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Sector update

Technology

ACN 4Q22 Earnings Call:

Thursday, September 22,
8:00 am ET / 5:30 pm IST

Webcast: [Link](#)

Dial-in: +1 (877) 692-8955;
Passcode: 9024690

Research Analysts:

Aniket Pande

aniket.pande@icicisecurities.com
+91 22 6807 7573

Aditi Patil

aditi.patil@icicisecurities.com
+91 22 6807 7452

INDIA



Technology

Accenture preview: All eyes on FY23 growth outlook

We have seen a mild shift in management tone from aggressive demand for digital transformation to focus on cost-optimization by clients, across IT services companies in the previous earnings call. Accenture (ACN) management also cited during their *analyst day* in Apr'22 that "Cost agenda is back as clients try to regain competitiveness in this inflationary environment." Macro-economic issues – high inflation, volatile energy prices, supply-chain disruptions, decelerating consumer spend in developed markets – have deteriorated in past three months.

Weak macro has started impacting client spend as seen in: 1) elongation of deal cycles for SaaS players (Salesforce, ServiceNow, Workday, Hubspot) as tech spends go through further scrutiny amid clients re-assessing their budgets; 2) Adobe, Hubspot and Salesforce reduced their revenue guidance factoring-in the uncertain demand environment; 3) Seagate management commentary that certain US CSPs (cloud service providers) are exhibiting more cautious purchasing behaviour; and 4) deceleration in hyperscalar revenue growth for past two quarters.

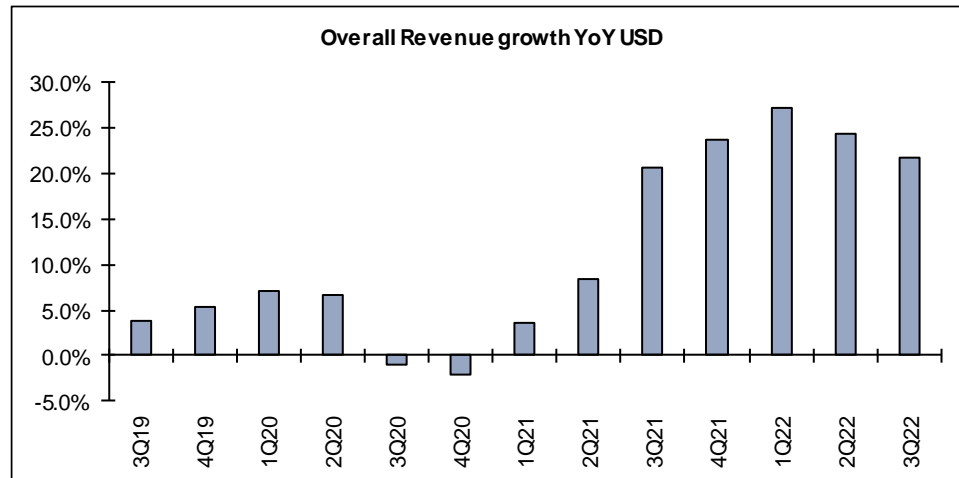
We have seen similar deceleration in ACN's revenue growth, bookings and hiring during the previous quarter (i.e. Q3FY22, ended May). Consulting revenue growth decelerated by 5pps YoY in Q3FY22 implying lower discretionary spend. Though ACN reported healthy bookings during the quarter, the book-to-bill ratio reached near pre-covid levels – 1) Consulting book-to-bill of 1.0x (vs 1.1-1.3x in past five quarters, and 1.02x in FY18 and FY19) and 2) Outsourcing book-to-bill ratio was at 1.09x in Q3FY22 (vs 1.2-1.4x in past five quarters, and 1.06/1.09 in FY18/FY19).

ACN's headcount addition slowed down with a net addition of ~12k employees (2% QoQ) vs an average of ~40k per quarter in the past four quarters and 8k-10k per quarter pre-covid. Non-billable headcount has grown ~14% YoY (4% QoQ) in Q3FY22 and reflects in growing bench, implying downtrend in utilisation to continue.

