

NOT RATED**ACCENTURE**

| IT Services

| 20 December 2024

Raises FY25 growth guidance but no big read through

- Organic growth raised by 100bps to 2.5% on better 1QFY25 (AUG YE) which in turn was driven by strong large order wins in FY24
- Demand environment indicated to be like earlier quarters. Pricing is very competitive. AI spending is within their existing budgets
- Nifty IT up ~40% since 1 June 2024 with consensus FY25/FY26 earnings remaining largely unchanged. Result does not move the needle much

Girish Pai

research@bobcaps.in

1QFY25 revenue beats upper end of guidance: Driven largely by the strong order wins in FY24 especially the 125 wins of more than US\$100mn each.

Consulting makes a comeback: Consulting as % of total order inflow was ~50% in the quarter compared to a low of ~43% in 4QFY24 (a multi quarter low). However, the management commentary did not indicate a big discretionary spend pick up.

Says it will not be impacted by DOGE actions: There have been media articles about cutting back on IT spending in Government in the US because of focus on efficiency, an initiative helmed by Elon Musk and Vivek Ramaswamy. Among the items discussed was wasteful spending on IT. Accenture indicated its services in cloud, data, AI, etc would be required more in the new era. The US Federal business is likely ~8% of its revenue (~US\$5bn business).

Added Debt to the balance sheet. Working capital situation deteriorated: In a new development to the sector, Accenture added US\$5bn in debt in October 2024 to increase – what it says - liquidity for general corporate purposes and to optimize capital structure and reduce cost-of-capital. Interestingly our calculations show its negative working capital situation that it has enjoyed for many quarters/years, was a bit strained in 1QFY25 (see Figure 9).

No big read through for the Indian IT sector: The guidance raise is driven by the strong order inflow in FY24 due to the active pivot of Accenture towards efficiency deals. It is difficult to make a comparative analysis of this vis-à-vis large Indian players as ACVs are not revealed and TCV numbers are not comparable.

Constrained spending: Accenture says overall spending environment remains cautious, with most customers prioritizing AI spending within their existing budgets rather than increasing overall budgets. Visibility into client budgets is expected to improve in January and February 2025.

Continues to say that pricing is highly competitive: Accenture says it is focused on its differentiation and delivery efficiencies to deliver on margins.



Performance in the quarter

- Revenue for the quarter was US\$17.7bn, growing 8% in local currency, and exceeding the top-end of the guided range by approximately US\$240mn. Accenture says it gained market share on a rolling four-quarter basis against global publicly traded competitors.
- Strong revenue growth was broad-based across geographic markets, industry groups, and consulting and managed services.
- Consulting revenues were US\$9bn, up 7% in USD and 6% in local currency. Managed services revenues at US\$8.6bn were up 11% in both USD and local currency, driven by double-digit growth in technology-managed services and high single-digit growth in operations.
- In geographic markets, revenues in the Americas grew 11% in local currency, led by industrial, software, and platforms, banking and capital markets, and consumer goods, retail, and travel services.
- In EMEA, revenues grew 6% in local currency, led by public service, life sciences, and health, partially offset by a decline in banking and capital markets. Growth was driven by the United Kingdom and Italy, partially offset by a decline in France.
- Bookings for the quarter amounted to US\$18.7 bn, including 30 clients with quarterly bookings exceeding US\$100mn.
- GenAI had US\$1.2bn in bookings in the quarter and ~US\$500mn in revenue. This is against US\$3bn and US\$900mn in FY24 and US\$300mn and US\$100mn in FY23, respectively.
- The adjusted Operating margin was at 16.7% was flat YoY. Adjusted EPS grew 10% YoY.
- The company increased its data and AI workforce to around 69,000, progressing toward its goal of 80,000 by the end of FY2026.

Business Outlook

- For 2Q FY25, revenues are expected to be in the range of US\$16.2bn-US\$16.8bn, 5%-9% growth in local currency.
- For FY25, revenue growth in local currency is expected to be in the range of 4% to 7% over FY24, including an inorganic contribution of over 3%, with around 4% contribution expected in the first half and about 2% in the second half.
- The guidance was raised from 3-6% given three months back (which again had 300bps from inorganic). Organic growth guidance rose from 1.5% to 2.5% at the midpoint.
- Adjusted Operating margin for FY25 is expected at 15.6%-15.8%, up 10bps - 30 bps.
- Investment in acquisitions is expected to be about US\$3bn compared to US\$6.6bn in FY24. In 1QFY25 it spent US\$240mn on 5 deals.

