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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Genpact's First Quarter 2018 Earnings Conference Call. My name is Daniel, and I will be your conference moderator for today. (Operator Instructions) We will expect the call to conclude in an hour. As a reminder, the replay of the call will be archived and made available on the IR section of Genpact's website.

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

Roger Sachs - *Genpact Limited - Head of IR*

Thank you, Daniel, and good afternoon, everybody, and welcome to Genpact's first quarter earnings call to discuss our results for the quarter ended March 31, 2018. 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 today is as follows: Tiger will provide a high-level overview of our first quarter results and update you on our strategy. Ed will then discuss our financial performance in greater detail and provide an update on our outlook for the full year. Tiger will then come back for some closing comments and then we will take your questions. As of Daniel just mentioned, we expect the call to last about an hour.

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 to enhance the understanding of the way management views the operating performance of our business. You can find a reconciliation of these measures to GAAP in today's earnings release posted to the IR section of our website.

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

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

Thank you, Roger. Good afternoon, everyone, and thank you for joining us today for our 2018 first quarter earnings call. We had a strong start to the year, highlighted by double-digit growth in our Insurance, Banking and Financial Services, Hi-Tech and capital markets verticals. This led to our mid-teens Global Client BPO growth for the quarter on a constant currency basis. Specifically during the quarter, in constant currency, total revenues increased 9%, Global Client revenues increased 12% and Global Client BPO revenues increased 15%. In addition, adjusted operating income margin was 14.1%, in line with our expectations. And adjusted EPS was $0.39, up 27% year-over-year. Our pipeline continued to grow nicely during the quarter with good momentum. We are also pleased with our win rates as our differentiation in competitive situations is clearly standing out, and we are engaging in many more sole-sourced deals. Transformation Services consisting of digital, analytics and consulting made the difference in many of our large deal wins. And as clients continue to search for ways to change the way they run their businesses, resulting in continued traction in our Transformation Services business. Many of you attended our recent Investor Day in New York City where we discussed how digital disruption is top of the mind in boardrooms and C-suites. Corporate leaders are looking to increasingly leverage digital and real-time predictive analytics to find new ways to drive growth and run their businesses more effectively, with the impact being well beyond cost savings. We are seeing this trend play out in large-scale digital transformation engagements. Companies are using digital tools more extensively in their journeys towards full business transformation. It is no longer just about automating lower-value repetitive tasks. Instead, management teams are focused on improving customer experience to drive growth and expand market share. Some examples include making the client onboarding process significantly faster, improving customer satisfaction and fulfillment rates by designing more flexible and agile supply chains and leveraging customer and risk data to reduce fraud and losses in insurance claims and lending environments. These are transformational multiyear journeys. Our digital investments are sharply aligned to client needs and have higher ROIs and most importantly, leverage our deep understanding of domain and process.

It is also becoming more and more clear that companies cannot undertake their transformation journeys alone. They need partners with very focused domain and process depth and the ability to reimagine customer experiences in order to drive growth and increase profitability. By partnering with transformation leaders like Genpact, they are also able to more efficiently deploy working capital, increase cash flows, reduce risks and increase regulatory compliance to create real lasting values. Our strategy of focusing on a set of chosen-industry verticals and service lines, where we have deep domain and process expertise, coupled with our investments in digital and analytics capabilities, has positioned us very well to be that strategic transformation partner. We believe this is opening up many more opportunities that continues in a hugely underpenetrated market. We have 2 highly synergistic routes to market, Transformation Services and Intelligent Operations. The domain depth harvested from running Intelligent Operations is leading to many new Transformation Services deals. And our Transformation Services solutions opens doors for more long-term Intelligent Operations annuity engagements. We are seeing this play out systematically in many strategic relationships and are winning many more sole-sourced opportunities. We have unleashed the power of Genpact Cora, our automation to AI platform, that pulls together a set of flexible digital technologies, including those from a deep ecosystem of partners. Genpact Cora has allowed us to create replicable and scalable solutions for our clients in domain-specific areas to deliver transformation at scale for our clients. To date, the platform is being used in approximately 1,000 different deployments with more than 225 global enterprises across all of our chosen verticals, processing over 1 billion transactions annually. We believe our strategy is working. We now generate Transformation Services revenue from approximately 85% of our top 100 clients. We are currently seeing many more large-sized digital transformation deals in our pipeline.

During the first quarter, we signed our largest digital deal to date where Transformation Services led to a large long-term multiyear engagement with a leading health care information management company. Working closely with the client over an intense few months, we developed a solution to automate and standardize the manual processes currently used to request and fulfill orders for health care information from thousands of medical facilities and insurance, implementing Cora sequence and intelligent cloud-based workflow tool with analytics along with robotic process automation, natural language processing and AI. Requests will be processed much faster with a higher yield on fulfillment, thereby increasing customer satisfaction and driving higher revenue for our client.

