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G - Q2 2017 Genpact Ltd Earnings Call

EVENT DATE/TIME: AUGUST 02, 2017 / 8:30PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Second Quarter 2017 Genpact Limited Earnings Conference Call. My name is Michelle, and I will be your conference moderator for today. (Operator Instructions) We will expect the call to conclude in an hour. As a reminder, this call is being recorded for replay purposes. (Operator Instructions) I would now like to turn the call over to Roger Sachs, Head of Investor Relations at Genpact. Please proceed, sir.

Roger Sachs - *Genpact Limited - Head of Investor Relation*

Thank you, Michelle. Good afternoon, everyone, and welcome to Genpact's second quarter earnings call to discuss our results for the quarter ended June 30, 2017. We hope you had a chance to review our earnings release, which was posted to the IR section of our website, genpact.com. With me in New York today are Tiger Tyagarajan, our President and Chief Executive Officer; and Ed Fitzpatrick, our Chief Financial Officer.

Our agenda for today will be as follows: Tiger will provide a high-level overview of our results and update you on some of our strategic initiatives. Ed will then discuss our financial performance for the quarter in greater detail and provide an update on our financial outlook for the year. Tiger will then come back for some closing comments and then we will take your questions. As Michelle said, we expect the call to last about an hour.

Please note the year-over-year growth rates discussed today include the impact of the reclassifications of the divested GE Capital businesses to Global Client revenue as if these transactions occurred on January 1, 2016. This was done to provide a consistent view of the underlying growth trends of our business. The actual results without these adjustments are included in the earnings release. 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 are set forth in our press release. In addition, during our call today, we will refer to certain non-GAAP financial measures, which we believe provide additional information for investors and better reflect the way management views the operating performance of the business. You can find a reconciliation of these measures to GAAP in our earnings release in the IR section of our website.

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

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

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our second quarter earnings call. Genpact delivered strong results for the second quarter with our strategy and execution working very well on many fronts. Top line growth was driven by mid-teens constant-currency growth in Global Client BPO revenues with balanced performance across most of our targeted verticals and service lines. For the 10th consecutive quarter, transformation revenue, which is comprised of consulting, digital and analytic services was the fastest-growing area of our business. We also delivered solid adjusted operating margins and adjusted earnings per share growth during the quarter. Specifically, total revenues increased 7% on a constant-currency basis, Global Clients revenues increased 13% on a constant currency basis, Global Client BPO revenues increased 15% on a constant-currency basis. Adjusted operating income margin was 16.5% and adjusted EPS was $0.43, increasing 19% year-over-year.

Global Client revenue growth in the quarter was balanced across most of our targeted industry verticals: Banking, CPG, manufacturing, Insurance, life sciences and high tech. This led to a strong 15% constant-currency growth in Global Client BPO revenues. While we saw solid growth across most of our service lines, including finance & accounting and core industry vertical operations our Transformation Services revenue, growing at more than 20%, led the way. The challenging business conditions that impacted the investment banking industry over the past several quarters are beginning to show signs of stabilizing. This helped reverse recent declines in our Global Client ITO business that grew 2% on a constant-currency basis during the second quarter. We also saw Transformation Services pick up real momentum in the capital markets vertical driven by risk services, digital robotic automation implementations and artificial intelligence, or AI, product engagements.

GE revenues declined 26% as we felt the peak impact from the phase out of work related to GE Capital divestitures. Additionally, we saw accelerated levels of productivity driven by GE's continued efforts to consolidate some of their core industrial operations as well as our joint effort to embed digital into many of their processes. Our GE business provides us one of the most fertile sandboxes to test breakthrough digital and analytics innovations leveraging GE's Predix platform, AI and blockchain based solutions. We expect performance of our GE business to improve in the second half due to the ramp of an ITO engagement we won in the second quarter that was part of GE's vendor consolidation initiative. We also recently signed another long-term contract with a buyer of a divested GE Capital business. To date, we have signed contracts with 9 buyers, and see opportunities to expand these relationships as we move forward.

Our BPO pipeline continues to improve across most of our targeted verticals, service lines and geographies with continued strong traction from Transformation Services. We're also seeing a momentum pick up on big deals and are pleased with our win rates.

We live in a volatile world where there is heightened sensitivity to global political climate and potential changes to trade policies, tax laws and visa regulations. However, during the last few months, we believe the mindset of corporate leaders has shifted from a "wait-and-see approach" to becoming more comfortable and proactive, while operating in the current uncertain environment. This means management teams are now embracing change and transformation and leveraging digital technologies, data analytics and design consulting, along with global delivery to drive growth and competitiveness. All of this is with an intense focus on customer experience, leading to better operating performance. As a result, we are seeing deal cycle times begin to stabilize, improving from the more challenging conditions we witnessed late last year.

Our focus on Lean Digital, encompassing the intersection of deep domain knowledge and digital technologies, along with our understanding of how to leverage data for real-time analytics, continues to differentiate us in the market. Therefore, more and more clients are viewing Genpact as a trusted partner helping them transform and create value. We bring to the table a sharp understanding of their business context and data that is a must in their domain.

As we discussed during our March Investor Day at our Palo Alto innovation center, over the last 3 years, we've invested in Transformation Services and the development and execution of our Lean Digital approach. This has led to a dramatic increase in the number of CXO-level conversations that are centered around business challenges they are addressing well beyond cost savings. As you recall, we first made the decision back in late

2013 to focus on what we now call "intelligent operations" where digital plus advanced analytics are embedded in our services. We are really starting to see the benefits of these investments materialize.

