700 employees at this point in time. Attrition rates surprisingly are -- they are lower than Genpact's and we think they will be consistently lower than Genpact mainly because, on the business process side, we have -- there are things like Voice in other areas in our India-to-India business where attrition is much higher. But it should be lower broadly on Headstrong. It will be higher than some of the larger IT guys, but it will still be lower than what we have.

Matt McCormack - *BGB Securities - Analyst*

Okay, thank you so much.

Operator

(Operator Instructions). We have no further audio questions. I will turn the call back over to Shishir Verma for any closing remarks.

Shishir Verma - *Genpact Limited - VP, IR*

Thank you, Erica. Thank you, everyone, for joining us on our call today. If you have any questions, please do not hesitate to reach out to me and please remember that we will have our Investor and Analyst Day June 7 in New York. Thank you very much.

Operator

Thank you for your participation in today's conference. This concludes the presentation. Everyone may now disconnect and have a great day.