

RESEARCH**METALS & MINING**

Ferrous market recovery shifting to CY25, ArcelorMittal

ACCENTURE | NOT RATED

A peek into FY26 prospects for Indian players

SUMMARY**METALS & MINING**

- Responding to steel downcycle, western markets have lowered supplies and inventories and swiftly instituted trade defense measures
- Western markets are better poised than in the last downcycle for recovery but still await uptick in demand and consumer sentiment
- China market conditions are unsustainable, and eventually pave way for recovery; structural solution to domestic surplus could help

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ACCENTURE

- 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.

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Demand inflection point shifting to CY25: ArcelorMittal (MT) does not see signs of demand improvement till Q4 from its order book. While China market needs to demonstrate more discipline, European market needs improvement in sentiment. US market is relatively better but still no clear demand green shoots yet.

Western markets responding better to the downcycle: While China exports have surged, western markets have swiftly responded with trade defense mechanisms. Supply discipline is holding up better than previous down cycles. Even there is no inventory overhang with below-normal levels in Europe and normal levels in the US.

MT holding up well in this downcycle: MT has clocked EBITDA margin of US\$ 140/t in H1CY24, higher than US\$ 50-60/t during CY15 ie. during the last surge of China steel exports. The company is benefitting from upgrade in business portfolio.

MT is confident about eventual recovery in steel markets: With 80-90% of China steel industry under loss at current prices, MT considers the market conditions as unsustainable, which is likely to pave way for eventual recovery. The company has not changed its capital allocation policy of strategic investment and higher returns to shareholders and has bought back 36% of its equity since Sep'20.

Decarbonisation - Energy and CBAM protection are important: After securing capital grants across several European countries, MT is now focusing on energy contracts to develop a competitive cost structure post decarbonisation. European steel industry is also working on developing a sustainable protection under CBAM (Carbon Border Adjustment Mechanism).

MT excited about India growth outlook for its JV: MT expects a third of world steel demand growth to come from India over the next decade. Its JV, AMNS India is pursuing options for an organic capacity growth from 8mt to 40mt.

Read-across for India Ferrous players: We have a neutral stance on Indian ferrous players with stocks pricing in volume growth and lower probability of margin surprise till China addresses domestic surplus.



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| IT Services

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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.



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