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Significant deceleration on the cards. Unsure if worst is over

- **YoY organic growth is expected to decelerate from ~4.5% in 2QFY25 to 0.5% in 4Q. Implies a US$2.6bn annualized organic revenue loss**
- **New guide factors loss of business due to DOGE in US government (8% of revenue) and weakness in the rest due to higher uncertainty**
- **Expect Infosys/HCLT to guide revenue growth of low-mid-single digits for FY26. 2 months back consensus was at mid-high single digits**

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Significant deceleration guided: Optically the rise in organic revenue growth guidance for FY25 (Aug YE) by 50bps at the mid-point to 3% compared to 2.5%, given 3 months ago, seems positive. However, the math based on the performance in 1H and 3Q guidance midpoint and the inorganic growth distribution between the 2 halves (400bps in 1H and 200bps in 2H) indicates that YoY organic growth is going to decelerate from ~4.5% in 2QFY25 to 0.5% in 4QFY25.

Growth in FY26 will at best be equal to that in FY25: As indicated in our recent note, 'FY26 unlikely to be better than FY25' (**Update**) we believe the uncertainty around the Trump 2.0 policies (Tariffs, DOGE and immigration) will impact spending sentiment.

'Detox' could hit US government spending: While Tariffs have hogged news headlines, we believe the fiscal spending compression that is likely based on statement of the US treasury secretary where he talked about US having to go through a 'detox' implies that there could be pain not just in 2025 but also beyond.

Considerable fiscal tightening likely: Currently the annualized run rate of US fiscal deficit (based on 5 months of FY25 till February) is at USD2.75trn. With the budgeted number at USD1.9trn, there is considerable fiscal tightening on the cards in the next 7 months of FY25 (which will take fiscal deficit as % of GDP to ~6.5%).

Read through for the Indian companies - Negative

- While Indian services providers do not have much of direct exposure to the US government IT and ITES business, there could be second order impact. This could also lead to Accenture also going after the non-US government business in a more aggressive fashion negatively impacting Indian peers.
- With Accenture talking about elevated level of uncertainty we expect Indian players like Infosys and HCLT to guide towards a CC revenue growth of low to mid-single digits for FY26 compared to the mid to high single digit expectations that the market had two months back (we were not in that camp due to macro and sector specific reasons). With the kind of competitive demand environment expect EBIT margins to be flattish at best during FY26.

DOGE and Uncertainty hits growth

- The front-loaded growth for FY25 has come from extremely strong order booking in FY24 of ~USD81bn (up 12% YoY).
- The US government business, which constitutes 8% of revenue and USD5.2bn in size may see pressure due to DOGE where cost cutters are going after consulting firms. There could be both volume and pricing pressure here.
- While the commentary around the demand environment was cautious with the CEO pointing to uncertainty, it did not seem to have impacted 2Q very much. Trump 2.0 started at the midpoint of 2Q.
- There could be both first order and second order impact as US tries to structurally set things right on the economic front.
- While we had argued in our research note that Accenture would lower its guidance in our note, due to a strong 1H, it has been able to avoid that.
- This weaker government spending has already been felt by US airlines which have lowered their financial guidance recently due to lower US government travel and also due to lower consumer spending.
- The spending 'detox' could continue in the upcoming years too as Trump 2.0 wants the fiscal deficit to reduce to a sustainable level of ~3%. We are not sure if this would be evenly spread out or front loaded. So even if the Tariff situation gets sorted out, the fiscal tightening is something to contend with.

Quarter and analyst call highlights

- Accenture reported a strong performance in 2QFY25, with revenue of US$16.7 bn, growing 8.5% in local currency, at the top end of the guided range.
- Consulting revenues were US$8.3 bn, up 3% in USD and 6% in local currency.
- Managed services revenues were US$8.4 bn, up 8% in USD and 11% in local currency, driven by double-digit growth in technology-managed services (including application and infrastructure services) and high single-digit growth in operations.
- In the Americas, revenues grew 11% in local currency, led by banking, capital markets, industrial, health, consumer goods, retail, and travel services, with growth driven by the United States.
- In EMEA, revenues grew 8% in local currency, driven by public service, life sciences, consumer goods, retail, and travel services, with growth led by the United Kingdom.
- In Asia-Pacific, revenues grew 1% in local currency, driven by growth in insurance and utilities, partially offset by declines in chemicals and natural resources. Japan led growth, while Singapore saw a decline.
- The company achieved bookings of US$20.9 bn, including 32 clients with quarterly bookings greater than US$100mn.