Robotic process automation, one of the critical modules of the Genpact Cora platforms, is being widely adopted by many organizations who use bots connected to ERPs or other databases to automate basic data entry and data extraction work as well as routine rule-based, decision-making processes. Automating simple tasks is one way to make businesses more efficient. However, to drive higher ROI, clients need solutions fully focused on transformation that combine process redesign together with RPA and other advanced tools such as machine learning or dynamic workflow, thus creating intelligent automation. This delivers exponential value as bots are augmented with decision-making capabilities to learn and adapt as they automate. Genpact Cora seamlessly brings these technologies together with governance controls to help clients manage their digital workforce. Let me share an example. We helped an industrial company automate the process of procuring parts needed for its large equipment installations, combining machine learning with RPA, enabled the bots to generate purchase orders even when certain data elements were not available with minimal human intervention. This significantly reduced order backlog, improved cash flows, drove equipment uptime and, client satisfaction.

As intelligent automation evolves, solutions will increasingly leverage AI. Our solutions now incorporate natural language understanding, conversational AI, computer vision and deep learning, all of which are redefining the nature of work by finding relationships and reams of data to instantaneously predict outcomes at a dramatically reduced cost. This is radically changing the business models of some of our clients. For example, using machine learning, we are helping companies create significantly more accurate financial forecast, completed within days versus weeks, while using only a fraction of the resources currently required. More importantly, they can act on that information to drive growth in their businesses. In another example, for a CPG company, we have automated their trade promotion process by using natural language understanding and machine learning technologies to extract contract terms from thousands of documents and validate them against invoices. This increases revenues by reducing overpayments to their retailers for reimbursement of promotion costs. Lastly, companies in almost every industry can use natural language understanding together with machine learning to learn and gauge customer sentiment from millions of data records to offer recommendations during live chatbot or human-agent conversations to generate new revenues from cross-sell and upsell opportunities.

All of these implementations are part of our digital transformation engagements and we are replicating these solutions with many of our clients. The possibilities are endless and the value creation opportunities are huge.

Let me now spend a few minutes discussing how we are seeing all this come together in one of our key verticals, insurance, where we identified a big opportunity to disrupt the $8 billion claims management market, one of our core service lines within insurance. Through 2 strategic acquisitions in 2017, we significantly bolstered both our domain expertise and digital capabilities in managing property and casualty claims. Leveraging Genpact Cora, we are creating highly-differentiated solutions to accelerate digital transformation journeys for carriers to significantly improve customer experiences and better compete within InsurTechs who are disrupting the industry. For example, we developed an end-to-end workflow solution that routes new claims based on the severity of the situation to the proper settlement channel, either a self-service smartphone app or field inspectors. We're also leveraging computer vision technology to provide real-time auto claims estimates by analyzing images of damaged vehicles. As a result, our insurance clients are seeing much higher customer satisfaction scores and retention metrics due to reduced cycle times for claims processing. We're also able to reduce the number of fraudulent claims.

Digital penetration within the insurance industry is in its early stages and there is a fantastic opportunity for us to help clients disrupt the industry. Our insurance pipeline is increasing, and we recently won 3 new logos after going head to head with peers. In fact, the Everest Group, a noted industry analyst research firm, recently ranked Genpact at the top of its property and casualty insurance BPO quadrant, positioned us #1 in both vision and execution. This is the strategic journey we are on for all of our verticals and service lines. Through world-class execution and digital-led innovation, we aspire to be recognized as a top leader in each of our targeted industry verticals.

With that, I'll turn the call over to Ed.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Thank you, Tiger, and good afternoon, everyone. Today, I'll provide you with more detail on our first quarter operating results and update you on our full year 2018 financial outlook.

Before I begin, let me remind everyone that on January 1, 2018, Genpact adopted the new accounting standard, ASC 606 on revenue recognition. The impact of adoption was not material to revenue or expenses during the first quarter and we don't expect it to be material to our results for the remainder of the year.

During the first quarter, we generated total revenues of $689 million, an increase of 11% year-over-year or 9% on a constant currency basis. Overall business process outsourcing revenues, which represent 83% of our total revenues, increased 12% year-over-year. Total IT services revenue increased 3%. Global Client revenue, which represents 92% of our total revenue, increased 14% year-over-year or 12% on a constant currency basis. As Tiger mentioned earlier, we saw double-digit growth across many of our chosen verticals. Global Client BPO grew 17% year-over-year or 15% on a constant currency basis. Transformation Services grew at a mid-teen rate and Global Client ITO revenue declined 1% during the quarter.

We continue to expand relationships with our Global Clients across a range of our targeted industry verticals. In a 12-month period ending March 31, 2018, we grew the number of client relationships with annual revenues over $5 million to 128 from 110, including client relationships with more than $25 million in annual revenue, increasing to 21 from 18.

