FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2008 Genpact Limited 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. Roanak Desai. Please proceed.

Roanak Desai - *Genpact Limited - IR*

Thank you, Erica. Welcome to Genpact's earnings call discussing our results for the second quarter ending June 30, 2008. I am Roanak Desai, head of corporate development and investor relations. With me are Pramod Bhasin, our President and Chief Executive Officer, and Vivek Gour, our Chief Financial Officer. We hope you have had an opportunity to review our press release.

Please allow me to outline the agenda for today. We have two calls scheduled. The first call starts now and it is to discuss our second-quarter results. Pramod will begin with an overview of our results; Vivek will then take you through our financial performance including the income statement and balance sheet. We will then close the presentation and take questions related to our results. This call will last an hour.

As mentioned last quarter, we have now reclassified FX gains and losses to the appropriate cost lines on the face of our income statement. In our earnings release, our results are shown on both a historical and reclassified basis. On this call, we will discuss our results using the reclassified basis for the current as well as historical periods which reclassifies FX gains and losses to their respective lines on the income statement.

Our second call, commencing at 9:30 a.m. Eastern Daylight Time, will go into further details on these changes. We ask you to hold questions related to the details of the reclassification of FX gains and losses for the second call, which will provide ample time for those investors and analysts interested in the specifics of the change.

Please note that some of the matters we will discuss in today's call are forward-looking. These forward-looking statements involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include but are not limited to general economic conditions and those factors set forth in yesterday's 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 both our calls today, we will refer to certain non-GAAP financial measures which we believe provide additional information for investors. You can find reconciliation of those measures to GAAP as well as related information in our press release on the investor relations section of our website, Genpact.com.

With that, let me turn over the call to Mr. Pramod Bhasin, Genpact' President and CEO.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thank you, Roanak. Genpact continues its proven track record of strong growth and delivering on its commitments. Our Six Sigma process and technology expertise are driving market penetration and sustainable superior growth as we create value for our clients and our shareholders.

We finished the first half of the year with a very good second quarter. Our revenues this quarter grew 26% versus last year. Demand for our services and solutions continues to be robust. And based on our visibility into our business for the rest of the year, we are increasing our revenue growth guidance to 26% to 28% from $823 million in 2007. Our adjusted income from operations margin improved to 16.5%, an improvement of 158 basis points compared to last year. Adjusted income from operations increased 40% this quarter versus last year.

Based on our year-to-date results, we are also raising guidance on our adjusted operating income margin to an increase of 80 to 100 basis points this year from 16.3% in 2007. This is ahead of the long-term guidance we had provided of 1% to 2% margin improvement over three to five years from 15.8% in 2006.

We believe we are unique in our industry in our ability to deliver these results. As we have stated before, our core strengths differentiate and position us well in the current environment. One of these strengths is the significant investment we have made in building our Six Sigma Lean and reengineering capabilities that allow us to deepen our client relationships, move up the value chain, and improve margins as we deliver meaningful productivity and process improvements to our clients.

Our second is our robust operating discipline that allows us to effectively leverage our cost base as we build scale to clients. Our third strength is our ability to improve pricing for the higher value work we deliver. Finally, our unique reengineering services are gaining traction and contributing to both revenues and margins. Clearly clients are willing to invest in working with Genpact because they see the benefits of these trends and the value we deliver.

As an additional measure of this value, our revenue per employee increased to $29,700 year-to-date on an annualized basis from $28,200 in 2007. Our portfolio continues to be well balanced with multiple engines for sustainable long-term growth. The caliber of our clients, breadth and depth of our services, and our global delivery platform position us well. Our client base is diversified across industries, sectors and geographies. BFSI clients continue to account for 44% of revenues, with manufacturing clients accounting for 42%. The remaining 14% of revenues is from clients in other industries including the services sector.

We continue to have a strong and growing relationship with GE, our largest client. We had a terrific quarter with GE and are delighted with the strength and traction we continue to see. Reported GE revenues grew 1% from the second quarter of 2007. On an apples-to-apples basis, organic growth for GE was 9% this quarter versus the prior year. As a reminder, when GE's ownership stake in a business drops below 20%, we include the revenues from that business as Global Client revenues and exclude them from GE revenues.

Global Client revenues grew 68% from the second quarter of 2007 and organic growth in Global Client revenues was 75%. We continue to win new deals and expand our client base, as noted in our press release. While we continue to diversify our client base, we are also growing scale with existing clients who drive over 80% of our gross in any given year. For the 12 months ended June 30, 2008, 25 client relationships each accounted for $5 million or more in revenues and of those four clients, each accounted for $25 million or more in annual revenues.

Building on our leadership position in India and China, we entered the domestic market in both countries at the beginning of this year. This quarter we added additional clients in both our India for India and our China for China business. We continue to believe these markets reflect a long-term strategic opportunity.

Our services delivered from Europe and Asia Pacific are growing at a healthy pace and continue to differentiate us in the market. Second-quarter 2008 revenues from Asia Pacific operations grew 67% organically from the second quarter of 2007 and organic Europe revenues this quarter grew 45% versus last year.

Continuing the first-quarter trends, business process revenues remained relatively steady at 79% of overall revenue for the quarter. IT services account for the balance of 21%, reflecting the continuing softness we are seeing in discretionary spending in areas such as software services. We expect the split between business process and IT services revenues to remain roughly the same through the rest of 2008.

We believe that Genpact has the best people management and retention practices in the industry. Our attrition rate through the second quarter of 2008 was 25%, down significantly from 30% for the full year 2007. The lower attrition is having a positive impact on our business, increasing client satisfaction through improved quality as well as decreasing our cost of hiring and training.

