

Genpact Ltd

2024 announced as year of reshaping for better growth

Reiterate Rating: BUY | PO: 43.00 USD | Price: 34.94 USD

CY24 outlook below est; encouraging plans of new CEO

Genpact's CY24 rev guidance of 2.1% to 3.1%yoy (constant currency) was below our and street expectations. The underlying assumptions of the guidance suggest that an element of buffer has been built in, to account for scenarios akin to the surprise macro weakness of H2CY23. Additionally, CY24 is likely to be a year of investments for the company with the new CEO highlighting opportunity for faster than historic growth rate. This is likely to involve increased investments in AI as well as in partnerships with cloud / SaaS eco-system players. The structure of the sales / go-to-market teams has been simplified towards improving response time to market. In our view, the announced adjustments make sense, with competitors like EXLS having seen good payoff from somewhat comparable changes over the past 3-5 years. On profitability, CY24 is expected to see a flattish trajectory with gains expected to be re-invested back into the business. We lower CY24/CY25 adj. EPS by 3-5% and correspondingly adjust PO from \$45 to \$43. Reiterate Buy on expectations of pay-off from the updated strategy as well as undemanding valuations.

Q4 tracked ahead of expectations

Revenue growth of 3.5%yoy (cc) was ahead of our expectations, helped by sequential uptick in Data-Tech-AI segment. The segment grew 2.4%yoy while growth from digital operations was steady at 4.4%yoy. Adj. EBIT margin of 17.7% came in ahead of our expectation of 17.4% while the yoy expansion was driven by operating leverage as well as lack of 1x impact seen in the prior year.

Good trend on bookings

Bookings growth in CY23 was healthy at 26%yoy (vs. 6%yoy in CY22) aided by record 14 new large deals. Despite the conversion, current pipeline remains near all-time high. Win rates for the company were healthy at 60% which was an improvement from last year's 50%. Soul-sourced deals comprised 40% of the bookings (vs. 50% last year) reflecting the increasing share of large deals in the mix which tend to be more competitive.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	516	712	563	624	682
EPS	2.74	3.85	3.06	3.38	3.68
EPS Change (YoY)	12.7%	40.3%	-20.3%	10.4%	8.8%
Dividend / Share	0.499	0.548	0.424	0.474	0.521
Free Cash Flow / Share	2.11	2.37	3.28	2.67	2.89
Valuation (Dec)					
P/E	12.74x	9.09x	11.40x	10.33x	9.50x
Dividend Yield	1.43%	1.57%	1.21%	1.36%	1.49%
EV / EBITDA*	11.90x	10.01x	9.17x	8.32x	7.61x
Free Cash Flow Yield*	6.14%	6.82%	9.40%	7.72%	8.43%

* For full definitions of *IQmethod*SM measures, see page 7.

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	45.00	43.00
2024E EPS	3.21	3.06
2025E EPS	3.48	3.38
2026E EPS	NA	3.68
2024E EBITDA (m)	848.5	820.1
2025E EBITDA (m)	926.7	904.3
2026E EBITDA (m)	NA	988.5

Kunal Tayal >>
Research Analyst
BofAS India
+91 22 6632 8663
kunal.tayal@bofa.com

Jatin Kalra, CFA >>
Research Analyst
BofAS India
+91 22 6632 8390
jatin.kalra3@bofa.com

Stock Data

Price	34.94 USD
Price Objective	43.00 USD
Date Established	9-Feb-2024
Investment Opinion	B-1-7
52-Week Range	29.41 USD-48.58 USD
Mkt Val / Shares Out (mn)	6,339 USD / 181.4
Average Daily Value (mn)	45.46 USD
Free Float	99.1%
BofA Ticker / Exchange	G / NYS
Bloomberg / Reuters	G US / G.N
ROE (2024E)	23.0%
Net Dbt to Eqty (Dec-2023A)	30.39%

EXLS- ExlService Holdings

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 09 February 2024 02:01AM EST

iQprofileSM Genpact Ltd

Key Income Statement Data (Dec)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	4,371	4,477	4,658	5,050	5,460
Gross Profit	1,536	1,571	1,677	1,823	1,971
Sell General & Admin Expense	(938)	(913)	(950)	(1,020)	(1,092)
Operating Profit	502	631	683	759	835
Net Interest & Other Income	(32)	(39)	(48)	(43)	(43)
Associates	0	0	0	0	0
Pretax Income	470	592	635	716	792
Tax (expense) / Benefit	(112)	29	(156)	(175)	(194)
Net Income (Adjusted)	516	712	563	624	682
Average Fully Diluted Shares Outstanding	188	185	184	185	185