Our other engine of growth, where we capture new value being unlocked through the bundling of digital, analytics and consulting, is our digital-led solutions. A number of our clients across our key industry verticals have engaged with us in the digital-led transformation of their businesses that leverages digital technologies such as robotic process automation, dynamic workflow and mobility to transform the way they run their businesses and use data analytics. More importantly, at its cutting edge, transformation starts with reimagining the work that gets done, using design thinking and implementing AI-based products and solutions that truly disrupt industries.

These 2 chosen paths to market, intelligent operations and digital-led solutions, are both underpinned by our deep expertise in specific domains. We believe Genpact is in a highly differentiated position to achieve our growth target through long-term client engagements, leveraging this powerful interplay of intelligent operations and digital-led transformation. As a result of our many client CXO conversations, it is clear that the more we grow intelligent operations, the more the client believes we have a right to compete and win in digital-led transformation. Conversely, the more we win and grow with the client on digital-led transformation, the more opportunities will open up to win long-term intelligent operations engagements, forming a synergistic and virtuous cycle of growth!

Let me share a few specific examples:

First, a leading large equipment manufacturing company has been leveraging our intelligent operations globally in finance and accounting as well as procurement. Given our demonstrated success implementing and running these operations, with digital and analytics embedded in them, the client has now chosen us as their digital transformation partner on a much wider scale. We will be designing and running digital center of excellence using technologies such as robotics process automation across multiple business groups and functions, including finance, supply chain and logistics. This was a broader company-wide engagement that should also ultimately lead to leveraging AI-based products and solutions.

Next, we are working with a global bank to design their "contact center of the future" for retail cardholders to dramatically improve their customers' experience. The bank is currently testing our neural intelligence product to assist its customer service agents to better understand customer inquiries and deliver best responses to solve issues faster and more accurately. The product, which was built on the Genpact Cora platform not only increases customer satisfaction, driving more card usage, but also reduces cost through faster agent training, lesser need for supervision and automation of repetitive tasks. The next evolution of this product is expected to leverage AI to make it even more predictive and intuitive.

One of the most significant milestones in the quarter was our launch of Genpact Cora, a comprehensive automation to AI platform leverageable to accelerate digital transformation journeys. Genpact Cora is a modular, interconnected mesh of flexible digital technologies that hones in on specific operational business challenges and tackles them end to end, helping companies reimagine the way business outcomes get delivered. We believe Genpact Cora is the first platform to fully integrate automation, analytics and AI engines- all in a single, unified platform, embedded with and drawing insights from our domain expertise that we have built from running thousands of intelligent operations and processes for Global 1,000 companies. The Genpact Cora platform is the foundation for Genpact products and consulting services already in the market with more than 1 million users processing over 1.1 billion transactions annually.

We believe Genpact Cora is unique in the industry for 3 specific reasons. 1) its modular design and architecture allows clients to future-proof investments in digital as their needs change and as better digital technologies emerge. 2) Its open architecture and mature application programming interface allows for best-of-breed capabilities for the highest impact and easy connectivity to systems of records; and 3) Most importantly, it has a built-in command and control hub to provide a much-needed governance layer to mitigate risks that can accompany automated solutions. We have been separately deploying various modules that make up Genpact Cora over the last 2-plus years. This includes integrating mobility through our Endeavour acquisition, dynamic workflow through the acquisition of PNMsoft and more recently, AI and natural language processing implementations through our acquisition of RAGE Frameworks. Our new platform is already delivering incredible value to a number of our clients across various industry verticals.

Individually, each of these acquisitions provide compelling solutions, but now, part of a combined solutions set coupled with Genpact's domain and process expertise, we believe we have powerful and synergistic offerings to take our clients' operations of the next level.

For example, our pharmacovigilance AI product, that we are co-innovating with a global pharma major is expected to redefine the way drug safety gets managed. Using Genpact Cora's AI, analytics, predictive modeling and other technologies, this exciting product completely reimagines the way pharma companies monitor, detect, assess, report and prevent adverse events from various medications.

Through our RAGE acquisition, we added Live Wealth, a product that serves our wealth management business that is now incorporated into Genpact Cora. Live Wealth allows the global financial services institution to extract and gather insights from many disparate data sources both structured and unstructured. It eliminates billing and asset reporting errors for the client, resulting in customer response cycle times going from 45 days to on demand.

These products are all replicable and scalable across our clients and are enriched with our domain knowledge and granular understanding of the variables and the data, and all their interrelationships. Therefore, the more these products are deployed across clients, the more knowledge and intelligence they acquire, thereby adding value to every client, the classic network effect. Commercial models in every one of these AI-based products are transaction or outcome-based or as-a-service annually licensed based.

We are very excited that our positioning as a digital transformation partner is being recognized by leading industry analysts and research firms. Noted analyst firm HfS Research recently ranked Genpact as a top 3 provider of AI-powered solutions propelled by the Genpact Cora platform and our RAGE acquisition. Additionally, the Everest Group recently stated that the introduction of Genpact Cora is timely for an industry seeking digital transformation, as clients want to buy business outcomes, not just tools and products.

M&A remains a priority for us, and this morning, we announced the acquisition of OnSource, a digital company focused on disrupting the claims inspection process in the insurance industry. The company's Inspection-as-a-Service solution uses self-service smartphone apps and drones to obtain videos and images that are used to assess damages, generate estimates and pay out claims. This is creating significant value for clients. As an example, SafeAuto insurance is using the OnSource solution to improve its productivity, lower cycle times and provide overall better quality and service levels. OnSource increases our presence in Boston, which is becoming a digital center of gravity for us, along with our Palo Alto innovation hub.