This quarter we also announced the creation of the NIIT Institute of Process Excellence. Our training joint venture with NIIT to address the increasing demand for skilled workers in the business and technologies services industry by providing training programs in relevant areas. For those who may not be familiar with NIIT, it is Asia's number one trainer and leading global talent development corporation offering learning and knowledge solutions to over 5 million students across 32 countries. They have expertise in delivering training programs to students in India and China. This venture, we believe, will help us create our own talent pool and continue to help us fight wage inflation.

In summary, we had a great quarter and more importantly are on track for another strong year.

Now I will turn it over to Vivek to discuss the financials.

Vivek Gour - *Genpact Limited - SVP and CFO*

Thank you, Pramod. We exceeded our financial targets for this quarter with revenues of $254 million representing a 26% growth versus last year. We continue to demonstrate the meaningful leverage we are driving in the business. Our adjusted income from operations grew by 40% versus last year to $42 million. We have improved the margin to 16.5%, an increase of 158 basis points from 14.9% in the second quarter of 2007.

Given the reclassification of the foreign exchange gains and losses, we believe that investors and analysts should focus on our reported adjusted income from operations as a true measure of the operating health of our business. These figures are based on our reclassified income statement, which demonstrates that our long-term hedging strategy protects our operating costs and operating margins from short-term foreign exchange movement. We believe that this form of long-term, non-speculated hedging is prudent risk management for any global business that has revenues in one set of currencies and costs in another.

As Roanak mentioned, we will discuss the details of this reclassification during our second call today beginning at 9:30 a.m. Eastern time.

Our gross profit margin increased 220 basis points, 42% this quarter from 39.8% in the second quarter of 2007. There are a number of drivers to this increase. We have improved pricing, including the contractual inflation-based increases with our clients. The high-value reengineering business is a strong contributor to these improved margins. We have benefited a number of initiatives to drive cost leverage in functional and support areas..

In addition, as we have gained scale with clients, we have improved our supervisory spans. Lastly, our long-term hedges against our nondollar costs mitigate the short-term swings in foreign exchange rates that would otherwise impact our operating cost lines.

SG&A costs were 26.3% of revenues for the quarter. However, after excluding the impact of $1.5 million due to fringe benefits tax on options in India, our SG&A costs were actually 25.7% of revenue for the quarter, which is an improvement of 50 basis points from the second quarter of 2007. We were able to drive this improvement by continuing to leverage the investments we have made in our business development team as well as in our support functions.

With regards to the fringe benefits tax, while we currently recover these increased costs from the employees and the offset appears on our balance sheet, these costs flow to our GAAP income statement.

Adjusted net income grew 101% to $38 million in the second quarter of 2008, up from $19 million in the second quarter of 2007. Our adjusted diluted earnings per share grew 92% to $0.18 this quarter, up from $0.10 in the second quarter of 2007.

Our effective tax rate is 12% through the second quarter. We now expect the full-year effective tax rate to be in the range of 13% to 17%. This is lower than our previous expectations and a relatively large range because the book tax can vary in the second half of the year due to one-time items that are difficult to predict.

We have a strong balance sheet to support our growth. We have over $320 million of cash and cash equivalents against $110 million of long-term debt. Our days sales outstanding decreased slightly to 79 days from 81 days in the first quarter of 2008. While fluctuating slightly, we expect our days sales outstanding to remain in this range.

For the first half of the year, we spent $28 million or 6% of revenues on capital expenditure. We currently expect full-year capital expenditure spending to be in the range of 8% to 10% of full-year revenues based on our expectations that the second half capital expenditure will increase as we invest in both leased and owned special economic zone facilities in India.

As we have said, Genpact's sustainable scalable business model combines high visibility and recurring revenue with improving margins and strong cash flow. We generated $48 million of cash from operations and $37 million of free cash flow in the second quarter. We continue to build on our proven track record of delivering on our financial commitments and have a strong momentum going into the second half of 2008.

I would like to now open the floor to questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Bryan Keane, Credit Suisse.

Bryan Keane - *Credit Suisse - Analyst*

Congratulations on the quarter. I guess I'm just curious to get some comments on the environment. I think last quarter you guys sounded a little more cautious on the environment or maybe that is just the way it came across. This quarter it seems like things maybe did not get worse or are at least under control. Can you just talk about the health of your clients in some of the different verticals?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, I think the environment remains turbulent and remains obviously economically difficult for many of our customers. However, we are seeing that there is increased traction for the type of services we deliver. There is increased traction for reengineering, for growing with us with existing customers and as customers begin to settle in after restructurings that they may have undertaken, we certainly see again the same traction that we would have expected.

That is the main reason why we have been able to take our guidance up because that pipeline that we see today plays very well to our strengths. And despite the circumstances surrounding them, we believe that customers really have a great need for our services at this point in time and therefore, we hope we will continue to see increasing traction with them.

Bryan Keane - *Credit Suisse - Analyst*

Now, have sales cycles been extended in this kind of environment? And then can you talk a little bit about pricing? I guess separately on pricing on renewals and then on new business?

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure, our sales cycles are longer, no question about it at this point in time, where companies are taking the time to do the evaluations or make a decision. But at the same time, the pipeline is fuller. There are more companies looking for opportunity as they look for options to take their own costs down. So I think you are seeing the longer sales cycle being offset by higher volumes and higher number of companies actually in the pipeline.

On pricing I think we continue to feel pretty comfortable with pricing. Because of the types of services we are delivering, we have been able to get prices in the market this year, which obviously is reflected in the margins that we have come up with as well as our longer-term outlook in 2008 for margins. So I think for value for services provided is there and I think clients acknowledge that the value we deliver can command a higher price particularly as we move into reengineering and focusing on end-to-end process efficiencies.

We also see for instance existing clients in some cases moving faster than they might have moved before, where they are under pressure for costs and certainly some of the traction we see where companies such as GE are very strong because they are saying you can help us. We want to go faster.