- Accenture says that it continued to gain market share on a rolling four-quarter basis compared to competitors in the global publicly traded market.
- In Gen AI, Accenture reached a milestone with US$1.4 bn in new bookings and approximately US$600mn in revenue during the quarter.
- The operating margin for the quarter was 13.5%, which decreased by 20 bps compared to the adjusted 2QFY24 results.
- In the first half of the year, Accenture invested nearly US$500mn, primarily through 11 acquisitions.
- New bookings for the quarter were US$20.9 bn, a 3% decrease in USD and flat in local currency, with a book-to-bill ratio of 1.3. Consulting bookings were US$10.5 bn with a book-to-bill ratio of 1.3. Managed services bookings were US$10.4 bn with a book-to-bill ratio of 1.2.
- Accenture increased its data and AI workforce to about 72,000, progressing toward its goal of 80,000 by the end of FY 2026.
- Federal business represented approximately 8% of global revenue and 16% of Americas revenue in FY24.
- The new administration’s goal to run the Federal government more efficiently has led to slowed procurement actions, negatively impacting sales in the federal sector.
- The General Services Administration recently instructed all federal agencies to review contracts with the top 10 highest-paid consulting firms contracting with the US government, which includes Accenture Federal Services.
- The GSA's guidance could potentially terminate contracts deemed non-mission critical by the relevant federal agencies, which could impact federal business.
- Accenture continues to believe its work with federal clients is mission-critical, though ongoing uncertainty is expected as the government’s priorities evolve, and assessments are conducted.
- Accenture anticipates major opportunities in the long term to help consolidate, modernize, and reinvent the federal government, improving efficiency.
- Recently, global economic and geopolitical uncertainty has increased, marking a shift from the 1Q FY25 earnings report in December.
- Despite the uncertainty, Accenture remains confident in the fundamentals of the industry and its positioning with clients, particularly due to the continued trend of reinvention through technology, data, and AI.

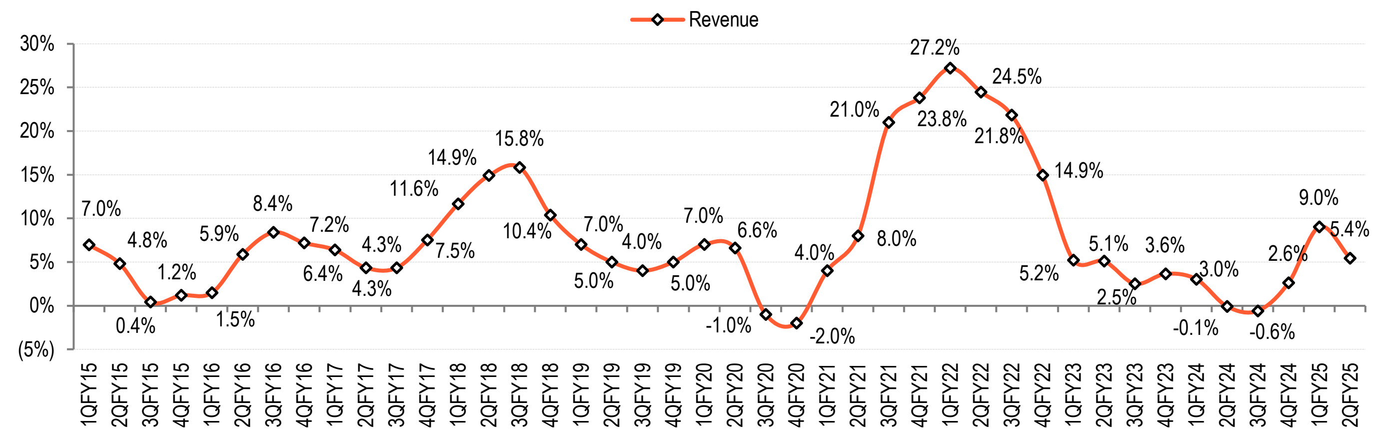
Guidance

- For 3Q FY25, Accenture expects revenues to be in the range of US$16.9 bn to US$17.5 bn, reflecting a 3% to 7% growth in local currency.
- Accenture expects full FY25 revenue growth of 5% to 7% in local currency This was an increase over the 4-7% given last quarter. The inorganic contribution of

more than 3%, with about 4% in the first half and approximately 2% in the second half of the year.

