

Genpact Limited (G)

\$35.33 (As of 05/26/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: C

Summary

Genpact continues to enjoy a competitive position in the BPO services market based on domain expertise in business analytics, digital and consulting. Acquisitions help expand customer base and drive top-line growth. Artificial Intelligence presents significant growth opportunities. The company has a strong clientele across the world. Consistency in rewarding shareholders through dividend payments and share repurchases boost investors' confidence and positively impact earnings per share. On the flip side, Genpact continues to face significant client concentration in terms of geographic location. Frequent acquisitions have negatively impacted the company's balance sheet. Seasonality causes considerable fluctuations in revenues and profits. Partly due to these headwinds, shares of Genpact have declined significantly over the past year.

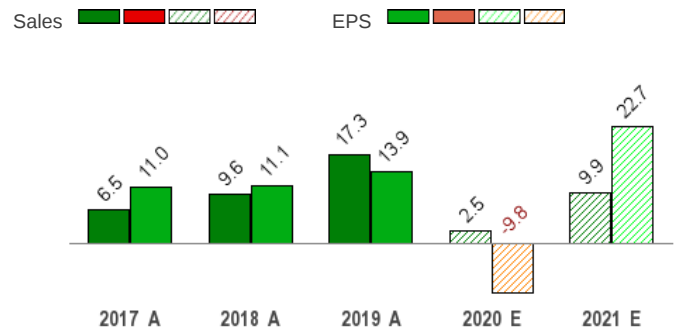
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$45.20 - \$19.41
20 Day Average Volume (sh)	1,401,096
Market Cap	\$6.7 B
YTD Price Change	-16.2%
Beta	1.13
Dividend / Div Yld	\$0.39 / 1.1%
Industry	Outsourcing
Zacks Industry Rank	Bottom 8% (234 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.2%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	-17.8%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	19.2
P/E F1	23.1
PEG F1	2.2
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	962 E	975 E	988 E	1,034 E	3,969 E
2020	923 A	838 E	884 E	964 E	3,610 E
2019	809 A	882 A	889 A	941 A	3,521 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.53 E	\$0.59 E	\$0.66 E	\$2.27 E
2020	\$0.53 A	\$0.35 E	\$0.45 E	\$0.55 E	\$1.85 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 05/26/2020. The reports text is as of 05/27/2020.

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.

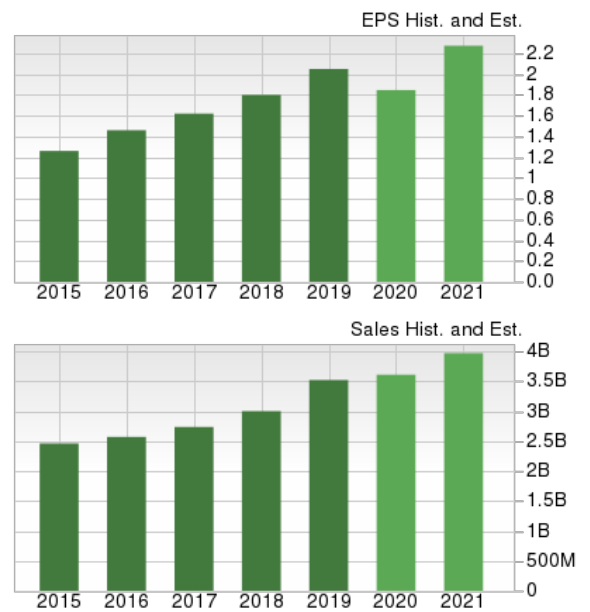
The company's transformation services include digital products, services and solutions, consulting services, and analytics offerings. Professional services include finance and accounting services; core industry operations specific services; sourcing, procurement and supply chain services; and IT services.

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 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 (IIoT). 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.

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

▲ **Acquisitions**, over time, have been Genpact's most favored mode of expanding product portfolio as well as gaining new domain expertise. In January 2019, Genpact acquired riskCanvas Holdings from Booz Allen Hamilton to expand its expertise in AML managed service operations for banking and financial services clients. In 2018, the company completed the purchase of Barkawi Management Consultants and certain affiliated entities in the United States, Germany and Austria to expand global supply chain management transformation expertise. Acquisition of Commonwealth Informatics should boost Genpact's pharmacovigilance artificial intelligence (PVAI) suite of capabilities. These buyouts have helped the company to significantly expand customer base and boosted its revenues.