Bryan Keane - *Credit Suisse - Analyst*

Okay, then just finally, was there many or do you guys -- are you guys noticing a lot of delays in the way clients are taking on projects or any cancellations that you have had? Thanks.

Pramod Bhasin - *Genpact Limited - President and CEO*

I think we saw more of that probably in the first quarter. I think things are settling down. Are there some delays? Yes, absolutely there are some, no question about it, where clients are saying we want to get out of one business or the other. But these are more than offset in our view by the traction we are seeing with existing clients as well as the new deals in the pipeline.

Bryan Keane - *Credit Suisse - Analyst*

Okay, congratulations.

Operator

Tien-Tsin Huang, JPMorgan.

David Cohen - *JPMorgan - Analyst*

This is David Cohen for Tien-Tsin. Just a couple of questions. Obviously GE was very strong in the quarter. Would you just talk about the outlook for GE growth through the rest of the year?

Pramod Bhasin - *Genpact Limited - President and CEO*

We see strong growth with GE given the base that they operate from. I think the caliber of services that we deliver, the value add we can bring, the reengineering services that we provide, the process efficiency we are providing, we continue to find new ways to grow with the clients with whom we've been growing for 10 years. I think it really demonstrates the strength of our model in terms of being able to grow with existing clients and it demonstrates that the more we know, the more we can do with a customer. So we see the sustainable level to be very good at this point in time.

David Cohen - *JPMorgan - Analyst*

Okay, then a couple questions on margin. The margin expansion obviously was very good in the quarter. I realize you took up the guidance, but can you help us understand in a little bit more detail -- I know you talked about some of the components, but what the drivers were both in the quarter and how we should think about the margins going forward?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think as we mentioned, the key areas are, one, we were able to get better pricing. Two, there is an increasing -- the revenues per employees have increased, which is a reflection of the reengineering work that we are doing and the higher value type of work and services that we provide to our customers, which have higher margins. Three, we are getting very good cost leverage as a virtue of scale as new clients stabilize, as we are able to drive scale across our functions and our operations.

So I think all of those three things are very, very helpful. At the same time, on an ongoing basis while we feel good about our margins, we are going to be making sure that we make the appropriate investments both in front-end and marketing as well as this is a payoff of the investments we've made already and will continue to make in Six Sigma and Lean.

The biggest element I would tell you that we are seeing is all our investments in Six Sigma and Lean which we believe truly differentiate us are coming to fruition at this point in time and it is being shown by the fact that customers are willing to pay for the kind of services we provide even in this really tough, turbulent, cost-conscious environment.

David Cohen - *JPMorgan - Analyst*

Okay, Vivek, just on the balance sheet, it looked like the goodwill and intangibles balances may have come down. Did I read that right? And if so, what were the drivers for that?

Vivek Gour - *Genpact Limited - SVP and CFO*

The intangibles are coming down because we are writing off approximately $10 million every quarter.

David Cohen - *JPMorgan - Analyst*

And the goodwill? (multiple speakers)

Vivek Gour - *Genpact Limited - SVP and CFO*

The goodwill has varied a little because of foreign exchange. Our goodwill which sits outside the United States has to be remeasured every quarter. So you will see a minor variation on that every quarter and there is nothing more to it than that.

David Cohen - *JPMorgan - Analyst*

Okay and then I think some of the accrued liabilities and other accrued expenses were up. Can you remind us what the moving parts are in there?

Vivek Gour - *Genpact Limited - SVP and CFO*

Yes, our accrued expenses are primarily our various operating expenses, bonus provisions we provide for our employees, vendor payments that we provide for and they are largely in line with our growth. We also have the current portion of our derivative hedge gain or loss that sits in that line and the long-term portion which sits in a similar line on the longer-term side of the liabilities.

David Cohen - *JPMorgan - Analyst*

That's great. Thanks very much, guys.

Operator

Joseph Foresi, Janney Montgomery Scott.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hello, gentlemen. My first question here is just going back to the demand environment. Would you characterize -- obviously your guidance would imply this -- that your confidence has improved over the last three months? I wonder if you could point to if it has improved specific parts of the pipeline that maybe have changed for the better?

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure, I think I am not sure I would necessarily say that our confidence has improved from the last quarter. We were feeling pretty good at that time also. So with that statement, I think I would just add that the pipeline is growing. We have had some very good wins as we pointed out in our press release. That has helped us. I think the area where we see increasing traction is clearly in our reengineering and our higher value services. I think that is continuing to give us the confidence that for the long term this is a sustainable trend for us and clearly that is something we wanted to wait and make sure that we got the numbers in before we talked about it to you.

But on the overall basis, we were feeling pretty confident at the end of the first quarter as well. I think as you look at the pipeline, though, I think one of the elements obviously is GE and the fact that we can continue to grow in this space with a customer we've had for 10 years shows that the more we know a client, the more we can do. And this plays perfectly to our strategy of building very strong relationships with key strategic customers. And if you think about the number of customers we have with whom we are over $5 million today and with whom -- and which are large enough to allow us to get a lot of traction with them for many, many years, I think that is also giving us comfort.

At the same time, the one other element I would add is I think a lot of these customers were probably a lot more uncertain -- not a lot of customers -- a few customers may have been a lot more uncertain earlier in the year. I think all of them are settling down and saying look, this is one of the key elements we need to take costs out. We need the services that Genpact can provide and that is really helping us increase traction with customers.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, so essentially some of the uncertainty you were seeing on the client base has improved?

Pramod Bhasin - *Genpact Limited - President and CEO*

You know, again I think -- sorry to be obscure about it -- I don't mean to be. I think we were confident all the way through. I think we wanted more of the year to happen, more of the reengineering services really to kick in before we wanted to come out with any higher guidance. That is really what's happened. I think we have always been very comfortable that the traction we have with our customers is strong indeed.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, then actually just two more quick ones. You've said I think in the past -- and correct me if I'm wrong -- that GE tends to have higher margins than the rest of the business. Is that still true and is that contributing to some of the margin upside?