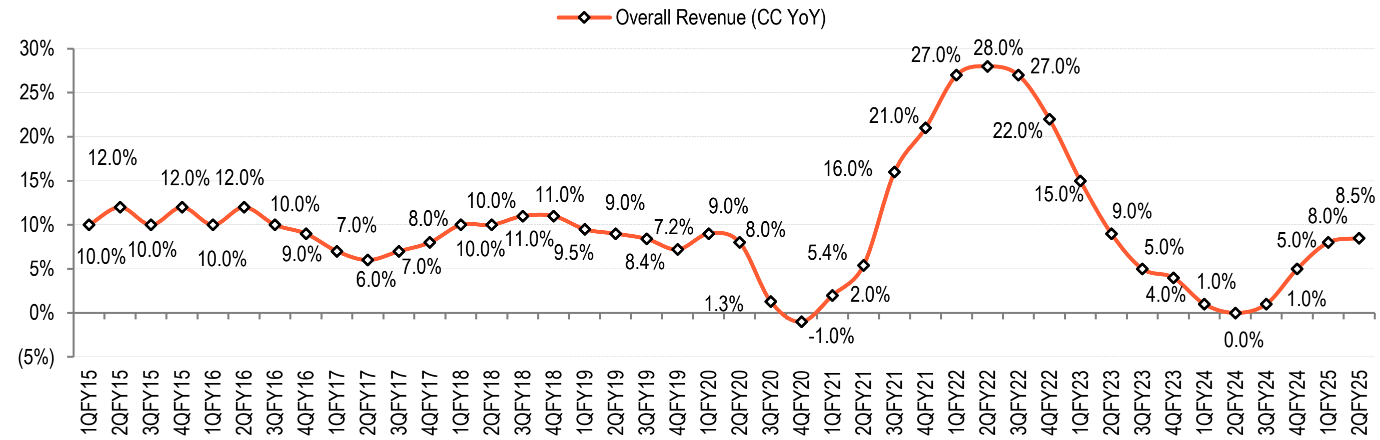
- Accenture plans to invest US$2 bn to US$3 bn in acquisitions during FY25.
- Operating margin for FY25 is expected to be in the range of 15.6% to 15.7%, reflecting a 10 bps to 20 bps expansion over the adjusted FY24 results.
- Regarding 92% of the business outside of US Federal government, Accenture has not seen any pauses in client activity or new initiatives at this time. There have been ongoing discussions with clients, some of which are about accelerating programs, especially in cost-related areas. While there is caution in the market, Accenture has not observed any tangible signs of clients halting activities or pausing projects.
- In 2QFY25, gross margins decreased due to higher subcontractor costs and the impact of business optimization actions, which reduced severance costs compared to 2QFY24. Operating margins are expected to expand by 10 bps to 20 bps for FY25, while the company continues to invest significantly in business and people.
- As the company entered FY25, there was no meaningful increase in budgets for services, with budgets being relatively consistent with prior periods. While it’s still early in the year and many clients are still processing recent developments, some clients are reprioritizing initiatives, potentially accelerating cost-cutting efforts over other priorities.
- Discretionary spending in 2QFY25 remained consistent with previous periods, with overall spending still constrained. The guidance for the full year assumes that discretionary spend does not need to improve at the top end of the range, but it also accounts for the possibility of further deterioration at the bottom end of the range.
- Pricing was described as relatively stable, but the market remains highly competitive.
- There has been no recent slowdown in the last few weeks, but there has been elevated uncertainty globally. Key themes influencing this uncertainty include tariffs (a global concern) and consumer sentiment (mainly in the Americas).
- In Europe, major spending announcements, particularly in defense, provide opportunities, with the company well-positioned due to investments and acquisitions. In the UK, recent investments in acquisitions and the use of data and AI are contributing to strong revenue growth.
- In the Americas, especially in federal work, the focus on consolidating, modernizing, and reinventing the federal government presents significant opportunities, with the company leveraging its expertise from decades of work in the sector.
- In H1FY25, the company generated $1.1bn in revenue from its Gen AI offerings. This is a significant increase compared to $900mn for the entire FY24.