Switching to our ITO business. Over the past few months, we have taken several actions to realign our ITO portfolio into specific areas connected to our deep domain expertise to drive growth. First, we reprioritized our investments into sharply defined high growth opportunities, such as business intelligence, that combines ITO and analytics and data engineering where clients face significant challenges to make sense of unstructured as well as structured external and internal data, in order to derive critical real-time actionable insights that solve problems. Second, we are doubling down in areas of deep domain and complimentary BPO and analytic strength such as risk, commercial leasing and lending and wealth management. And finally, we have deprioritized certain ITO services that no longer fit with our strategy or negatively impact profitability such as fast commoditizing pieces of legacy ITO work where our domain depth is limited. In addition to more sharply focused -- of our IT investments, we've divested our ownership position in the KYC.com utility in the capital markets vertical. However, given our domain and process expertise in the customer onboarding process, we entered into a long-term agreement to remain the back-end service provider for that business.

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

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Thank you, Tiger. Good afternoon, everyone. Today, I'll provide you with more detail on our second quarter results, followed by key balance sheet and cash flow highlights. I'll also provide an update to our full year financial outlook for 2017.

In the second quarter, we generated total revenues of $671 million, an increase of 6% year-over-year or 7% on a constant-currency basis. Revenue growth, excluding the recent acquisitions was approximately 6% on constant-currency basis. Revenues from Global Clients, which represent 91% of our total revenue, increased 11% year-over-year or 13% on a constant-currency basis. Within Global Clients, our BPO revenues grew 13% year-over-year or 15% on a constant-currency basis, while Global Client IT service revenues increased 2%. Global Client growth was led by our Transformation Services, growing year-over-year by more than 20%, representing approximately 20% of total Global Client revenue. GE revenues, which now represent less than 10% of total revenue, declined 26%, higher than our initial expectations. We now expect GE full year revenues to be down 16% to 20% versus our prior outlook of 13% to 15%. Overall business process outsourcing revenues, which represent 83% of our total revenues, increased 9% year-over-year, while total IT services revenue declined 5%. Adjusted income from operations for the quarter was $111 million, up 17% year-over-year with a corresponding margin of 16.5% compared to 14.9% during the second quarter of 2016.

Along with strong top line growth, during the second quarter we received an approximately 150 basis point benefit from an India-based subsidy which we had incorporated in our full year guidance. On a normalized basis, adjusted operating margin during the quarter would have been approximately 15%. At 38.1%, our gross margin was in line with the level reported during the first quarter and down from the 39.1% reported during the second quarter last year. The year-over-year decline reflects the short term impact of slightly lower margins related to recent acquisitions, a change in revenue mix and the impact from the GE-related IT revenue decline. We continue to expect our gross margin to improve through the balance of the year with increased productivity on higher revenues and a more favorable mix.

SG&A expenses totaled $168 million compared to $165 million in the second quarter of last year. Our sales and marketing expense as a percentage of revenue was approximately 6.5% compared to 7.1% in the same quarter last year driven by operating leverage. We expect sales and marketing to be a higher percentage of revenue during the second half of the year due to initiatives around the launch of Genpact Cora and other marketing related spending. Total G&A expense as a percentage of revenue this quarter declined 40 basis points year-over-year due to improved productivity and operating leverage.

Adjusted EPS for the second quarter was $0.43 compared to $0.36 last year. The $0.07 year-over-year increase is primarily driven by higher operating income and share repurchase activity of $0.06 and $0.04, respectively, partially offset by $0.02 from higher interest expense due to higher debt levels related to our recent M&A activity and a $0.01 impact from lower year-over-year balance sheet foreign currency measurement gains.

During the quarter, we returned $12 million to shareholders in the form of our second regular quarterly dividend of $0.06 per share that equates to a current annual yield of approximately 1%. Our effective tax rate for the second quarter was 18.3% compared to 18.5% in the second quarter of last year. Our tax during the first 2 quarters of 2017 benefited from nonrecurring discrete items. For the full year, our outlook is now expected to be approximately 20% versus our prior range of 20% to 21%.

Now let me turn to our balance sheet and cash flows. Cash and cash equivalents totaled $441 million compared to $388 million at the end of the first quarter of 2017. With undrawn debt capacity of $144 million and existing cash balances, we continue to have ample flexibility to pursue growth opportunities and execute on our capital allocation strategy. As we discussed with you during our first quarter earnings call, largely as a result of our recent M&A activity, our rolling net debt-to-EBITDA ratio increased during the quarter and as of June 30, 2017, was approximately 1.9x. Our days sales outstanding were 85 days, in line with last year. We expect DSOs to improve as we progress throughout the year.

We generated $84 million of cash from operations in the second quarter of 2017, compared to $96 million during the same period last year, largely in line with our expectations. Capital expenditures as a percentage of revenue were 3.4% in the second quarter of 2017 compared to 3.8% during the second quarter of 2016. We continue to expect CapEx as a percentage of revenue to be approximately 3% to 3.5% on a full year basis.

Now let me turn to our full year outlook for 2017. With only 5 months remaining in the year, we have greater visibility into the full year outlook and now expect total revenue to be between $2.66 billion and $2.71 billion, up from our prior range of $2.63 billion to $2.7 billion. Due to the recent appreciation, primarily in the euro and British pound, we now expect a full year adverse foreign exchange top line impact of approximately $24 million, down from the $33 million we had assumed as of the end of the first quarter. Additionally, we now expect Global Client growth to improve to 7% to 10% on a constant-currency basis, up versus our prior outlook of 6% to 9% with Global Client BPO growth now expected to improve to approximately 12% on a constant-currency basis, up from our prior outlook of 11%. Our adjusted operating margin income expectation remains at approximately 15.7%. As I mentioned earlier, we expect our effective tax rate to be approximately 20% higher than 2016's rate of 18.7% that benefited from larger nonrecurring discrete tax items during the fourth quarter of 2016. Finally, we continue to expect full year adjusted earnings per share to be between $1.53 and $1.57. This includes a $0.01 negative balance sheet FX charge on a 2017 year-to-date basis. There is no change in our assumptions for the overall weighted average shares outstanding for the year.