Pramod Bhasin - *Genpact Limited - President and CEO*

No, in fact I would -- I think in the past what we have said is that GE tends to have the same -- our global clients tend to have the same or higher margins than GE. It was more a question I think of in the early days, years of a relationship or the early days of relationship, we may not make as much money during the transition period, etc. So some of the margin improvement comes from stability of operations now that we have expanded with customers. But the bulk really comes from our reengineering and value-added services and going up the value chain. And it is clear in our numbers that we see that dropping through and reengineering and the higher value services contributing both to the revenue and the margin lines.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, just on the IT services BPO comparison, I wonder if you could just compare those two offerings and what you are seeing in each and maybe which one is obviously performing better and weaknesses in the other?

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure, we clearly see some softness in the discretionary spends around IT at this point in time. We think that softness will continue, which is why we said that the proportion of IT and BPO revenues is likely to remain the same for the rest of the year. On the BPO side, we are actually seeing, as we've said before, terrific traction at this point in time and a strong pipeline. So I think that will continue for the rest of the year and we don't expect that trend to change rapidly at this point.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

And is that because BPO is more of a cost saving move initially? Is that why you think there is a bigger discrepancy there?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think two things. One, BPO is a cost-saving move and therefore -- although the IT business is also a cost-saving move in most cases. But I think BPO is less non-discretionary spending. You know, you can't stop paying bills. You can't stop your supply chain work. You can't stop closing the books. You can't stop doing the analytics. You need to analyze how well you are going to market, etc. And I think the non-discretionary element of BPO really helps push this forward.

I also think the proportion of project business with the annuity business and IT is larger than it is in BPO, which again allows the BPO business to be more of an annuity stream going through.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thanks, guys. Congratulations.

Operator

Dave Koning, Robert Baird.

David Koning - *Robert W. Baird - Analyst*

Great job. I guess I just had a couple questions around the math of the guidance, and I know you raised the organic growth guidance to 26% to 28%. I am wondering if you consider organic growth in the first two quarters 33% and 26% or if you do take out some of the acquisition contribution in Q1 and Q2. Maybe if you could just give us the organic growth that you are kind of factoring in for Q1 and Q2 just so we can think of how the back end kind of plays out.

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure. The organic growth in Q2 was 27% and I believe the organic growth in Q1 was -- we are just checking out -- was about 28 or 29%. Having said that, I think one of the points we want to make to you is that Q2 in '07 had very strong growth and that is why by comparison the Q2 growth in '08 in percentage terms is lower than the Q1 growth. I don't know if that is what you are looking for, but I hope it helps.

David Koning - *Robert W. Baird - Analyst*

Yes, that is exactly what I was looking for. So basically, we can think of the back half growing kind of in the same ballpark as the first half and certainly you have an easier comp in the back half of the year given growth was a little slower in the second half of '07.

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, I think it was a second-quarter phenomenon in '07 that really caused it, but otherwise it's pretty even in terms of growth rate. And yes, you should see it amounting to a total of between 26% to 28%.

David Koning - *Robert W. Baird - Analyst*

Okay, great. Just secondly, I guess on the EPS line, certainly the operating margin raise helps and certainly the tax rate reduction helps, but just to make sure we are clear on GAAP EPS, is it fair to think of this now in the high $0.40 range, somewhere in the -- whether it is $0.47, $0.49, maybe $0.50? But am I looking at that right that it should be somewhere in that ballpark and then non-GAAP for the year, maybe in the low to mid $0.70 range?

Vivek Gour - *Genpact Limited - SVP and CFO*

I think that we would not be providing guidance on the EPS for the year, but of course as an analyst, you are entirely within your rights to make the estimate yourself. But our EPS has been $0.09 in the first quarter, $0.11 in the second quarter which is a significant move up from last year. And it will be a direct reflection of the much stronger margins that we are expecting.

David Koning - *Robert W. Baird - Analyst*

Okay, that's great. Thank you.

Operator

Rod Bourgeois, Bernstein.

Rod Bourgeois - *Sanford C. Bernstein - Analyst*

I wanted to talk about pricing. It sounds like your margins are improving because of a positive mix shift as you move up into these higher value services. But what is happening with pricing on like-for-like services, if you can comment on that? Thanks.

Pramod Bhasin - *Genpact Limited - President and CEO*

Sure, Rod, we are seeing a bunch of stuff. So one, we have got -- as we have said in the past, we have got contractual pricing built into the contract we have signed, where we get inflation or coverage for additional price. Some of that is kicking in. I think the higher margins also coming in from higher value services, so reengineering at very high margins, more work in analytic, more work in supply chain, all those areas kicks in with very high margins. And therefore, you are seeing that impact on margin improvement.

If you ask us competitively what's happening in the marketplace, there are companies out there I think we see increasing number of competitors. Some of them are really trying to bid low. We are very clear, we are going to hold firm. We think this the services we deliver are of terrific value. I think the net impact we can deliver to customers goes well past labor arbitrage. So while we see some pressure competitively from others who are coming in and trying to get market share I think at this point in time with much lower pricing, I don't think the market is necessarily going to buy that, nor are we going to succumb to it.

Rod Bourgeois - *Sanford C. Bernstein - Analyst*

All right, so are you talking about the major IT services Indian players that are trying to get a foothold on the BPO market and are using price as a leverage for that?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, you've got it.

Rod Bourgeois - *Sanford C. Bernstein - Analyst*

Okay, then when you look at your own pricing results, can you disaggregate and give us an idea of whether your pricing on like-for-like deals is going up or is it flat right now? How is that playing out?