- Regarding AI, there is growing interest from clients, but they are at varying stages of adoption. Some clients are still unfamiliar with Gen AI and have not yet transitioned to the cloud, while others are fully cloud-enabled and eager to be first to adopt Gen AI.
- Strong employee addition in the last two quarters: ~50,000 taking the total number to ~800,000 (up 7.5% YoY). Much of this is in India. The hiring is based on demand says Accenture.

Fig 1 – Key Metrics

YE 31 Aug (US\$ mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Revenue	14,965	15,047	16,159	15,424	15,748	15,814	16,565	15,985	16,224	15,800	16,467	16,406	17,690
Gross Margin	4,917	4,524	5,315	4,946	5,186	4,835	5,529	5,182	5,448	4,878	5,498	5,337	5,823
EBIT	2,434	2,062	2,603	2,268	2,593	1,945	2,359	1,913	2,565	2,046	2,631	2,354	2,948
PAT	1,791	1,635	1,786	1,665	1,965	1,524	2,010	1,373	1,973	1,675	1,932	1,684	2,279
Margins (%)													
Gross Margin	32.9	30.1	32.9	32.1	32.9	30.6	33.4	32.4	33.6	30.9	33.4	32.5	32.9
EBIT Margin	16.3	13.7	16.1	14.7	16.5	12.3	14.2	12.0	15.8	13.0	16.0	14.3	16.7
Vertical Mix (%)													
Communications & High Tech	20.6	21.2	21.2	20.0	18.9	18.2	17.4	16.9	16.5	16.8	16.8	16.8	16.2
Financial Services	19.5	19.1	19.1	19.1	18.8	19.0	18.9	18.9	18.7	17.8	17.6	17.5	17.9
Health & Public Service	18.2	17.9	18.1	18.8	19.1	19.1	19.7	20.5	20.8	21.1	21.3	22.0	21.6
Products	28.6	28.8	28.5	29.0	29.6	29.8	30.0	29.7	30.0	30.1	30.3	30.2	30.7
Resources	13.0	13.1	13.2	13.2	13.6	13.8	14.0	13.9	14.1	14.2	14.0	13.5	13.7
Geography Mix (%)													
Americas	46.2	47.0	47.1	48.8	48.4	46.8	46.6	47.3	46.6	46.7	47.6	48.6	49.4
EMEA	34.1	33.3	33.1	31.1	32.2	33.5	33.9	33.1	35.8	35.4	35.1	34.4	36.2
Asia Pacific	19.8	19.7	19.8	20.1	19.4	19.7	19.5	19.6	17.6	17.9	17.3	17.1	14.4
Services Mix in Revenues (%)													
Consulting	56.1	55.3	55.9	54.0	53.6	52.4	52.5	51.3	52.1	50.8	51.4	50.4	51.1
Managed Services	43.9	44.7	44.1	46.0	46.4	47.6	47.5	48.7	47.9	49.2	48.6	49.6	48.9
Order Inflow (US\$ bn)													
Consulting	9.4	10.9	9.1	8.4	8.1	10.7	8.9	8.5	8.6	10.5	9.3	8.6	9.2
Managed Services	7.4	8.7	7.8	9.9	8.1	11.4	8.3	8.2	9.8	11.1	11.8	11.6	9.5
Total	16.8	19.6	17.0	18.4	16.2	22.1	17.3	16.6	18.5	21.6	21.1	20.1	18.7
Order Inflow Mix (%)													
Consulting	56.0	55.6	53.5	45.7	50.0	48.4	51.8	51.2	46.7	48.7	44.1	42.8	49.2
Managed Services	44.0	44.4	45.9	53.8	50.0	51.6	48.2	49.4	53.3	51.2	55.9	57.7	50.8
Other Metrics													
Number of employees	6,74,325	6,98,504	7,10,432	7,21,379	7,37,719	7,38,143	7,31,868	7,32,819	7,43,041	7,42,318	7,50,200	7,74,303	7,98,781
Employee growth YoY (%)	31.1	30.1	24.9	15.6	9.4	5.7	3.0	1.6	0.7	0.6	2.5	5.7	7.5
Net addition of employees	50,057	24,179	11,928	10,947	16,340	424	(6,275)	951	10,222	(723)	7,882	24,103	24,478
Voluntary Attrition (%)	17	18	20	20	13	12	13	14	11	13	14	14	12
Utilisation	92	92	91	91	91	91	91	91	91	92	92	92	91
TCV (US\$bn)	16.8	19.6	17.0	18.4	16.2	22.1	17.3	16.6	18.5	21.6	21.1	20.1	18.7
TTM TCV (US\$bn)	63.2	66.8	68.4	71.8	71.2	73.7	74.0	72.2	74.4	73.9	77.7	81.2	81.5
Growth TTM TCV (YoY %)	21.3	23.9	17.3	21.1	12.7	10.4	8.1	0.5	4.5	0.2	5.1	12.5	9.5
TTM Revenue (US\$bn)	53.7	56.7	59.6	61.6	62.4	63.1	63.6	64.1	64.6	64.6	64.5	64.9	66.4
Book/Bill (TTM)	1.18	1.18	1.15	1.17	1.14	1.17	1.16	1.13	1.15	1.14	1.21	1.25	1.23
Revenue Per Capita (US\$)	92,193	87,683	91,750	86,177	86,343	85,722	90,147	87,310	87,945	85,095	88,263	86,091	89,961
EBIT Per Capita (US\$)	14,997	12,014	14,781	12,673	14,218	10,541	12,840	10,448	13,903	11,022	14,102	12,351	14,995
PAT Per Capita (US\$)	11,034	9,527	10,141	9,304	10,774	8,259	10,939	7,499	10,697	9,021	10,357	8,839	11,589
Average Employees	6,49,297	6,86,415	7,04,468	7,15,906	7,29,549	7,37,931	7,35,006	7,32,344	7,37,930	7,42,680	7,46,259	7,62,252	7,86,542

