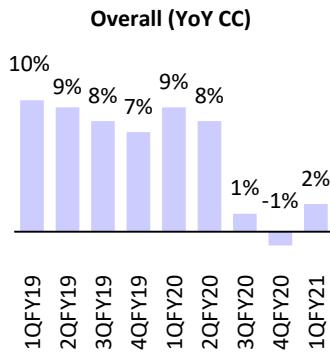
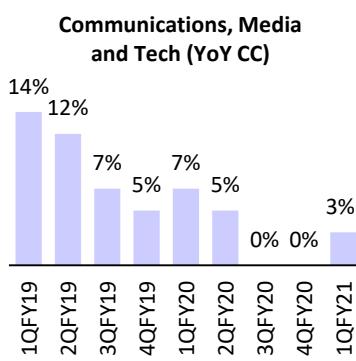


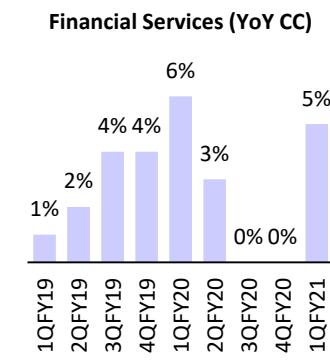
Revenue growth led by...



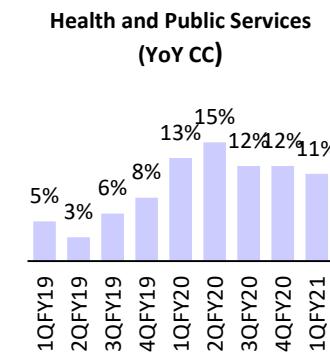
...moderate growth in Communications...



...robust growth in Financial Services...



...and consistent growth in Healthcare



Accenture read-across - Continued growth and margin tailwinds

Strong performance driven by Cloud

We see Accenture's (ACN) strong 1QFY21 performance as a positive for companies under our Indian IT Services coverage. We present a read-through of key industry trends from the print media and management commentary:

- **Strong operating performance:** Revenue at USD11.8b (+2% YoY in CC terms, +4% YoY excluding travel reimbursements) was well above its guidance and street's estimate. EBIT margin at 16.1% (+50bp YoY) was driven by lower travel cost and increased utilization (300bp improvement QoQ to 93%, the highest in a decade). The company reported new deal wins of USD12.9b, up 25% YoY, in a seasonally low quarter.
- **Guidance bakes in acceleration in mid-2021:** The management commentary indicates improving growth trajectory, with 2Q guidance (midpoint at +2.5% YoY) above 1QFY21 revenue growth. It expects 2HFY21 to grow in the high single to low double-digits, aided partially by an improving macroeconomic environment. We see this as positive for Indian IT Services companies as well.
- **Outsourcing continues to drive growth:** The outsourcing business remains the key growth driver, growing 8% YoY in CC terms, despite a tough YoY comparison. Book-to-bill ratio for outsourcing business stood at 1.2x, implying strong momentum.
- **BFSI growth also picked up:** ACN's BFSI vertical delivered 5% YoY growth in CC terms, its best performance in the last two years. The management highlighted broad-based demand trends, with corporates compressing transformation over a short period to scale up their Digital capabilities. It also saw a slower decline in COVID-19 impacted verticals such as Travel, Industrial and Retail v/s 4QFY20.
- **Cloud at the center of it:** Robust growth in outsourcing business was a result of strong traction in Cloud and related services. ACN expects services around Cloud (~30% of revenue) to grow in double-digits, driving performance going forward. Resilient adoption of Cloud is a result of: 1) cost saving, 2) higher security, and 3) data driven business model among clients. Its capabilities across service lines and industries are helping the company win deals for the same. The management sounded caution on the supply front, suggesting there is a scarcity of Cloud talent in the market.

Highlights from the management commentary

- ACN reported USD12.9b new bookings during 1Q and expects to have stronger bookings in 2QFY21. A large proportion of this is driven by Cloud. Bookings were broad-based across industries.
- It invested ~USD3b to create suitable assets so that Cloud migration accelerates and would be a major part of the company's investments going forward. This is on the back of Cloud being a major growth driver.
- The main drivers of Cloud adoption are: 1) Cost pressure – moving to Cloud results in immediate savings in migration itself, 2) Security and resilience of the business as the COVID-19 pandemic exposed vulnerabilities of on premise IT estates, and 3) to enable data driven transformation, resulting in a change in the customer experience.