Fig 1 – USD YoY Growth Rate



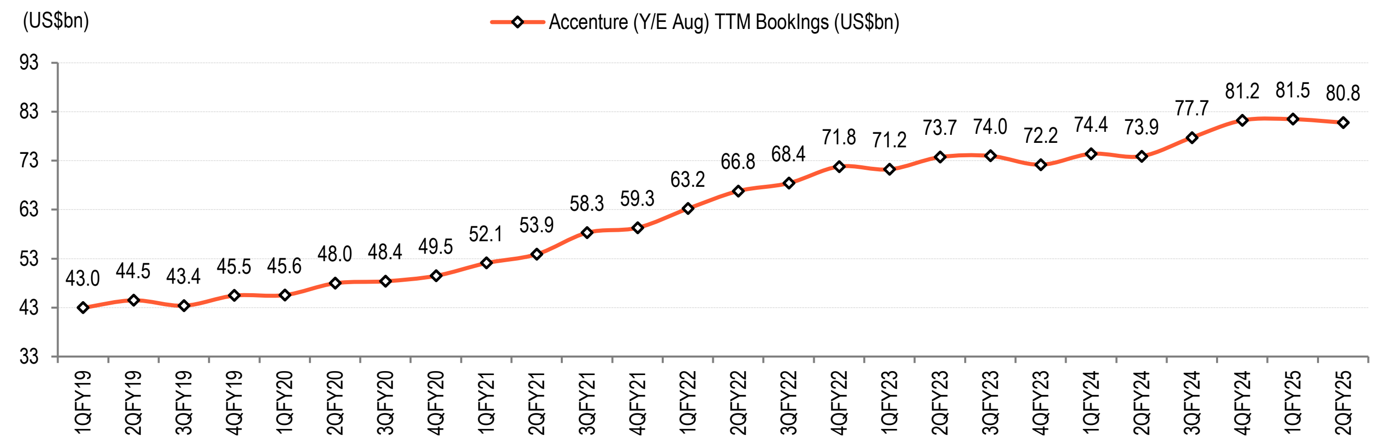
Source: Company, BOBCAPS Research

Fig 2 – Local currency YoY Growth Rate



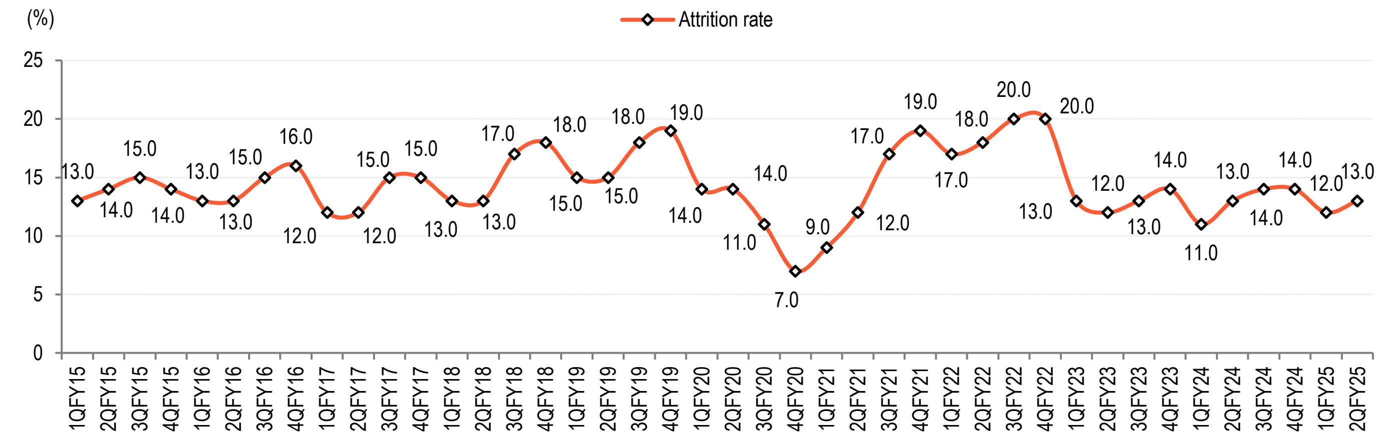
