

Uncertainty Persists; Long-term Demand Continues to Remain Strong

Accenture's reported Q3FY24 results stood below street expectations on all financial and operational terms. Revenue for the quarter stood at \$16.5 Bn, registering a de-growth of 1% YoY (in US\$ terms) but growth of 1.4% YoY in local currency. It registered GAAP EPS of \$3.04 for the quarter while adjusted EPS stood at \$3.13, reporting 3% YoY de-growth. The company's new bookings stood at \$21.1 Bn, Managed Services book/bill was at \$11.8 Bn, and Consulting Business bookings stood at \$9.3 Bn. Overall Q3FY24 bookings have been resilient, indicating robust demand despite prevailing uncertainties. The company has robust client relationships, which is reflected in the top 30 clients with quarterly bookings of ~ \$100 Mn. The company continues to witness strong demand for Gen AI – the great accelerator of reinvention – with over \$600 Mn in new bookings.

Management Guidance: The management guided for Q4FY24 revenue of \$16.05-\$16.65 Bn, implying a growth of 2% to 6% YoY in CC terms. The management retained its FY24 revenue growth guidance at 1.5% to 2.5%, indicating tepid growth in FY24 (1% to 3% previously), aided by uncertainty in macroeconomic conditions and spending delays. Accenture expects GAAP operating margin for FY24 to be in the range of 14.8%, remained same compared to its previous estimates of 14.8%, indicating pricing pressure. This is despite easing supply-side constraints. The company's adjusted operating margin, which excludes an estimated \$450 Mn for business optimization costs in FY24 and \$1.1 Bn in FY23, stood at 15.5%, an expansion of 10bps over FY23 numbers.

Verticals Performance: Communications, Media & Technology: Revenue for the vertical stood at \$2.76 Bn, reporting a decrease of 4% YoY. **Financial Services:** Revenue for the vertical stood at \$2.89 Bn, a decrease of 8% YoY. **Health & Public Service:** Revenue for the vertical stood at \$3.52 Bn, up 8% YoY.

Products: Revenue for the vertical stood at \$4.98 Bn, posting an increase of 2% YoY. **Resources:** Revenue for the vertical stood at \$2.31 Bn, delivering an increase of 3% on a YoY basis.

Outlook: IT services are definitely facing near-term challenges on account of rising inflation rates and potential slowdowns. However, the dovish stance from the Fed indicated an infusion of liquidity, which will lead to a quicker recovery. Hence, **the medium to long-term outlook still remains intact, which is likely to be led by massive technological shifts and rising dependence on the systems.** The company continues to see **growing demand for Cloud Migration, ERP moderation, and Generative AI.** **Enterprise's need for implementing digital transformation and under-penetration in those areas are the company's levers for long-term growth.**

Impact on Indian IT Services Companies

We believe strong investments in new edge technologies such as Digital Technologies, Cloud Transformation, IoT, Generative AI, and Machine Learning across verticals will support and accelerate the company's revenue growth moving forward. However, near-term macroeconomic headwinds may impact the automation spend across verticals. On a vertical front, the BFSI vertical witnessed a stronger impact due to a fall in the rural banking sector from North America. On the other hand, the **Manufacturing, Automobile, Retail, Pharmaceutical, and Healthcare industries are witnessing strong traction across geographies.** IT services companies in India are receiving strong deal bookings despite near-term challenges. **While we remain optimistic about the long-term prospects of IT services companies in India, near-term challenges may impact their earnings growth momentum.**

Our picks from Largecaps: HCL Tech; TCS

Our picks from Midcaps: Coforge; Persistent Systems; and Cyient

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