GE revenues, which represent 8% of total revenue, declined 16% during the quarter as expected, primarily due to the impact from the decline in GE Capital business during 2017. We remain on course for GE revenues to be down 8% to 10% for the year.

Adjusted income from operations for the quarter was $97.4 million, up 11% year-over-year with a corresponding margin of 14.1%, in line with the first quarter of 2017.

Gross margin for the quarter was 35.5% compared to 38.5% during the same period last year and in line with our expectations. The year-over-year decline was driven by a number of factors we expect to dissipate as we progress throughout the year, including the impact of rupee appreciation we discussed with you last quarter, anticipated lower utilization of our Transformation Services resources, reflecting fourth quarter the first quarter seasonality and the impact from the ramp of onshore work.

We expect our gross margins to improve through the balance of the year due to operating leverage and a ramp of higher-margin Transformation Services revenue. We also expect the rupee impact will be lower in the second half of the year, relative to the first, based on existing hedges in place. To provide further clarity on trajectory of margins, we are expecting an approximately 100 basis point improvement in both gross margins and operating margins in the second quarter, and there is no change in our full year expectations for either gross or operating margins.

SG&A expenses totaled $171 million compared to $161 million in the first quarter of last year. Our sales and marketing expense as a percentage of revenue this quarter was approximately 7%, in line with last year. Total G&A expense as a percentage of revenue improved by 1 point year-over-year due to operating leverage and savings initiatives that are driving efficiencies in our support functions.

As we expected, during the first quarter, we recognized a benefit of approximately $15 million related to the India-based export subsidy, which is included in other income -- in the other income line in our income statement. This benefit was partially offset by the expected $8 million loss -- FX loss we realized primarily from the appreciation of the rupee.

Adjusted EPS for the quarter was $0.39 compared to $0.31 last year. The $0.08 year-over-year increase was primarily driven by growth in adjusted operating income of $0.04 as well as a $0.04 benefit from the year-over-year change in foreign exchange remeasurement gains.

During the quarter, we returned $114 million to shareholders, including $14 million related to our quarterly dividend of $0.08 per share and $100 million through our share repurchase program. We repurchased approximately 3.2 million shares at a weighted average price of $31.44 per share. Since we initiated our share repurchase program in 2015, we have repurchased approximately $890 million of shares at an average price of $25.57 per share. Our effective tax rate for the first quarter was 15.7% compared to 18.7% in the first quarter of last year. During both periods, we were able to take advantage of certain nonrecurring discrete items. And in this quarter, we also benefited from the favorable mix of income.

Given the lower-than-expected first quarter tax rate, we now expect our full year 2018 effective tax rate to trend towards the lower end of our 21% to 22% outlook. We expect our tax rate to increase as we move throughout the year due to the special economic zone expirations we've talked about during our 2017 year-end call. We'll update you on our full year tax rate expectation as we move through the balance of the year.

Now let me turn to cash flows and the balance sheet. During the first quarter, we utilized $27 million of cash in operations compared to generating $31 million during the same period of last year, largely due to the increase in our days sales outstanding to 92 days from 87 days. This resulted from collections that were anticipated in the last week of March with being into the first week of April due impart for the last few days of the quarter following a long Easter weekend as well as the timing of certain milestone billings related to large deals relating to the beginning of the second quarter. As you've seen in prior years, we expect our DSO will recover throughout the balance of the year ending in the low 80-day range. To be clear, the aging of our accounts receivable has remained consistent over the past several quarters and we've seen no deterioration.

There is no change to our full year outlook for cash from operations to grow at approximately 8% to 9% in 2018. Our cash and cash equivalents totaled $424 million compared to $504 million at the end of the fourth quarter of 2017, with a net debt-to-EBITDA ratio for the last 4 rolling quarters of 1.9x, up from 1.6x at year-end.

With undrawn debt capacity of $74 million and existing cash balances, we continue to have ample liquidity to pursue growth opportunities and execute on our capital allocation strategy. Capital expenditures as a percentage of revenue were 2.8% in the first quarter of 2018.

Lastly, for our full year outlook. We continue to expect total revenue to be between $2.93 billion and $3 billion, representing year-over-year growth of 7% to 9.5%. For Global Clients, we continue to expect revenue to grow between 9% to 11%. As I mentioned earlier, we remain on pace for GE revenue to decline 8% to 10% for the full year. GE growth for the balance of 2018 will be impacted by the uneven quarterly growth we saw in 2017. As I indicated earlier, we continue to expect adjusted operating margins to be approximately 15.8% with margins ramping during the year as our revenues increase. Due to the foreign currency remeasurement gain, we saw during the first quarter, we now expect adjusted earnings per share in the range of $1.72 to $1.76. This estimate continues to assume an approximate $0.01 to $0.02 benefit from expected share repurchase activity during 2018.