With that, let me turn the call back over to Tiger for his closing comments.

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

Thank you, Ed. Today is the 10-year anniversary of Genpact's IPO on the New York Stock Exchange. As I look back and reflect on our journey so far, I'm amazed how this company continues to redefine the industry. Our culture of rapidly embracing change, driving innovation and agility permeates throughout our organization and has solidified our reputation for excellence as we serve our clients' needs. We have evolved from a traditional outsourcing firm to a trusted business partner helping our clients drive best-in-class operations using our patented smart enterprise processes, our lean digital framework, and now Genpact Cora and related Transformation Services. I want to take a moment to thank our global workforce for the dedication, passion and innovation they bring to every client engagement. It's because of our people that we have been as successful as we have been And I wanted to thank our fantastic clients, who are our true partners and with whom we now co-innovate all the time, to help them navigate this rapidly changing world. Our talent, coupled with our cutting-edge solutions, positions us extremely well to profitably grow our business and drive client and shareholder value in what continues to be a very attractive, underpenetrated market.

With that, I'll now turn the call back to Roger.

Roger Sachs - *Genpact Limited - Head of Investor Relation*

Thank you, Tiger. We'd now like to open the call to your questions. Michelle, can you please give the instructions.

QUESTIONS AND ANSWERS

Operator

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

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

My question is with regards to, as you look at your pipeline and the new revenues that come in, what percent of it is newer stuff, digital AI, and can you discuss the forward-looking sort of margin and cash flow implications of doing more of that work? Yes, let me just start with that.

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

Yes, so if I were to parse the question and the answer into 2 parts, Ashwin, in terms of new wins, digital analytics, transformation, the new stuff, there are 2 ways we get that. One is when it gets embedded in a number of the deals in managed services, BPO, analytics, etc. that we do, as part of what we are calling intelligent operations. For example, it would be one of the large deals that we signed this quarter where it's finance and accounting global for a large equipment -- global large equipment manufacturing company. Apart from the fact that it's all the traditional stuff that you would expect in a finance and accounting operations and moving that to global delivery centers, it includes robotic automation, right out of the gate, it includes the implementation of workflow solution on the cloud, and it includes at phase 2, the implementation of a couple of AI-based products around, for example, financial reporting. That is digital analytics and transformation, but embedded within a larger deal. And I would actually say about 80% to 90% of our deals today have a number of those components embedded. And then we look at digital-led solutions, an example of that would be for a large reinsurance company where we're going in and implementing dynamic workflow on the cloud for a range of their operations that they run to make their operations really different from the way it runs today, taking out cost, improving cycle times, etc. That's about, as I said, today 20% of our business, growing at 20%-plus. So if you dialed a clock into the next couple of years, that could easily become more than 1/3 of our business. And the final point I would make, which answers your question on margin, is obviously all of the Transformation Services and the digital and analytics solutions have a better margin profile. And as we do more of those and the proportion of that grows in the company, that is one of the ways in which you actually get to a higher-margin profile in the company. Having said that, there are other forces that actually do have margin pressure, be it the IT business and some of the old IT work, or the onshore/offshore mix, etc, so as we go forward some of that will play itself out.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

I think as we said before, the bias is that, hey we liked it -- the revenue -- that becomes a bigger percentage of our business, that's great. It's a positive bias there. And then on the first part too, Tiger, I think when Tiger talked about that digital as a component of our business last year, it was a much -- I don't remember the exact number, but it was a lower number so that piece is -- that percentage is improving year-over-year.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Right, right. And the reason I was asking the question is one of the most frequent questions we get from investors is with regards to -- obviously as you do more RPA and more automation, you can drive a lot of productivity for the client. How much of that incremental benefit, economic benefit can you capture as opposed to going to the client, so that's kind of where I was heading.

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

Yes, yes. Yes, no, the good news -- I mean the starting good news is that we are such an underpenetrated market, Ashwin, that the more we do that, then more we get the broader digital-led solutions engagements that we talked about, which includes embedding LiveWealth as a product, LiveSpread as a product, the pharmacovigilance artificial intelligence product and those are classic transaction-based, outcome-based, license fee-based, with services wrapped around it, engagements, very different commercial models. And that's the direction that I think a number of our services will ultimately head in.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Quick question, just on numbers. You mentioned parsing out ITO and potentially getting out of parts of it. Was there a financial impact of that, that you can walk through?

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

So Ashwin, I want to clarify, I don't think we said we are getting out of parts of it. We have deprioritized focus and investments in specific parts of our ITO business and reprioritized and doubled and tripled down in other parts of our ITO business and we called out the big vector there would be how deeply connected it is to our domain expertise, be it risk or commercial lending or wealth management, etc, that I said. So it's not really getting out. So therefore, to that extent, there is no financial impact of what I just described. It's is actually reallocating resources and focusing our resources where we think is the best bang for the buck.

Operator

And our next question comes from the line of Joseph Foresi with Cantor Fitzgerald.

Joseph Dean Foresi - *Cantor Fitzgerald & Co., Research Division - Analyst*

My first question is, how do you feel about IT services at this point, has it bottomed? And how sustainable is that rebound in capital markets?

