

**NOT RATED****ACCENTURE**

| IT Services

| 27 September 2024

## Guidance conservative if macro holds up

- 1.5% LC organic revenue growth at the midpoint FY25 (YE August) is conservative if the US soft landing plays out.
- CEO says demand conditions remained unchanged from previous quarters. Clients currently do not seem to expect a big pick up in 2025
- An acceleration in growth in FY26 for Indian IT services players is on the cards if macro holds up but by how much is a question.

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**Stable macro is the key pre-condition:** While optically 1.5% Local currency (LC) organic revenue growth guidance at the midpoint for FY25 (YE August) may seem a tad disappointing, commentary suggests that it is conservative if US soft landing plays out. No major movement in discretionary spend is expected either way.

**The upper end seems to be the base case:** The 0-3% organic growth guidance assumes deterioration in discretionary spending at the lower end and no changes to current spending patterns at the upper end

**Clients seem to indicate a steady 2025:** Accenture CEO's recent interactions with customer CEOs suggests that any material increase in demand is not on the cards in 2025. But budgeting exercise will be done only by January-February 2025

**Seems to be gaining share in managed services:** While FY24 order bookings at US\$81bn was up 12.5% in US terms, it was up 23% in Managed services and only 2% in consulting. We believe it is grabbing share.

**Broad-based pick up indicated:** Accenture indicated pickup in growth across all business segments in FY25, unlike FY24 when it was skewed towards certain verticals and towards managed services.

**Sharpish pick-up for Indian players in FY26 expected by consensus:** Current consensus expectations build in revenue going up to high-single-digit/low-teen USD revenue growth for Tier-1 players in FY26. While a pick up from the mid-single-digit growth of FY25 may be on the cards if macro holds up, we are not sure about a virtual doubling of growth rates especially when incremental demand in FY25 has been concentrated.

**Gen AI leader's metrics:** While Gen AI has been slower to take off versus expectations, Accenture seems to be ahead of peers with US\$3bn in order inflows and US\$900mn in revenue in FY24. This is against US\$300mn and US\$100mn respectively in FY23. It expects healthy revenue growth in this area in FY25 too.



- After delivering a 1% revenue decline in organic LC terms in FY24, Accenture, signaled 3-6% local currency (LC) growth in FY25 with a ~3% inorganic element in it (1.5% organic growth at the mid-point, very similar to how guidance started in FY24)
- Revenue for 4QFY24 came in above midpoint of guided range at US\$16.4bn 5% growth in LC terms YoY with organic growth barely moving into positive territory.
- It was driven by mid-single-digit growth or higher in seven of the 13 industries, including public service, industrial, software and platforms, health, high-tech, energy and life sciences. Growth in all three markets, all three services as well as return to growth in consulting type of work for the first time in six quarters
- For 1QFY25 Accenture guided for revenue in the range of US\$16.85bn to US\$17.45bn. This 2% to 6% growth in local currency
- For the FY25 inorganic contribution is expected to be a bit higher than 300bps, very similar to the number in FY24. However the investment in M&A is likely to be US\$3bn compared to US\$6.6bn in FY24. And much of the M&A in FY25 is back ended.
- Operating margin for FY25 is expected to be 15.6% to 15.8%, a 10 to 30 basis point expansion over adjusted fiscal 24 results
- FCF in FY25 is expected to be US\$8.8 billion to US\$9.5 billion of which a return of at least US\$8.3 billion through dividends and share repurchases is seen.
- After 6 quarters of YoY decline, consulting grew in 4QFY24 and is poised to be an equal driver of growth in FY25. In terms of vertical and markets, Accenture expects broad based growth in FY25. There was no talk of green shoots in the BFSI space in North America (for a second successive quarter), which many of the Indian players were alluding to in their 1QFY25 commentary.
- On the promotions being shifted from December to June, Accenture clarified that it was implemented in FY24 itself and FY25 would be the second year it is happening.
- In terms of Gen AI. Indicated that current large deals in this space had scaled up to US\$10mn size compared to around US\$1mn POCs. It talked about strong demand in Data related serviced to prepare customers for Gen AI
- With one large communication service provider, it indicated that it could generate productivity gains of 60% and reduce costs by half in IT operations in a vendor consolidation exercise. This should alarm Indian players who have a decent sized exposure to Telecom service providers.
- Among the other highlights was a big pick up in net staff addition at ~24,000 after 11 quarters of hiring much below that number. We suspect a lot of this would be coming from the M&A done which contributed almost all of the 5% YoY LC growth.
- Interestingly Accenture is going to take on a modest amount of debt, to apparently increase liquidity for general corporate purposes and to optimize capital structure and reduce cost of capital.
- Not seeing a change in what the clients are spending on IT but what it is seeing is a continued trend of trying to save money on IT to free up the spending on areas of like Gen AI