With that, I'll turn the call back to Tiger for his closing comments.

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

Thank you, Ed. We had a very good start to the year. We're gaining traction in our key service lines as clients need transformative solutions that combine deep expertise and domain and process together with digital and analytics technologies to change the way they run their businesses. Our culture of embracing change and disrupting ourselves allows us to continuously meet the needs of our clients to help them navigate through their transformation journeys.

As we look at our business over the last 5 years and into the future, there are some things in our culture we have always been known for that will never change. Our maniacal client focus built on the bedrock of consistently providing outstanding delivery and service, which has led to world-class Net Promoter Scores. And our solutions that are built with deep domain and operational process expertise, rooted in Lean Six Sigma. While we have always focused on driving outcomes for our clients, traditionally centered around productivity, today our solutions are leading with improving customer experiences, growing revenues, lowering business risk and expanding cash flows. We do this by delivering full end-to-end transformations, leveraging digital and analytics tools and design thinking. These new deals employ new commercial models, where we are now beginning to get paid for achieving outcomes as opposed to fixed price or time and material arrangements. Additionally, the work we do today no longer relies solely on organically built bespoke solutions designed for specific clients. Instead, we use a combination of organic and inorganic investments together with a growing ecosystem of strategic partnerships to accelerate the deployment of disruptive and replicable solutions. By leveraging design thinking and embedding digital and analytics tools, unleashed by the power of our platform, Genpact Cora, we're driving game-changing outcomes for our clients. Lastly, we have consistently been recognized by clients for our strong leadership team, which for many years, consisted of a group of executives who founded and grew up with the company. As we have transformed the company, we have also diversified our team, which is now made up of some of the original leaders as well as a set of new rising stars, both from the company's leadership bench and from the outside. Some of these leaders have been hired into the team at senior levels and some have joined us through our acquisitions. While we have evolved into a very different company, we have retained our core culture and values that our clients still recognize and appreciate.

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

Roger Sachs - *Genpact Limited - Head of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ashwin Shirvaikar with Citibank.

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

It's a good solid quarter. Tiger, in your comments you mentioned one thing that stood out, you said you're winning many more sole-sourced opportunities. That sounds very promising. Anything with regards to metrics sizing normally sole-source, at least I would associate that with higher value tasks and bigger opportunities. Are you seeing bigger contracts?

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

So, Ashwin, it's a great question. We are seeing larger deals. And we've been seeing that for quite some time. Those larger deals tend to have a significant transformational component to it that we've been seeing and we continue to see those. The larger they are, the less likely they are to be completely sole-sourced. However, when we enter a client with Transformation Services, that then converts itself into a larger deal, which includes Transformation Services. Those often tend to be sole-sourced. We also find that when we've delivered great outcomes for our clients, follow-on incremental add-on journeys either in the same domain or in adjacent domain, again tend to be more sole-sourced. So we clearly are seeing, if I just look back over the last few years, our sole-source as a proportion of partner, as a proportion of booking and as a proportion of revenue has gone up.

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

Got it. It's good to hear. I had a question with regards to the -- pretty good strong start to the year. Should we kind of consider this low point and build from here? Can you talk a little bit about the cadence for the top and bottom line expectations for the remainder of the year?

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

So I'll just start at the top line, and then Ed will jump it on the overall margins and bottom line. Ashwin, this goes back a little bit to a common refrain we've always had, which is our business is not about 1 quarter or to the next quarter. It does have a very much longer cycle cadence to it, which is why our outlook for the year from our top line perspective is exactly the way we saw it at the beginning of the year. The start is good. We like the start in the first quarter, but there are still 3 more quarters to go. Our pipeline is good. It's actually one of the stronger pipelines we've had in our history. Transformation Services within that pipeline is actually also one of the strongest we've had. So all of those are good indicators. But it's 1 quarter out of 4.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes. I think Tiger talked top line. On the bottom line, we do expect to progress each quarter as we go throughout the year, kind of the way I think we saw it. Last year was a little lumpy. I think this year will be more like we've seen in prior periods where we're starting at the lower point and rise throughout the year. And I did mention that we do expect next quarter to grow approximately 100 basis points on an operating margin basis such that the first half of the year will be below the full year expectation of 15.8% that we've guided to. The second half should be above to get the full year average there. So feel good about the trajectory. Q1 very much aligned with what we expected, maybe even a little better as you heard us talk about. So that's good. It's good to start out the year this way, but no change in our expectations for the full year.

Operator

And our next question comes from Dave Koning with Baird.