Pramod Bhasin - *Genpact Limited - President and CEO*

Right now we haven't -- right now is going to be broadly flat. We will hold at this time, we are not going to increase prices in this environment. But we command a premium we believe in the markets based on all we have done for the last year or two years or longer than that. And we command a premium and frankly, we talk to many customers who right from the get-go understand that we will be premium priced given what we believe we have to offer.

And ultimately even existing customers when they are going into new areas, I think the benefits we are seeing of that, of our traction with existing customers has not played out in -- I don't know, the vast majority of the cases. And they see the value we deliver and they are willing to offer -- give us the price because I think negotiating with us for an extra 5% or 10% in price gives them far less than the business impact we can deliver to them just by making their processes far more efficient in terms of cash flow or their margins or their costs. I think that makes a huge difference to them. Once we can show them that, I think some of these discussions ease off considerably.

Rod Bourgeois - *Sanford C. Bernstein - Analyst*

One more question on this. We've been seeing that the larger Indian firms try to compete on price in the BPO market over the last few quarters. Has that dynamic increased in the last three months given the weakness that some of the Indian firms have seen in the overall environment? Are they getting more aggressive in the BPO market on price or has it been consistent with what you have seen over the last year?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think, one, we are seeing them more often, so in the past we might have seen them in a small number of deals. Now we see them in quite a few deals because obviously they are building up some capability and are being able to showcase that and are getting into the mix. I think in some cases we've seen increased price competition. But I think it is not something that has stood in our way.

We have not lost much in terms of as a result of that. We don't expect to either. The market opportunity remains huge and I think the scale and breadth and depth of services we offer often puts us in a completely different league where the others can't compete. So we are very comfortable with our position despite whatever they may try on pricing.

Rod Bourgeois - *Sanford C. Bernstein - Analyst*

Great, thank you very much.

Operator

Jason Kupferberg, UBS.

Jason Kupferberg - *UBS - Analyst*

Good morning, guys. I wanted to get some more detail if you could on the reengineering work that you have been talking a bit about. It seems almost a little counterintuitive that a higher end service offering would see increased demand during tougher economic times where customers are under more cost pressure. So can you just give us a sense of more specifics around that type of work? And does this tend to be kind of the front end of a larger BPO contract or does it tend to come in the form of standalone project based work?

Pramod Bhasin - *Genpact Limited - President and CEO*

It's terrific. We love to talk about this. I think, one, it is a lot of the front end of larger BPO work, so we use it as calling customers very largely current customers or in some cases to get an opportunity to lead into existing customers. I think the fact is I think your point on why our customers are willing to pay for this in this tough time period, that's a real business impact we can drive based on some of the reengineering we do of existing processes we are working on for customers or processes they are considering outsourcing or processes on site, at their premises. The impact is so huge that the payback and the ROI is fantastic. I think we can show them on the ground operating skills which are hard to find in this environment.

And I think the number of range of projects that we have worked on from the healthcare side to finance and accounting to banking and financial services are all a testament to the investments we have made in Lean and Six Sigma. These are very hard to replicate. It is extremely hard for other companies, we believe, to replicate what we have invested and built in Six Sigma and Lean over the last 10 years.

I think companies are very happy to pay for the value we provide and in fact, that is an area where we see extremely strong traction at this point. The type of reengineering work we do is generally project based. It will be not very long duration, but it is in most cases the start of a longer contract or increased business from a current customer or a way to get into a new customer.

Jason Kupferberg - *UBS - Analyst*

Okay, so in some cases this can be you guys coming in and advising the customer how they can better reengineer their own processes so the customer retains ownership of the process as opposed to you guys coming in and using your own people to perform the process better, faster, cheaper? It can take on either form?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, that would be correct. And I think in some cases we will do that. In some cases we will work on what we call the upstream issues on the process we are working on. So if we are trying to make a process extremely efficient that we're working on, and there are upstream issues which are not allowing the process to work as efficiently as it should, then we can send our people in to fix it. And the key here is the payback and the payback to these customers, which is real in terms of dollar sales or margin sales or cash flow improved. These are very real paybacks that the customer sees firsthand and they sign off on them.

Jason Kupferberg - *UBS - Analyst*

Okay, thanks for the color there. I wanted to talk a little bit about the revenue per employee metric. It has been increasing pretty consistently as you guys have highlighted. How should we think about where this metric can potentially top out based on the current composition of the business model?

Pramod Bhasin - *Genpact Limited - President and CEO*

You know, we do expect small increases in revenue per employee over time. I think clearly we would like to go more into deeper and deeper in our model where revenue increase doesn't equate with exact employee increase. I think the work we can do especially at the higher end of work or finance and accounting or analytics or all the others we look at as well as the deployment of Six Sigma and Lean, will continually help us increase that number. But I don't think it is going to be a huge increase. It will be a relatively small single-digit increase each year.

Jason Kupferberg - *UBS - Analyst*

Okay. Just a last one for Vivek on operating cash flow. I think you guys have said in the past that for the full year you would expect that metric to be about 18% of revenues. I think it has been running a little lower the that through the first half. Is 18% still a good number for the full year?

Vivek Gour - *Genpact Limited - SVP and CFO*

Yes, 18% is a good number for the full year.

Jason Kupferberg - *UBS - Analyst*

Great. Thanks, guys.

Operator

Ashwin Shirvaikar, Citigroup.

Ashwin Shirvaikar - *Citigroup - Analyst*

Good results in a tough environment. I have one question just to go back to something that had been asked earlier. Just to clarify it sort of once and for all, when you say discretionary spending is still weak, I would like to get a more of a definition of understanding of what is considered discretionary. And what part of your overall revenues is it?