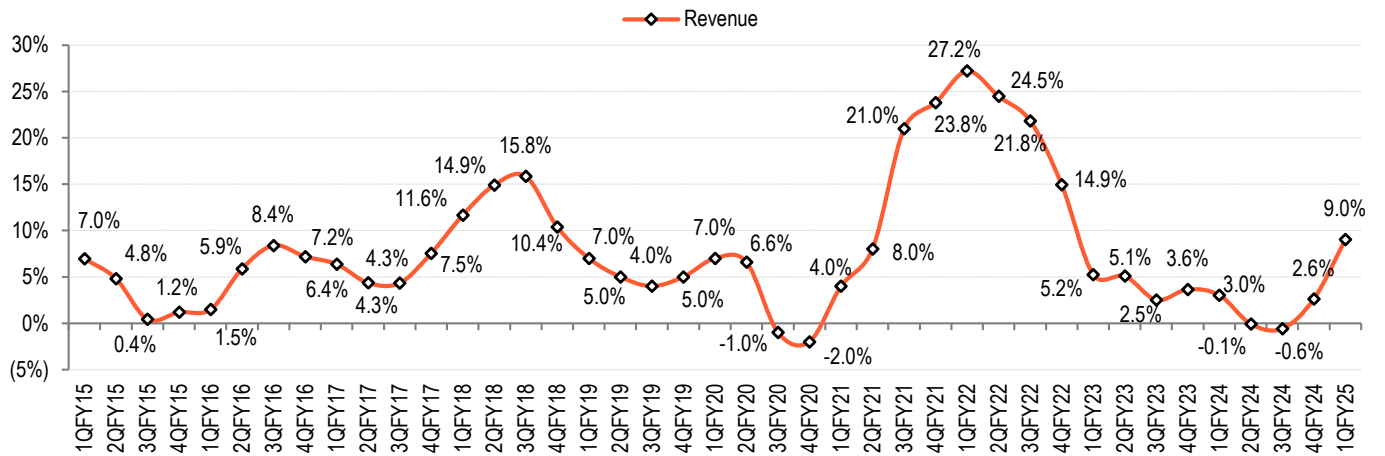
Source: Company, BOBCAPS Research

Fig 2 – QoQ and YoY Growth of various parameters (USD)

