

IT SERVICES

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Strong outsourcing growth continues; FY21 guidance raised

Accenture's (ACN) Q1 dollar revenues beat the guided range by US\$ 200mn, up 4% YoY and 2% CC. QoQ growth at 8.6% was a swift recovery from the negative performance of the last three quarters. FY21 guidance has been hiked to 4-6% CC (vs. 2-5% guided in Q4FY20). At US\$ 12.9bn (+25% YoY), bookings held strong led by outsourcing which grew 9%, signaling positive momentum for Indian counterparts. We remain upbeat on the sector; prefer TCS, HCLT, TECHM (large-caps) & LTI, Coforge (mid-caps).

Strong outsourcing pipeline: ACN's Q1FY21 (Y/E Aug) pipeline was robust at US\$ 12.9bn, up by a stellar 25% YoY (nine-year high). The pipeline includes 16 new clients with over US\$ 100mn in bookings each. Consulting formed 51.2% of the pipeline, growing at a modest 10% YoY. Outsourcing formed the balance 48.8%, increasing by a robust 46.5% YoY with a strong book-to-bill ratio of 1.2x, indicating green shoots for Indian IT.

High utilisation; broad-based growth: Utilisation at 93% was at a 10-year peak despite strong headcount addition in Q1, indicating strong demand pickup. Revenue growth was broad-based across verticals, especially driven by 12.3% YoY uptick in public and health services. The products business remained weak with a flattish performance and resources declined 4% YoY (USD terms).

BFSI and communication-hi-tech grew by 4-7%. Pressure moderated in the troubled verticals of travel, energy and retail (~20% of revenue), which declined by low double digits vs. a mid-teen decline in Q4FY20. Europe recovered, rising 4.7% YoY led by Italy and flat growth in the UK.

Cloud growth acceleration: ACN's four key strategic priorities are cloud, Industry X (digitised manufacturing), interactive and security. The company launched a US\$ 3bn initiative 'Accenture Cloud First' to help enterprises re-platform their businesses. The initiative spurred strong double-digit YoY growth in Q1 on a high base of US\$ 12bn in the cloud segment vs. low double-digit growth in FY20. Among ACN's 10 acquisitions in Q1, 4 are in cloud. This indicates a thriving market for cloud for the next couple of years.

Industry X (~US\$ 3bn in size) grew by low double digits in Q1. The interactive business which comprises mostly of severely disrupted verticals (travel and retail) recovered to low-single-digit growth vs. a low-single-digit decline in FY20.

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RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,838	3,180	BUY
INFO IN	1,159	1,210	ADD
WPRO IN	357	290	SELL
HCLT IN	879	980	BUY
TECHM IN	930	1,040	BUY
LTI IN	3,306	3,860	BUY
MPHL IN	1,340	1,410	REDUCE
MTCL IN	1,452	1,540	ADD
PSYS IN	1,305	840	SELL
COFORGE IN	2,511	2,690	BUY
ECLX IN	805	800	REDUCE

Price & Target in Rupees



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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