Source: Company, BOBCAPS Research

Fig 3 – TTM Order inflow



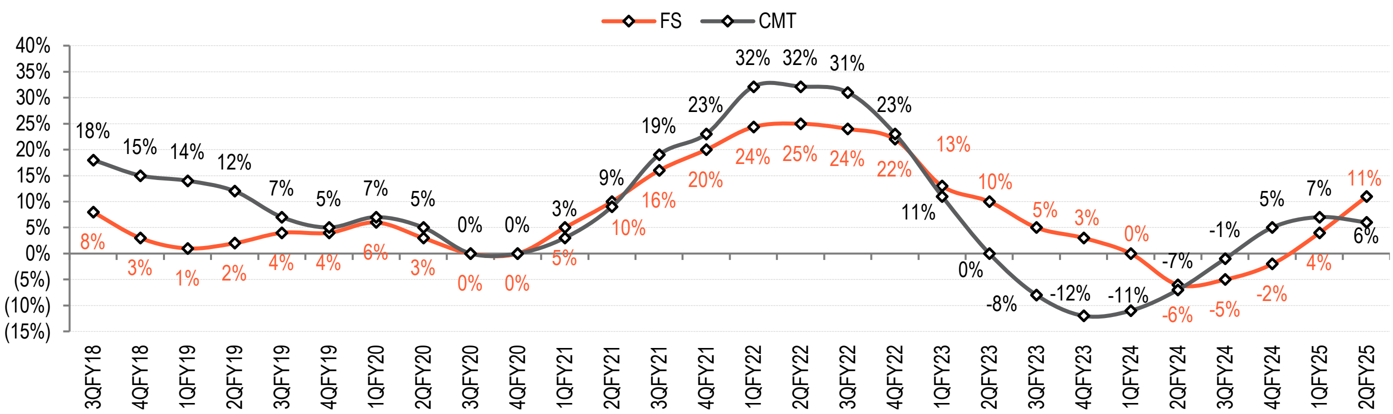
Source: Company, BOBCAPS Research

Fig 4 – Attrition trend



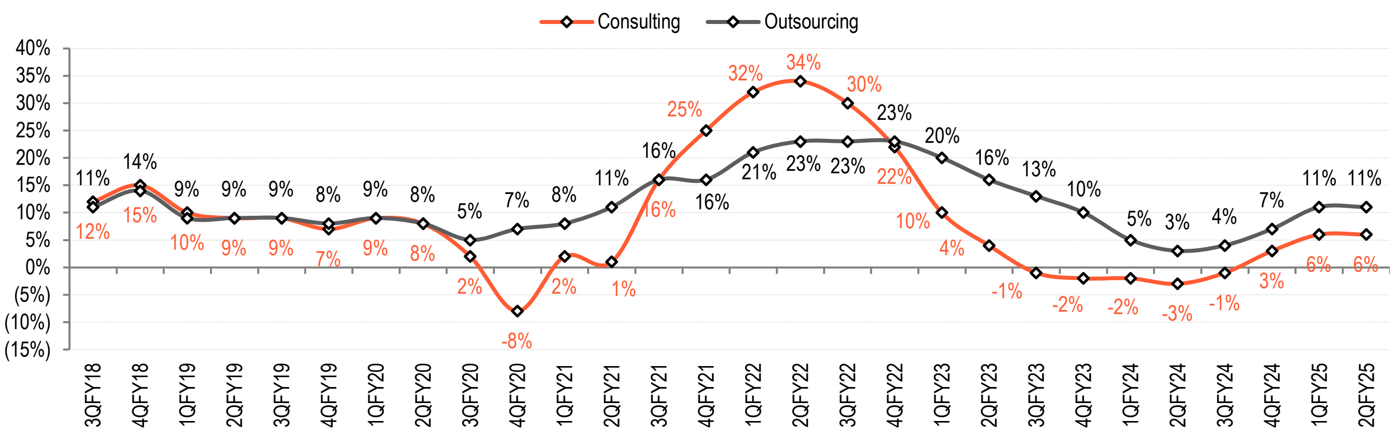