David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

And I guess, my first question. The Global Client BPO business has been really strong for you. It's been 4 quarters now of mid-teens kind of constant currency growth. The way -- now we start to hit a little tougher comp as we head into Q2. Is that sustainable in that stronger level? I know acquisitions have helped, maybe just to touch a little bit there. But is the backlog strong enough to kind of keep that level of growth up?

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

I'll start off and then Ed will add to what I'm going to say. If you look at the full year outlook, which as I said, we've kept as the same that we had when we started the year. And our first quarter is actually is better than that full year outlook suggest. That actually is a reflection of everything, Dave, that we just described. Our comps, as we go through the balance of the year, do get tougher. And it also has within that acquisitions that we did in the back half of last year. So everything that you said is the reason why I think our overall outlook for the year remains the same.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes. I think if you recall, last year we talked about the impact from M&A was about 2 percentage points last year to growth. And that kind of year-over-year effect is about 1% for this year for the full year. So quarter-to-quarter led different anomalies based upon the timing of those acquisitions. But I'm just giving you a little bit more detail and color on what we expect for the balance.

David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Yes. That's great. And then just one follow-up. I know gross margin, historically, has been a little stronger in the back half in the first half. But it looks like this year might be a little more dramatic and maybe it's rupee driven. I'm not sure what else, but it just seems like Q1 was a little bit of a light start to the year on gross margin. But it sounds like you've got a lot of juice kind of left for the rest of the year. Is that the right way to think of it?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes. I mean, it was very much aligned what we have thought when we planned for the year and you remember, I guided, hey, Q1 would be aligned operating margin in line with where we were at Q1 last year. We knew that gross profits will be a bit low in Q1 for the reason we talked about. The FX number was known, that was significant. I talked about that being, I think, 75 to 100 basis points and that's all through. So what we see throughout the year is that rupee impact will be much less during the second half due to the hedges that we have in place. We know the rate for the majority of the revenue that we expect to achieve. That's one. The other piece that impacted maybe a little larger than we've typically seen is in the Transformation Services side where we ramped significantly last year. If you remember fourth quarter being a very nice ramp while the step back in Q1, which we also saw coming was big, too, right? When we have a really big fourth quarter, we always start lower in Q1, but a disconnect to that difference was a bit lower or higher this year. So the impact of that utilization was a bit more. We absolutely see that changing as we go throughout the year. So with that, that's how we feel comfortable that the gross profits will progress each quarter. In particular, next quarter you'll see that as we talked about, expect to see about 100 basis point improvement in gross profit.

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

And, Dave, I just want to go back to your first question because I think I should have said what I now want to say, which is, we have had a very strong Global Client BPM performance over the last 4 quarters. And that's also, by the way, a reflection of the investments we've made, the strategic choices we've made. Therefore, the impact it has on being highly differentiated in the marketplace in our chosen areas of verticals and service lines, the sole-source that we talked about as a bigger proportion, the strength of the pipeline itself and Transformation Services as often being a lead into a number of these relationships. So I don't want to -- I thought I should react to the fact that, yes, we are continuing to see Global Client BPM strength not just because of the market, I would say, it's a combination of the market and our differentiation.

Operator

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

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

So I was wondering, as you look across the year, you've had a couple solid quarters here, it seems like demand is at your back. Where do you see a bias to the upside? Could it come on the top line, is it margins? Maybe there's verticals like financial services are performing a little bit better-than-expected. I'm just wondering where you might see some better-than-expected results as you head towards the back half of the year?

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

So Joe, I think, let's really focus on the top line because that's where, to your question, one, depending on certain things, we could see an upside. And that actually is less dependent on the vertical because if you look at our verticals, whether it's banking or capital markets or insurance or high-tech, 4 of our key verticals, they've all performed and they continue to perform well. And we see that continuing. And we see a lot of our verticals as being broad-based growth as we look at the full year. So it's really about whether some of our large deals close in time, and then revenue starts ramping up. So it's more about timing. If that timing changes in a certain favorable way, then that could have an impact on the -- that could push us to the higher end of the range that we've given.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

I agree (inaudible).

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

Got it. Okay. And then just on the margins, not to just beat this down too much. But throughout the history of the company, they've always started slow and ramped throughout the year, which is probably no change. But is there anything else to call out in that margin ramp, particularly the pickup between 1Q and 2Q? Are there any other factors that we should be aware of that if they were to break one way or another, would dictate what the year would look like?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes, I think 2 things that are new are the ones we called out, really. The rupee appreciation, as we look back in the company history, I think you heard me talk about this last call or maybe it was the Analyst Day. As you look back in history, we've seen the margins dip a few times. And I think each time it's been related to, in part, due to the rupee appreciation, which has happened a few times over the last decade, but not very frequently. So that piece of it was most acute or different. The other one that's different is the ramp up and the -- Q4 ramp up in and Transformation Services and the typical step back in Q1 in Transformation Services, that was a bit larger gap than typical. More so because of the ramp as opposed to the full year because the full year, as you heard us say, that growth will be significant. So those are the 2, Joe, to speak to. Not concerned because we see it and we're looking at Q2. We're already first month into Q2 and feel pretty good about showing that progression 1 quarter out.