Key Cash Flow Statement Data

Net Income	358	621	480	541	598
Depreciation & Amortization	130	121	137	145	153
Change in Working Capital	(147)	(182)	333	(18)	(16)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	102	(69)	(273)	(90)	(105)
Cash Flow from Operations	444	491	678	578	630
Capital Expenditure	(54)	(59)	(82)	(88)	(96)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	18	(20)	0	0	0
Cash Flow from Investing	(37)	(79)	(82)	(88)	(96)
Shares Issue / (Repurchase)	(214)	(225)	(101)	(101)	(101)
Cost of Dividends Paid	(92)	(100)	(77)	(87)	(96)
Cash Flow from Financing	(571)	(483)	(446)	(141)	(147)
Free Cash Flow	389	432	596	489	535
Net Debt	780	683	101	(247)	(635)
Change in Net Debt	23	(98)	(582)	(349)	(387)

Key Balance Sheet Data

Property, Plant & Equipment	181	190	204	224	252
Other Non-Current Assets	2,629	2,724	3,029	3,143	3,263
Trade Receivables	995	1,116	983	1,066	1,153
Cash & Equivalents	647	584	734	1,082	1,470
Other Current Assets	138	192	139	160	182
Total Assets	4,589	4,806	5,088	5,675	6,319
Long-Term Debt	1,249	825	825	825	825
Other Non-Current Liabilities	410	415	579	626	676
Short-Term Debt	177	442	10	10	10
Other Current Liabilities	926	876	1,024	1,110	1,202
Total Liabilities	2,763	2,557	2,438	2,571	2,712
Total Equity	1,826	2,248	2,651	3,105	3,607
Total Equity & Liabilities	4,589	4,806	5,088	5,675	6,319

iQmethodSM - Bus Performance*

Return On Capital Employed	10.4%	15.1%	13.0%	13.4%	13.1%
Return On Equity	27.7%	35.0%	23.0%	21.7%	20.3%
Operating Margin	11.5%	14.1%	14.7%	15.0%	15.3%
EBITDA Margin	14.5%	16.8%	17.6%	17.9%	18.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.9x	0.7x	1.2x	0.9x	0.9x
Asset Replacement Ratio	0.6x	0.7x	0.9x	0.9x	0.9x
Tax Rate (Reported)	23.8%	NM	24.5%	24.5%	24.5%
Net Debt-to-Equity Ratio	42.7%	30.4%	3.8%	-8.0%	-17.6%
Interest Cover	7.2x	13.4x	12.5x	15.2x	16.7x

Key Metrics

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Computer Services

Company Description

Genpact is the pioneer and largest India centric BPM vendor with CY23 revenues at c.\$4.5bn and nearly 128k employees. Set up as the captive GE BPM arm in 1997, it became a third party vendor from 2005. The company derives approx. 55% revs from digital operations segment and approx. 45% from data-tech-AI segment, and vertically revs are split as 27% from financial services/insurance, 38% from hi-tech/manufacturing and the rest from diversified industries.

Investment Rationale

Our Buy rating on Genpact reflects prospects of improved revenue growth driven by likely increased consistency in large, transformational project wins. We expect this to be aided by maturity in company's offerings post 3-4 years of investments.