▲ Genpact has a **strong clientele** across the world. The company serves almost one fifth of the Global Fortune 500, including Boeing, Citigroup, GlaxoSmithKline, Wells Fargo, Ironshore, Mondelez, PayPal and Abbott. We note that the 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.

Reasons To Sell:

- ▼ 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. This may weigh on its share price which has declined 2.1% over the past year compared with 16.3% decline of the industry it belongs to.
- ▼ 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 first-quarter 2020 was \$1.90 billion, compared with \$1.80 billion at the end of the prior quarter. The debt-to-capital ratio of 0.55 is higher than the industry's 0.39 and the previous quarter's 0.52. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$402 million at the end of the first 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 \$260 million.

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

Last Earnings Report

Genpact Surpasses Q1 Earnings & Revenue Estimate

Genpact delivered impressive first-quarter 2020 results, with earnings and revenues beating the Zacks Consensus Estimate.

Adjusted earnings per share of 53 cents outpaced the consensus mark by 15.2% and increased 23% year over year. This upside was driven by higher operating income of 6 cents and a positive impact of 7 cents related to higher foreign-exchange balance-sheet remeasurement gains, partially offset by negative impact of a penny each from higher effective tax rate and increased share count.

Revenues amounted to \$923 million, which beat the consensus estimate by 3.9% and improved 14% year over year on a reported as well as constant-currency basis. The top line was aided by strength across all industry verticals.

The company started witnessing impacts of the coronavirus outbreak from the second week of March and lost around \$7 million of revenues in the first quarter. The stock has declined 8% over the past year compared with the 16% decline of the industry it belongs to.

Quarter Details

Global Clients (87% of total revenues) revenues climbed 14% year over year on a reported basis and 15% on a constant currency basis to \$802 million. General Electric (GE) revenues of \$122 million increased 12% year over year and contributed 13% to total revenues.

Adjusted income from operations totaled \$136 million, up 12% year over year. Adjusted operating income margin of 14.7% shrunk 30 basis points (bps) year over year.

Genpact exited the first quarter with cash and cash equivalents of \$401.6 million compared with the \$467.1 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 used \$18.6 million of cash in operating activities and capex was \$14.1 million.

Genpact returned \$18.5 million to shareholders through dividend payout and \$45 million through share repurchase in the March-end quarter.

Guidance

Considering impacts of the pandemic, Genpact expects revenues to decline 4-6% year over year on a reported basis and 3-5% on a constant currency basis in the second quarter. It has withdrawn the full-year 2020 guidance.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	3.88%
EPS Surprise	15.22%
Quarterly EPS	0.53
Annual EPS (TTM)	1.84

Recent News

On **Feb 6, 2020**, Genpact announced that its board of directors has approved a dividend hike of roughly 15%, thereby raising the annual dividend payout from 34 cents per share to 39 cents. The company's board also declared a first-quarter dividend of 9.75 cents per share (up from the 8.5-cents quarterly dividend paid in 2019), payable on Mar 18, 2020, to shareholders of record at the close of business on Mar 9, 2020.

On **Feb 4, 2020**, Genpact announced a partnership with HighRadius, an enterprise SaaS (Software-as-a-service) fintech company. Together, the companies are expected to improve to enterprise accounts receivable and bring together digital automation solutions powered by advanced machine learning and AI.

On **Jan 30, 2020**, Genpact announced a partnership with KONE, one of the leading companies in the elevator and escalator industry.

On **Jan 28, 2020**, Genpact announced that it is partnering with Amplexor wherein Genpact will provide enhanced Digital Transformation services to support Amplexor's Regulatory Information Management (RIM) solution.

On **Jan 16, 2020**, Genpact announced that it was awarded with the 2019 Brandon Hall Group Human Capital Management (HCM) Excellence Awards for global talent development programs, hiring practices and corporate culture.

Valuation

Genpact shares are down 16.2% in the year-to-date period and 2.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 18.7% and 6.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the Zacks Business Services sector are down 16.3% and 0.5%, respectively.

The S&P 500 index is down 7% in the year-to-date period but up 6.6% in the past year.

