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Genpact Ltd. (G)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, welcome to the 2022 First Quarter Genpact Limited Earnings Conference Call. My name is RJ, and I will be your conference moderator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this conference call. As a reminder, this call is being recorded for replay purposes. The replay of the call will be archived and made available on the IR section of Genpact's website.

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

Roger Sachs
Head-Investor Relations, Genpact Ltd.

Thank you, RJ, and good afternoon, everybody, and welcome to our earnings call to discuss results for the first quarter ended March 31, 2022.

We hope you had a chance to review our earnings release, which was posted to the IR Section of our website, genpact.com. Speakers on today's call are Tiger Tyagarajan, our President and CEO; and Mike Weiner, our Chief Financial Officer.

Today's agenda will be as follows: Tiger will provide an overview of our results and an update on our strategic initiatives, Mike, will then walk you through our financial performance for the quarter as well as provide our current thoughts on our outlook for the full year 2022. Tiger will then come back for some closing comments and then we will take your questions. We expect the call to last about 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 will find a reconciliation of these measures to GAAP in today's earnings release posted to the IR section of our website.

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

N. V. Tyagarajan

Chief Executive Officer & Director, Genpact Ltd.

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our first quarter 2022 earnings call.

We had a great start to the year with top line growth, adjusted operating income margin and adjusted diluted EPS all coming in ahead of our initial expectations. Our investments in our strategic choices have positioned us well to help clients navigate the many challenges in this macro environment. We saw another quarter of strong demand for our data and analytics, digital and consulting businesses that make up Transformation Services, as well as continued strength in our Intelligent Operations business.

For the first quarter of 2022, we delivered total revenue of $1.1 billion, up 14% on a constant currency basis; Global Client revenue of $973 million, up 15% on a constant currency basis; adjusted operating income margin of 15%, expanding 60 basis points from the fourth quarter; and adjusted diluted earnings per share of $0.60, up 2% year-over-year.

The macro environment continues to be challenging with inflation rising to a 40-year high, a massive spike in energy prices, ongoing disruption to supply chains, a hot talent market and the Ukraine-Russia War to name just a few.

Our Eastern European delivery footprint which is centered around Romania, Poland and Hungary, with approximately 7,000 employees have not experienced any operational disruptions. We're also not seeing any material change in client behavior as it relates to our global business. While demand remains healthy on the back of the momentum we saw last year, particularly as every company searches for solutions to help them undertake the transformation needed in these times.

Bookings reached the highest first-quarter level since quarter one 2019, with 60% being annuity-based deals and 50% sole sourced. While we don't typically share color on quarterly bookings, given the environment, we thought this was a good signal to share. This included two large engagements with total contract value greater than $50 million, both in the banking and capital markets industry. During the quarter, we also added 32 new clients, up from an average of 24 new clients per quarter in 2021.

Both our quarter-end pipeline and inflows during the quarter reached all-time highs. Coupled with robust bookings momentum, this is a clear indication of the expansion of our total addressable market and differentiated value proposition for our solutions and services. Global Client revenue was up 15% year-over-year on a constant currency basis, led by continued strong performance from our analytics, digital and consulting businesses that make up Transformation Services, which grew 29% year-over-year and now represent 37% of total Global Client revenue.

On the back of deal ramps from recent wins, Intelligent Operations grew 7% and represented 63% of total Global Client revenue. Global Client revenue growth was broad-based across all our chosen verticals, including double-digit growth in consumer goods and retail, life sciences and healthcare, high-tech, banking and capital markets and insurance. Revenue from our GE businesses in the first quarter was up 2%. As we mentioned last quarter, we continue to believe that GE's separation into three independent companies provides us with opportunities to win new work in support of the spinoffs.

Demand for our analytics, digital and consulting services that make up Transformation Services is being fueled by the strong momentum we are seeing across four specific service lines: Sales and commercial operations, supply chain management, financial crimes and risk, and financial planning and analysis. In each of these areas, we leverage technologies like AI, machine learning and the cloud to process complex datasets and build dynamic analytical models that then drive insights. We then use these insights to drive actions that deliver meaningful business outcomes beyond just cost productivity (sic) [cost and productivity]. Together, these four service lines were up 47% in the first quarter and their importance to clients' transformation agendas in these times underpins the significant expansion of our pipeline.