Operator

And our next question comes from Maggie Nolan with William Blair.

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

I wanted to ask about the momentum you're seeing in the capital markets vertical, how much of that is driven by technologies like RPA and AI? And then did that vertical perform in line with your expectations? I know you were fairly positive on it last quarter. But is it -- are you perhaps more positive now given the good results?

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

Maggie, actually you nailed it. I think technologies like RPA and other new digital technologies that we referred to have played a role in building up the momentum in capital markets. But as we referred to, in I think our earlier earnings call, as we referred to quarter 4, capital markets has seen buoyancy. No surprise. The market's been good in the capital markets vertical. And that, therefore, reflected in engagements such as ours where we are seeing that buoyancy come through in terms of new engagements, new projects, given that significant portion of the work we do in capital markets is IT work. And that does has sensitivity to how the vertical is performing. So overall, feel good about the performance of the Capital Markets vertical.

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

Okay, great. And building upon that RPA piece of it, do you have many instances where clients are perhaps failing to understand that intelligent automation concept that you discussed and have, perhaps, their own failed implementation of robotics and then look to you for help? And then also how do you view that risk of clients attempting to implement their own automation tools?

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

So I think, Maggie, the reality is, all of this is new for everyone. So there is a little bit of no surprise when people who try and experiment, and some of those don't work and then they seek help. And so it's a little bit natural. So there's nothing unnatural about it. We, of course, see clients who try different things. Some of them work in some areas, some don't work in other areas. And everyone is learning. I think obviously, when they engage with someone like us, the opportunity for us to bring learnings across the hundreds of engagements that we have, allows that client to learn so much faster, not make the same mistakes, have a methodology that they can adopt to assess to then figure out where the best ROI and an undertake a program, therefore reduces that risk pretty dramatically. And we have seen that, therefore, build up in our pipeline on both RPA and in the broader digital Transformation Services ecosystem.

Operator

And our next question comes from Edward Caso, Wells Fargo.

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

Some of mine may have been answered already. But you've had several quarters where you didn't do any repurchase activity and then you obviously had a sizable effort in the March quarter. Why the pause, why more aggressive now? Can you give us a sense for, Ed mentioned an accretion from repurchase. Is that accretion just from what you've done so far or is it more repurchase to come?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes, Ed, on the share repo, we've done about $100 million in the first quarter. That adds about $0.01, right. So we said $0.01 to $0.02, so we're at $0.01 for right now. And really the share repurchases, as you know, is going to be based upon several factors, right. Capital allocation priorities. M&A is the first order of priority. And obviously dividend is there, M&A, and then to the extent we have excess capital, we'll look at share repo. If it's an attractive price, we'll buy more; if it's less attractive, we'll buy less. So we did plan to do this, as we talked about in giving our guidance that we were going to be in the market. We had capital and we thought the price was attractive. So that's what we've done.

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

So if M&A comes first, are you struggling to find things to help your new model at the right price?

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

So Ed, let me take that one. I certainly don't think we are struggling at all. If you look at the last 24 months, we've done exactly the kind of M&A that we are really thrilled and excited by. They've added tremendously to the journey we've been on, whether it is the AI platform through RAGE or it is TandemSeven and the design consulting group, or it is PNMsoft in Tel Aviv that has now become very integral to our Cora SeQuence platform. So I think -- and then the whole insurance trajectory that we are on is all built around our existing domain around insurance, coupled with the 2 acquisitions that we did. So our acquisitions, we are really very happy with. And then we have a pretty good pipeline. We are very clear that there are specific areas that we are targeting for acquisitions. Those are sharply defined. We know exactly what we want and we know exactly where to look for them and engage with them. I don't think it's ever about price. It's always going to be about does that capability fit with us, does that team fit with us and is that the kind of solution that we can build to build traction with the client.

Operator

And our next question comes from Frank Atkins with SunTrust.

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

Wanted to ask specifically around Cora. Could you give us any parameters in terms of size, number of clients, growth rate or pipeline there?

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

So I think, Frank, in the prepared remarks, we talked about with about 1,000 implementations across about 225 clients that handle about 1 billion plus transaction a year. And those are 3 good metrics that we measure and track that help us understand the penetration. I'll give you an example of the kind of thing that Genpact Cora gets implemented in. So think about managing receivables on a cloud-based Genpact Cora AR solution, accounts receivable solution, that is able to manage receivables that allows slicing and dicing of those receivables every day that brings visibility to who's the single account that someone needs to follow up on because even though that person is only 1 day overdue, the chances are that that's going to deteriorate very quickly. Because the machine learning and AI built behind it tells us that that's a kind of outstanding that is worth chasing down. So that's the kind of implementation that when you implement across a range of customers in the finance and accounting group managing AR, you're talking about millions of transactions, you're talking about hundreds of thousands of users. And then you're talking about, in terms of dollars of transaction that flow through, you're talking about billions of dollars flowing through. Simple example that explain how we measure the use of Genpact Cora and the penetration of Genpact Cora into our services and into our clients.

