

RESEARCH**ACCENTURE | NOT RATED**

Raises FY25 growth guidance but no big read through

SUMMARY**ACCENTURE**

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- 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

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| IT Services

| 20 December 2024

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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.



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