For example, in financial crimes and risk, we are leveraging our cloud-based financial crimes and regulatory compliance solutions as well as our AI and digital technologies based solutions to enhance the customer experience provided by our banking clients. We are also seeing great traction with new-age fintechs where we are helping them deal with critical issues around customer fraud and risk management and providing scale to their operations as they grow. This was highlighted by the two large deal wins I referenced earlier. All of this is driving growth in our banking and capital markets vertical.

Our Global Client analytics business grew a very healthy 40% year-over-year. Let me provide a few examples of how we are helping clients use data and analytics for strategic decisions and delivering improved outcomes. We are working with a large, luxury consumer goods brand to significantly improve its data quality by aligning key performance metrics for its online and physical channels and building models to optimize inventory levels. Additionally, our Rightpoint experience team is helping to elevate consumer experience on e-commerce websites by providing updates to product marketing to improve the clients' e-commerce growth by up to 15%.

For a large global insurance company, we developed an AI machine learning model that leverages both internal and external data to quickly and accurately assess risks and prioritize policies to be underwritten to minimize lost opportunities. Our solution significantly reduces the clients' response times from days to hours and is expected to drive an incremental low double-digit growth over time.

For a large global sporting goods brand, we built complex machine-learning models, leveraging a vast amount of consumer, transaction and demographic data to determine the best price, promotion, assortment, and inventory levels to create personalized engagement with consumers. Led by our Enquero, this data and analytics team, this solution is increasing the client's direct-to-consumer market share while improving their profitability.

All of these solutions that drive tangible impact beyond just cost and productivity are replicable across other clients. We continue to see momentum in driving commercial models based on outcomes that we deliver instead of FTE-based pricing alone, creating deeper strategic alignment with our clients. We are bringing our teams with deep industry and functional domain expertise, together with data scientists and digital technology experts to deploy specific solutions that add value to our clients in these times. Here are three specific examples.

In response to the inflationary environment, we have developed a suite of services and solutions, all leveraging data and analytics to help clients drive proactive actions in sourcing and procurement, sales and marketing, and supply chain to bolster their financial health. These solutions include supplier prioritization and consolidation, pricing and promotion optimization strategies, and more accurate, dynamic and real-time supply and demand forecasting.

As the Russia-Ukraine war entered its third month, we are engaging with clients on cybersecurity issues, business continuity planning and geographic diversification of operations, given our extensive global delivery model. And thirdly, most importantly, the war for talent has left companies searching for creative ways to fill critical roles.

Our Centre of Excellence hubs enable clients to access our highly skilled global workforce in sought-after areas, including data scientists and digital practitioners, that also have deep domain expertise in services such as financial accounting, supply chain management and financial crimes and risk. All of this drove a significant expansion in the size of our Global Client relationships.

During the 12-month period ending March 31st, 2022, we grew the number of Global Client relationships with annual revenue over $5 million from 132 to 149. Clients with more than $25 million in annual revenue increased from 24 to 30. Clients with more than $50 million in revenue increased from 11 to 12. Our large client relationships are growing faster than the company average as we open up new buying centers and bring more end-to-end solutions to them.

The passion and dedication of our global teams to deliver great service to our clients continues to be central to our success. Our investment in the learning and development of our talent not only helps us access in-demand skills, but also provide them with the critical skills needed to build their careers in a changing world.

During the first quarter, we welcomed almost 15,000 new team members reflecting the power of Genpact's brand in a very competitive talent market. During the first quarter, our employees also completed over 2 million training hours, leveraging our online on-demand learning platform, Genome. This includes our DataBridge program that trains employees in data analytics, decision-making and storytelling capabilities to drive actionable insight generation for clients.

DataBridge was recently recognized by IDC as an industry-leading data literacy program at scale that could be one of the largest of its kind. We have so far trained and certified more than 50,000 employees through this program. Using our internal talent match platform, we successfully redeployed over 5,000 newly skilled talent to support the needs of our clients.

