Genpact Limited (G)

$41.90 (As of 08/24/20)

Price Target (6-12 Months): **$44.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/07/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: A | Momentum: C	

Summary

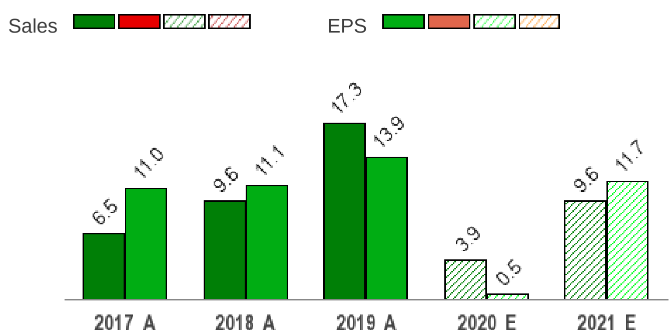
Genpact's shares have outperformed its industry over the past year, partly due to consecutive earnings and revenues beat in the past six quarters. The company continues to enjoy a competitive position in the BPO services market based on domain expertise in business analytics, digital and consulting. Acquisitions boost customer base and drive top-line growth. Artificial Intelligence offers ample growth opportunities. The company has a strong clientale across the world. Consistency in rewarding shareholders through dividend payments and share repurchases boost investor confidence. On the flip side, Genpact continues to face significant client concentration in terms of geographic location. Seasonality causes considerable fluctuations in revenues and profits. High debt may limit the company's future expansion and worsen its risk profile.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$45.20 - $19.41
20 Day Average Volume (sh)	965,991
Market Cap	$8.0 B
YTD Price Change	-0.6%
Beta	1.13
Dividend / Div Yld	$0.39 / 0.9%
Industry	Outsourcing
Zacks Industry Rank	Top 22% (55 out of 252)
Last EPS Surprise	48.6%
Last Sales Surprise	7.4%
EPS F1 Est- 4 week change	15.2%
Expected Report Date	11/05/2020
Earnings ESP	0.0%
P/E TTM	19.2
P/E F1	20.3
PEG F1	1.7
P/S TTM	2.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	965 E	979 E	1,005 E	1,051 E	4,011 E
2020	923 A	900 A	905 E	943 E	3,660 E
2019	809 A	882 A	889 A	941 A	3,521 A

EPS Estimates

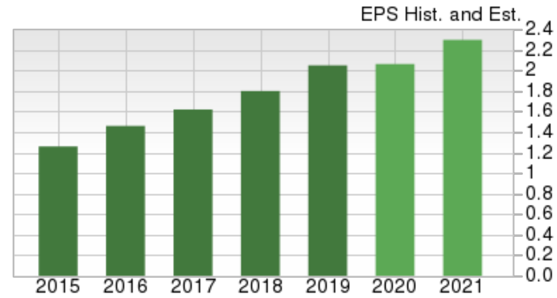
	Q1	Q2	Q3	Q4	Annual*
2021	$0.53 E	$0.53 E	$0.58 E	$0.63 E	$2.30 E
2020	$0.53 A	$0.52 A	$0.50 E	$0.51 E	$2.06 E
2019	$0.43 A	$0.49 A	$0.56 A	$0.57 A	$2.05 A

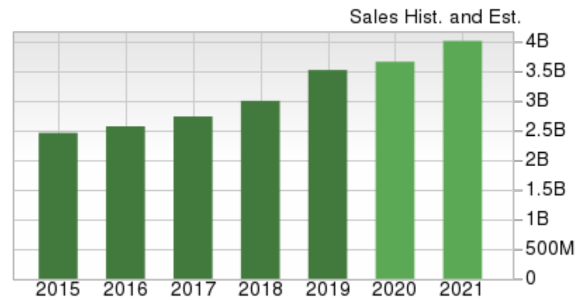
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/24/2020. The reports text is as of 08/25/2020.

Overview

Hamilton, Bermuda-based Genpact manages business processes for companies around the world. The company combines process expertise, information technology and analytical capabilities with operational insight and experience in diverse industries to provide a wide range of services using its global delivery platform.





Genpact helps companies improve the ways in which they do business by applying Smart Enterprise Processes (SEP), Six Sigma and Lean principles. Genpact Cora combines the company's proprietary automation, analytics, and AI technologies into a single common platform. The platform is used to embed latest technologies and deep domain knowledge into Genpact solutions to speed up clients' digital transformations.

The company's transformation services include digital products, services and solutions, consulting services, and analytics offerings. Professional services include finance and accounting services; core industry operations specific services; sourcing, procurement and supply chain services; and IT services.