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

Joe, a little bit the answer would be based on what's the trajectory investment banks are going to take in their industry. One would argue that, that industry will continue to undergo structural change. That structural change continues. I think we will be a partner in that structural change in its ups and downs. So I think part of the answer is it's difficult to predict how the industry goes. I think from our perspective, I think we have clearly refined our focus in that vertical, like in the other parts of our ITO business. So we feel more comfortable with the stability that I think that vertical and the broader IT business has achieved is the way that I would answer that question.

Joseph Dean Foresi - *Cantor Fitzgerald & Co., Research Division - Analyst*

Got it. And so how sustainable is this tick-up in demand that you saw? It seems like Washington seems -- continues to have some challenges and then the macro data, it's stable but it hasn't really upticked. So I'm just wondering, seems like you saw a little bit of an uptick in demand, wondering how sustainable you think that is?

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

Joe, I don't think we're seeing an uptick in demand driven by macroeconomic uptick. It's more around a number of our client leadership teams, as I said, moving from how do we respond to some of the changes in the macro, including taxes and visas and changed political environment to this is the way we're going to respond. And that includes, "I'm going to leverage more digital technologies to transform. I'm going to continue my journey around changing the way we run the business." So there's a little bit more confidence that we're finding in the leadership teams that we deal to actually be more decisive in their journey forward as compared to let's say, towards the end of last year.

Joseph Dean Foresi - *Cantor Fitzgerald & Co., Research Division - Analyst*

Got it. Okay. And then how should we think about revenues and margins in the second half of the year? What does the cadence look like in the next 2 quarters? And how does it look from an organic versus inorganic growth rate?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Yes, Joe, so we gave the full year outlook for revenues. The only color I'd give you to quarterize is the year-over-year comparison a little bit tougher in Q4 than in Q3. So slightly better growth of the remaining 6 months in Q3, a little lesser in Q4 is the guidance I'd give you. And then the second part of your question...

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

Margins.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Related to operating margins. So operating margins should appreciate as we go throughout the balance of the year, a bit in Q3 and in Q4 as we get levered. So that one -- I wouldn't use your revenue model to assume how much the leverage happens. But full year at 15.7%, I'd expect the uptick to be reasonably smooth.

Operator

And our next question comes from Anil Doradla with William Blair.

Maggie Nolan

This is Maggie Nolan in for Anil Doradla. My first question was about the acquisition that you all announced today. It seems like that complements some of the acquisitions that you've done in the past. Do you think that's a reflection of maybe a strategic move towards managing client processes from end-to-end, and does that go hand-in-hand with your strategy to do more digital work? Can you comment on that a little bit?

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

So Maggie, you just took the words out of my mouth, that's the answer. The acquisition that we did of BrightClaim, the insurance claim in the P&C space and the folks who manage that with operations in Atlanta and Austin, Texas, was one that we did at the beginning of the year -- or the middle of the year. And then this is a digital, OnSource digital technology company that actually, does similar processing but using digital tools. The combination is what is going to be of value for clients, along with the fact that we have a very mature and robust insurance business in that same vertical. Both those acquisitions as you can imagine, were very specifically targeted as part of our strategy and M&A exercise. And I think we feel very pleased about the fact that they both straddle the same space, they come together really well and the opportunity is really to change the way clients run, for example, claims, in the property and casualty space.

Maggie Nolan

Okay, great. While we're on the topic of the insurance space. It seems like there's been a lot of activity from the BPO players in that space and there's lots of opportunity. Can you talk about the competitive dynamics there, and how you guys are able to differentiate perhaps also in the context of these acquisitions?

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

So Maggie, we've always been very competitive in the insurance vertical and that goes back to our history of having insurance as one of our deep domains, almost going back to the beginning of the company when we were part of GE Capital and GE. And we've continued to sharpen that domain expertise over the years. And we've included in that over the last 3 or 4 years much deeper digital capabilities around insurance. And as I said, the acquisition that we did with BrightClaim further reinforced our domain capability in that space. That competitive landscape has been pretty consistent for quite a few years now with people who have domain depth as the only players who actually are successful in that space. More and more, the view we've always had, is that the competitive landscape is going to be based on domain expertise that then is able to leverage technologies such as AI because our view is that AI comes to life and really adds value and disruptive value only when it really is seeped in domain and is able leverage domain in the context as well as has access to data in that domain.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

And Joe, back to the question. There was a piece of your question that I didn't answer, you talked organic versus inorganic growth. So we did talk about for the quarter, about 1% of that growth was based on inorganic and I'd say roughly the similar amount for the full year, 1% or maybe just slightly more than 1%. So that will be flowing through with the top line revenue growth.

Operator

And our next question comes from the line of Puneet Jain with JPMorgan.

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

So your -- growth rates improved by a lot in the quarter, top line growth rate improved a lot. But it doesn't look like all the benefits are flowing through in full year results. So beyond the tougher comps that you'll experience in 4Q and more generally in second half, are there any headwinds that you expect, maybe at GE or otherwise, that could hurt growth rates?

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

So just answering the GE portion first. We have in our outlook said that our expectation for GE now is 16% to 20% decline. And that's different and a higher decline than the expectation we had as we started the year. So part of it is answered there. And then some of the performance in quarter 2, about half of it was an acceleration of the integration of the acquisitions that we had done versus what our expectations were. And the balances is flowing through and makes the quarter 3, quarter 4, a more steady quarter 3, quarter 4, versus a ramped quarter 3, quarter 4, that on the face of it was going to be a tougher ramp. And that led us to change our guidance at the bottom end and at the top end.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

We like the linear nature of the balance of the year, which is better. I'd say, and then you also asked the question about why isn't that flowing through at the bottom line, the EPS. As we look at the analysis, the organic growth that Tiger talked about, we saw a bit of that in Q2. We're going to see a bit more of it for the second half of the year as well, part of the reason why we rose the guidance was that organic growth. That flows through about an incremental $0.01 in terms of EPS for the full year, that's partially offset by the $0.01 of FX that you heard us talk about for foreign currency related translation losses as well as the inorganic -- the M&A revenue coming through, coming through at a 15.7 points of operating margin roughly being offset by the interest cost. So in the net, the acquisitions are just under $0.01 dilutive in the first year as you might expect as we're in the ramping phase of those acquisitions show. That's why the net of the growth that you're seeing isn't flowing through the EPS, because of those 3 items.