The stock is currently trading at 20.X price to forward 12 months' earnings, which compares to 20.86X for the Zacks sub-industry, 28.86X for the Zacks sector and 21.72X 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 19.05X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$38.00 price target reflects 22.49X 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	20.9	20.86	28.86	21.76
	5-Year High	25.06	23.73	28.86	21.76
	5-Year Low	11.41	17.37	18.68	15.23
	5-Year Median	19.05	22.19	20.69	17.49
P/S F 12M	Current	1.79	2.46	3.93	3.37
	5-Year High	2.33	2.92	3.94	3.44
	5-Year Low	1.08	2.2	3.05	2.53
	5-Year Median	1.92	2.53	3.57	3.01
P/B TTM	Current	4.28	6.56	4.12	4.09
	5-Year High	5.05	8.78	6.69	4.56
	5-Year Low	2.55	5.16	3.19	2.83
	5-Year Median	4.3	7.2	5.18	3.65

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (234 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Sykes Enterprises, Incorporated (SYKE)	Outperform	4
Accenture PLC (ACN)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
FleetCor Technologies, Inc. (FLT)	Neutral	4
Global Payments Inc. (GPN)	Neutral	4
Maximus, Inc. (MMS)	Neutral	3
Euronet Worldwide, Inc. (EFT)	Underperform	5
WNS Holdings Limited (WNS)	Underperform	5

Industry Comparison Industry: Outsourcing				Industry Peers		
	G	X Industry	S&P 500	ACN	EEFT	SYKE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Outperform
Zacks Rank (Short Term)	3	-	-	3	5	4
VGM Score	C	-	-	A	C	B
Market Cap	6.73 B	803.44 M	21.18 B	124.85 B	5.01 B	1.11 B
# of Analysts	7	2	14	11	3	2
Dividend Yield	1.10%	0.00%	2.03%	1.63%	0.00%	0.00%
Value Score	C	-	-	B	F	A
Cash/Price	0.06	0.21	0.06	0.04	0.27	0.11
EV/EBITDA	15.04	7.08	12.37	17.03	8.41	7.69
PEG Ratio	2.24	2.11	2.88	2.59	NA	2.11
Price/Book (P/B)	4.28	2.70	2.90	7.84	3.88	1.31
Price/Cash Flow (P/CF)	15.39	7.37	11.55	22.04	10.32	7.20
P/E (F1)	23.80	23.13	21.24	25.93	106.57	16.86
Price/Sales (P/S)	1.85	0.63	2.24	2.80	1.82	0.68
Earnings Yield	4.33%	4.33%	4.57%	3.85%	0.94%	5.93%
Debt/Equity	1.04	0.37	0.76	0.17	1.03	0.28
Cash Flow (\$/share)	2.30	3.07	6.96	8.91	9.29	3.79
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	10.93%	10.93%	10.87%	11.33%	20.74%	2.61%
Proj. EPS Growth (F1/F0)	-25.46%	-10.29%	-10.31%	2.90%	-87.16%	-23.22%
Curr. Cash Flow Growth	4.14%	11.69%	5.46%	8.06%	22.38%	-0.79%
Hist. Cash Flow Growth (3-5 yrs)	8.32%	11.90%	8.55%	9.75%	20.41%	3.69%
Current Ratio	1.57	1.28	1.29	1.38	1.69	2.26
Debt/Capital	51.08%	28.54%	44.54%	14.34%	50.73%	21.78%
Net Margin	9.07%	0.78%	10.59%	11.13%	11.40%	4.09%
Return on Equity	22.33%	10.26%	16.29%	32.87%	24.88%	10.26%
Sales/Assets	0.86	0.99	0.55	1.43	0.63	1.17
Proj. Sales Growth (F1/F0)	2.53%	0.00%	-2.34%	2.81%	-20.24%	-0.87%
Momentum Score	C	-	-	A	B	F
Daily Price Chg	4.40%	3.00%	2.82%	1.39%	4.72%	4.36%
1 Week Price Chg	3.45%	8.06%	4.99%	5.35%	12.01%	8.45%
4 Week Price Chg	2.61%	2.61%	3.55%	10.11%	6.78%	-3.77%
12 Week Price Chg	-9.15%	-10.96%	-4.95%	7.78%	-20.87%	-10.84%
52 Week Price Chg	-2.08%	-30.53%	-3.04%	10.10%	-39.31%	8.89%
20 Day Average Volume	1,401,096	287,287	2,429,758	2,037,807	604,130	286,064
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%
(F1) EPS Est 4 week change	-17.85%	-17.85%	-2.27%	0.02%	-80.45%	-32.64%
(F1) EPS Est 12 week change	-20.90%	-30.92%	-16.39%	-3.27%	-88.01%	-30.92%
(Q1) EPS Est Mthly Chg	-36.10%	-32.61%	-4.03%	0.07%	-142.48%	-60.19%

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	C
Growth Score	C
Momentum Score	C
VGM Score	C

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.

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