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

Okay, that's helpful. And then I wanted to ask about the people side of the business a little bit. Can you give us an update in terms of the headcount and perhaps the mix by geography? And then any trends in attrition and/or wages going forward this year?

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

So I'll start with just headcount numbers. For us, one of the important metric that we track is revenue per headcount. And that's grown very nicely over the last 4 quarters. It's broadly grown by about high single digits to close down 10% mark on a revenue per headcount basis. And that's a reflection of the value of the work we are delivering, the growth in transmission services, the growth in digital, the growth in analytics. So no surprise that the addition of headcount in our business is about 2,000 if we do a year to year between Q1 of this year between Q1 of last year, which is on a base of 77,000-odd of last year, which is way lower from a percentage increase to the revenue growth that we've had. So overall, we like the trajectory of revenue decoupling from headcount, which is a journey we've been on for actually over 5 years now.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

And then headcount by -- nothing significant other then we've said, hey, we are ramping up some of our onshore opportunities, right, so that's good. In places in the United States which is where we have a big customer base, right. So and hopefully that -- and the more sophisticated that work, the better it is for us. And we're winning some pretty good work right now it.

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

And nothing new to report on attrition. It's exactly the way we've managed it over many years now. So there's no difference. And the thing that we manage very well around attrition is not just total attrition, but also what we call regrettable attrition because that's the attrition that we manage even better. And that allows us to straddle the value chain, move our people through the domain expertise curve. And then a bunch of digital training that we've now launched, including pretty significant training around artificial intelligence and machine learning that we are taking a select group of people through. And therefore, managing that attrition of specialized people is something that we are really proud of.

Operator

And our next question comes from Bryan Bergin with Cowen.

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

I wanted to dig in on the large deal pipeline. Can you just comment on the regions and the service lines that you're seeing the most notable changes? And then that largest digital deal today, can you give us a sense of the size of that for context?

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

I'll address the last one first. That deal is more than $100 million in total contract value. So it's actually one of the larger deals we signed. But more importantly, it's got a significant component of Transformation Services and Digital as part of the component, and I described that. Back to your question on our large deal pipeline, in terms of its color. It is exactly the way we would like it to be, our strategic chosen areas. So I talked about insurance. So no surprise that some of our large deals are in the insurance vertical. I talked about claims in insurance, so therefore, in the service

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line in insurance, claims is one of the areas where we are seeing a good pipeline. I think in the call last time, we talked about supply chain in manufacturing and CPG and so on, being a big focus area for us and a big service line of focus for us. So again, we are seeing significant pipeline in supply chain, in the manufacturing and CPG verticals. So our big deal pipeline is actually a reflection more of the areas of focus for us from both industry vertical and service line perspective. And we are seeing exactly the areas where we have focused, exactly the areas where we are investing, both through acquisitions and organic that we are seeing the most traction in our pipeline.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Geographically, I don't think anything different than our mix. We're seeing the same types of opportunities globally, right?

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

Yes.

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

Okay. And then on the Transformation Services. I thought I heard you say we're at a mid-teens rate. Is that where you expect that line of business to grow or did it slow a little bit this quarter? And then what was -- did you mention the share of revenue for the quarter in Transformation Services?

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

We actually don't talk about -- don't report share revenue on a quarterly basis, Bryan. But it's exactly the way we expect the trajectory between the first quarter through the second and third quarter for Transformation Services. It starts off at the lower end of growth and then climbs into a higher end of growth as we go through the quarters. That's been the trajectory in the past, that we expect to be the trajectory this year as well.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes, for -- as a percentage, I think we said, hey, the low 20% or 20%-ish is where we've been and we expect that to progress closer to 25% by the year, there's no change there. No change, Bryan.

Operator

And our next question comes from Bryan Keane with Deutsche Bank.

Bryan Keane - *Deutsche Bank AG, Research Division - Research Analyst*

Wanted to ask about the large digital deal. How is that deal priced? Is that more an outcome based pricing arrangement?

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

It's a combination of actually outcome-based plus, I mean, there is digital and core and implementation. So it's implementation-based. And then there is licenses for some of the core usage of the digital technologies on the cloud. And then of course, it's a services business, a significant services component, so that would have a typical services component to it, which has a combination of effort based as well as transaction-based pricing. So long and short of it, it's a combination of many of these pulled together. And that is not that different from the way a number of our deals will look. It also has a gain share component which also we would find in a number of these types of deals.