Stock Data

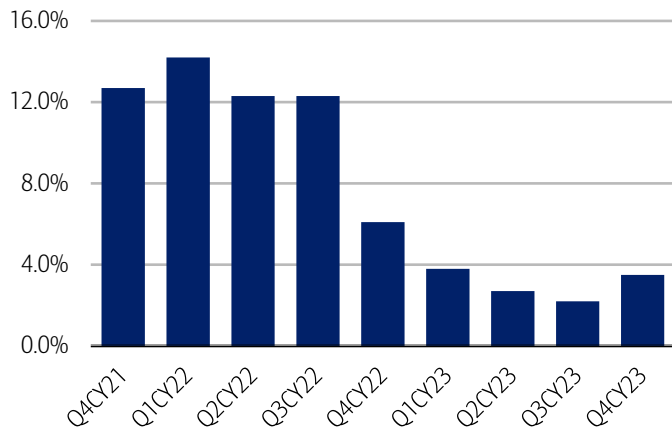
Price to Book Value

2.4x

Q4CY23 summary

Exhibit 1: Revenue growth – constant currency - yoy

Overall revenue growth of 3.5%yoy cc was ahead of our estimate

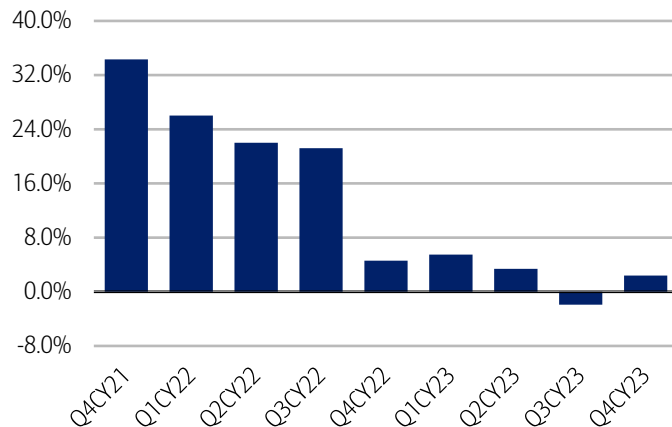


Source: Genpact, BofA Global Research

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Exhibit 2: Data-tech-AI segment – cc revenue growth

Data-tech-AI segment grew 2.4%yoy cc

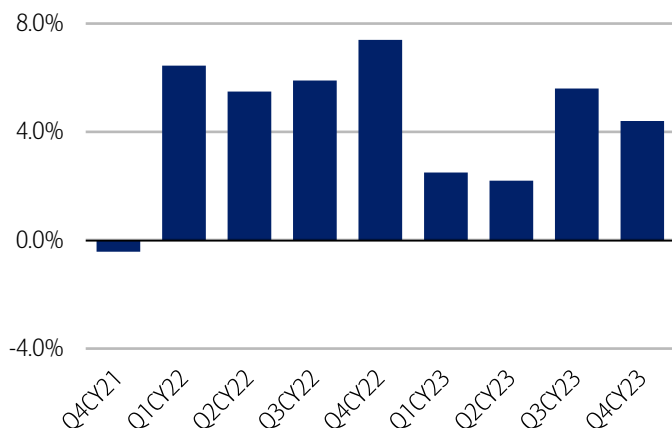


Source: Genpact, BofA Global Research

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Exhibit 3: Digital operations segment – cc revenue growth

Digital operations grew 4.4%yoy cc

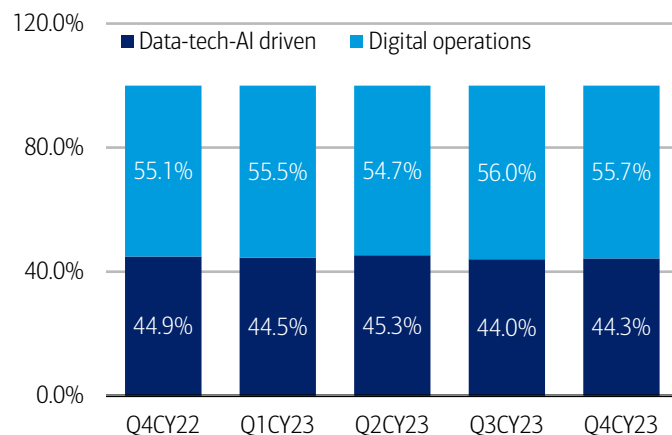


Source: Genpact, BofA Global Research

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Exhibit 4: Split of revenues

Data-tech-AI driven segment contributes to 44% of revenues.



Source: Genpact, BofA Global Research

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Exhibit 5: Q4CY23 actuals vs. BofAe

Revenue growth was above our estimates

USD Million	Q4CY23	Q3CY23	qoq	Q4CY22	yoy	BofAe	Variation
Net revenues	1146.3	1135.8	0.9%	1102.5	4.0%	1124.4	1.9%
Total cost of revenue	738.7	733.0	1%	717.3	3%	719.6	3%
Gross profit	407.6	402.8	1%	385.2	6%	404.8	1%
Operating expenses							
Selling, general & administrative expenses	237.4	229.7	3%	236.6	0%	227.4	4%
Amortization of acquired intangible assets	7.5	7.5	-1%	9.9	-24%	7.5	-1%
Other operating expense	-0.1	-0.1	n/a	11.0	na	-0.1	NA
EBIT (gaap)	162.7	165.7	-2%	127.8	27%	170.0	-4%
EBITDA (gaap)	193.1	195.9	-1%	159.7	21%	199.9	-3%
Foreign exchange (gains) losses, net	-0.6	-3.0	n/a	-6.1	n/a	0.0	n/a
Other income, net	-4.8	-13.7	-65%	-10.7	-55%	-17.4	-72%
Inc before tax, minority int & loss of affiliate	158.5	154.9	2%	123.1	29%	152.5	4%
Equity in (earnings)/loss of affiliate	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Minority Interest	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Income tax expense (benefit)	-132.8	37.3	-456%	33.4	-498%	39.7	-435%
Net income	291.3	117.6	148%	89.7	225%	112.9	158%
Adjusted net income	150.0	140.4	7%	127.5	18%	136.8	10%