Our attrition rate in the first quarter remained at 33%, in line with the rate we reported over the prior two quarters. With our ability to reskill, redeploy and hire at scale, we continue to see no impact on our client engagements, or the successful conversion of new opportunities. We believe this is a critical competitive advantage, particularly as talent supply pressures across all industries has led to clients needing partners like us more than ever.

As we continue through the year, we expect our overall demand to remain robust led by our data analytics and digital businesses. We're also actively engaged with clients on pricing adjustments related to the current inflationary environment and continue to make steady progress to-date. These are complex conversations that take time, but also open up possibilities to drive more value for our clients and to deliver a win-win outcome for everyone.

With that, let me turn the call over to Mike for a detailed review of our first quarter.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

Thank you, Tiger, and good afternoon, everybody. Today, I'll review our first quarter financial results and provide an update on our full-year 2022 financial outlook. Total revenue was $1.1 billion, up 13% year-over-year, or 14% on a constant currency basis, driven by better-than-expected performance in both Global Client and GE revenue. Global Client revenue, which represents 91% of our total revenue, increased 14% year-over-year, or 15% on a constant currency basis, largely driven by continued strong demand for Transformation Services that was up 29% in the quarter, as well as a 7% growth in Intelligent Operations, primarily related to deal wraps.

GE Revenue increased 2% year-over-year, primarily due to short-cycle project work during the quarter. Adjusted operating income margin was 15%, down 220 basis points from first quarter of last year. As a reminder, our higher than normal adjusted operating income margin levels during the first quarter (sic) [half] of 2021 largely resulted from lower travel expenses and the deferment of certain planned R&D and sales and marketing investments for the second half of the year, reflecting the impact of COVID-19.

The better-than-expected adjusted operating income margin performance during the quarter was primarily driven by strong top-line performance across our businesses. Gross margin in the quarter declined 70 basis points year-over-year to 36.1%. However, it increased 130 basis points sequentially from the fourth quarter. This quarter-on-quarter expansion, largely due to positive impact from scaling up investments made during the fourth quarter related to deal activity and the benefit of improving pricing Tiger referred to earlier.

SG&A, as percentage of revenue was 22.2%, up 100 basis points year-over-year, largely due to the impact of the investments in sales and marketing and R&D that we dialed up in the latter part of 2021. Adjusted EPS was $0.60, up 2% year-over-year from $0.59 in the first quarter of last year. This $0.01 increase was primarily driven by a $0.01 impact of lower share count, lower taxes of $0.01, partly offset by $0.01 impact of significantly (sic) [slightly] lower operating income. There was no material impact on adjusted EPS relating to the $4 million FX re-measurement gain recorded in the first quarter, given our adjusted EPS results in the same quarter last year included a slightly lower $3 million FX remeasurement gain.

Our effective tax rate was 23.5%, down from 24.1% in the same period last year, primarily due to new lower taxes in certain jurisdictions we operate in for the first quarter of 2022 as compared to 2021.

Turning to our cash flow and balance sheet. During the quarter, we utilized $114 million of cash from operations. The use of cash versus generated cash is typical in the first quarter of most years, however, last year in the same period, we did generate $77 million of cash, which was not typical, due to higher adjusted operating income, as well as improved days outstanding and overall working capital levels.

As a reminder, during the fourth quarter, days sales outstanding benefited from higher level of short cycle work booked in the quarter than we anticipated. On a year-over-year basis, our days sales outstanding improved to 82 days compared to 84 days during the first quarter of 2021. As a typical pattern, we expect days outstanding to improve sequentially each quarter as we continue to believe the DSOs will exit the year in the high 70-day range.

Cash and cash equivalents totaled $862 million compared to $899 million at the end of the fourth quarter 2021. Our net debt-to-EBITDA ratio for the last four rolling quarters increased to 1.5 times from 1.1 times at year end, relating to general cash management. With our undrawn debt capacity, existing cash balances, we continue to have ample liquidity to pursue growth opportunities and execute on our capital allocation strategy. We expect net debt to EBITDA ratio to remain in the preferred range of one times to two times.

