

Mixed results; Remain Neutral on Indian IT

- **ACN reported 1.4% growth YoY in CC terms within the guided band of -1% to +3%; Outsourcing/Consulting was up +4%/-1% YoY.**
- **The company narrowed revenue growth guidance to +1.5% to +2.5% (from 1% to 3%) for FY24 including 300bps inorganic contribution. Q4FY24 implied CC growth of +2% -+6% YoY, OPM remained 14.8%.**
- **View:** Despite robust deal wins up 5% YoY, guidance was narrowed thereby implying continuation of slower ramp-ups going ahead. We expect mid-single digit growth for Indian IT platers in FY25 under the best-case scenario and remain neutral on overall IT. Remain selective and maintain preference for INFY/HCLT/MPHL as preferred bet.

New Bookings remain robust, mainly driven by Outsourcing

New Bookings at \$21.1Bn, up 22% YoY (+5% YoY on LTM basis) with Book-to-bill of 1.3x (from 1.4x in Q2). Outsourcing/Consulting bookings were up by 42%/4% YoY, with book-to-bill of 1.5x/1.1x resp. However, Mgmt. pointed that clients are prioritizing large-scale transformations, while slower decision making & spending may delay revenue conversion, which leads to shift its focus towards urgent client's need. Technology & Operations segment (80% of revenues) that is more relevant benchmark to Indian IT peers, grew low-single digit and flat resp, while consulting to grow in Q4 after 5 qtrs. of decline, hinting positive signs.

Read-through for Indian IT: Growth to remain low-key in FY25

Strong outsourcing bookings and consulting growth expectations in Q4 were noteworthy while growth of Technology and Operations remained subdued (BFSI down 5% YoY) with narrowed guidance for FY24 along with delayed recovery expectations in disc. spend. Overall, results were mixed, lacking meaningful indications of sector recovery while valuations being full. We expect mid-single digit growth for Top Indian IT companies for FY25 (DE: 4.4% growth for Top-3).

Earnings KTA- Key Highlights

- **Geography-wise commentary:** North America grew 1% YoY in CC with growth in Public services partially offset by decline in Banking & Capital Markets. EMEA revenues declined 2% in CC, with growth in public service, offset by declines in CMT and Banking & markets.
- **On GenAI:** ACN's won \$2bn of deal with revenue of \$500mn YTD from GenAI (vs \$300mn in deal and \$100mn in revenue last year). Management shared that GenAI is serving as a catalyst for clients to adopt a more aggressive stance in building digital core stack which requires migration from legacy platform to the cloud and implementing modern ERP solutions. By doing so, clients can build digital platform that expands their ability to leverage GenAI at a larger scale.
- **Employee metrics:** It saw addition of 8k net headcount in Q3FY24 while attrition inched by 100bps QoQ to 14%.
- **Guidance:** Overall Organic guidance narrowed to -1.5% to -0.5% for FY24. OPM to be around 14.8% (including Biz. optimization costs of \$450mn). GAAP diluted EPS to be in the range of \$11.29-\$11.44.

Scrip Details

Market Cap	USD 190.6bn
52-week High/Low	USD 388/279
Avg. Volume (no)	3,260,911
Bloom Code	ACN US Equity

Price Performance	1M	3M	12M
Absolute (%)	(6.7)	(25.0)	(10.0)
S&P 500 (%)	3.4	4.7	25.0

Shareholding Pattern

Top 4 Holdings	Mar'24
Vanguard Group	9.5
Blackrock Inc.	7.6
State Street	4.3
Morgan Stanley	2.6

FINANCIALS (USD Mn)

Particulars	FY22A	FY23A	9MFY24
Revenue (\$mn)	61,594	64,112	48,491
Growth (%)	21.9	4.1	0.8
EBITDA (\$mn)	11,455	11,091	8,814
OPM (%)	15.2	13.7	14.9
PAT (\$mn)	6,877	6,906	5,580
Growth (%)	16.4	0.4	1.5
EPS(\$)	10.9	11	8.8
Growth (%)	19.2	1.0	1.4
PER(x)	27.5	27.3	27.1
ROIC	33	27	25
ROE	33	28	26

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Exhibit 1: Quarterly financial snapshot