Source: Company, BofA Global Research estimates

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Exhibit 6: Q4CY23 actuals vs. BofAe

Adj. EBIT margins were in-line with our estimates

USD Million	Q4CY23	Q3CY23	qoq	Q4CY22	yoy	BofAe	Variation
Income from operations as per GAAP	162.7	165.7	-2%	127.8	27%	170.0	-4%
Add: Amort of acqd intangibles from Formn ACFtg	7.5	7.5	-1%	9.9	-24%	8.1	-8%
Add: Dep due to fair value adj from Formn ACFtg	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Add: ESOP charge	24.7	22.3	11%	22.5	10%	24.2	2%
Add: FBT impact on share based comp recovered from employees	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Add: Gain/loss on int swap	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Add: Other income	8.1	-0.5	n/a	4.8	n/a	-6.9	n/a
Less: Equity in (gain)/loss of affiliate	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Less: minority int	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Add: 1x costs	0.0	0.0		34.0		0.0	
Adjusted income from operations	203.0	195.0	4%	186.6	9%	195.3	4%
Adjusted income from operations %	17.7%	17.2%	54	16.9%	79	17.4%	34

Source: Company, BofA Global Research estimates

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Financials

Exhibit 7: Genpact P&L

We forecast 4%yoy growth in CY24E

Year ending Dec.	2021	2022	2023	2024E	2025E	2026E
USD mn						
Total net revenues	4,022.2	4,371.2	4,476.9	4,657.6	5,050.4	5,459.7
Growth (yoy)	8.4%	8.7%	2.4%	4.0%	8.4%	8.1%
Cost of revenue	2,590.3	2,834.8	2,906.2	2,980.4	3,226.9	3,488.5
As % of revenue	64.4%	64.9%	64.9%	64.0%	63.9%	63.9%
Gross profit	1,431.9	1,536.4	1,570.7	1,677.1	1,823.4	1,971.3
Operating expenses						
Selling, general & administrative expenses	865.7	938.4	913.1	950.1	1,020.2	1,091.9
As % of revenue	21.5%	21.5%	20.4%	20.4%	20.2%	20.0%
Other operating income	(1.2)	53.2	(4.7)	0.0	0.0	0.0
As % of revenue	0.0%	1.2%	-0.1%	0.0%	0.0%	0.0%
EBITDA	648	632	752	820	904	989
Depreciation	80.4	87.4	89.5	93.2	101.0	109.2
Amortisation of acquired intangible assets	58.4	42.7	31.5	44.0	44.0	44.0
EBIT	509.0	502.2	630.9	683.0	759.3	835.3
Foreign exchange (gains) losses, net	(12.7)	(15.4)	(4.3)	0.0	0.0	0.0
Other income (expense), net	(39.8)	(52.3)	(32.9)	(47.6)	(43.1)	(43.1)
Income before income taxes	481.8	465.2	602.3	635.3	716.2	792.2
Income tax expense (benefit)	113.7	111.8	(29.0)	155.7	175.5	194.1
Reported Net income	368.1	353.4	631.3	479.7	540.7	598.1
Year ending Dec.						
Add: Amort of acqd intangibles from Formn Acctg	57.6	42.6	31.3	26.0	26.0	26.0
Add: Dep due to fair value adj from Formn Acctg	0.0	0.0	0.0	0.0	0.0	0.0
Add: ESOP charge	82.0	77.4	88.6	82.0	82.0	82.0
Add: FBT impact on share based comp recovered from employees	0.0	0.0	0.0	0.0	0.0	0.0
Add: Gain/loss on int swap	0.0	0.0	0.0	0.0	0.0	0.0
Add: Other income	12.9	(0.1)	15.0	0.0	0.0	0.0
Less: Equity in (engs)/loss of affiliate	0.0	0.0	0.0	0.0	0.0	0.0
Less: Minority int	0.0	0.0	0.0	0.0	0.0	0.0
Amort of acqd intangibles net of tax benefit	42.2	30.0	30.9	22.1	22.1	22.1
Any one time items (related to net profit)	0.0	68.1	(7.4)	0.0	0.0	0.0
Depreciation	80.4	87.4	89.5	93.2	101.0	109.2
Less: Tax impact on stock based comp	23.1	18.1	21.1	20.5	20.5	20.5
Any one time items (related to ebit)	1.2	96.2	(2.9)	0.0	0.0	0.0
Adj EBITDA	742.7	709.5	855.5	902.1	986.3	1,070.5
Adj EBIT	662.7	718.2	762.9	791.0	867.3	943.3
Adj Net Income	469.2	510.8	551.8	563.3	624.3	681.7
Non GAAP EPS						
Basic	2.50	2.77	3.03	3.10	3.41	3.69
Diluted	2.43	2.72	2.98	3.06	3.38	3.68
Non GAAP EBIT margin	16.5%	16.4%	17.0%	17.0%	17.2%	17.3%