Across the globe, the company serves banking and financial services, insurance, consumer goods and retail, life sciences and healthcare, infrastructure, manufacturing industries, and capital markets. It serves about one fourth of the Fortune Global 500, including Boeing, Citigroup, Hyatt, Aon, Bayer, McKesson, PayPal, Walmart and Walgreens Boots Alliance.

The company operates service delivery centers in Brazil, China, Czech Republic, Guatemala, India, Israel, Japan, Malaysia, Mexico, Netherlands, Philippines, Poland, Romania, Slovakia, South Africa, United Kingdom and the United States.

Genpact has over 87,000 employees, serving more than 700 clients spread across 25 plus countries.The company reported net revenues of $3.52 billion in 2019. Almost 86.4% of this revenue came from clients other than GE, which the company refer to as Global Clients. The remaining 13.6% came from GE. Segment wise, BPO accounted for 83% of total revenue, while the remaining 17% came from Information technology services in 2018.

Genpact operates in a highly competitive global market. Its competitors include multinational consulting service providers and accounting firms, and business process service providers.

Reasons To Buy:

Genpact's leading position in BPO and its expanding product portfolio, driven by acquisitions, strong clientele and aggressive share buyback are encouraging.

- Genpact is a **dominant name in the BPO services** market based on domain expertise in business analytics, digital and consulting. We note that Genpact is also rapidly gaining popularity among customers in providing emerging technologies like Blockchain and Industrial Internet of Things (IoT). The company's focus on integrating process, analytics and digital technologies along with deep domain expertise is helping it to win customers on a regular basis. We expect expanding customer base, stringent cost control, accretive acquisitions and aggressive share repurchase to drive overall results in the long haul.

- **Acquisitions**, over time, have been an effective mode of expanding product portfolio and gaining new domain expertise for Genpact. The November 2019 acquisition of Rightpoint Consulting builds on the capabilities gained from TandemSeven and Endeavour Software Technologies' acquisitions, and places Genpact in a stronger position to help clients build new products and services, develop digital workspaces, and drive partner engagement.

- Genpact is benefiting from a **strong clientele** worldwide. The company serves almost one fourth of the Global Fortune 500, including big names such as Citigroup, Canon, Novartis, Kraft Heinz and McKesson. The company's Global Client base has improved rapidly over the last five years (2014-2019). Revenue from this group has increased at a healthy CAGR of 10.9% in this time frame to reach $3 billion in 2019. Moreover, Global Clients as a percentage of total revenue increased from approximately 79.6% in 2014 to approximately 86.4% in 2019. We believe that Genpact's expertise in providing BPO services will continue to expand customer base in the long run.

- **Artificial Intelligence (AI) presents significant growth opportunity** for Genpact. The company's AI platform — Genpact Cora — is an automation to AI-based platform that combines the company's proprietary automation, analytics, and AI technologies into a single common platform. It has a modular, interconnected network of technologies that enables clients to better tackle specific operational business challenges. The platform is helping the company to provide related offerings to industries like consumer-packaged goods, industrial engineering, life sciences and high tech. Acquisitions like Rage Framework and design thinking based companies, such as Tandem Seven have also expanded the company's AI product portfolio. Per an IDC report, worldwide spending on cognitive systems and AI will witness CAGR of 28.4% over the 2018-2023 period to reach $97.9 billion. We believe that Genpact is well positioned to take advantage of the projected improvement in the AI space.

- We are impressed with Genpact's endeavours in**returning value to shareholders** in the form of share repurchases and dividend payments. During 2019, 2018 and 2017, Genpact repurchased shares worth $30 million, $154.1 million and $219.8 million, respectively. The company paid $64.7 million, $57.1 million and $46.7 million in dividends to its shareholders during 2019, 2018 and 2017, respectively. Such shareholder-friendly moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These initiatives not only instil investors' confidence but also positively impact the company's earnings.

- Genpact's shares have gained 4.9% over the past year, outperforming the 10.5% decline of the industry. The **outperformance** partly reflects better-than-expected earnings and revenue performance in all the four quarters of 2019 as well as in the first two quarters of 2020. While the company's bottom line continued to gain from operational efficiency, the top line was aided by strength across global client and GE businesses.

Reasons To Sell:

Client concentration, seasonality and high debt level are Genpact's major headwinds.

- The outsourcing industry is labor intensive and heavily dependent on foreign talent. **Rising talent costs due to competition** coupled with Trump's stringent policies on immigration could curb the industry's growth. Genpact, being one of the companies in the industry, is likely to get affected.