- There has been continued pressure in verticals like Travel, Energy, Hi-tech, Retail and Industrial, which contribute 20% of overall revenue. However, these verticals have improved gradually to a low double-digit decline from mid-teens in 4QFY20.
- The company continued to benefit from lower travel spends, resulting in margin expansion.
- It saw significant and stronger-than-expected momentum in smaller deals in 1QFY21.
- ACN expects to spend \$1.7bn on acquisitions in FY21, which would contribute 200bp to full-year revenue growth (guidance of +4-6% YoY growth in CC terms).
- It expects very strong booking in 2QFY21, given the strong pipeline.

Valuation and view – Reiterate the business model's adaptability

- We see ACN's 1QFY21 earnings and management commentary as a mere reiteration of the adaptability and resilience of its business model.
- We continue to form a positive strand on Indian IT, led by positive trends on higher technology spending's across global companies.

Story in charts

Exhibit 1: Revenue growth led by...

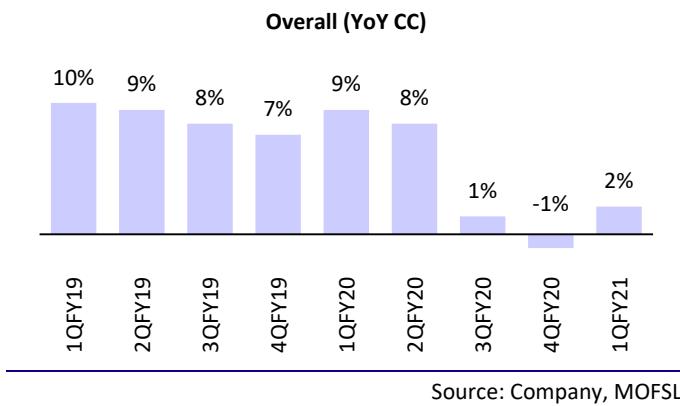


Exhibit 2: ...moderate growth in Communications...

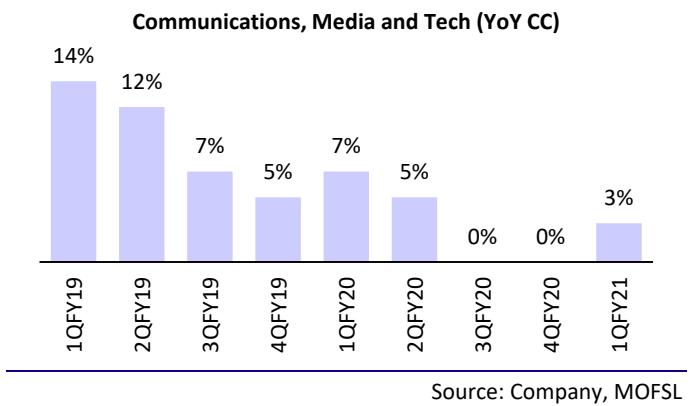


Exhibit 3: ...robust growth in Financial Services...