On April 1st, we repaid $350-million bond that had a coupon of 3.7%. Given the current volatility in the market, we're very pleased that almost 80% of our total debt is fixed rate. During the quarter, we executed on our program of a more regular cadence of share repurchases and took advantage of the attractive valuations of our shares and bought back 1.6 million shares for a total cost of $76 million or on average $46.61 (sic) [or on average price per share of $46.61]. We also paid dividends totaling $23 million.

Capital expenditures as percentage of revenue was approximately 1%. We continue to expect this percentage to be in the range of approximately 1.5% to 2.2% (sic) [2.0%] for the full year 2022 with higher spend during the remainder of the year as employees return to the office as part of our hybrid delivery model.

Now, let me provide you with an update on our full-year outlook. Given our strong start to the year, we now expect total revenue to be between $4.325 billion and $4.4 billion, representing a year-over-year of 8% to 9%. This incorporates an expected larger headwind – currency headwind than we provided in our full-year outlook in early February, given heightened market volatility. We now expect total revenue growth between 9% and 11% on a constant currency basis, up from a prior full-year outlook of 8% to 10%.

Global Client revenue for 2022 are expected to grow in the range of 9% to 11%, or 11% to 13% on a constant currency basis, up from our prior outlook of 8% to 11%, or 9% to 12% on a constant currency basis. There is no change to our prior full-year 2022 outlook for GE of approximately 5% year-over-year decline.

Given the uncertain climate, we continue to expect our full-year 2022 adjusted operating income margin to fall within the range of 16% to 16.5%. As we get better visibility as the year progresses, we anticipate tightening this range. We fully expect our adjusted operating income margin will expand in line with our strategy over the medium term.

We now expect adjusted earnings per share for the full-year 2022 to be between $2.60 and $2.76, up from our prior outlook of $2.53 to $2.71. This reflects increase in the lower end of our range of the outlook (sic) [top line outlook range], the impact (sic) [positive impact] from first quarter FX remeasurement gains I referred to earlier, and our assumptions related to share repurchases for the year. Lastly, we continue to forecast cash flow from operations of $600 million for full-year 2022.

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

N. V. Tyagarajan

Chief Executive Officer & Director, Genpact Ltd.

Thank you, Mike. Our strong start to the year reflects our resilient business model and relevancy for our clients in the market. Our acquisitions of Hoodoo Digital and Enquero have integrated well and bolstered our capabilities in digital experience and data and analytics, both critical areas driving end-to-end digital transformation for clients. The other targeted acquisitions we have done, including the Rightpoint in experience, Something Digital in digital commerce, Barkawi in supply chain management, and riskCanvas in financial crimes, have all fueled growth in our focus service lines and capabilities.

Our business is primarily made up of annuity-based revenue streams derived from designing, transforming and running mission-critical operations for clients in our chosen industry verticals. The more we become a trusted partner of choice, the more we can help our clients drive change so they can better compete in their markets. Whether reducing fraud or optimizing inventory, creating overall operational efficiencies to increase profitability, or providing a better employee or customer experience to help grow revenue, we help clients navigate the many challenges associated with economic cycles.

We are proud of our progress on environmental, social and governance. We recently published our 2021 Sustainability Report, highlighting some of this progress, including 41% global gender diversity, a 44% reduction in Scope 1 and Scope 2 emissions since 2017, exceeding 10 million learning hours by our employees for the second year in a row, and 11 million lives impacted through our Corporate Social Responsibility initiatives. We continue to be recognized for our commitment to ESG initiatives. We are thrilled to have been named to the Forbes list of Best Employers for Diversity 2022, demonstrating our ability to foster a diverse, equitable and inclusive environment where our employees can thrive. We've also been named a world's most ethical company by Ethisphere for the fourth time, recognizing our commitment to the highest levels of ethical behavior aligned to our purpose.

We know building a more sustainable world is complex and requires partnerships. We will do our part as a company, but recognize the tremendous opportunity we have to make disproportionate impact by helping our clients do theirs. We are excited about our opportunity to leverage our industry knowledge, strength in data analytics and deep familiarity with our clients' processes to help them make progress on their own ESG journeys across areas like responsible sourcing, supply chain optimization and financial crimes, just to name a few.

