

Gradual Pick-up in Demand; Long-term Prospects Remain Strong

Accenture's reported Q4FY24 results stood in line with street expectations on all financial and operational terms. Revenue for the quarter stood at \$16.4 Bn, registering a growth of 3% (in US\$ terms) and 5% (in local currency) on a YoY basis. The company registered GAAP EPS of \$2.66 for the quarter while adjusted EPS stood at \$2.79, reporting 3% YoY growth. The company's new bookings stood at \$20 Bn, Managed Services book/bill was at \$11.6 Bn, and Consulting Business bookings stood at \$8.3 Bn. Overall Q4FY24 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 \$1 Bn in new bookings.

Management Guidance: The management guided for Q1FY25 revenue of \$16.85-\$17.45 Bn, implying a growth of 2% to 6% YoY in CC terms. The management upgraded its FY25 revenue growth guidance to 3% to 6%, indicating improved growth in FY25 (1.5% to 2.5% previously), aided by development in macroeconomic conditions and increased engagement. Accenture expects the GAAP operating margin to be in the range of 15.6% to 15.8% in FY25, which stands higher than its previous estimates of 14.8%, indicating a stronger recovery. 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%, up 10bps over FY23 numbers.

Verticals Performance: Communications, Media & Technology: Revenue for the vertical stood at \$2.76 Bn, reporting a decrease of 5% YoY. **Financial Services:** Revenue for the vertical stood at \$2.89 Bn, a decrease of 4% YoY. **Health & Public Service:** Revenue for the vertical stood at \$3.52 Bn, up 10% YoY. **Products:** Revenue for the Products 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 2% on a YoY basis.

Outlook: IT services showed a better recovery and increased engagements across all segments. Moreover, the FED indicated an infusion of liquidity, which will lead to a quicker recovery. **Hence, the medium to long-term outlook continues to remain intact and will be driven by massive technological shifts and rising systems dependencies.** 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, **industries including Manufacturing, Automobile, Retail, Pharmaceutical, and Healthcare 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; Infosys**

Our picks from Midcaps: **Persistent Systems; and KPIT Technologies**

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