Pramod Bhasin - *Genpact Limited - President and CEO*

Ashwin, we don't have -- obviously the exact numbers, but broadly as a range, I would tell you we would consider perhaps 15%, 15%, 20% of our overall business to be related to discretionary spending. Let me try and explain what we mean by discretionary spending. This is a time when a company may say I don't want the next upgrade in Oracle. I don't want to implement the next module in SAP. I don't want the luxury of the analytics you can give me in marketing at the front end. And those are areas where companies are logically going to look back and say, all right, we're going to cut costs in these areas, cut program spending.

Nondiscretionary I think is the rest of the bucket. You pay bills. You make -- you order inventories. You order indirect spending. You conduct banking operations. You approve loans. Those things are not going away, can't go away.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay, well not so much from the point of going away or going to zero, but are you hurt at all from lower volumes, for example, lower call-center volumes with some of your maybe retail clients, credit card clients, anything like that?

Pramod Bhasin - *Genpact Limited - President and CEO*

Not significantly at all. There is no material impact of any such thing. We are not in a huge call center business as you know. Ashwin, you know our call center business is a relatively small proportion of our total and we really haven't seen an impact of that at all.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay, and from a delivery perspective, others in the industry that I have spoken to have mentioned that -- everyone says that sales pipeline is stronger. That is partly because people are not signing deals. But from a delivery perspective, are you seeing slower ramps than you might have expected at the beginning of the year or in March?

Pramod Bhasin - *Genpact Limited - President and CEO*

No, we are not at this point in time. I said, as we've said, the only area where we see softness is on the IT side. But we are not seeing slower ramps. I would -- we still continue to win at a consistent rate. If I may, I don't necessarily agree that the pipeline is fuller because people aren't signing deals. If you look at the number of new customers entering the pipeline, that number has increased. Therefore, more and more people are looking at this as an option to take costs out.

There are not that many options for companies to take 30% of costs out in certain areas. There are not any and therefore, we see an increasing number of clients coming into the pipeline and -- which is why we think the pipeline is strong not as a result of clients not signing deals, Ashwin.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay, and from moving onto sort of an M&A type of perspective, are you seeing a reasonable pipeline of possible acquisitions especially from captives, maybe banks or financial services organizations trying to unload their captives? Is that coming up as an avenue for growth given that you guys are relatively well capitalized?

Pramod Bhasin - *Genpact Limited - President and CEO*

Absolutely, it is an avenue for growth that we would pursue. I think we are seeing quite a lot of activity in this area. I think you know us, Ashwin. We are going to do sensible acquisitions. We are going to do acquisitions which are at sensible costs and that are strategic and important for us.

So yes, there is a lot of activity and we continue to follow it and it shows up not just in the form of captives, but it shows up in the form of independent companies, companies in different areas of the business. And for us, it is very important to obviously make sure that the price we pay is right and that the cultural fit is appropriate, that it make strategic sense. So we continue to pursue it as it is a very important element of our growth strategy.

Ashwin Shirvaikar - *Citigroup - Analyst*

Have you seen the pricing become more favorable in that area?

Pramod Bhasin - *Genpact Limited - President and CEO*

Quite honestly, in some cases no. You know, I think in some cases there is still a mismatch between buyers and sellers and sellers are still thinking about '07 and buyers are thinking about '09.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thanks for that. It's nice to see that life is good.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thank you.

Operator

Ed Caso, Wachovia.

Ed Caso - *Wachovia - Analyst*

A couple questions. To follow up on Ashwin's comments, what percent of your work is volume-based pricing? You said you were seeing an immaterial impact, but is that because you are being paid on a monthly basis no matter what the volume level? I'm just trying to get a sense for how much of your revenue base is sensitive to volumes.

Pramod Bhasin - *Genpact Limited - President and CEO*

The revenue base would be no more than 10% to 15%. Now we are sensitive to volumes in other ways. Even if we are paid on a per person basis as volumes go up and down, we need fewer people. So I think we are sensitive to it on collection side, on customer services side, on transaction side, but we are not seeing frankly much impact in those areas. Our exposure in those areas is relatively more limited and at the same time, the penetration levels we have in those areas are still quite low.

So does volume impact us or their own operations is always a question people ask, and say should we give lesser volume to the cheapest option or lesser volume to the most expensive option and take some costs out there?

Ed Caso - *Wachovia - Analyst*

So can you give us a sense on your '08 estimate, what level of visibility you have at this point? You talked about the IT discretionary spending. You talked about volume sensitivity. We are halfway through the year. How much of your revenue guidance now is sort of locked in?

Pramod Bhasin - *Genpact Limited - President and CEO*

You know, our volume -- I think at this time we would have very good visibility into our numbers, which is why taking guidance up in this turbulent environment is something obviously we think about extremely carefully and thoughtfully. And I think at this point in time, I would tell you that our overall number, maybe we have 90% visibility at least into the numbers and that is why we are very comfortable with the guidance after taking all the puts and takes about IT discretionary spend, program spending, taking all of that into account.

Ed Caso - *Wachovia - Analyst*

Help us with our model. You said 26% to 28% organic. How many points on top of that would be acquisition in '08?

Pramod Bhasin - *Genpact Limited - President and CEO*

So 26% to 28% is the total growth that we are saying, revenue growth including whatever came through from acquisitions.

Ed Caso - *Wachovia - Analyst*

Let me ask the question then in reverse. Of the 26% to 28%, how many points of that is acquisition?

Pramod Bhasin - *Genpact Limited - President and CEO*

Do you have that number? I think it is a very small number. We can get you that, Ed, off-line. I think it is a very small number. We will get you that off-line.

Ed Caso - *Wachovia - Analyst*

Just clarifying, you talked in this press release about 80 to 100 basis point improvement in adjusted operating margin. Previously you had indicated 10 to 30. I think we have a little bit of an apples-to-apples as well as the number going up. So the 80 to 100 basis points, what does that equate to pre the FX adjustments? Can you help us out on sort of -- we're trying to figure out how much you are increasing your operating margin guidance.