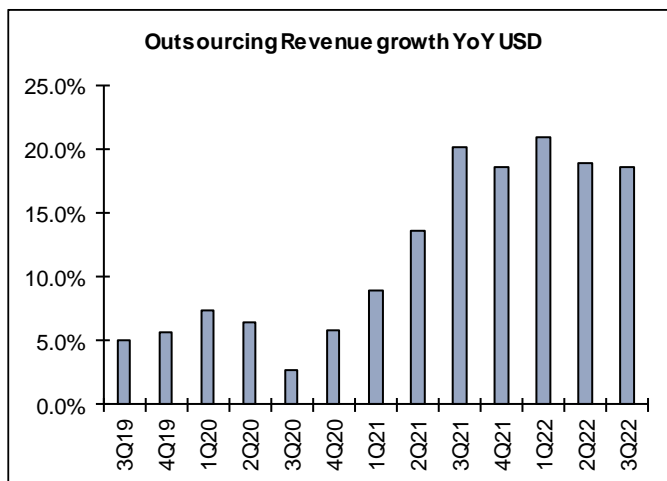
Potential softening in demand going ahead is indicated by: 1) ACN's shift in its hiring mix with plans to have 20% of entry-level hires in the US from apprenticeships so as to optimise the employee pyramid, and 2) commentary around effectively balancing the talent supply demand.

For Q4FY22, Bloomberg consensus revenue estimate stands at US\$15.38bn (14.7% YoY USD), which is within the guidance range of US\$15bn-15.5bn (12-15.5% YoY USD). Consensus expects margins of 14.7% (10bps YoY) for Q4FY22 and 15.2% for full-year FY22 (in line with guidance) given ACN's operational discipline.

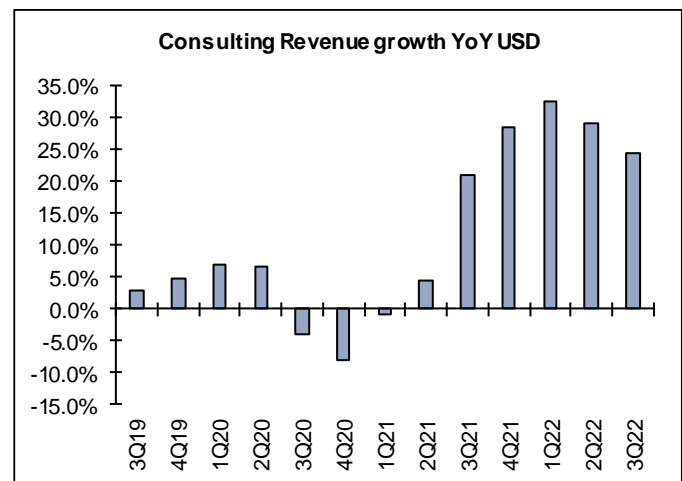
ACN's FY23 growth outlook will set the tone for growth expectations for the overall IT services industry. Given the demand uncertainty due to macro headwinds, consensus estimates 8.3% YoY growth (USD) for ACN for FY23 (vs ~22% in FY22 as per cons estimates). We maintain our underweight stance on Indian IT sector and prefer stocks that are less vulnerable to slowdown and have potential to continue gaining market share even in business downturns.