We believe ESG is a lever to drive transformation that can create a competitive advantage for our clients while also creating a positive environmental and social impact.

Before I close, I am excited to announce that we will be holding an in-person Investor and Analyst Day in New York City on June the 23rd. We will present Genpact's vision for 2026, outlining our strategic blueprint for success and financial outlook. Details on how to register will be available shortly. We look forward to seeing you all there.

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

Roger Sachs

Head-Investor Relations, Genpact Ltd.

Thank you, Tiger. We'd now like to open up the call for your questions. RJ, can I ask you to please provide the instructions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Please stand by while we compile the Q&A roster. Your first question comes from the line of Keith Bachman with BMO. Your line is open.

Bradley Clark
Analyst, BMO Capital Markets Corp.

Q

Hi. This is Brad Clark on for Keith. Thank you for taking my question. I wanted to ask about the pricing environment. You explicitly said you are going back to clients to discuss pricing to offset wage inflation and other inflationary pressures. Can you discuss what are the opportunities now, [ph] versus in (00:25:56) the next couple of months through the rest of the year to discuss pricing?

And you mentioned you saw some impact to gross margin in the first – this first quarter from pricing. How would you expect that cadence to develop throughout the year, given it's still relatively early on in conversations. Thank you.

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

A

So, I'll start it off and then I'll have Mike – Mike add to what I'm going to say. So, we just started late last quarter and then – late, late fourth quarter and then through the first quarter. Our relationships with our clients are long-term relationships and we understand the value that we provide to our clients.

We are very clear that in many of these conversations, our objective is to actually tackle the bigger opportunity of driving value to our clients together. Our clients are also facing a similar inflationary environment and a similar hot talent market. So they also understand that the skills that are needed to deliver that value comes at an inflationary price these days. That allows us the opportunity to sit down and have those conversations.

And as I said in my prepared remarks, they take time. They require an alignment of goals. And we believe that over the year, and actually into next year, we will be able to navigate that and the early signs of the early steps we have taken with some clients seem to tell us that that is the journey we are on. The impact on margin for the year. Mike, maybe you can comment on that and for the balance of the year?

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah so let me first address – the pricing adjustments that we received in the quarter were relatively de minimis. They'll compound upon themselves as we move through the year as Tiger alluded to, and will even carry forward into the following year. So, it has real no – really no impact on the margin in the current quarter. It is – potentially there's obviously a lot of puts and take will affect us on a go-forward basis.

Bradley Clark
Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you very much.

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

A

Thank you.

Operator: Your next question comes from the line of Dave Koning with Baird. Your line is open.

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

Q

Yeah. Hey, guys. Great job just across the board. And maybe first of all just...

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

A

Thank you, Dave.

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

Q

Yeah, you're welcome. So I guess, first of all looking at verticals, I know last year the BFSI verticals struggled a little bit and you talked about that through the year, but it sounds like it returned to really good growth. Maybe discuss a little bit of kind of what kind of catalyzed that back into really good growth?

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

A

No, so Dave, actually a great point and last year we had said that there was one particular client in the Asset Management business that was restructuring themselves and as a result, our relationship also got restructured with them, and that had a full-year impact that actually was felt even in the first quarter of 2020, the tail and back of that. As that has tapered off, our core growth in the banking vertical is coming through and even in the last couple of quarters in our earnings, the prepared remarks, we had talked about the momentum building up in our pipeline and in our bookings for the banking vertical. We're now beginning to see that come through as the impact of that restructured client laps – undertakes a full lap.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yes. No, I'd just like to add to that. We'll fully lap it actually not this quarter, we'll fully lap at the end of the second quarter. It is going down literally. So, on a complete – on an apples-to-apples basis, it will really be put through in the fourth quarter. So, it's a nice headwind for us.

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

A

And the other thing I would say is just in one of the service lines that we talked about, financial crimes, risk, anti-money laundering, KYC, the world we are in, is a world where a number of the financial institutions across the globe are dealing with having to, use technologies, leverage data and analytics to deal with the right compliance to regulations, as well as do that in a manner where customer experience and employee experience is really good. Part of the problem that the environment and the banking environment has had, is that typically those types of compliance situations, experience is not good. The ability to leverage technology, which is what we bring to the table, makes a big difference.