**Fig 1 – Key Metrics**

(US\$ mn) YE August	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
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
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
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
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
<b>Margins (%)</b>												
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
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
<b>Vertical Mix (%)</b>												
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
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
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
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
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
<b>Geography Mix (%)</b>												
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
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
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
<b>Services Mix in Revenues (%)</b>												
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
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
<b>Order Inflow (\$bn)</b>												
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
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
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
<b>Order Inflow Mix (%)</b>												
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
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
<b>Other Metrics</b>												
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
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
Net addition of employees (QoQ)	50,057	24,179	11,928	10,947	16,340	424	(6,275)	951	10,222	(723)	7,882	24,103
Voluntary Attrition (%)	17	18	20	20	13	12	13	14	11	13	14	14
Utilisation (%0)	92	92	91	91	91	91	91	91	91	92	92	92
Quarterly 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
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
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
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
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
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
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
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

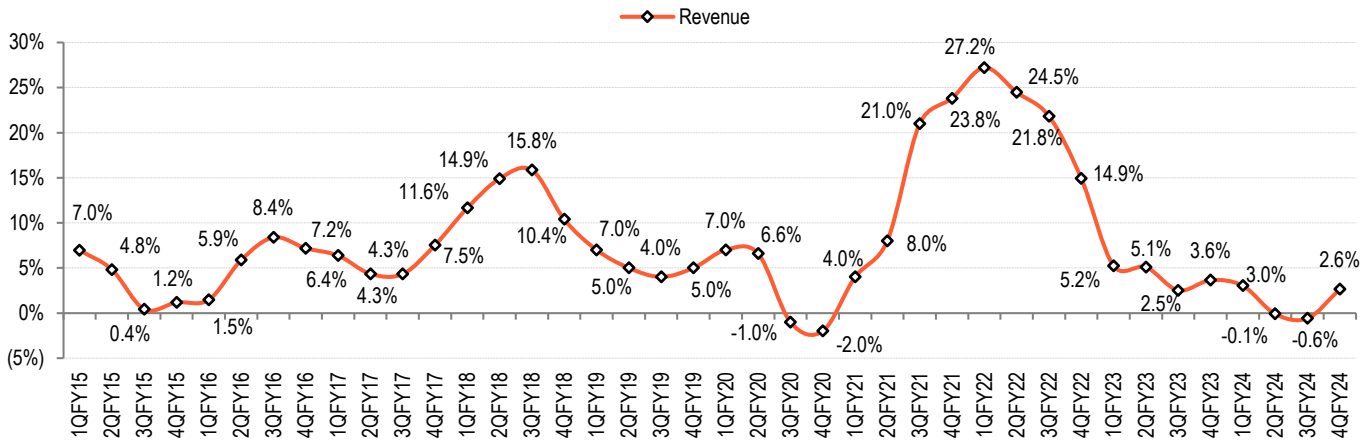
Source: Company, BOBCAPS Research

**Fig 2 – QoQ& YoY growth of various parameters (USD)**

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

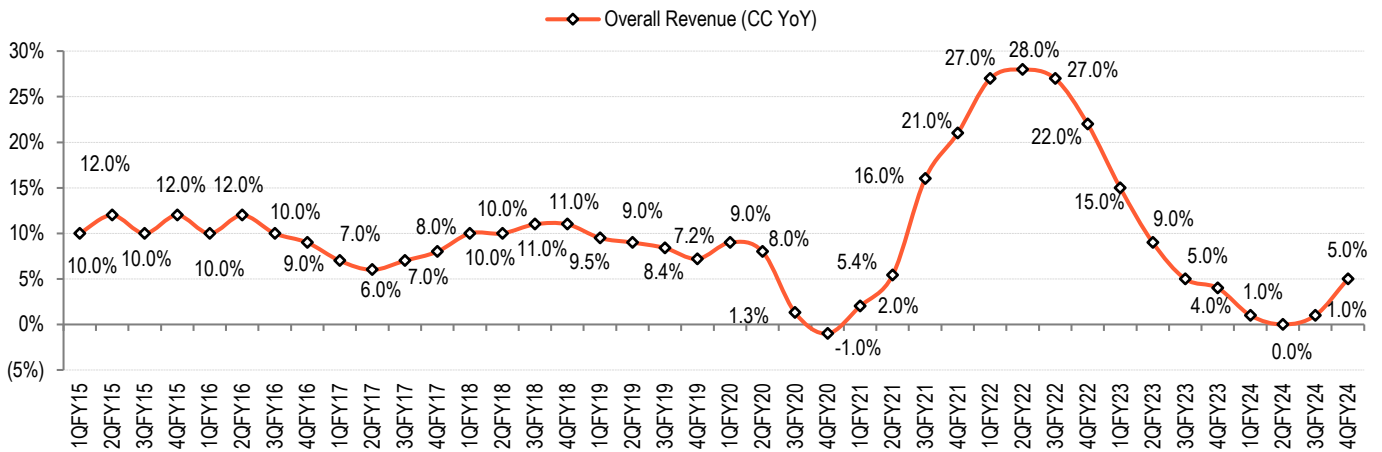
Source: Company, BOBCAPS Research

**Fig 3 – USD YoY Growth Rate**



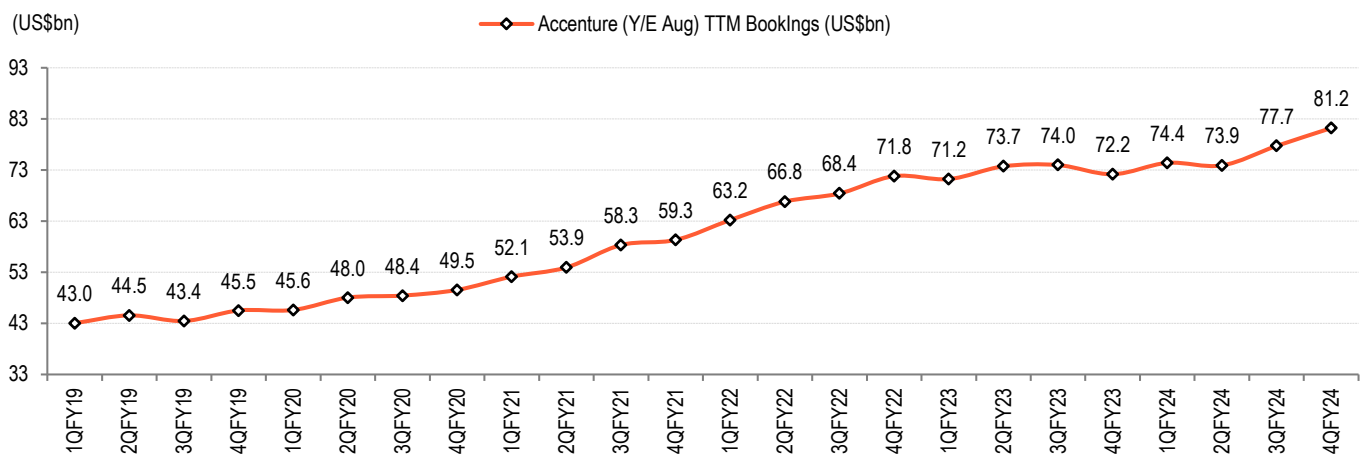
Source: Company, BOBCAPS Research

**Fig 4 – Local currency YoY Growth Rate**



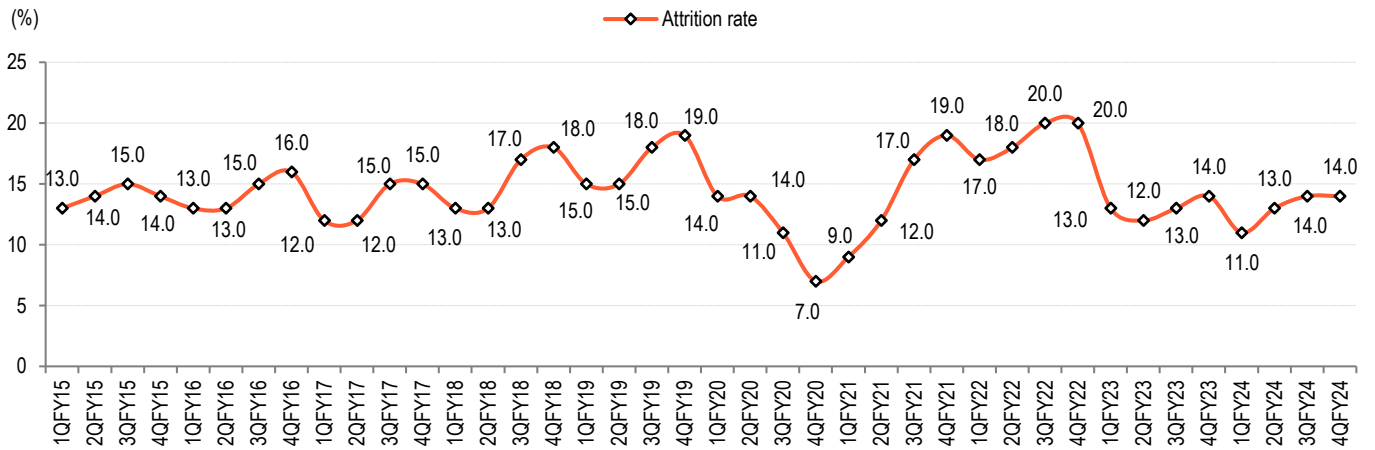
Source: Company, BOBCAPS Research

**Fig 5 – TTM Order Inflow – Modest acceleration in the last couple of quarters**



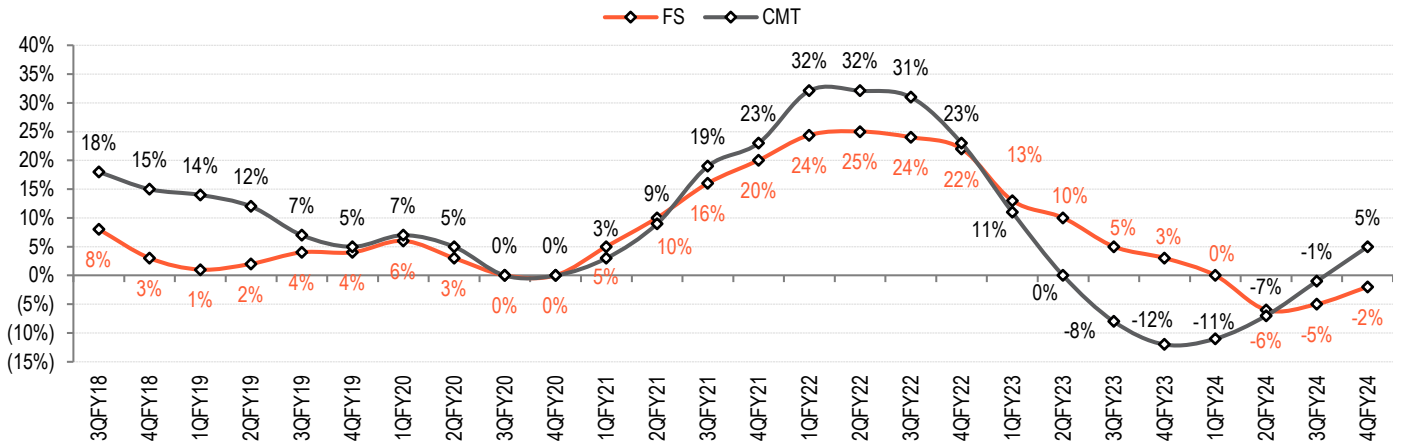