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
QoQ Growth (%)													
Overall Revenue (%)	12	1	7	(5)	2	0	5	(3)	1	(3)	4	(0)	8
Vertical Wise (%)													
Communications & High Tech	11	4	7	(10)	(3)	(3)	(0)	(6)	(1)	(1)	4	(0)	4
Financial Services	12	(2)	7	(4)	1	1	5	(4)	0	(7)	3	(1)	10
Health & Public Service	9	(2)	9	(1)	4	1	8	0	3	(1)	5	3	5
Products	15	1	6	(3)	4	1	5	(4)	2	(2)	5	(1)	10
Resources	8	1	9	(5)	5	2	6	(4)	2	(2)	3	(4)	9
Geography Wise (%)													
Americas	8	2	8	(1)	1	(3)	4	(2)	0	(2)	6	2	10
EMEA	19	(2)	7	(10)	6	4	6	(6)	10	(4)	3	(2)	14
Asia Pacific	8	0	8	(3)	(1)	2	4	(3)	(9)	(1)	1	(2)	(9)
Services Wise (%)													
Consulting	15	(1)	9	(8)	1	(2)	5	(6)	3	(5)	5	(2)	10
Managed Services	8	2	6	(0)	3	3	4	(1)	(0)	0	3	2	6
Growth Rate in Bookings (%)													
New	12	17	(13)	8	(12)	36	(22)	(4)	11	17	(3)	(5)	(7)
Consulting	18	16	(17)	(8)	(3)	32	(17)	(5)	1	22	(12)	(7)	7
Managed Services	4	18	(10)	27	(18)	41	(27)	(1)	20	13	7	(2)	(18)
YoY Growth (%)													
Overall Revenue (%)	27	24.47	22	15	5	5	3	4	3	0	(1)	3	9
Vertical Wise (%)													
Communications & High Tech	32	29	27	11	(3)	(10)	(16)	(12)	(10)	(8)	(4)	2	7
Financial Services	24	21	19	13	2	5	2	3	2	(6)	(8)	(5)	4
Health & Public Service	23	19	16	15	10	13	12	13	13	10	8	10	13
Products	34	30	25	20	9	9	8	6	4	1	0	4	12
Resources	17	21	21	13	10	11	8	10	7	3	(0)	(0)	6
Geography Wise (%)													
Americas	26	26	23	18	10	5	1	0	(1)	(0)	1	5	15
EMEA	29	24	20	12	(1)	6	5	10	14	6	3	6	10
Asia Pacific	28	22	22	13	3	5	1	1	(6)	(9)	(12)	(11)	(11)
Services Wise (%)													
Consulting	33	29	24	14	1	(1)	(4)	(2)	0	(3)	(3)	1	7
Managed Services	21	19	19	16	11	12	10	10	6	3	2	5	11
Growth Rate in Bookings (%)													
Total	30	23	10	23	(3)	13	1	(10)	14	(2)	22	21	1
Consulting	42	36	14	5	(14)	(2)	(2)	1	6	(2)	4	1	7
Managed Services	18	9	5	39	10	31	7	(17)	21	(3)	42	41	(3)