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

Got it. And Tiger, if you can also comment on how you are going to integrate Cora in your delivery? How those contracts are going to structured? And how does your visibility compare on those contracts with rest of your business?

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

So Puneet, the way to think about Cora is that it is a platform that actually has modular integration of various digital technologies. And while the overall vision is for a client to buy into the overall full vision, not everyone needs to jump on to the full platform with its entire vision on day 1. In fact, what we're seeing is that a lot of clients prefer to start with, for example, robotic process automation and then move on to using AI to drive pretty disruptive change in the way, for example, they run their commercial lending business or their wealth management business. The advantage of Cora is that once you jump onto the platform with only one module, you can actually bring in the other modules over time. You can connect the other modules to each other because they're open architecture with APIs. The APIs can connect to the ERP layer and as technologies evolve, you can actually change those modules without much investments and get the new module in. And finally, as we've said, the most important thing that we think is needed in the journey around robots and robotics and AI is to have a governance layer that actually manages all of this. Manages the change, manages compliance, manages conformance and when something is not working to actually dive in and fix it immediately. So that's what Cora does. A lot of the contracts would be dependent on, whether it's robotics, whether it's AI, whether it's a connected piece. A lot of them will turn out to be outcome-based, will turn out to be transaction-based, will turn out to be license fee based.

Operator

And our next question comes from the line of Edward Caso with Wells Fargo.

Edward Stephen Caso - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

First question, just want to make sure that the OnSource acquisition just announced, is that most of the increase in the revenue guide for this year -- other than the FX adjustment?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Ed, that's minimal. Almost nothing.

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

Almost nothing.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

It's what Tiger said, it's organic growth picking up nicely, along with a little bit better as well on the inorganic side from the existing acquisitions due to the speed of the integration and then partially offset by some of the GE decline that you heard us talk about. So it's a nice combination actually.

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

Yes. Unlike BrightClaim, which was a more operating business acquisition in the insurance space, OnSource is a digital technology and is not a material revenue contributor, it's a very strong capability that we're bringing in, which when combined with the capability we have with BrightClaim and our insurance vertical, is where value will get created.

Edward Stephen Caso - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Moving away or the selling of the KYC business, I remember that being trumpeted as a great example of your desire to get into building BPaaS. Is this a signal here that you're moving back to being more responsive to client requests as opposed to building BPaaS solutions and then hoping clients come to it?

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

I think, Ed, it's a reflection of 3 things. One, I think it's reflection of the world we are in, which is to experiment and constantly reevaluate whether that structure is the right structure to deliver the best value to our clients. The second it's a reflection of in the case of KYC.com, the conclusion that we came to with our joint venture partner was that it is at this point of evolution when actually that BPaaS had been fully built out and was actually pretty successful in delivering the value it was meant to deliver, the ongoing build and the implementation in that particular BPaaS space was better managed by our JV partner, while the long-term contract on managing the services behind it, for the same services, should be managed by us, which is why we entered into a client onboarding managing the KYC services behind that platform for that same service. So I think it's very specific to KYC.com and I think we need to be agile in this world to experiment and then change constantly as the world evolves. And the contrary example to that is in the pharmacovigilance space, we believe that given our domain expertise in the pharma space and what we built, we think that's going to be -- that's going to play out differently.

Edward Stephen Caso - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Ed, can you talk a little bit about the $12 million again, in the June quarter? I see that it's about 16% of operating income and the way I understood your math here, it's actually included in the $0.43. So what is it and sort of why is it - it looks like it's a nonrecurring thing, so why is it in the sort of recurring number?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Yes, so it's an India-based subsidy. What I'd said was operating margins would have been on a normalized basis about 15%, which is what we would have expected on a normalized basis without this kind of improving on the trend from Q1 to Q2 and throughout the balance of the year. It is -- we consider it to be a recurring item because we know for this year, for 2015 to '16, this is what this relates to, the '16, '17 year is also in process and this thing will need to be renewed every year but we do think it's a recurring in nature item. We actually planned for it. It's in our operating plan obviously it was in our guidance as you heard me talk about it. So it's related to the specific services that we provide and the jurisdictions that we provide it. And again, as I said, we expect it to recur, so it's a -- the subsidy is consistent with the other subsidies that we received and we reclassify them always in other income and expense, and that's where it is. And it's always been included in -- that type of item has always been included in our operating margins.

Operator

And our next question will come from the line of Keith Bachman with Bank of Montreal.

Steven Jason Schneiderman - *BMO Capital Markets Equity Research - Associate*

Steve Schneiderman, pinch hitting here for Keith tonight. Wanted to talk about ITO real quick. I understand that from the prior question that we're not changing around the margin profile because you're shifting investments from the underperforming areas to the areas where you're doubling down. But doesn't that over time create a little bit of a margin benefit from shifting from the lower margin areas to the better margin areas where you're focusing, and hopefully, growing that business better?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Yes, we've gotten that question before, we certainly think there's a bias, which is good. We like towards higher margins, but again, this is an uncertain world. So we like that, that bias is shifting as more and more goes to Transformation Services with higher margins, as you might expect. That's a good thing. But we'll give you an update on our outlook and operating margins year-to-year, but hopefully, the long-term, that does play out and that's definitely where our head is in terms of view, but we'll guide you year-to-year on what we think operating margins do. Anything more, Tiger, to add?