Source: Company, BofA Global Research estimates

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Price objective basis & risk

Genpact Ltd (G)

Our PO of USD43 is based on a target non-GAAP P/E multiple of 14x for the 12 months ending Dec 2024. Our target multiple is at 15% discount to the company's 5 year average 12m forward non-GAAP PE multiple given near-term demand uncertainty. Our adjusted EPS excludes intangible amortization and stock compensation charges.

Upside risks are (1) faster-than-expected closure of large, transformative deals and (2) faster than expected traction in the AI offerings. Downside risks are 1) longer than expected sales cycle on account of macro induced uncertainty and 2) higher than expected investments in digital services that can weigh on profitability.

Analyst Certification

I, Kunal Tayal, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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India - Software & IT Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ExlService Holdings, Inc.	EXLS	EXLS US	Kunal Tayal
	Genpact Ltd	G	G US	Kunal Tayal
	WNS Holdings Ltd	WNS	WNS US	Kunal Tayal
NEUTRAL				
	HCL	XHCLF	HCLT IN	Kunal Tayal
	Infosys	INFYF	INFO IN	Kunal Tayal
	Infosys Tech - A	INFY	INFY US	Kunal Tayal
	Tata Consultancy	TACSF	TCS IN	Kunal Tayal
	Tata Technologies	XZTLF	TATATECH IN	Kunal Tayal
UNDERPERFORM				
	L&T Technology Services	XLNSF	LTTS IN	Kunal Tayal
	Tech Mahindra	TECHM	TECHM IN	Kunal Tayal
	Wipro	WIPRF	WPRO IN	Kunal Tayal
	Wipro	WIT	WIT US	Kunal Tayal

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

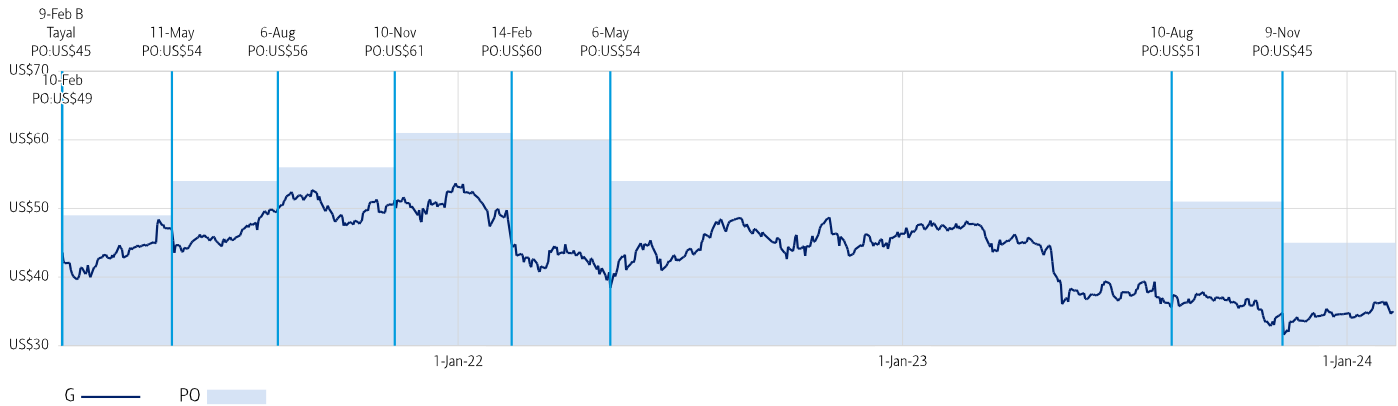
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Disclosures

Important Disclosures

Genpact Ltd (G) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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