Chart 1: Deceleration in overall revenue growth for ACN

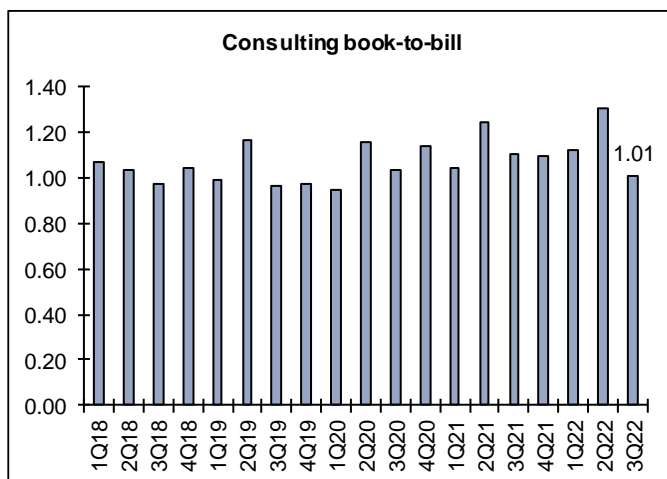
Source: Company, I-Sec Research

Chart 2: Deceleration in ACN outsourcing

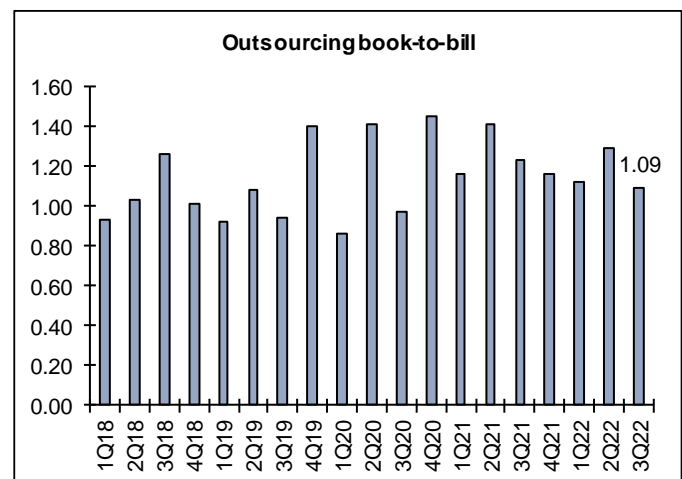
Source: Company, I-Sec Research

Chart 3: Deceleration in consulting revenue growth

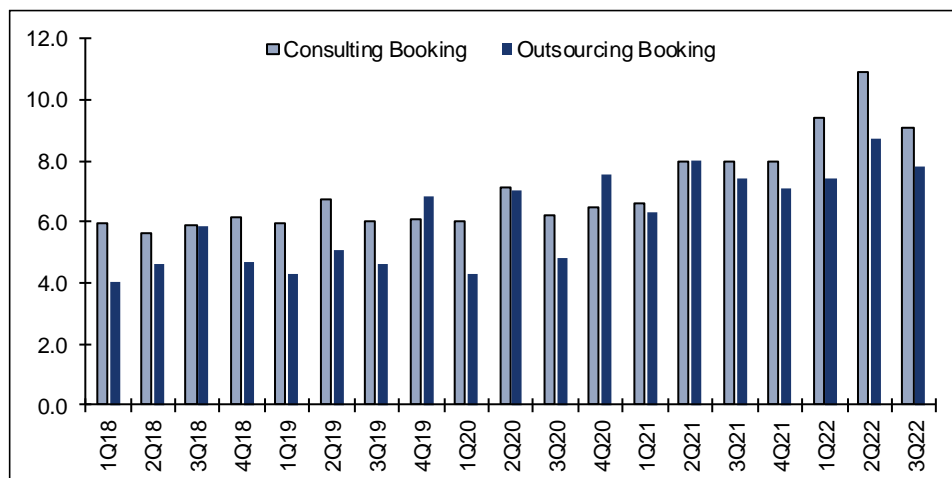
Source: Company, I-Sec Research

Chart 4: Book-to-bill ratio back to pre-covid level

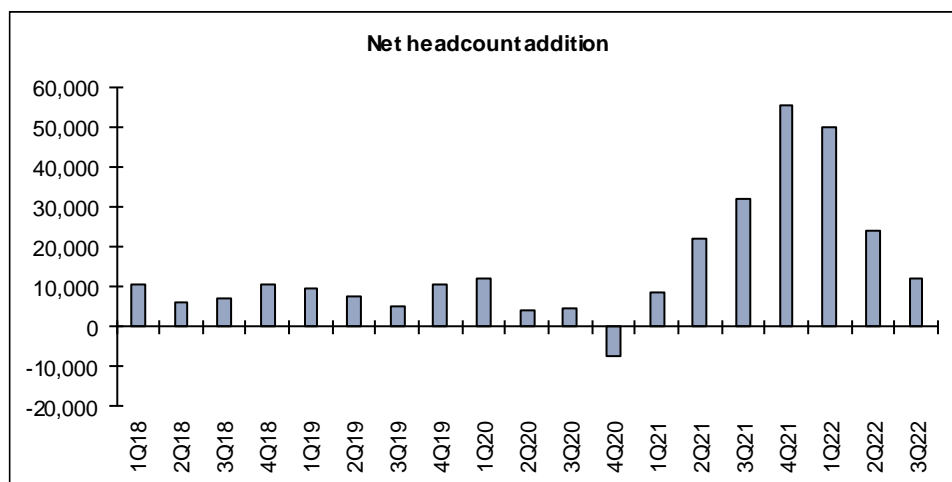
Source: Company, I-Sec research

Chart 5: Outsourcing book-to-bill moderating

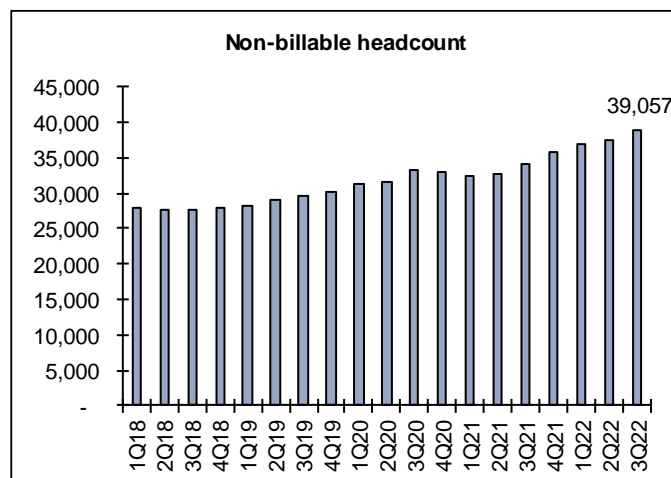
Source: Company, I-Sec research

Chart 6: Order book remains healthy (US\$ bn)