Source: Company, BOBCAPS Research

Fig 5 – LC growth of CMT and FS



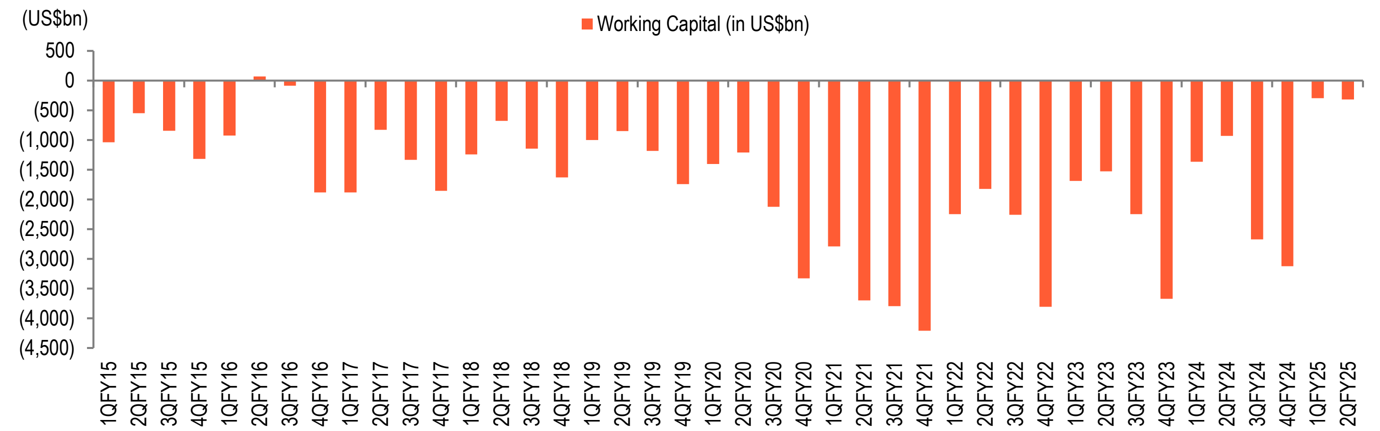
Source: Company, BOBCAPS Research

Fig 6 – Growth trajectory in services lines in LC terms