(USD mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
USD Revenue	16,565	15,985	16,224	15,800	16,467	4.2	(0.6)	48,127	48,491	0.8
Operating Expense	12,173	11,893	11,965	12,023	12,197	1.4	0.2	35,789	36,186	1.1
Cost of Sales	10,434	10,162	10,255	10,392	10,447	0.5	0.1	30,937	31,094	0.5
as % of sales	63.0	63.6	63.2	65.8	63.4	(233 bps)	45 bps	64.3	64.1	(16 bps)
Other Expenses	1,739	1,730	1,710	1,631	1,750	7.3	0.7	4,852	5,091	4.9
as % of sales	10.5	10.8	10.5	10.3	10.6	31 bps	13 bps	10.1	10.5	42 bps
EBITDA	2,960	2,554	3,086	2,575	3,152	22.4	6.5	8,537	8,814	3.2
Depreciation	601	641	521	529	521	(1.4)	(13.3)	1,640	1,572	(4.2)
EBIT	2,359	1,913	2,565	2,046	2,631	28.6	11.5	6,897	7,242	5.0
Net Other Income	272	81	52	49	24	(52.3)	(91.4)	283	125	(56.0)
PBT	2,632	1,994	2,617	2,096	2,654	26.7	0.9	7,180	7,367	2.6
Total Tax	583	551	607	387	673	74.1	15.4	1,585	1,666	5.1
PAT before MI	2,048	1,443	2,010	1,709	1,981	15.9	(3.3)	5,595	5,701	1.9
MI	38	35	37	34	49	43.2	28.2	97	120	24.1
PAT after MI	2,010	1,408	1,973	1,675	1,932	15.4	(3.9)	5,499	5,580	1.5
Reported EPS	3.2	2.3	3.1	2.6	3.1	18.5	(2.8)	8.7	8.8	1.4
Margins (%)						(bps)	(bps)			
EBIDTA	17.9	16.0	19.0	16.3	19.1	284 bps	127 bps	17.7	18.2	44 bps
EBIT	14.2	12.0	15.8	13.0	16.0	302 bps	173 bps	14.3	14.9	60 bps
PBT	15.9	12.5	16.1	13.3	16.1	285 bps	23 bps	14.9	15.2	27 bps
PAT	12.1	8.8	12.2	10.6	11.7	113 bps	(40 bps)	11.4	11.5	8 bps
Effective Tax rate	22.2	27.6	23.2	18.4	25.4	691 bps	319 bps	22.1	22.6	55 bps

Source: Company, DART

Exhibit 2: Operating Metrics 1

Operating Metrics	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
CC growth (%) (YoY)	27.0	22.4	15.0	9.0	5.0	4.0	1.0	0.5	1.4
Bookings (USD bn)									
Consulting	9.1	8.4	8.1	10.7	8.9	8.5	8.6	10.5	9.3
Managed Services	7.8	9.9	8.1	11.4	8.3	8.2	9.8	11.1	11.8
Total	17.0	18.3	16.2	22.1	17.3	16.7	18.5	21.6	21.1
Bookings Growth (YoY)									
Consulting	13.6	5.4	(13.6)	(2.4)	(2.0)	1.2	6.3	(1.2)	3.9
Managed Services	6.7	40.4	9.7	31.8	6.1	(17.2)	21.2	(3.2)	41.6
Total	10.3	21.8	(3.3)	12.8	1.8	(8.7)	13.7	(2.3)	22.1
Incremental Bookings (USD bn)									
Consulting	(1.8)	(0.7)	(0.3)	2.5	(1.7)	(0.4)	0.1	1.9	(1.2)
Managed Services	(0.8)	2.1	(1.8)	3.3	(3.1)	(0.1)	1.6	1.2	0.7
Total	(2.6)	1.4	(2.1)	5.9	(4.8)	(0.6)	1.8	3.1	(0.5)
LTM Bookings (USD bn)									
Consulting	37.4	37.8	36.5	36.3	36.1	36.2	36.7	36.6	36.9
Managed Services	31.0	33.8	34.5	37.3	37.8	36.1	37.8	37.4	40.9
Total	68.3	71.6	71.1	73.6	73.9	72.3	74.5	74.0	77.8
Book-to-Bill ratio									
Consulting	1.01	1.01	0.96	1.29	1.03	1.04	1.02	1.31	1.10
Managed Services	1.10	1.40	1.11	1.52	1.06	1.05	1.27	1.42	1.47
Total	1.05	1.19	1.03	1.40	1.04	1.04	1.14	1.37	1.28
Headcount									
Total employees	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
Growth YoY	24.9	15.6	9.4	5.7	3.0	1.6	0.7	0.6	2.5
Net Additions	11,928	10,947	16,340	424	(6,275)	951	10,222	(723)	7,882
Attrition	20.0	20.0	13.0	12.0	13.0	14.0	11.0	13.0	14.0
Utilization	91.0	91.0	91.0	91.0	91.0	91.0	91.0	92.0	92.0

Source: Company, DART, *Note: FY22/FY23/FY24 has inorganic contribution of 500bps/200bps/300bps.

Financial Performance

Profit and Loss Account

(USD Mn)	FY20A	FY21A	FY22A	FY23A
Revenue	44,327	50,533	61,594	64,112
Total Expense	36,040	41,021	50,139	51,958
Employees Cost	28,578	32,278	39,805	41,099
Other expenses	7,463	8,743	10,334	10,859
EBIDTA	8,287	9,513	11,455	11,091
Depreciation	1,773	1,891	2,088	2,281
EBIT	6,514	7,622	9,367	8,810
Interest	33	59	47	13
Other Income	294	199	(27)	377
Exc. / E.O. items	0	0	0	0
EBT	6,774	7,761	9,293	9,174
Tax	1,589	1,771	2,207	2,136
RPAT	5,108	5,907	6,974	6,906
Minority Interest	77	84	112	132
Profit/Loss share of associates	0	0	0	0
APAT	5,108	5,907	6,974	6,906