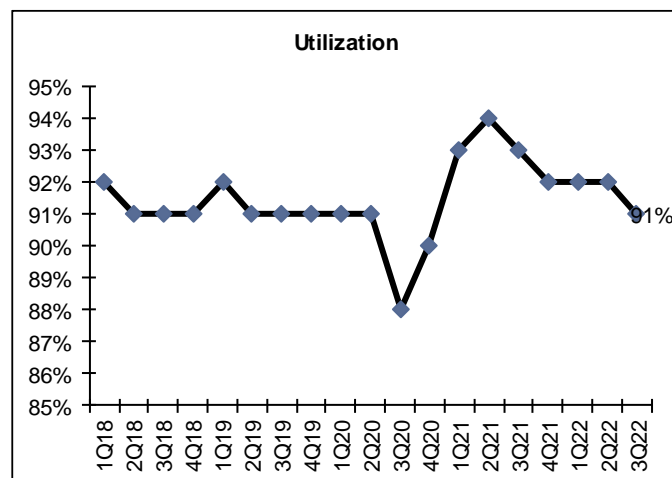
Source: Company, I-Sec research

Chart 7: Sharp dip in headcount addition

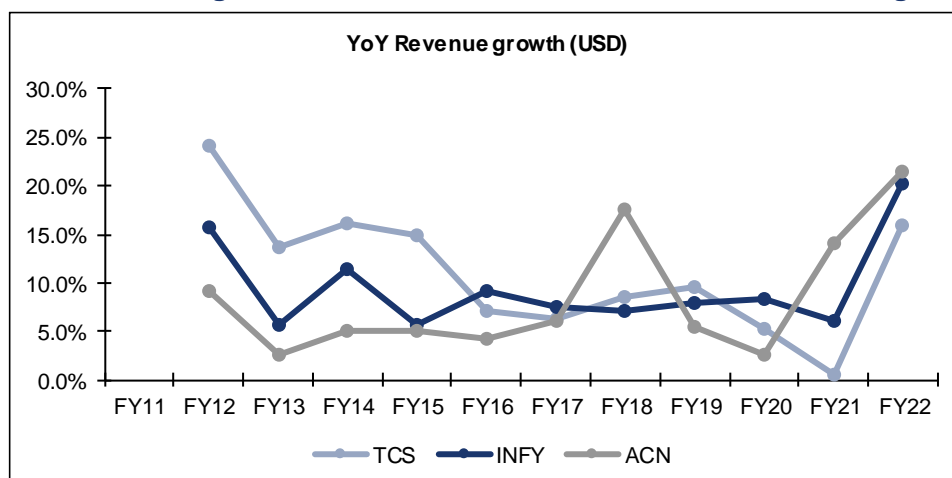
Source: Company, I-Sec research

Chart 8: Uptick in non-billable headcount implies...

Source: Company, I-Sec research

Chart 9: ...downtrend in utilisation to continue

Source: Company, I-Sec research

Chart 10: Strong correlation between ACN, TCS and INFY revenue growth

Source: Company, I-Sec research, Note: ACN FY ends in Aug, TCS and INFY FY ends in March

Table 1: Accenture has delivered quarterly revenue near or above top end of their guidance

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Quarterly revenue guidance (US\$ Bn)	10.35-10.65	10.10-10.40	10.80-11.10	10.85-11.15	10.90-11.20	10.85-11.15	10.75-11.15	10.6-11.0	11.15-11.55	11.55-11.95	12.55-12.95	13.1-13.5	13.90-14.35	14.30-14.75	15.70-16.15	15.00-15.5
Actual quarterly revenue (US\$ Bn)	10.6	10.5	11.1	11.1	11.4	11.1	11.0	10.8	11.8	12.1	13.3	13.4	15.0	15.0	16.2	15.4
Annual guidance YoY CC	6%-8%	6.5%-8.5%	8%-9%	5%-8%	6-8%	3%-6%	3.5%-4.5%	2-5%	4-6%	6.5%-8.5%	10%-11%	12%-15%	19-22%	24-26%	25.5%-26.5%	
Actual annual revenue growth			8.50%				4%					11%				

Source: Company, I-Sec research

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