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

No, specifically, on the ITO side of the house is very similar. Longer term, that's the direction we'll go and -- but we haven't found that out yet. But, clearly, that's exactly the way it will move.

Steven Jason Schneiderman - *BMO Capital Markets Equity Research - Associate*

Okay, great. Thanks for clarifying that one. On free cash flow, can you talk about some puts and takes for the quarter given that the operating performance was solid, DSOs flat year-over-year. Why didn't we see a little bit of a better bounce there?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

I think if you can look quarter-to-quarter, and you can also look year-to-date. Year-to-date we are ahead of where we were last year. As you know, quarter-to-quarter those things can move with balance sheet movements, tax payments, accruals and the like, so it's on a year-to-date basis very much aligned with where we expected. I think -- I said in the quarter it was largely aligned, it was probably a little bit lower, but we were a little better in Q1. So on the DSO side, I would say, it's very much along the trajectory that we had expected and for the full year, no change in our expectation of year-over-year growth.

Steven Jason Schneiderman - *BMO Capital Markets Equity Research - Associate*

And the full year guide is intact, 4% growth?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Yes, yes, as I said, the full year, no change.

Steven Jason Schneiderman - *BMO Capital Markets Equity Research - Associate*

Okay. And last one for me, on the margins. Given that you had the 150 bps benefit of the quarter, if we ex that out, just get the 15.7% for the year, you seem like you'll get a little bit of a benefit from a ramp in Q3, to Q4, although less, honestly, than we were expecting as you guys displayed in 2016. Is there anything that's changing for the margin profile for the rest of the year? Or is this -- happens to be when you are able to receive the subsidy coming in?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

So the subsidy was factored into the full year on more of a smooth basis, right? So if you divide that by 4, you can kind of say, hey -- this is how it would have expected to be on an annual basis, but just the way it happens, we had to record it in the quarter that it was approved and received. So that's just lumpy, but we -- again, as I said, we factored that in. In our plan we actually factored it in on a more smooth basis quarterly, but it hit this quarter. In terms of -- so if you include that in the full year, great. Q3 and Q4 should not have that type of item in it because it's all Q2, but the balance of the year you should see the normal increase in operating margins as we leverage the top line growth through to the bottom line. And I think, as I said, that should be a reasonably smooth uptick Q3 to Q4 such that for the full year we get to that 15.7% outlook.

Operator

And our next question comes from the line of Frank Atkins with SunTrust.

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Wanted to see if I could get an update on revenue by geography and any changes or trends as you look at North America versus Europe versus U.K?

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

So nothing to call out that's different. We've always focused on North America, that includes the U.S. and Canada. U.K. and Western Europe, Continental Europe, Japan and Australia as our core markets and core Global Clients in those markets, etc. And as we look at those markets across various verticals of ours, there's nothing that is specific that I would call out as different. We've always had a very strong position in the U.S. obviously. We see Canada, particularly in the banking space, continue to move forward. We've always have a very strong presence in the banking and insurance space in Australia. Japan has always been the way it is, which is you got to be there long term, we've always been committed to Japan in the long-term and as we continue to be committed to there, we see progress there. And then Europe both U.K. and Continental Europe continue to make progress. So nothing special to call out.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

Yes, high-level, U.S., about 70%; Europe, about 20%; Asia-Pac, about 10%, roughly. No real change there.

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Okay, fantastic. And then also if I could get an update, on wage trends, the hiring environment and the attrition number for the quarter?

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

Wage trends, broadly stable. Obviously, it's different across different economies that we operate in. Ranging from the U.S. to Europe, which are significant geographies for us from an operating perspective, with broadly about 5,000 people each. And then onto China, Philippines and India, nothing that unique. Obviously, we are broadly in a stable inflationary environment. There's obviously a war for talent when it gets to specific talent around digital and analytics and consulting and deep domain. And that's been the case for some time now. I think being an employer of choice and a place where people can really do cutting-edge work that actually get implemented and executed and drives value for clients is we believe more important than just wages. And we see that play out, and we've seen that play out year-on-year for many years now. Our attrition is stable again across the globe.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

It's a little higher but in the relevant range, and that's -- most of that is managed, is managed turnover.

Operator

And our next question comes from the line of Bryan Keane with Deustche Bank.

Ashish Sabadra - *Deutsche Bank AG, Research Division - Research Analyst*

This is Ashish Sabadra on behalf of Bryan Keane. Tiger, my question for you was that you talked about a pickup in momentum on big deals. I was wondering if you can talk about if there are certain verticals or geographies where you're seeing more of those bigger deals coming in?

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

Actually, Ashish, I was just thinking as you were asking, it's all the verticals that I called out as verticals that have had a very uniform performance, which has led to our 15% constant-currency Global Client BPO growth. I talked about one of the big deals that we closed, which was in the large equipment manufacturing space. Another one that we closed in the quarter was in the banking space, specifically a large financial institution where it's going to be in the mortgage processing and the mortgage underwriting space. We see similar activity in insurance, in CPG, in life sciences and in high tech. So interestingly enough, across the range of verticals that we cover, in a large range of those verticals, we see both activity as well closure.

Ashish Sabadra - *Deutsche Bank AG, Research Division - Research Analyst*

That's great, that's great. Just maybe a quick follow-up was, health care was one of those verticals other than capital markets which was weak in prior quarters. It looks life sciences overall is doing well, but I was just wondering if you could provide any more color, have you seen a turnaround there and what's driving there?