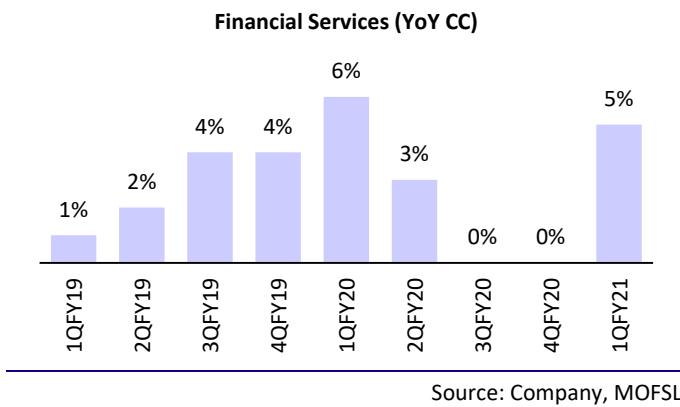


Exhibit 4: ...and consistent growth in Healthcare

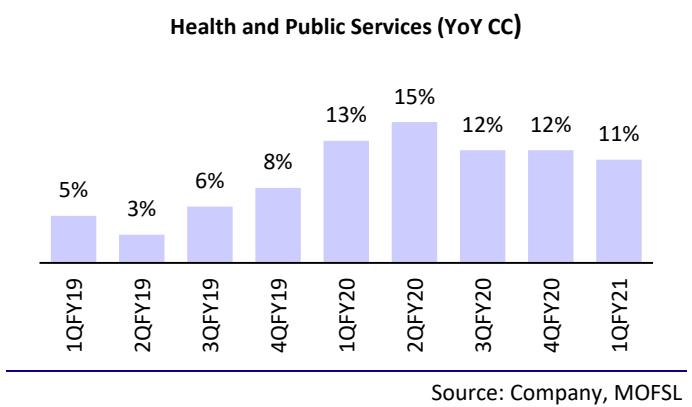


Exhibit 5: Products and Resources verticals report...

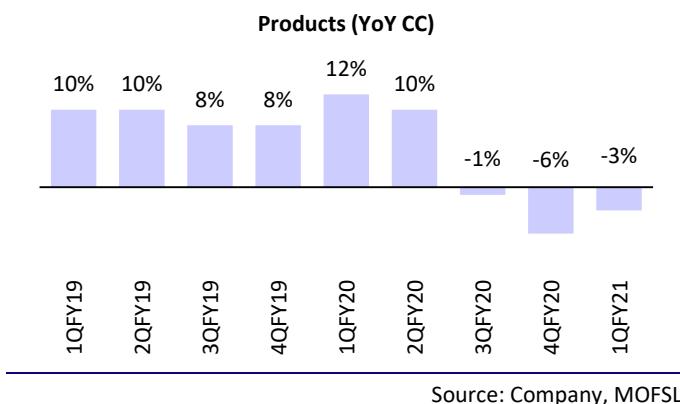


Exhibit 6: ...a YoY decline in revenue

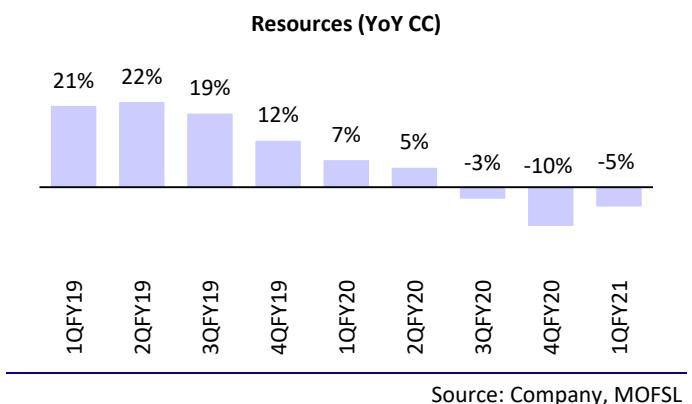


Exhibit 7: While Americas reports robust growth...