Pramod Bhasin - *Genpact Limited - President and CEO*

The FX adjustment, as we have been saying all the way through, has nothing to do with our operating margin guidance. We hedge for the long-term to make sure our operating margins are in fact maintained intact and we don't care whether the rupee goes up or down. We believe it is a very prudent, sensible thing and we are frankly quite appalled that many others don't follow this. We believe it is a very prudent, sensible thing to do that when you have costs in one currency and revenues in the other, you take out long-term hedges. The 10 to 30 basis points we had given you earlier was based on that same philosophy, which we have now taken up to 80 to 100 basis points. It is exactly apples-to-apples, it's exactly the same philosophy.

Ed Caso - *Wachovia - Analyst*

Thank you, congratulations.

Operator

Karl Keristead, Kaufman Brothers.

Karl Keirstead - *Kaufman Brothers - Analyst*

Good morning, two questions. One, to follow up on Ed's question, just to put it a different way, is the new margin guidance affected at all by your reclassification? Maybe -- I don't want to skip ahead to the next call, but a simple yes/no on that would be great.

Pramod Bhasin - *Genpact Limited - President and CEO*

No, it is not affected by the reclassifications.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay, great. Secondly, if I might ask a question about actual bookings, at the risk of simplifying, it seems as if your '08 revenue growth is driven largely by good bookings and client wins in '07 and prior. So as we all look forward to modeling '09, it might be a little bit more a function of the new bookings in '08. I am wondering -- I realize you don't quantify it, but could you talk about your actual bookings year-to-date versus the prior period? I know the pipeline is good, but what have your actual bookings been year-to-date? Some color there might help us as we model '09. Thanks.

Pramod Bhasin - *Genpact Limited - President and CEO*

You know, we actually don't provide any numbers on actual bookings, but I would just reemphasize that last year 91% of our net increases came from existing clients. This year, as we've said, nearly -- over 80% of our growth comes with existing customers and in '09, we believe that trend will continue. 80% to 85% of our growth will come from existing customers with whom we have already in many cases chartered out the path for that growth. We have discussed when it will happen. We've discussed which processes will move.

And so we are working with them at a fair degree of granularity to establish exactly where this growth is going to come from from new customers. So it is really only 15% to 20% that comes from new wins we may have this year. As you know, we start small with customers. We have a consistent win rate. We keep adding big new names to our portfolio, which we like, because our strategy is focused on starting on a small base and then growing existing account relationships, and that will remain core to our business. So we expect these trends to continue over the next many years.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay, that's very helpful. Thank you.

Operator

Julio Quinteros, Goldman Sachs.

Julio Quinteros - *Goldman Sachs - Analyst*

One quick question. I just wanted to reconcile back to what percentage of your revenues if you are kind of coming in out of the quarters is actually recurring or that you guys would classify as recurring revenue? What I'm trying to do is balance that against the commentary for the sort of contribution from pricing that you guys are seeing. So if you have X percentage of revenue that is already recurring and pricing is actually going up, how quickly does that actually translate in the model?

Pramod Bhasin - *Genpact Limited - President and CEO*

Recurring revenues is probably, as we said, something like 80% of our total revenues. And in most of these cases, the moment we get price, a price increase, it will drop right through to the bottom line this year and for the next few years going forward. I don't know if that was the question. I just want to make sure I've answered it properly.

Julio Quinteros - *Goldman Sachs - Analyst*

Yes, I think so -- I think it's kind of similar to what was asked earlier and I want to make sure I understand that. When we are talking about pricing benefits to the existing book of business versus, say, the new clients that you might be signing up at a higher bill rate, is the pricing commentary that you guys are talking about on that existing book of business or the new book of business that is essentially ramping at better bill rates because it's higher value work?

Pramod Bhasin - *Genpact Limited - President and CEO*

A lot of the work that we are doing in terms of the existing book of business, we think about it as existing customers. So a lot of the extra margins will get from reengineering work and higher value work with existing customers. So we are hoping on our prices for new customers that frankly that doesn't translate into margin for a period of time because as we have said in the past, it takes a while for our customers to break even, for us to break even with a new customer, maybe 12 to 18 months. And then you reach a point of stability where you start making the margins you expect.

It's really the existing customer with whom we can move up the value chain, get better pricing, get better margins either contractually or because of the value of the services we deliver. That is really where we get the additional margins from.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay, then just kind of shifting gears to captives and even BOT type contracts, we've seen some developments in the industry there as it relates to both types of sort of models in the offshore BPO space. Can you talk a little bit about either your appetite for looking at existing captives as possible opportunities for M&A and/or other types of BOT contracts that might be out there where there could still be some good opportunities from contemplating an acquisition or going those ways?

Pramod Bhasin - *Genpact Limited - President and CEO*

I think we are very interested in acquisitions. Captives are very interesting because as long as there is -- not all of them are interesting -- but as long as the captive -- one, we can do it at a decent price, I think if there is a good cultural fit, they bring new products and services to the table, and they bring hopefully a long-term contract with a major customer, having that kind of a deal would be very interesting; where we can have a play, where we can play in that market. So I think that is an important element which will be interesting.

On the BOT side, BOT side I don't know. I am not as convinced. I think one, extricating it from a third-party vendor has its challenges. Unless it is a very commoditized business in which case frankly you can lose it as much as win it. And it doesn't play to our strengths of process, of driving process excellence. We don't do any BOTs. I have never done, never will, very clear on that.