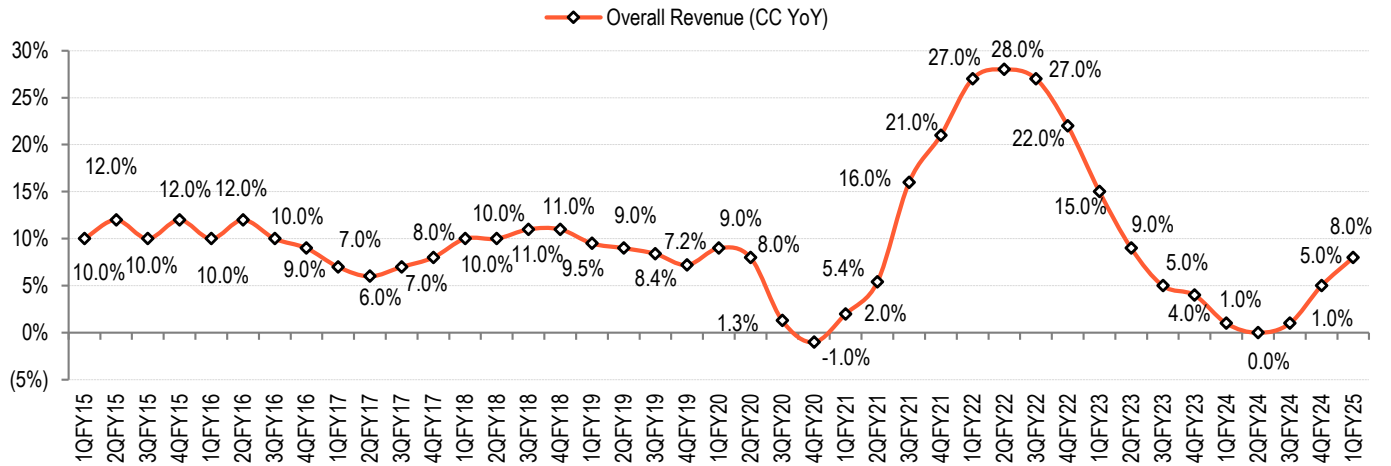
Source: Company, BOBCAPS Research

Fig 3 – USD YoY Growth Rate



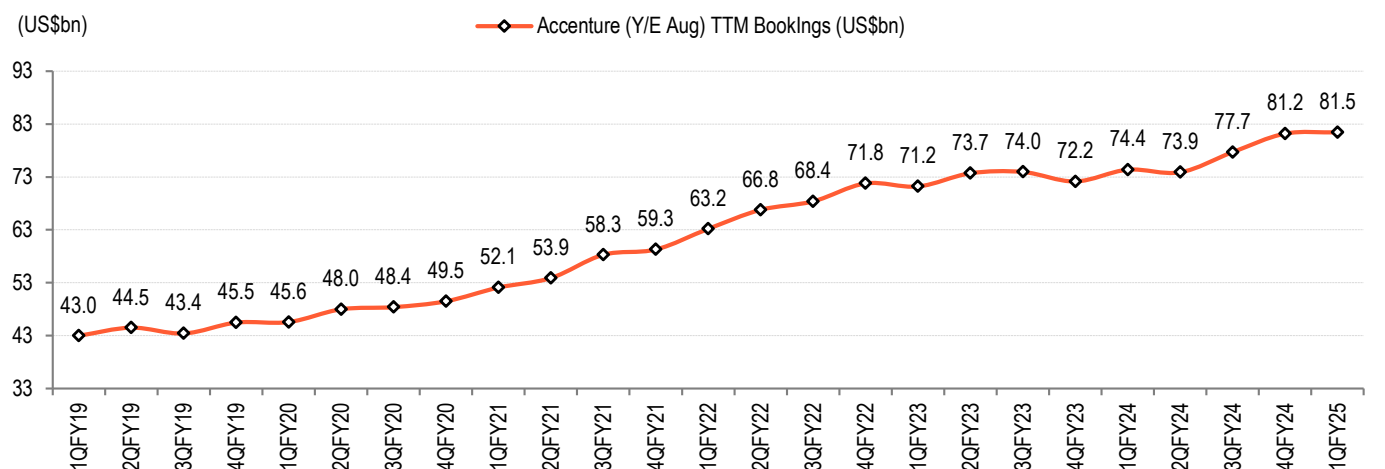
Source: Company, BOBCAPS Research

Fig 4 – Local currency YoY Growth Rate



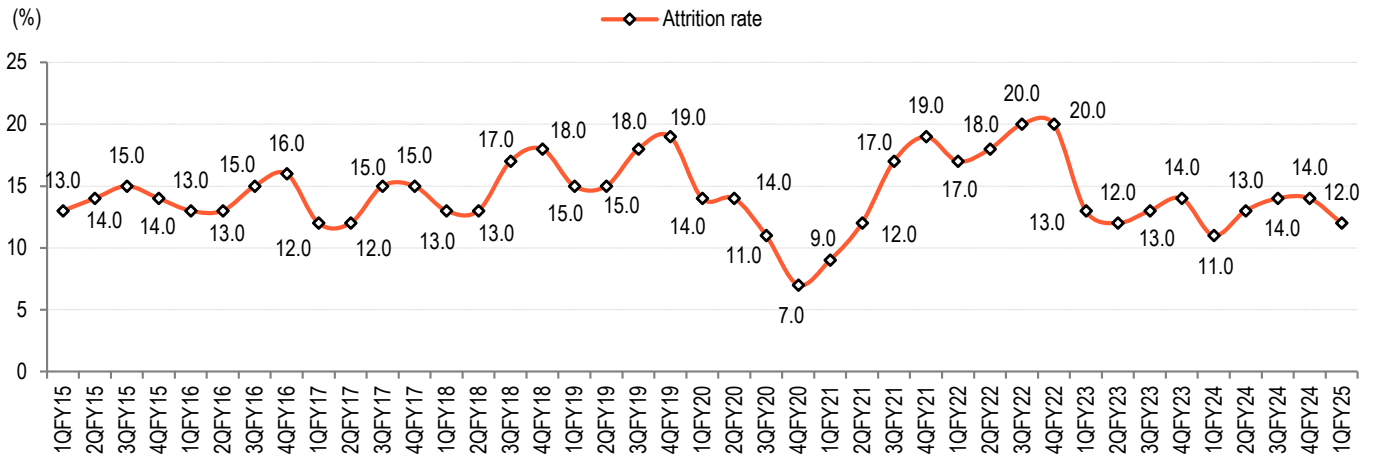
Source: Company, BOBCAPS Research

