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A peek into FY26 prospects for Indian players

- We see downside risk to current Accenture's consensus organic growth estimate of 3.5% for FY25. Assuming 2% inorganic.
- Demand has improved at the margin, but think not enough for a jump from -1% organic growth in FY24 to +3.5% in FY25
- Consensus Indian Tier-1 USD revenue growth estimate for FY26 of high-single-digit/low-teen is vulnerable to weak Accenture guidance.

Girish Pai

research@bobcaps.in

Accenture is releasing its 4QFY24 results tomorrow (26 September 2024) before start of markets in the US.

Guidance revised downwards multiple times in FY24: Accenture (ACN), revised its initial revenue growth guidance for FY24 (YE August) from 2-5% growth in LC terms to 1-3% and further to 1.5-2.5% by 3QFY24. It raised the inorganic growth component as the year rolled by leading to its 1.5% organic growth being brought down to -1% post 3QFY24.

Very likely to start FY25 on a more cautious note: Current Bloomberg consensus estimates indicate a 5.5% USD growth for FY25 of which ~2% will be coming from inorganic route (as has been the case in most years, though in FY24 it was 3%, Exhibit 1). The consensus organic growth expectation for FY25 of 3.5% seems high going by industry commentary and Accenture's own action on promotions.

Postponement of promotions for better visibility: Accenture, based on media reports, permanently changed its primary promotion date from December to June, in order to get better visibility of its clients' planning and demand. If the old promotion policy did not see a visibility issue in the past but does now, demand conditions are probably not strong enough. Also there are uncertain macro conditions (interest rate, US/global growth in 2025) and likely impact of the US election result

Higher average resource cost (ARC) and ~50% delivery mix out of India probably adds to the problem: Higher ARC comes from the pandemic 'compressed transformation' phase. This must also be seen in the context of widespread pricing pressure that ACN has been alluding to. With ~50% of its 750,000 employees based out of India it also must benchmark with the Indian players.



Attempt to gain fair share of the GCC spend: Accenture invested US\$170mn for a minority stake in ANSR, a GCC focused advisory firm for Global 2000 clients. We have been surprised by the strong 40% growth in exports from GCCs in FY24 (Source: Nasscom Zinnov report). Accenture likely wants to be involved in handholding clients in setting up GCCs and probably sees itself taking them over at a later point in time when conditions are stressed.

North America BFSI sector turn around: Several Indian services firms have called out green shoots in the North American BFSI sector in their 1QFY25 results calls. However Accenture in its commentary just a few days before the start of the Indian IT services 1QFY25 results season did not make comments of a similar nature despite being one of the largest players in the space.

Skewness of growth in FY25: Going by the news around postponement of promotions, we expect growth guidance in FY25 will be back ended (as it was in FY24). Its 2HFY25 will overlap with the 1HFY26 for the Indian players.

Is Gen AI net accretive?: While Gen AI as a revenue stream is quite miniscule for Indian Tier-1 players it has gained some traction with Accenture (though there may be a problem with definition of what constitutes a Gen AI project). Several Indian players have indicated that the technology will be net accretive. That the headwind from productivity gain pass back to clients will be offset by new legacy transformation work. But what remains to be seen is if the two happen at the same time or would the legacy transformation work happen with a decent lag.

Other points to focus on

- Whether smaller discretionary deals are making a comeback
- Whether consulting goes back into a growth mode and sustain
- How has it been bringing down cost of surround services (Digital core) required to generate better ROI for large Gen AI transformation projects to take off.
- What kind of revenue does it see from Gen AI in FY25. For 9MFY24 the number was US\$500mn against US\$100mn for the entire of FY23.
- What is the rationale behind its ANSR investment.

Fig 1 – LC growth guidance vs actual and contribution of inorganic part

(YE August) (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24P
LC growth guidance at year beginning	5-8	5-8	5-8	5-8	5-8	2-5	12-15	8-11	2-5
Actual LC Revenue Growth	10.5	7	10.5	8.5	4	11	26	8	NA
Inorganic contribution	2	2	2.5	2	2	2.5	5	2	3
Organic Revenue Growth	8.5	5	8	6.5	2	8.5	21	6	(1)

Source: Company, BOBCAPS Research

We will be initiating coverage on the sector shortly.

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