Source: Company, BOBCAPS Research

**Fig 6 – Attrition Trend**



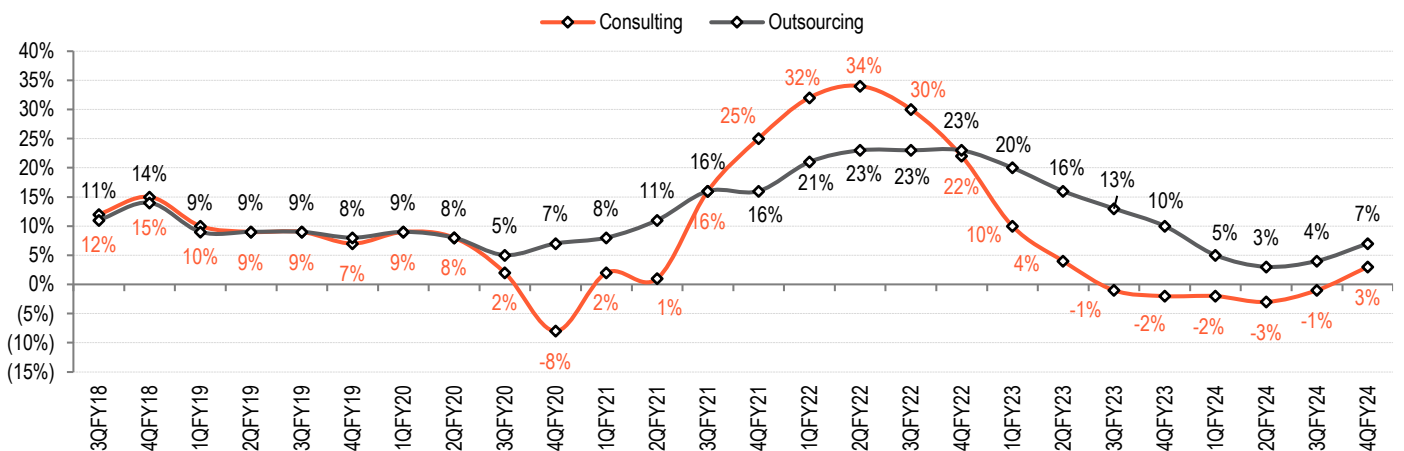
Source: Company, BOBCAPS Research

**Fig 7 – LC growth of CMT and FS – FS is still weak**



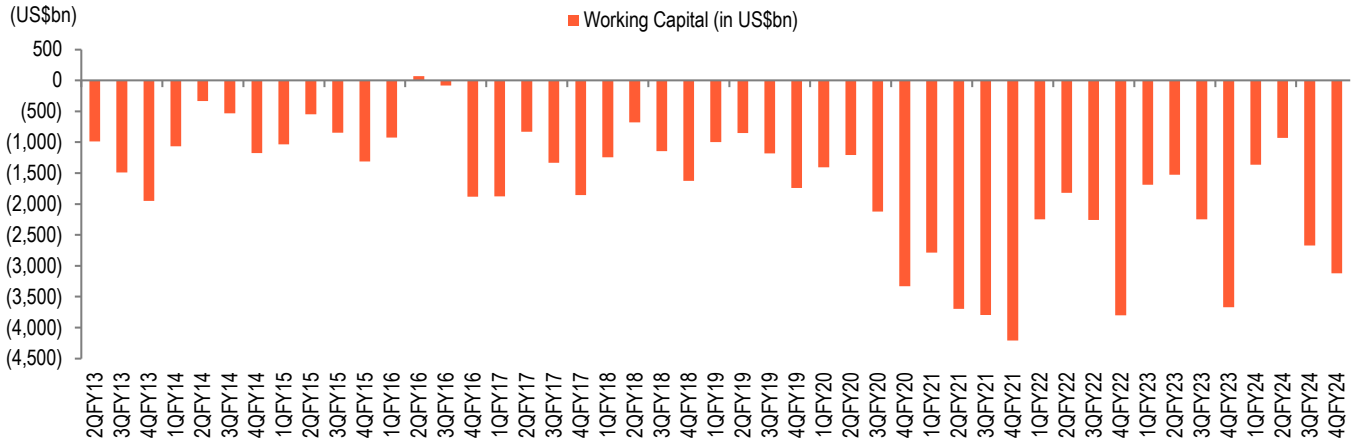
Source: Company, BOBCAPS Research

**Fig 8 – Growth Trajectory in services lines in LC terms**



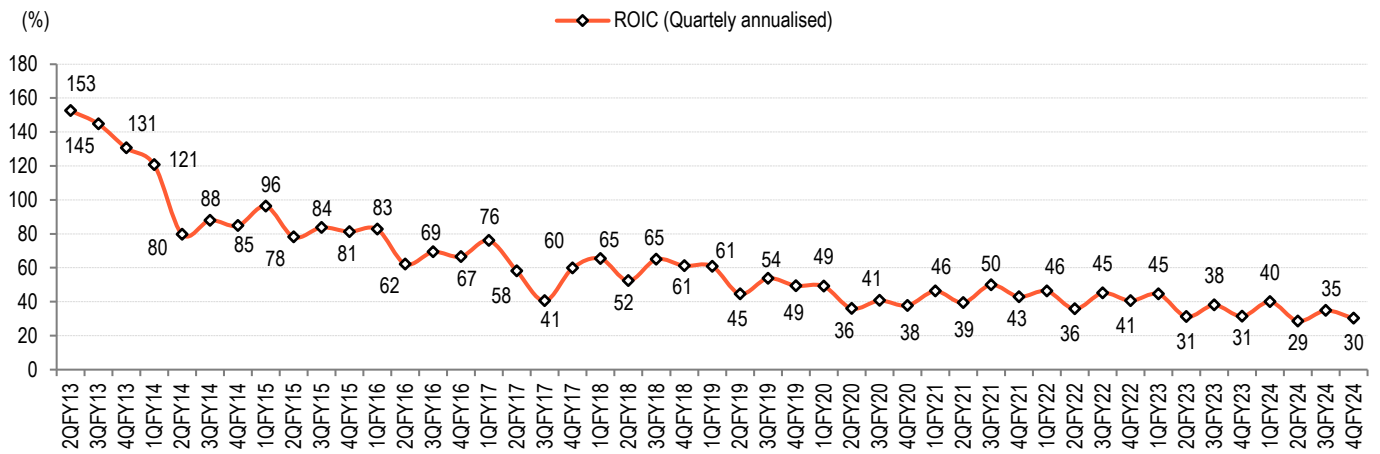
Source: Company, BOBCAPS Research

**Fig 9 – Quarterly working capital situation**



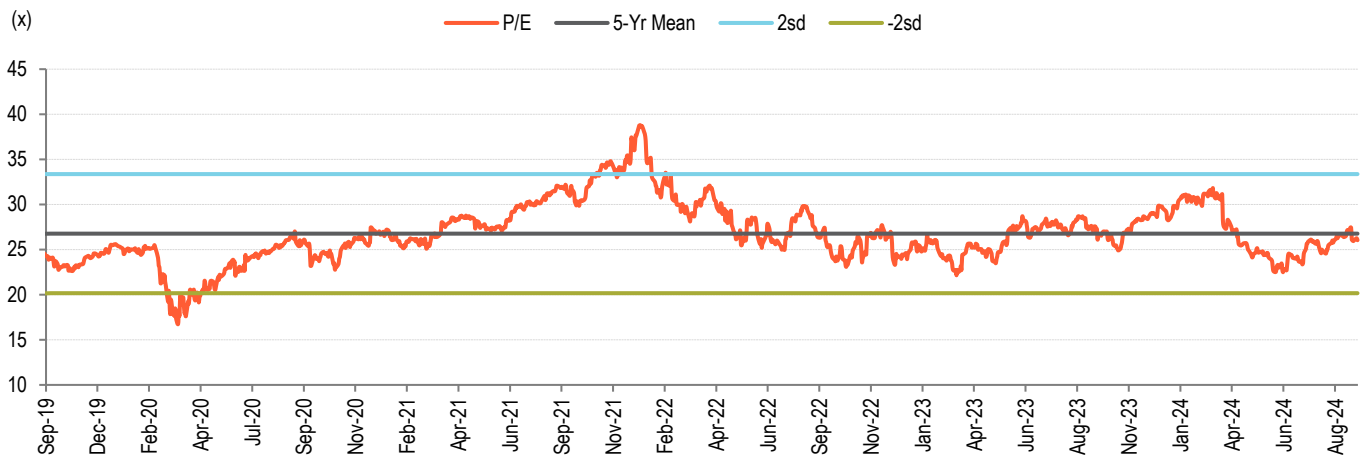
Source: Company, BOBCAPS Research

**Fig 10 – ROIC (%)**



Source: Company, BOBCAPS Research

**Fig 11 – 5-year PE multiple chart trajectory**



Source: Company, BOBCAPS Research

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