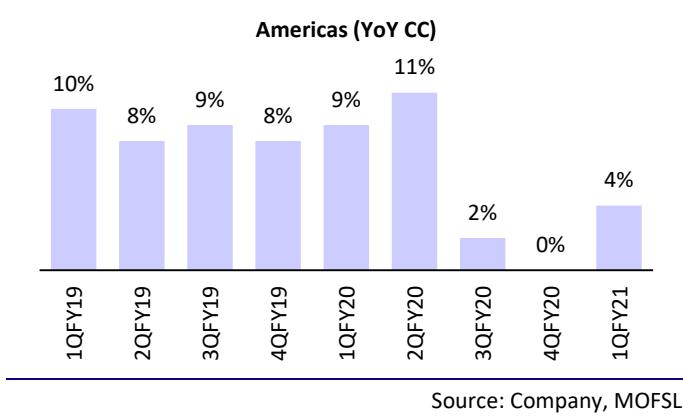


Exhibit 8: ...revenue from Europe declines

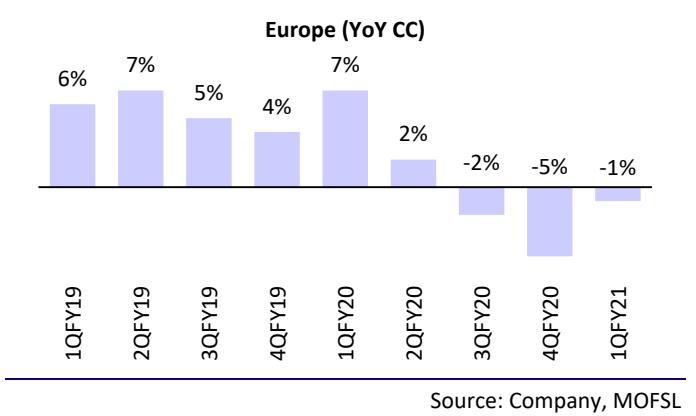


Exhibit 9: Growth markets report healthy growth

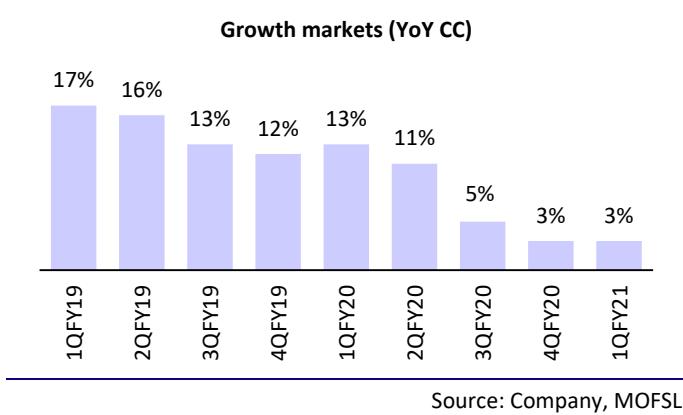


Exhibit 10: New bookings surge

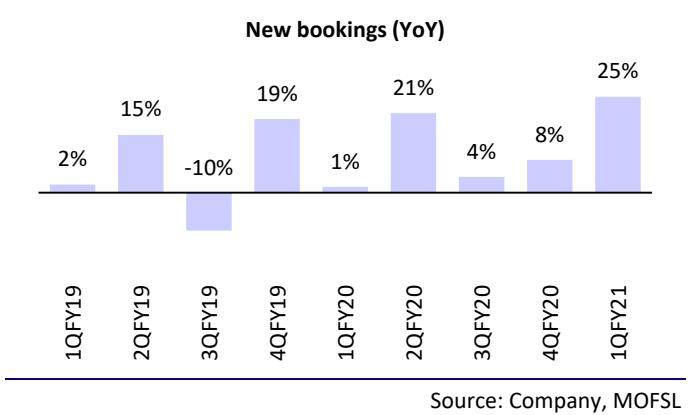


Exhibit 11: Robust new bookings in 1QFY21

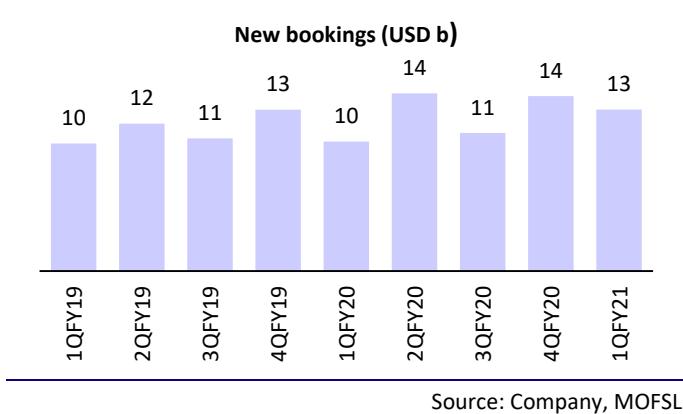


Exhibit 12: Operating margin improves QoQ

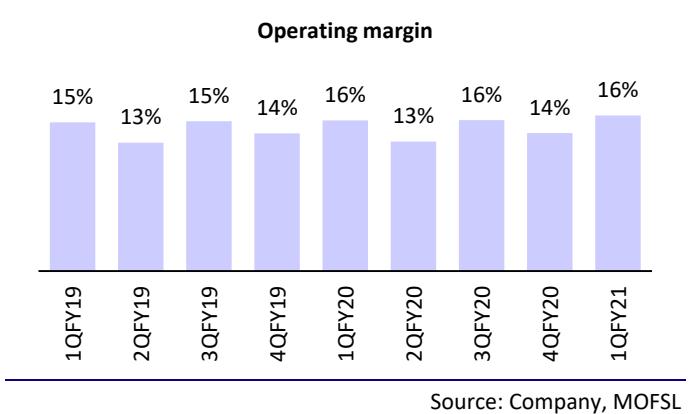