Fig 5 – TTM Order inflow



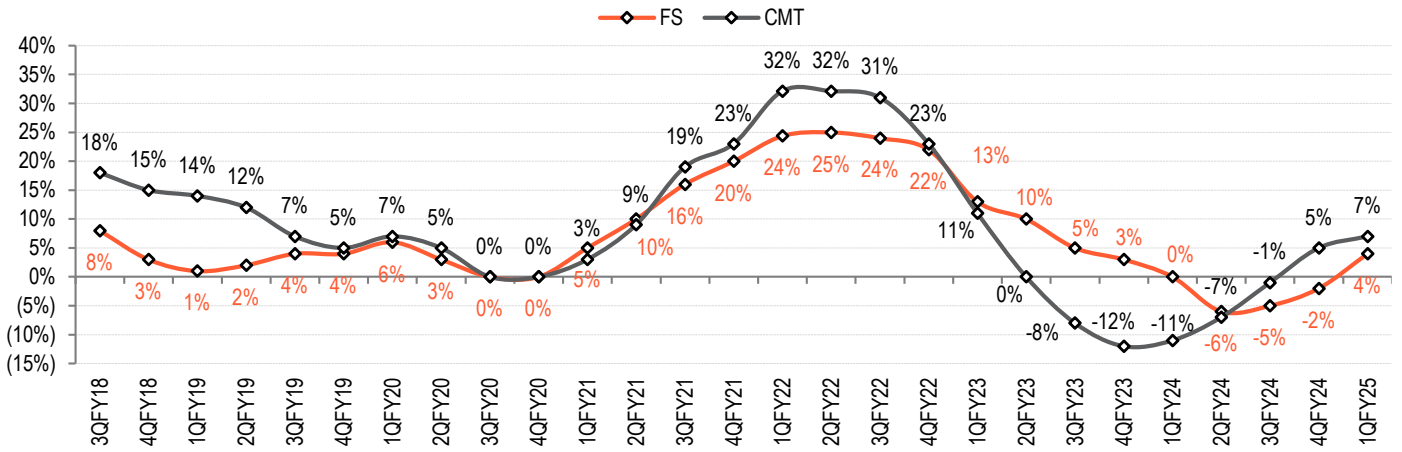
Source: Company, BOBCAPS Research

Fig 6 – Attrition trend



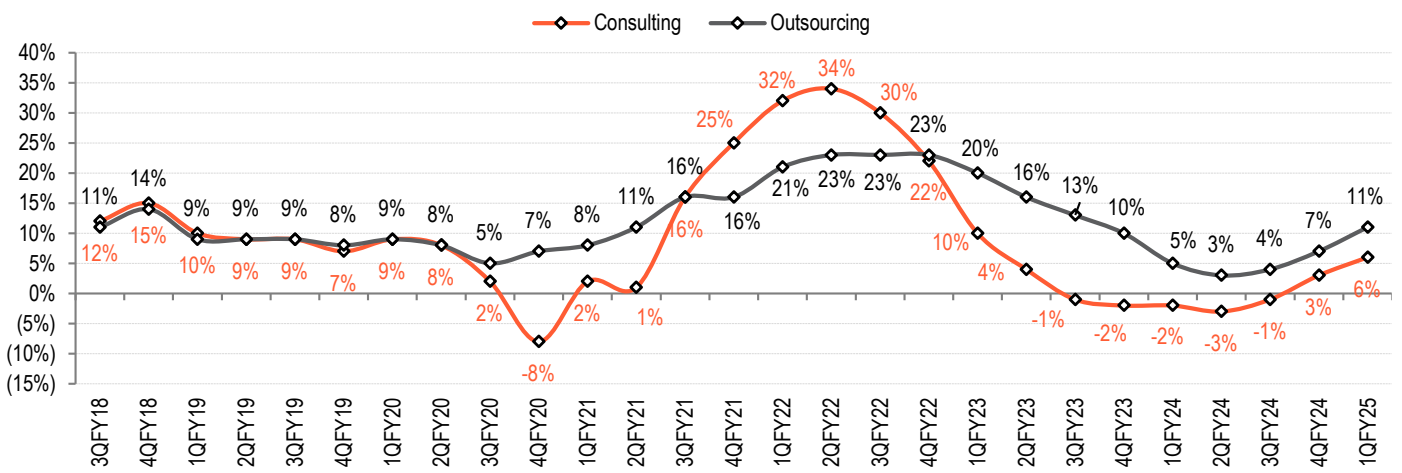
Source: Company, BOBCAPS Research

Fig 7 – LC growth of CMT and FS



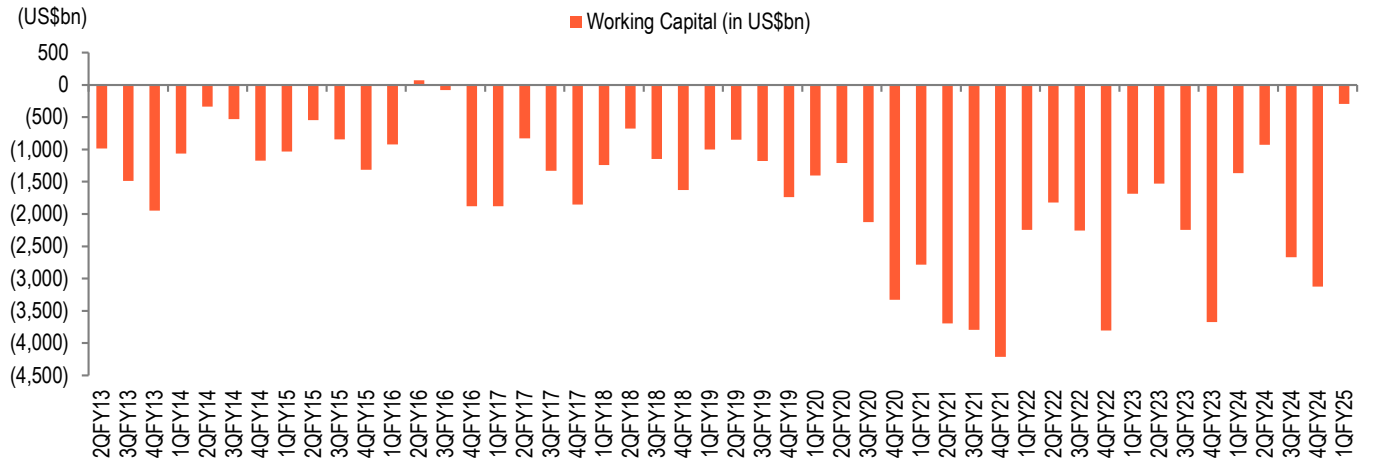