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

So for us, Life Sciences is a separate vertical from health care. They are 2 separate verticals. Life Sciences has always been doing well. In fact, the pharmacovigilance example that I just gave where we are applying artificial intelligence is in the Life Sciences vertical. Health care, has - it is not one of the verticals which has grown as much as the other verticals I called out. So that's a separate vertical. And that's a smaller vertical -- and a much smaller vertical than the Life Sciences vertical.

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

It's the smallest vertical we have.

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

It's the smallest vertical we have.

Ashish Sabadra - *Deutsche Bank AG, Research Division - Research Analyst*

Any particular color on the, like, plans for turnaround there or it's just a small vertical, and you just plan to deemphasize that maybe.

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

I don't think it's material enough to spend too much time on it, Ashish, so nothing to write home about. I think there are clear connections between some of the Life Sciences work and the health care work. But nothing specific to call out there.

Operator

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

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - VP*

On the IT services business, can you give us a sense of how much of that you plan to be doubling down on versus how much you're deemphasizing?

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

I would say, if you leave the capital markets business as a separate vertical, of the balance, I would say, 60-40. 60% double down on, and 40% probably focus less on, and reallocate resources, which is actually something that we've done, so it's not something that's in the plan, it's been done. So it's more a 60-40 kind of a split.

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - VP*

Okay. And then as you -- can you just talk about changes in the competitive environment as you're growing the Transformational Services? And are you seeing a visible change in your win rates, or do you think this is more table stakes at this point that you need to have?

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

So Transformation Services is very critical for 2 reasons. Reason number one is that we actually have a right to partner with our clients, given our depth of domain and process understanding to help our clients navigate through digital transformation. Our clients when they engage with us, believe in that, they choose us for that reason and we win for that reason. The second -- and therefore it's important for us to bring that to the table for our clients if you really want to be a trusted partner on their digital transformation journey. So it's very, very important. The second is when we do that, there's no question that, while it leverages all our domain and process understanding, our ability subsequently to win and partner with them on intelligent operations, managed services, in the long run increases, pick a number, 2x and 3x, because you are in there and actually have designed the road map and actually started implementing some of the digital technologies and tools, etc. So I would say as I described, the interplay between intelligent operations and digital-led solutions and the synergistic relationship between the 2 is what is most exciting, and it's brought together by our depth of domain in the places that we play in.

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - VP*

Okay, thanks. And just one follow-up on the Transformational Services. How has your onshore mix changed as you're growing that business and just talk about your hiring efforts in the U.S?

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

So clearly, Transformation Services is a significantly higher proportion onshore because these are projects. These are engagements where you're actually with the client, in their operations and helping them drive the change and implementation. You're doing assessments, you're doing workshops, and so on. To that extent, clearly, the mix, particularly when it comes to consulting and digital, has changed. When it comes to analytics it's also changed, but remember analytics also has a significant delivery component attached to it when you create centers of excellence that actually then run the analytics longer term. Our effort to build those teams up, not today, but over the last 4 years I would call it as being highly successful. We will continue to march down that path, bringing in data scientists, bringing in digital experts, and then bringing in these not just into the company directly but also through acquisitions. So whether it's the leadership team that came with the Endeavour acquisition, the PNMsoft acquisition, the RAGE Frameworks acquisition, now the OnSource acquisition. All of them are people who actually become part of our leadership team around digital consulting, analytics consulting and leading that charge into the marketplace.

Operator

And our last question comes from the line of Eric Ciura with Baird.

Eric R. Ciura - *Robert W. Baird & Co. Incorporated, Research Division - Research Analyst*

Yes, my first question is just looking at revenue growth sequentially in Global Clients. Historically, the last 5 years has been very consistent about up $15 million to $20 million sequentially in Q2 each year, this year was up nearly $50 million. So, I guess, one, why was growth sequentially so good this year? And then just in the back half, why are you expecting it to return to about -- a more normalized pace of sequential growth?

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

So I would start by saying what we've always said, which is a quarter in our business is tough to look at as an independent quarter. We are a long cycle business. We are a long cycle business that actually, it's easier and better to talk about the year because these are long cycle contracts, take 1 year to negotiate and then bring home. So when we look at quarter 2, we won a set of deals that closed in the quarter. That actually started getting executed in the quarter. Half of that was obviously because of the acquisitions that we did and the integration of those acquisitions were faster than we had originally planned. So I wouldn't necessarily assume that a quarter like that is therefore, means that it's the way it's going to play out every quarter. Because it's more around the full year, which is why Ed talked about when you look at the year, it actually makes the growth in Q3 and Q4 much more steady and straightforward.

Eric R. Ciura - *Robert W. Baird & Co. Incorporated, Research Division - Research Analyst*

Okay. And then secondly, just looking at margins next year. Now that you're divesting the KYC business, which has been about a 30 to 40 basis points plus headwind to margin and you're also maybe kind of lapping some added investment in the acquisitions, and had a headwind in margins this year from GE being down so much. Is there any reason to think why next year margin expansion can't be greater than the 20 basis points you're guiding to this year?

Edward J. Fitzpatrick - *Genpact Limited - CFO and SVP*

I think we'll speak to next year's margins when we get there. But just like every year, you're going to have your pluses and minuses, we'll get to that. We didn't speak a lot about foreign currencies, foreign currencies like the rupee have appreciated significantly. That could be, like you said, offset by some of the things that you had talked about. But there are a lot of gives and takes. We'll come back to you on the Q4 earnings call in February, give you an update on our view for 2018.

Operator

Thank you. And I would now like to turn the conference back over to Roger Sachs for any closing remarks.

Roger Sachs - *Genpact Limited - Head of Investor Relation*

Thanks, Michelle, and thanks, everybody, for joining us today. Look forward to speaking to you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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