Bryan Keane - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. Is there any risk on the operating side if you guys can't hit certain targets that could change the operating margin? Or are all these deals typically better margin deals for you, these digital deals?

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

Bryan, all of our business, historically, today and tomorrow, will always be dependent on how well can you deliver and execute, which is why we are so confident of the way we operate because it's built on the foundation of outstanding delivery, outstanding execution. Of course, we have to deliver and execute on every one of these deals. If we don't, then of course it has downside associated for that deal.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Bryan, as you might expect on gain share, the earlier days of gain share, if it's a new activity, of course we're going to be pretty conservative on what we think we can get. As we get experience on what we're going to do and we see that we're getting to gain share, we'll start to forecast that based upon those actual results. I think we've done that prudently as it's ramped up.

Bryan Keane - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, that's helpful. And just a clarification, Ed. On the margin, the improvement of 100 basis points, are you talking about sequentially or year-over-year in 2Q?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Sequential. Yes, sequentially from Q1 to Q2, we expect gross and operating margins to improve. I also did say for the full year, year-over-year, we thought it would be, I think really the impact will be the rupee for the full year. And I think I said that was 75 to 100 basis points in the last call. That's the impact we see on full year, maybe about 100 basis points year-over-year because of the rupee and we'll see how that plays out. I mean, it's not a concern. Everything else is kind of operating as we expected.

Bryan Keane - *Deutsche Bank AG, Research Division - Research Analyst*

So then the second quarter, the margins will be down year-over-year. But then the back half of the year, they'll increase enough to make up the difference to be at 15.8, and that's just leverage in the model or is that just the anniversary.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Exactly, exactly. As you think about our SG&A spend, that would ramp a very, very lightly. We're going to -- it's full leverage. As top line grows, the bottom will flow and you'll get that almost through at gross margin levels to the bottom. I'd say that a little bit -- we are going to ramp a little, but we're going to get significant leverage from -- particularly from G&A.

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

And the impact of the rupee is more front ended than back end.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes. Yes, yes, significantly, yes.

Operator

(Operator Instructions) Our next question comes from Moshe Katri with Wedbush Securities.

Moshe Katri - *Wedbush Securities Inc., Research Division - MD and Senior Equity Research Analyst*

Tiger, you spoke about sole-sourced deals, just to go back to the specific topic. Is there a way to quantify that as a percentage of the deal pipeline that -- based on what you're saying is pretty robust. And then is there any way to kind of give us some color on how robust is the platform right now from a -- in terms of levels on a year-over-year basis?

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

So I think what I'll say that the pipeline is at an all-time high. I don't think I'll be able to add any more color than that, Moshe. And then from a sole source perspective, the percentage sole-source is higher than it's been in the past. And that's not a onetime step function change. It's been a progressive over the last couple of years as we've actually got more and more into Transformation Services and more and more into digital transformation being an integral part of a number of our deals.

Moshe Katri - *Wedbush Securities Inc., Research Division - MD and Senior Equity Research Analyst*

Understood. And then you also mentioned win rate. I'm assuming you're suggesting your win rates are higher? And then maybe you can talk a bit about your traditional competitors or maybe some of the new competitors that you're able to beat in this market?

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

So win rates are steady and they've been steady, actually, again for many quarters now. So it's not that the win rates are higher. Our competitors -- the competitive landscape hasn't changed certainly in the first quarter. Hasn't changed, actually, if you look back over the last couple of years. It is a little bit, a set of competitors who cut across industry verticals. And then some competitors are very focused on certain industry verticals, the usual suspects. And then when it gets to Transformation Services, there are a few new competitors, no surprise, people who are in digital consulting and digital transformation type of competitors. So overall, the competitive landscape, we haven't seen any big change in swing as we've gone through the last 4 quarters.

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

Yes. And on the win rates, Tiger said steady, but steady at a rate that we really like, right, so it's a positive thing.

Moshe Katri - *Wedbush Securities Inc., Research Division - MD and Senior Equity Research Analyst*

Yes. And just a last follow-up here. What should we expect for the IT business this year? Is there any change in terms of expectations?

Edward J. Fitzpatrick - *Genpact Limited - CFO and Principal Financial & Accounting Officer*

I think we were in the flattish range, we expect it to be in the flattish range. And that's good, I mean, it's steady. It has steady and it's been there so we're expecting it to be flattish, and we'll update you as the year progresses.

Operator

Thank you. And I'm not showing any further questions at this time. I would now like to turn the call over to Roger Sachs for any closing remarks.

Roger Sachs - *Genpact Limited - Head of IR*

Great. Thanks, everybody, for joining us on the call today, and we look forward to speaking with you next quarter.

Operator

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