Exhibit 13: Book-to-bill ratio decreases

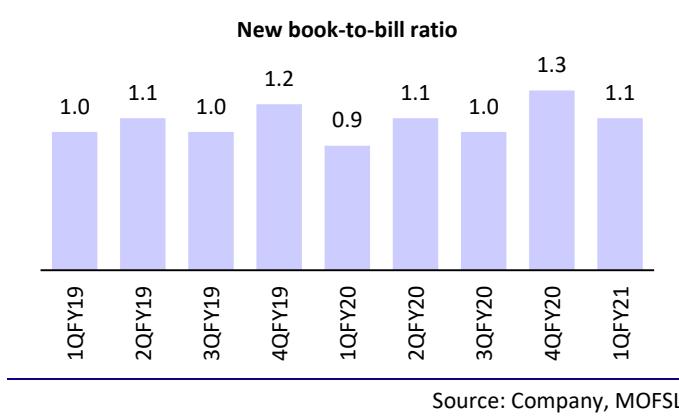


Exhibit 14: Utilizations improve further during the quarter

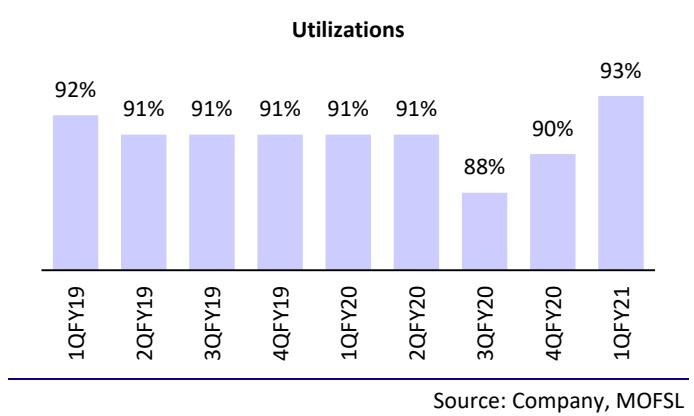
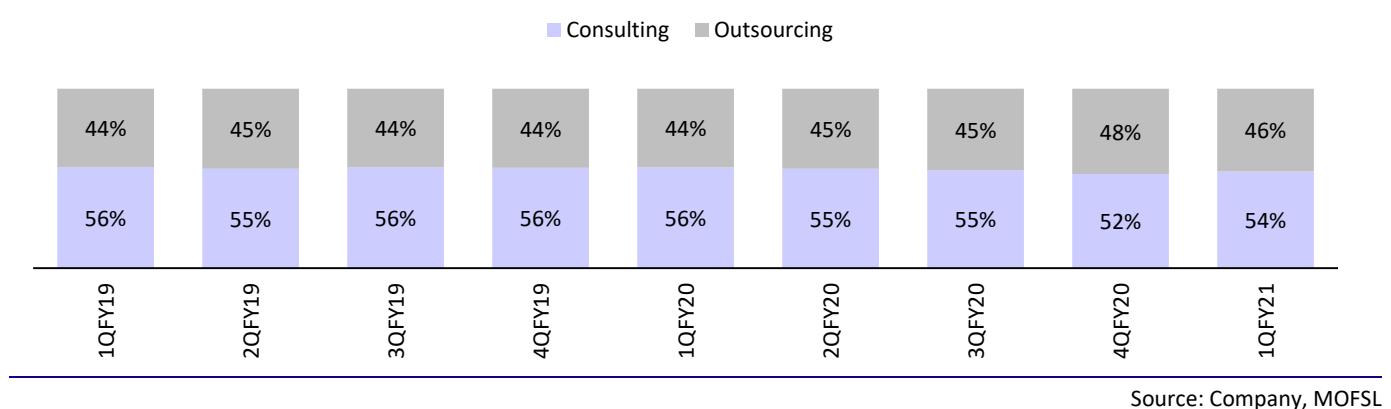


Exhibit 15: Share of outsourcing revenue decreases QoQ, but increases YoY



NOTES

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Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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