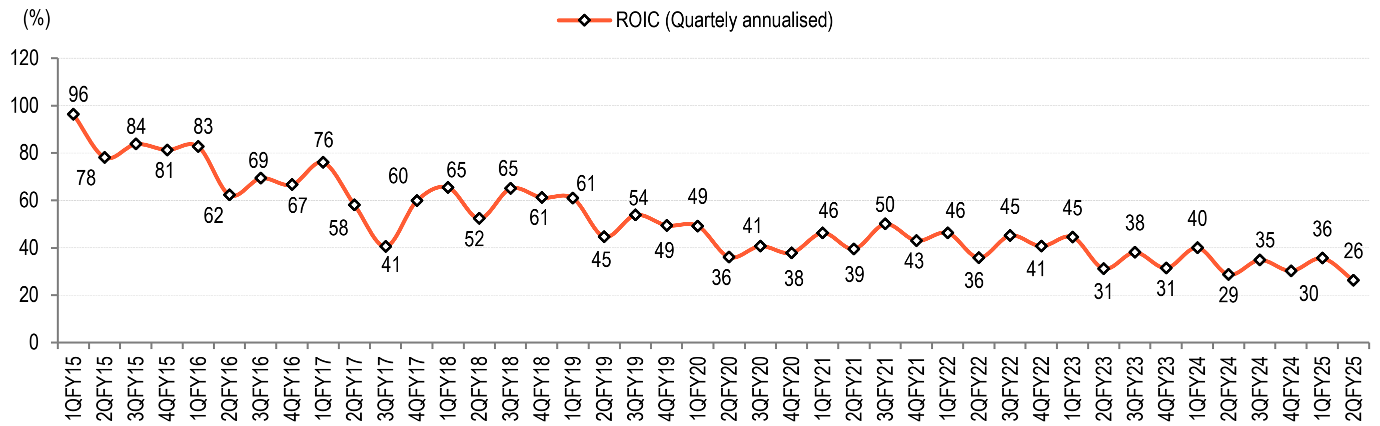
Source: Company, BOBCAPS Research

Fig 7 – Quarterly working capital situation



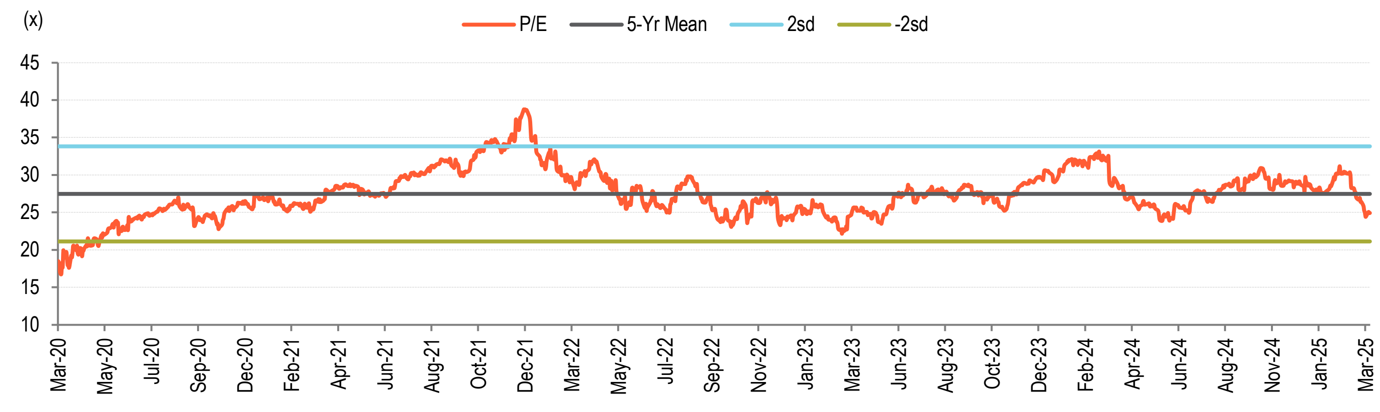
Source: Company, BOBCAPS Research

Fig 8 – ROIC (%)