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

Yeah. No, that's really helpful. And I guess the second question, just on gross margins, again, it seems like usually when attrition spikes and when inflation hits, you know, there's kind of an immediate – there's kind of an immediate hit. But then it sounds like pricing comes a little later. Is it fair to say, that's maybe a six to nine-month lag from when all this started to when this pricing now is starting to kick in, in that by the second half, your gross margins can actually be up year-over-year again as you automate and then just kind of deal with the pressure?

Michael Weiner
Chief Financial Officer, Genpact Ltd.
A

Yeah, I think it's probably a fair statement. We're probably more like 9 to 12 months as we start to get these adjustments at the beginning of the first quarter. So yeah, it would flow through there, and would accompany some of the higher-than-expected replacement costs that we're dealing with right now compensate us for that.

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

Yeah, and the other thing I would say is, we also have to recognize that the inflationary environment continues at the moment. They haven't abated and therefore, we have to be cautious in our forward-looking view on that, Dave, because it depends on how well that plays out and while we continue to work with our clients on getting to the right price point for all the services that we provide.

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

Got you. Yeah. Well, thanks, guys. Great job.

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

Thank you, Dave.

Operator: Your next question comes from the line of Maggie Nolan with William Blair. Your line is open.

Q

Hi, guys. This is [ph] Jessie (00:32:25) on for Maggie. Congrats on the quarter. We wanted to dig into the talent...

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

Thanks, [ph] Jessie (00:32:30).

Q

We wanted to dig into the talent environment. You guys talked about attrition staying stable over the past two quarters, but are you seeing this higher in certain geographies?

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

A

Yeah. So, overall, it's a stable 33%, but obviously when you slice it into different pockets, let's start with we see attrition to be at that elevated level more at the lower levels of the organization and lower skill levels of the organization than when you get to higher skills and leadership levels. In fact, at the higher skills and leadership levels, we've actually seen attrition levels not yet reach the pre-pandemic levels, which is fantastic.

The second is, we've seen attrition in the customer care call center type environments in the US and in Philippines spike up and part of the stability that we see in overall attrition, has within it, an increase in attrition in those two geographies and those types of skills. And one of the special causes in the Philippines is the government's mandate to come back to the office for all service providers, which all of us are, over the next few months complying and that is leading to angst amongst some employees and there's attrition and – the whole industry is dealing with.

And then, of course, I would say niche technology skills and niche data science and data analytics skills is no surprise. That's a very hot skill. And attrition levels continue to be as high as it was in the fourth quarter and continuing into the first quarter.

Q

Understood. And then a quick follow-up, followed by my next question. How many employees does Genpact have in the Philippines? And then my second question was how has your view on wage inflation changed since the beginning of the year?

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

A

So Philippines we have 5,000 employees. It's a very strong center for us. However, it's not as big as some of our other centers, including I called out Eastern Europe, where we have 7,000 employees across three countries. So, good – excellent service from Philippines, but 5,000 employees out of the 110-odd-plus-thousand in the company.

Wage inflation in the first quarter, again, broadly steady, actually very steady across almost all skill cohorts. A few skill cohorts have actually come down. They seem to be beginning to trend down. We are still higher and elevated versus, prior three or four quarters back. We haven't seen any particular skill set where it's gone in Q1 at a rate higher than the fourth quarter.

Q

Awesome. Thanks for taking my question.

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

A

Thank you.

Operator: Your next question comes from the line of Ashwin Shirvaikar with Citi. Your line is open.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Hey, Tiger. Hey, Mike.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah, Ashwin.

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

A

Yeah, Ashwin.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Good quarter congratulations on that. I want to kick off with – Tiger you mentioned large relationships growing at a faster pace than the average company. If you could perhaps maybe disaggregate that statement and talk about what's the commonality across the large relationships, what's the remaining opportunity if you will, and as you sign these expansions, do they flow through pretty seamlessly and quickly into revenues? Is that a good expectation if you could comment on a few of those things?