- A significant portion of Genpact's revenue comes from a handful of customers including GE, which contributed almost 13.6% to 2019 revenues as compared with 9% contribution in 2018 revenues, 9.8% in 2017 and 13.9% in 2016. **GE's planned divestiture** of the GE Capital business has negatively impacted Genpact's top-line growth. Management anticipates revenues from GE to be more volatile in the future.

- Genpact also faces significant **client concentration** in terms of geographic location. In 2019, more than 70% of the company's revenues were derived from clients based in North America and more than 15% of revenues were derived from clients based in Europe. Additionally, in 2019, more than 30% of Genpact's revenues were derived from clients in the financial services industry, including insurance. We believe that this dependency on a particular industry doesn't bode well for the investors in the long run.

- Genpact experiences **seasonality** with revenues typically lower in the first and second quarters. This is because demand for services like short-term IT projects, transformation, analytics, collections and transaction processing services is lower in the first half of the year. The seasonality causes considerable fluctuations in revenues and profits, and makes forecasting difficult.

- Genpact has a **debt-laden balance sheet**. Total debt at the end of second-quarter 2020 was $2.24 billion, compared with $1.90 billion at the end of the prior quarter. The debt-to-capital ratio of 0.57 is higher than the industry's 0.39 and the previous quarter's 0.55. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of $867 million at the end of the second quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of $592 million.

Last Earnings Report

Genpact Surpasses Q2 Earnings & Revenue Estimates

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	7.37%
EPS Surprise	48.57%
Quarterly EPS	0.52
Annual EPS (TTM)	2.18

Genpactreported better-than-expected second quarter 2020 results, with earnings and revenues beating the Zacks Consensus Estimate.

Adjusted earnings per share of 52 cents outpaced the consensus mark by 48.6% and increased 6% year over year. This upside was driven by higher operating income of 4 cents, partially offset by negative impact of a penny each from higher interest expense.

Revenues amounted to $900 million, which beat the consensus estimate by 7.4% and improved 2% year over year on a reported and 3% on a constant-currency basis. The top line was aided by strength across global client and GE businesses.

Quarter Details

Global Clients (87% of total revenues) revenues climbed 3% year over year on a reported basis and 4% on a constant-currency basis to $783 million. This growth was driven by enhanced revenue coverage associated with transition to remote-working model and stronger client demand for transformation services. General Electric revenues of $117 million declined 2% year over year and contributed 13% to total revenues.

Adjusted income from operations totaled $145 million, up 7% year over year. Adjusted operating income margin of 16.2% improved 80 basis points (bps) year over year.

Genpact exited the quarter with cash and cash equivalents of $867.4 million compared with the $401.6 million recorded at the end of the previous quarter. Long-term debt (less current portion) totaled $1.3 billion, more or less flat with the prior quarter.

The company generated $192 million of cash from operating activities and capex was $16.3 million. Genpact returned $19 million to shareholders through dividend payout in the quarter.

2020 Guidance

Genpact expects revenues to be between $3.63 and $3.67 billion. Adjusted EPS is anticipated in the range of $2.03 to $2.07. The company expects global client revenue growth to be 5-6% year over year and adjusted operating income margin is anticipated to be around 15.5%.

Recent News

On **Aug 19, 2020**, Genpact announced that it has won the 2020 Association for Talent Development's (ATD) BEST Award.

On **Jul 22, 2020**, Genpact announced that it has been recognized by Everest Group as a leader in the Banking BPS PEAK Matrix® 2020.

On **Jun 17, 2020,** Genpact announced the launch of a role-based online learning platform — Adapt and Rise — to foster professsional resilience globally for clients.

On **May 20, 2020,** Genpact announced joining of Brian Stevens, executive chairman of Neural Magic, to its board of directors. The company also announcedthat James Madden has become chairman of the board.

On **May 20, 2020**, Genpact announced that its board of directors has declared a cash dividend of 9.75 cents per share for the second quarter of 2020. The dividend was paid on Jun 26, 2020 to shareholders of record as of the close of business on Jun 11, 2020.

Valuation

Genpact shares are down 0.6% in the year-to-date period but up 4.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 12.5% and those in the Zacks Business Services sector are up 1.3% in the year-to-date period. Over the past year, the Zacks sub-industry is down 10.5% but the Zacks Business Services sector is up 4.1%.

The S&P 500 index is up 6.5% in the year-to-date period and 19.5% in the past year.

The stock is currently trading at 18.91X price to forward 12 months' earnings, which compares to 21.92X for the Zacks sub-industry, 30.7X for the Zacks sector and 23.05X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.06X and as low as 11.41X, with a 5-year median of 19.14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $44.00 price target reflects 19.86X price to forward 12 months' earnings.