Source: Company, BOBCAPS Research

Fig 9 – 5-year PE multiple chart trajectory



Source: Company, BOBCAPS Research

Fig 10 – Key Metrics

YE 31 Aug (US$ mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Revenue	15,047	16,159	15,424	15,748	15,814	16,565	15,985	16,224	15,800	16,467	16,406	17,690	16,659
Gross Margin	4,524	5,315	4,946	5,186	4,835	5,529	5,182	5,448	4,878	5,498	5,337	5,823	4,975
EBIT	2,062	2,603	2,268	2,593	1,945	2,359	1,913	2,565	2,046	2,631	2,354	2,948	2,245
PAT	1,635	1,786	1,665	1,965	1,524	2,010	1,373	1,973	1,675	1,932	1,684	2,279	1,788
Margins (%)													
Gross Margin	30.1	32.9	32.1	32.9	30.6	33.4	32.4	33.6	30.9	33.4	32.5	32.9	29.9
EBIT Margin	13.7	16.1	14.7	16.5	12.3	14.2	12.0	15.8	13.0	16.0	14.3	16.7	13.5
Vertical Mix (%)													
Communications & High Tech	21.2	21.2	20.0	18.9	18.2	17.4	16.9	16.5	16.8	16.8	16.8	16.2	16.4
Financial Services	19.1	19.1	19.1	18.8	19.0	18.9	18.9	18.7	17.8	17.6	17.5	17.9	18.1
Health & Public Service	17.9	18.1	18.8	19.1	19.1	19.7	20.5	20.8	21.1	21.3	22.0	21.6	21.7
Products	28.8	28.5	29.0	29.6	29.8	30.0	29.7	30.0	30.1	30.3	30.2	30.7	30.3
Resources	13.1	13.2	13.2	13.6	13.8	14.0	13.9	14.1	14.2	14.0	13.5	13.7	13.6
Geography Mix(%)													
Americas	47.0	47.1	48.8	48.4	46.8	46.6	47.3	46.6	46.7	47.6	48.6	49.4	51.3
EMEA	33.3	33.1	31.1	32.2	33.5	33.9	33.1	35.8	35.4	35.1	34.4	36.2	34.8
Asia Pacific	19.7	19.8	20.1	19.4	19.7	19.5	19.6	17.6	17.9	17.3	17.1	14.4	13.8
Services Mix in Revenues(%)													
Consulting	55.3	55.9	54.0	53.6	52.4	52.5	51.3	52.1	50.8	51.4	50.4	51.1	49.7
Managed Services	44.7	44.1	46.0	46.4	47.6	47.5	48.7	47.9	49.2	48.6	49.6	48.9	50.3
Order Inflow ($bn)													
Consulting	10.9	9.1	8.4	8.1	10.7	8.9	8.5	8.6	10.5	9.3	8.6	9.2	10.5
Managed Services	8.7	7.8	9.9	8.1	11.4	8.3	8.2	9.8	11.1	11.8	11.6	9.5	10.4
Total	19.6	17.0	18.4	16.2	22.1	17.3	16.6	18.5	21.6	21.1	20.1	18.7	20.9
Order Inflow Mix (%)													
Consulting	55.6	53.5	45.7	50.0	48.4	51.8	51.2	46.7	48.7	44.1	42.8	49.2	50.1
Managed Services	44.4	45.9	53.8	50.0	51.6	48.2	49.4	53.3	51.2	55.9	57.7	50.8	49.9
Other Metrics													
Number of employees	698,504	710,432	721,379	737,719	738,143	731,868	732,819	743,041	742,318	750,200	774,303	798,781	801,099
Employee growth YoY (%)	30.1	24.9	15.6	9.4	5.7	3.0	1.6	0.7	0.6	2.5	5.7	7.5	7.9
Net addition of employees	24,179	11,928	10,947	16,340	424	(6,275)	951	10,222	(723)	7,882	24,103	24,478	2,318
Voluntary Attrition (%)	18	20	20	13	12	13	14	11	13	14	14	12	13
Utilisation	92	91	91	91	91	91	91	91	92	92	92	91	91
TCV (US$bn)	19.6	17.0	18.4	16.2	22.1	17.3	16.6	18.5	21.6	21.1	20.1	18.7	20.9
TTM TCV (US$bn)	66.8	68.4	71.8	71.2	73.7	74.0	72.2	74.4	73.9	77.7	81.2	81.5	80.8
Growth TTM TCV (YoY %)	23.9	17.3	21.1	12.7	10.4	8.1	0.5	4.5	0.2	5.1	12.5	9.5	9.3
TTM Revenue (US$bn)	56.7	59.6	61.6	62.4	63.1	63.6	64.1	64.6	64.6	64.5	64.9	66.4	67.2
Book/Bill (TTM)	1.18	1.15	1.17	1.14	1.17	1.16	1.13	1.15	1.14	1.21	1.25	1.23	1.20
Revenue Per Capita (US$)	87,683	91,750	86,177	86,343	85,722	90,147	87,310	87,945	85,095	88,263	86,091	89,961	83,303
EBIT Per Capita (US$)	12,014	14,781	12,673	14,218	10,541	12,840	10,448	13,903	11,022	14,102	12,351	14,995	11,224
PAT Per Capita (US$)	9,527	10,141	9,304	10,774	8,259	10,939	7,499	10,697	9,021	10,357	8,839	11,589	8,941
Average Employees	686,415	704,468	715,906	729,549	737,931	735,006	732,344	737,930	742,680	746,259	762,252	786,542	799,940

Source: Company, BOBCAPS Research

Fig 11 – QoQ and YoY Growth of various parameters (USD)

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

Source: Company, BOBCAPS Research

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