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

A

Yeah. Lots of questions there Ashwin and actually very good questions. So, let's start with typically the typical characteristic of these large relationships that – not all large relations will, but a number of them do, and they typically have a few characteristics. One, if you just think about the world we are in, these are enterprises that are driving change. These are enterprises that are transforming themselves to become more competitive. These are enterprises that are undertaking journeys of changing their business models, leveraging technologies going to the cloud, leveraging data and analytics, a whole host of those things.

So, therefore they are the types of organizations that work with partners like us and others to accelerate those journeys, particularly as they are – all of us know over the last two, two years, et cetera. And given the range of services that we now have, we've always had, as you know, deep strength in financial accounting, deep strength in core financial services operations, be it banking or insurance, but we now have significant strength in financial crimes and risk, in supply chain, in trade promotions and order management, in sales and commercial operations. And you connect those dots, you open up different conversations on a range of topics, and they all ultimately do connect up. That's one big difference today versus four or five years back that allows us to deliver excellence to clients, deliver value to clients, and continue to grow the relationship in different areas.

Second is the way some of these start. In the old days, it used to start with, we will outsource this operations for you and run it for you. These days it doesn't have to start that way. In fact, most often it doesn't start that way. It starts with, can we advise you and sit down and talk about the right target operating model, the right technologies to leverage, the right way to align your data to clean up your data? How do we take your data that resides in multiple technologies and move them all to the cloud so that then we can orchestrate everything on the cloud. That then subsequently often leads to what one would call in the old days, a BPO deal or an Intelligent Operations deal.

So, the nature of these relationships has become multiple buying centers. They've become Transformation Services, often start, and then followed by Intelligent Operations, which then leads me to the last question you have, which is, these are not things that you would expect in a particular client to grow from start to finish, even within the same year. These are multi-year journeys. So, once you start one of these journeys with the client, you would consistently go down the path of growing with that client as long as you keep adding value to that client, which is what makes this so exciting.

And then if I end with 32 new clients that we signed during the quarter, we are so excited by the fact that those 32 clients represent, the beginning – not all of them, but some of them, of two, three years later, the journey we are undertaking with some of our large clients today. By the way, they also include a number of, what I would call New Age clients that are in hyper-scaling mode and that are growing so rapidly. And our value proposition there is to help those clients undertaking those – undertake those scaling journeys and being able to deliver the growth that they aspire for. And in the process, we establishing a big relationship with them.

We've seen many of those play out over the last five years in broadly what one could call the fintech, insurtech, e-commerce and high-tech space.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Understood. Thank you for all those details. I wanted to also ask about return to office. I might have missed it, but where do you stand from a return to office percentage perspective? And if there's a financial model expectation, including from the Philippines perspective, where there's a regulatory push to do return to office.

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Yeah. So right now we're at the beginning of return to office. It's still relatively low from where we are. The financial outlook and the models that we have going forward in the guidance does incorporate a return to office for a geographic area by geographic area. But going back to it, I think our return to office is sub 20% at this point now in aggregate.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Right and...

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

A

And Ashwin...

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

...the Philippines...

Michael Weiner
Chief Financial Officer, Genpact Ltd.

A

Sorry?

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

No, the Philippines impact, I just wanted to ask about that.

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

A

Yeah and also the Philippines we are in the process of progressing to the 40%, 50% mark and then there are milestones I think as we go through the balance of the couple of next couple of quarters and the industry is, I think, in good discussions with the government to make sure that there is a glide path to that. But if we look at the overall company, I think Mike's overall number, the aggregate of less than 20% at the moment, we expect that to keep progressing.

By the way, in the recent few weeks, as you can imagine, almost 80% of our China employees have gone back to work remotely, given what's happened in China, and the amazing thing is that happened in a 24-hour period. So, we now know – I think the world now knows how to do this really well.

The real answer, Ashwin, from a overall company perspective is there's no single percentage number that one can lay down and say, that's the percentage that we should get to, or will get to, because that's a function of geography. It's a function of the kind of service that one is doing. Certain services are – think about a banking customer care work, I think will ultimately probably be 100% come back to the office, but certain other types of services, we are already in discussions with clients, where we think for the next few years, it'll be remote.