Balance Sheet

(USD Mn)	FY20A	FY21A	FY22A	FY23A
Sources of Funds				
Equity Capital	6,187	6,960	6,093	8,120
Minority Interest	499	568	641	766
Reserves & Surplus	10,814	12,569	16,014	17,573
Net Worth	17,001	19,529	22,107	25,693
Total Debt	8	12	9	105
Net Deferred Tax Liability	54	53	46	43
Total Capital Employed	17,561	20,163	22,802	26,606

Applications of Funds

Net Block	12,439	15,947	17,811	19,740
CWIP	0	0	0	0
Investments	419	334	322	202

Current Assets, Loans & Advances

Inventories	0	0	0	0
Receivables	7,847	9,728	11,777	12,227
Cash and Bank Balances	8,415	8,168	7,890	9,045
Loans and Advances	0	0	0	0
Other Current Assets	7,959	8,998	9,464	10,031
	24,221	26,895	29,130	31,303

Less: Current Liabilities & Provisions

Payables	1,350	2,274	2,559	2,491
Other Current Liabilities	18,168	20,739	21,902	22,148
sub total	19,518	23,013	24,461	24,639
Net Current Assets	4,703	3,881	4,669	6,664
Total Assets	17,561	20,163	22,802	26,606

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22A	FY23A
(A) Margins (%)				
Gross Profit Margin	41.3	42.0	42.2	42.3
EBIDTA Margin	26.3	26.3	27.2	27.1
EBIT Margin	24.1	24.2	25.1	25.2
Tax rate	25.7	25.6	25.7	25.7
Net Profit Margin	18.7	19.1	19.7	19.7
(B) As Percentage of Net Sales (%)				
COGS	58.7	58.0	57.8	57.7
Employee	0.0	0.0	0.0	0.0
Other	15.0	15.7	15.0	15.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	197.0	128.1	198.3	692.7
Average Cost of Debt	422.9	597.9	444.4	22.3
Debtors days	65	70	70	70
Inventory days	0	0	0	0
Payable days	11	16	15	14
Working Capital days	39	28	28	38
FA T/O	3.6	3.2	3.5	3.2
(D) Measures of Investment				
AEPS (\$)	7.9	9.1	10.9	10.8
CEPS (\$)	10.6	12.1	14.1	14.4
DPS (\$)	3.2	3.5	3.8	4.4
Dividend Payout (%)	40.6	37.8	35.2	40.9
BVPS (\$)	26.2	30.2	34.5	40.2
RoANW (%)	30.0	32.3	33.5	28.9
RoACE (%)	29.7	32.1	33.2	28.5
RoAIC (%)	71.2	72.1	69.6	54.3
(E) Valuation Ratios				
CMP (\$)	300	300	300	300
P/E	38.0	32.8	27.5	27.2
Mcap (\$ Mn)	193,773	193,773	192,274	191,775
MCap/ Sales	4.4	3.8	3.1	3.0
EV	184,946	185,283	184,072	182,632
EV/Sales	4.2	3.7	3.0	2.8
EV/EBITDA	22.3	19.5	16.1	16.5
P/BV	11.4	9.9	8.7	7.5
Dividend Yield (%)	1.1	1.2	1.3	1.5
(F) Growth Rate (%)				
Revenue	2.6	14.0	21.9	4.1
EBITDA	15.1	14.8	20.4	(3.2)
EBIT	3.3	17.0	22.9	(5.9)
PBT	8.4	14.6	19.7	(1.3)
APAT	6.9	15.6	18.1	(1.0)
EPS	7.3	16.0	19.0	(0.7)

E – Estimates

Cash Flow

Particulars	FY20A	FY21A	FY22A	FY23A
Profit before tax	5,185	5,991	6,989	7,004
Depreciation & w.o.	1,773	1,891	2,088	2,281
Net Interest Exp	0	0	0	0
Direct taxes paid	1,198	1,343	1,680	1,913
Change in Working Capital	59	(250)	(1,216)	(1,673)
Non Cash	0	0	0	0
(A) CF from Operating Activities	8,215	8,975	9,541	9,524
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(369)	(167)	(826)	(104)
Free Cash Flow	7,846	8,809	8,715	9,420
(Inc.)/ Dec. in Investments	0	0	0	0
Other	0	0	0	0
(B) CF from Investing Activities	(1,895)	(4,310)	(4,261)	(2,622)
Issue of Equity/ Preference	904	1,013	1,263	1,512
Inc./(Dec.) in Debt	0	0	0	0
Interest exp net	(2,916)	(3,703)	(4,116)	(4,330)
Dividend Paid (Incl. Tax)	(2,038)	(2,236)	(2,457)	(2,827)
Other	0	0	0	0
(C) CF from Financing	(4,049)	(4,926)	(5,311)	(5,645)
Net Change in Cash	2,288	(247)	(278)	1,155
Opening Cash balances	6,127	8,415	8,168	7,890
Closing Cash balances	8,415	8,168	7,890	9,045

E – Estimates

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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