Source: Company, BOBCAPS Research

Fig 8 – Growth trajectory in services lines in LC terms



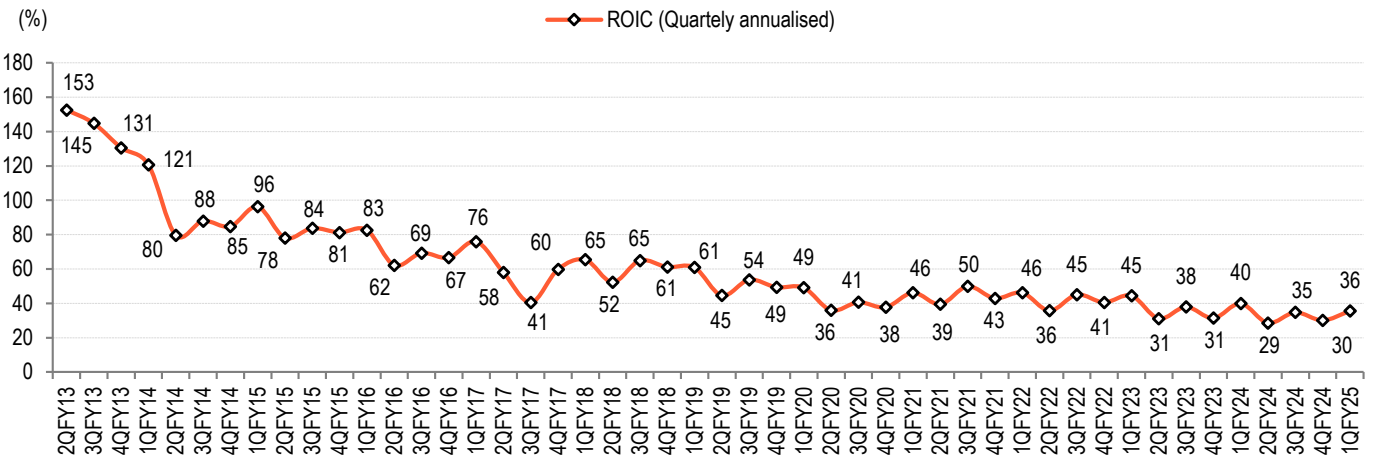
Source: Company, BOBCAPS Research

Fig 9 – Quarterly working capital situation – deteriorated a lot in the quarter.