The table below shows summary valuation data for G

Valuation Multiples - G

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.91	21.92	30.7	23.05
	5-Year High	25.06	23.66	30.7	23.05
	5-Year Low	11.41	17.32	18.68	15.25
	5-Year Median	19.14	22.13	20.95	17.58
P/S F 12M	Current	2.06	2.64	4.26	3.76
	5-Year High	2.33	3	4.26	3.76
	5-Year Low	1.08	2.26	3.06	2.53
	5-Year Median	1.93	2.63	3.6	3.05
P/B TTM	Current	4.81	7.1	4.65	4.64
	5-Year High	5.05	9.09	6.71	4.64
	5-Year Low	2.55	5.34	3.28	2.83
	5-Year Median	4.33	7.42	5.22	3.76

As of 08/24/2020

Industry Analysis **Zacks Industry Rank:** Top 22% (55 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Brinks Company The **(BCO)**	Outperform	1
Conduent Inc. **(CNDT)**	Outperform	2
TriNet Group, Inc. **(TNET)**	Outperform	1
Atento S.A. **(ATTO)**	Neutral	3
Broadridge Financial Solutions, Inc. **(BR)**	Neutral	3
ExlService Holdings, Inc. **(EXLS)**	Neutral	3
Paychex, Inc. **(PAYX)**	Neutral	3
Sykes Enterprises, Incorporated **(SYKE)**	Neutral	1

Industry Comparison Industry: Outsourcing

Industry Peers

	G	X Industry	S&P 500	BCO	PAYX	TNET
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	1	3	1
VGM Score	A	-	-	F	C	C
Market Cap	7.99 B	1.09 B	23.81 B	2.38 B	27.09 B	4.65 B
# of Analysts	7	2	14	1	12	3
Dividend Yield	0.93%	0.00%	1.64%	1.27%	3.28%	0.00%
Value Score	B	-	-	B	D	D
Cash/Price	0.11	0.23	0.07	0.31	0.04	0.32
EV/EBITDA	16.56	6.72	13.37	10.94	14.41	10.27
PEG Ratio	1.70	2.08	3.02	NA	3.44	NA
Price/Book (P/B)	4.80	2.92	3.17	12.46	9.74	7.55
Price/Cash Flow (P/CF)	18.25	8.86	12.77	6.13	17.83	18.47
P/E (F1)	20.34	24.34	21.72	30.37	27.50	18.76
Price/Sales (P/S)	2.19	0.75	2.48	0.67	6.71	1.17
Earnings Yield	4.92%	3.78%	4.44%	3.29%	3.64%	5.34%
Debt/Equity	0.99	0.40	0.76	12.38	0.32	0.58
Cash Flow ($/share)	2.30	3.42	6.93	7.68	4.24	3.74
Growth Score	A	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	9.94%	9.94%	10.41%	21.55%	10.82%	44.65%
Proj. EPS Growth (F1/F0)	0.63%	-11.86%	-5.05%	-60.15%	-8.44%	10.71%
Curr. Cash Flow Growth	4.14%	5.65%	5.20%	11.69%	5.65%	12.88%
Hist. Cash Flow Growth (3-5 yrs)	8.32%	11.78%	8.50%	10.31%	12.12%	11.43%
Current Ratio	1.49	1.34	1.33	1.56	1.23	1.23
Debt/Capital	49.83%	30.42%	44.50%	92.52%	24.32%	36.76%
Net Margin	8.71%	0.55%	10.13%	0.50%	27.18%	8.03%
Return on Equity	22.43%	11.50%	14.66%	99.81%	40.76%	60.66%
Sales/Assets	0.82	0.99	0.51	0.89	0.46	1.51
Proj. Sales Growth (F1/F0)	3.97%	0.00%	-1.45%	-8.27%	-3.64%	4.45%
Momentum Score	C	-	-	F	D	D
Daily Price Chg	1.80%	1.66%	1.32%	6.47%	2.18%	1.66%
1 Week Price Chg	-1.60%	-1.60%	-1.45%	-5.76%	-0.54%	-2.54%
4 Week Price Chg	5.20%	6.05%	3.38%	22.61%	4.04%	9.74%
12 Week Price Chg	14.98%	13.20%	7.69%	13.10%	4.96%	26.95%
52 Week Price Chg	4.88%	-16.19%	3.85%	-36.81%	-6.13%	4.33%
20 Day Average Volume	965,991	551,190	1,873,293	679,723	1,579,644	360,552
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	15.18%	6.66%	1.00%	1.97%	0.00%	13.11%
(F1) EPS Est 12 week change	15.18%	2.65%	3.40%	-14.37%	-0.21%	13.11%
(Q1) EPS Est Mthly Chg	16.11%	5.56%	0.00%	21.21%	0.00%	-85.48%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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