But I think looking for BOT contracts, I know the reason NetWeaver wanted to come up and I think, one, NetWeaver was not that interested in talking to others anyway. But I would have frankly told you that given that it is mainly voice as far as I know, etc., it would not have necessarily be something we would be very interested in. But I think they have a huge market and lots of other acquisition opportunities out there. So BOTs will tend to be less attractive than perhaps any other options that may exist.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay, great. Then finally, one of your sort of competitors out there that does have a big IT practice behind it has been saying that obviously there's a lot more pressure out there to have -- whether it is bundled capabilities or end-to-end capabilities, incorporating the IT services delivery as it being sort of an increased requirement. Are you guys feeling that same kind of pressure to make sure that you have more of the IT side as well as the BPO competency? Or is that just not consistent with what you guys are seeing in the marketplace and what's driving your current business today?

Pramod Bhasin - *Genpact Limited - President and CEO*

We clearly see a need from clients being openly expressed of saying we need IT enablement in many cases to make our processes better. And that is why we have an IT business next to us. If we're working on an Oracle finance process, the ability to have design changes, a new Oracle module implemented, etc. plays to our strength because we can combine the benefit of both. If you're looking at procurement, if you are looking at insurance, having those platforms would actually help us a lot.

But do they want the broad sweep of IT? We do not see too many deals today where they are saying do everything in IT for us and do everything on the processing side for us. I think people -- we don't see that and maybe we don't get invited. I don't know. In some cases we probably won't I guess. But because the big bundled deals may be because we are smaller on IT, we don't get that. But we don't see it. I don't think that is the case.

I think we get invited to pretty much all deals and I think companies including increasingly we continue to look for best of breed. Within that, they certainly expect us to have IT capabilities to help them make their processes stronger.

Julio Quinteros - *Goldman Sachs - Analyst*

Got it. Okay, great. Thanks, guys.

Operator

Anthony Miller, Arete Research.

Anthony Miller - *Arete Research - Analyst*

Yes, I've got a couple of questions on points raised previously. Firstly on the IT services front, when you talked to us last quarter when IT services was around about one quarter of your business, I think you split that roughly in two. You said half is related to what appeared to be enterprise-related services, real software services, and the other half was help desk and I think IT infrastructure.

Now, from the comments that you've made today, it sounds like the weakness, the discretionary spending weakness is very clearly on the software side, software services side, on the enterprise services side. Is that so? Has that reduced and is the help desk and infrastructure still holding up?

Pramod Bhasin - *Genpact Limited - President and CEO*

Actually we've seen weaknesses on both sides. So it is more in the IT -- on the enterprise side, as you said. But we actually see it on both sides, where companies are saying or perhaps some of the additional work we want to do on a help desk side is not something we want to get into at this point in time or a contract has been delayed or people are consolidating those areas and therefore having -- not willing to go out as easily with a new contract.

So to your point, and your assumptions by the way are absolutely correct, the ones you mentioned in terms of what we had said in the past about the split of that IT business.

Anthony Miller - *Arete Research - Analyst*

So where would you say the split is today then of the what is now roughly 20% of this IT service? Is it still half and half, half enterprise and half (multiple speakers)?

Pramod Bhasin - *Genpact Limited - President and CEO*

No, in fact because of an acquisition we had made, we bought a company called ICE, a SAP Company based out of Netherlands in Europe. And as a result of that, in fact, a proportion would have increased probably to 60/40.

Anthony Miller - *Arete Research - Analyst*

In favor of the enterprise is that?

Pramod Bhasin - *Genpact Limited - President and CEO*

Yes, yes, right.

Anthony Miller - *Arete Research - Analyst*

Okay. And the point I think Vivek made right early on in the management commentary when he talked that the margin drivers, if I heard right, he alluded to an increase in supervisory span. I think that was the term used. Do I understand that to be basically you are increasing -- increasing the number of worker bees who are working for a single manager or project leader? Is that what that is all about?

Pramod Bhasin - *Genpact Limited - President and CEO*

That is exactly right and I think it is a reflection of processes becoming stable, operations being run better and better over time, and increasingly being able to drive greater efficiencies both at the supervisory level in terms of how we do the work as well as better training of the Associates, et cetera. And it is really reflective of the growing scale with individual customers.

Anthony Miller - *Arete Research - Analyst*

Because it is a term that I don't think I've heard you talk about before and I don't recall the other players talking about it. I'm trying to get a feel for how big is this opportunity? Is this just the beginning of the scale and could you -- to exaggerate the point, could you see a time in which you would have twice as many -- the span of control would be twice as large or is this going to be just an incremental thing and just an element of your margin expansion?

Pramod Bhasin - *Genpact Limited - President and CEO*

I don't think it will ever be twice as large. I think that would be hard. One, just because the number of new clients entering where you tend to have a greater concentration and greater supervision required in the early days -- you know in the first six to nine months is greater and just that proportion would make sure it can't be doubled. I think you can improve it by perhaps 8%, 10%, 12% each year.

The issue for us is really where do we reinvest that? We will always play a balancing game between letting it go through to the margin versus reinvesting in product development, reinvesting in the front end, reinvesting in domain expertise. We are really building, we believe, some very key differentiators in terms of our process, knowledge, and domain expertise in the market. And so we will always have to judge that as we are able to get scale elsewhere how much of that is something that goes through in our margin and how much of that is a reinvestment we must make given the growth rates we expect.

Anthony Miller - *Arete Research - Analyst*

Okay, thanks very much.

Operator

There were no further questions. I would now like to turn the call over to Pramod for closing remarks.

Pramod Bhasin - *Genpact Limited - President and CEO*

Thank you, everyone, for attending. We really appreciate you all listening into the call and for the questions you have asked. We had a terrific quarter, as I said, and very importantly are on track for a good year this year. I just wanted to remind everyone we have a call starting now -- sorry -- we have a call starting at 9:30 a.m., in half an hour, which is really to discuss the reclassification. Same dial-in numbers and we look forward to talking to you again at the next quarter earnings call. Thank you.

Operator

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