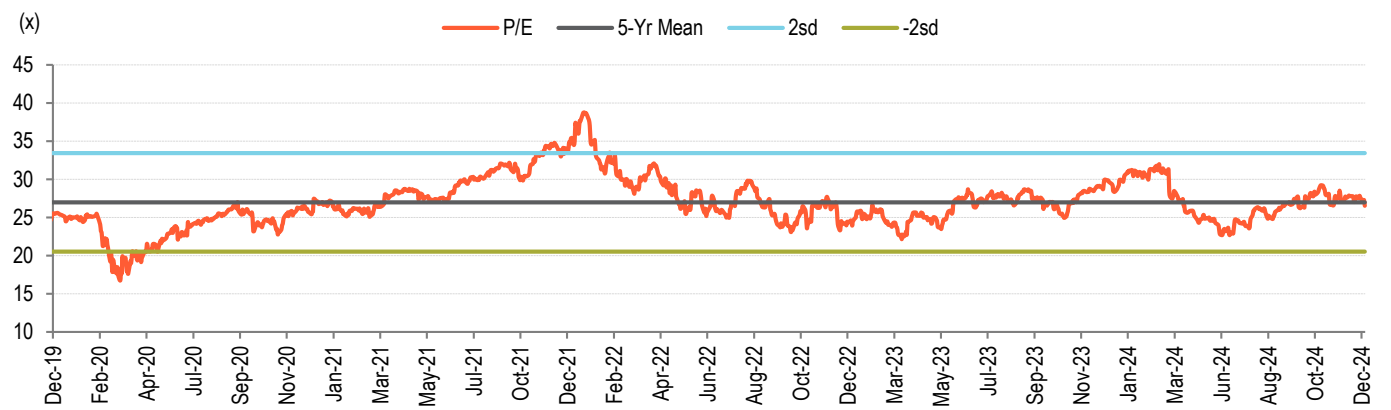
Source: Company, BOBCAPS Research

Fig 10 – ROIC (%)



Source: Company, BOBCAPS Research

Fig 11 – 5-year PE multiple chart trajectory



Source: Company, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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