As long as we can continue to bring the teams back to office with some cadence, so we can build culture, we can do training, we can build team dynamics, we can sit down and talk through innovation, come up with ideas, do hackathons, and all of those we are already doing in many of our operating centers across the globe. So, it's going to be a little bit of a – the right-size to fit the right situation with the right client and that's exactly the exercise that we are going through with every client.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Appreciate all those nuances. Thank you.

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

A

Thanks, Ashwin.

Operator: [Operator Instructions] Your next question comes from the line of Bryan Bergin with Cowen. Your line is open.

Bryan C. Bergin
Analyst, Cowen & Co. LLC

Q

Hi, guys. Good afternoon. Thank you. I wanted to ask on bookings, so the bookings commentary is really good here. It sounds like you converted a lot of opportunities. So, I'm just curious, anything you did differently around sales practices, salespeople or investments there that drove this? I think it's atypical that our first quarter would be so strong here. So, I'm just curious, Tiger, what do you think the key drivers were for that conversion?

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

So, Bryan, thank you. I don't think we did anything special in quarter one. No, we didn't do anything special in quarter one. I think it's a function of three or four things. While we had a very strong bookings quarter in quarter four, we did say when we talked about the full-year 2021 that our inflows and pipeline, even as bookings were strong, continued to be strong at that time. And that just – momentum continued through.

And again, I go back to, it's a reflection of the world we are in, and it's a reflection of the fact that our total addressable market – and we said this now for probably four or five quarters, our total addressable market we believe has grown from what it used to be four or five years back. The range of services that we have and the fact there are number of clients who, in the past, may not have thought about change and may not have thought about a partner to have in that process of change, given the requirement of speed and given the requirement to embrace new technologies, are all talking about partnerships and talking about change and talking about it now.

So, I wish I could give myself credit and give our team credit only. There's no question that I think we had the right team aligned. I think the fact that we often enter these conversations with change agendas, digital technologies, all the acquisitions we've done, I have to say, and I named a number of them in the recent few years, have made a big difference to the way we engage with our clients. Some of the examples I gave, where our Rightpoint Experience team comes in and helps along with our team, really improve the experience of users and customers. That does make a huge difference.

Or the Enquero team comes in and finds a way to orchestrate data, to then build insights for a client who is trying to build out a new e-commerce business in their really massive global business. So I think it's a combination of all of that.

Bryan C. Bergin
Analyst, Cowen & Co. LLC
Q

Okay. Okay. Make sense. And the follow-up here on the client repricing, so you said steady progress on that front, can you give us maybe a sense of the mix where you have achieved the pricing adjustments versus the mix that you're still working on?

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

It's too early to say, Bryan. These – as I said, these are, I mean, you can think about our business. I mean, let's leave the shorter cycle portion of our Transformation Services business and as we've described before, even our Transformation Services business, particularly analytics, which is the fastest growing of our Transformation Services business, have a significant annuity component there. So, all of that annuity component, as well as all our Intelligent Operations are long-term contracts with built in inflation-adjusters.

What we are talking to clients about is given the current environment, given the need for the right talent, to be engaged in driving value for our clients, and given that our clients also understand the situation that they themselves face in their marketplace, I think we're having those conversations, but it takes time. So, I don't think any meaningful number could be given right now. So, this is going to be a full year and into next year journey.

Michael Weiner
Chief Financial Officer, Genpact Ltd.
A

Yeah. We're making progress as we move forward. By the way, it was not material in this particular quarter, but we have line of sight to keep on building upon what we're doing. We have pretty high expectations and we're working hard.

Bryan C. Bergin
Analyst, Cowen & Co. LLC

Q

Okay. Thank you.

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

A

Thanks, Bryan.

Operator: And there are no further questions at this time. I would now like to turn the call back to Roger.

Roger Sachs
Head-Investor Relations, Genpact Ltd.

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

Operator: Ladies and gentlemen, this concludes today's conference call. And we thank you all for participating. You may now disconnect.