Accenture PLC (ACN)

Information Technology | Result Update

Not Rated

CMP: US$307.3 | Target Price (TP): NA | Upside: NA

June 23, 2023

Confirms weak 1HFY24 for Indian IT industry

Key Points

- Accenture's (ACN) guidance for 4QFY23 (YE August) came in lower than expected, leading to FY23 revenue growth guidance getting lowered a tad from 8-10% to 8-9% (200bps inorganic). Weak performance in small deals and Communications, Media and Hi-Tech vertical led to this cut.
- For the first time in many quarters, ACN hinted at pricing pressure in some pockets and endorsed statements in the recent past by Coforge CEO (who talked of irrational pricing), Epam, Cognizant and HCLT. We believe the street is not taking this into account and could weigh on margins in FY24. In our models, we have assumed modest pricing pressure, but we believe this could be a bigger issue as we go into 2HFY24.
- Weak exit from 4QFY23 (possibly 0% YoY CC organic growth) will set up ACN for a weak FY24. While consensus estimates for revenue and earnings for FY24 have been brought down for Indian IT Services companies, we suspect there are risks to the strong rebound expected in FY25. We remain 'underweight' on the Indian IT Services sector, especially for the Tier-2 set whose dependence on 'small deals' is quite significant.

Strategy & Consulting and CMT weak spots: ACN talked about caution among clients on spending, including from industries which are doing well currently. Communication, Media and Hi-tech revenue for 3QFY23 declined by 8% (LC terms) and was weaker than expected by mgmt. Banking & Capital Markets revenue in North America also declined. Strategy & Consulting was also weaker than expected and that weakness is expected to continue in 4QFY23 too.

Strong order inflow in Managed Services not good news for Indian peers: Order inflow in 3Q tends to be seasonally weak for ACN, but this time around, it was unusually weak. At US$17.2bn (2QFY23 at US$22.1bn), it was weaker than the management's expectation and 4Q will see similar quantum of deal flow with a similar complexion (more of Managed Services). The unusual strength seen in Managed Services order inflow for ACN, in our view, is not good news for its Indian peers. Managed Services bookings were up 9% in the quarter and 22% YTD and going by data we have seen for the Tier-1 players, we believe ACN is gaining market share.

Lot of focus on Generative AI but too early and too small to move the needle right now: While there was a lot of focus on Generative AI, even going by management commentary, we believe we are at a very early stage. Ticket size of projects is at just US$1mn. According to ACN, it is at a stage where Cloud was a decade back. However, ACN believes it will ramp up faster than Cloud. However, building use cases, getting enterprises' data ready for this and the cost benefit analysis is still being evaluated.

Banking & Capital Markets space in North America was indicated to be an area of weakness: This has now been universally acknowledged. A turnaround in spending by companies in this space is very critical for the IT industry to get its growth back as some of the money enter and investment banks are big clients of the Indian IT industry.

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Est Change	NA
TP Change	NA
Rating Change	NA

Company Data and Valuation Summary

Reuters	ACN.N
Bloomberg	ACN US
Mkt Cap (US$bn)	US$198
52 Wk H / L (US$)	327.93/242.8

NBIE Research
Institutional.research@nirmalbang.com
+91-22-6273 8017

Highlights from the 3QFY23 analyst call

- Revenue for 3QFY23 came in at US$16.56bn and was up by 3% YoY and 5% QoQ. It was up by 5% in CC terms YoY, which was in the middle of the guided band.
- ACN continues to take market share, growing by about 2x the market due to high single-digit or double-digit growth in 7 out of 13 industries.
- Consulting revenue for the quarter stood at US$8.7bn, a YoY decline of 4% in USD and 1% in CC terms. The same level of decline in Consulting can be expected in 4QFY23 as well. Managed Services revenue stood at US$7.9bn, 10% YoY growth in USD terms and 13% in CC terms.
- Revenue was impacted by lower-than-expected small deal sales, especially in Strategy & Consulting and Systems Integration, and lower-than-expected results in Communication, Media and High-tech industry group for the quarter. Strategy & Consulting was mainly impacted by lower-than-expected small deals, especially in Europe and growth markets. Clients are holding back on small projects and doing bigger projects, which converts into revenue over a longer period.
- In terms of verticals, Communication, Media and High-Tech (CMT) declined by 8% YoY in CC terms while the big drivers of growth were Health & Public Services (up 14%) and Resource (up 12%). 7 out of the 13 industry groups grew either in high single digit or in double digit. Excluding CMT, business grew by 8% globally, 7% in North America, 9% in Europe and 10% in growth markets in LC terms. CMT business is expected to be under pressure in 4QFY23 too.
- Adjusted EBIT margin came in at 16.3%, an increase of 20bps from 16.1% in 3QFY22. Reported EBIT margin came in at ~14.2%. ACN recorded US$347mn in costs associated with the business optimization actions that were announced in 2QFY23, which compressed the operating margin by 210bps. In 3QFY23, it also recognized a gain in investment in Duck Creek Technologies.
- ACN had new bookings of US$17.2bn in 3QFY23 compared to US$22.1bn in 2QFY23, including 26 clients with quarterly bookings greater than US$100mn, bringing the total to 85 so far in FY23, which is 11 more than the same time last year. Consulting bookings stood at US$8.9bn, with a book-to-bill of 1. Managed Services bookings totalled US$8.3bn with a book-to-bill of 1.1. Bookings for 4QFY23 are expected to be in the same range as 3QFY23 with the mix being broadly similar.
- North America revenue grew by 2% in CC terms on YoY basis, driven by growth in Public Service for the US federal business, health and utilities. These increases were partially offset by declines in Communications, Media & High-tech software and platforms and Banking & Capital Markets. In Europe, revenue grew by 7% in CC terms on YoY basis, led by growth in Banking & Capital Markets, Industrial and Public Service. Revenue growth was driven by Italy, Germany and France. In growth markets, revenue grew by 9% in CC terms on YoY basis, driven by growth in public service, chemicals and natural resources, and Banking & Capital Markets. Revenue growth was driven by Japan.
- ACN recorded five acquisitions in strategic areas in 3QFY23, bringing the total investment in acquisitions to US$1.3bn so far in FY23 across 20 transactions. It invested in Cloud Data and AI with the acquisition of Nextira in North America, Objectivity in the UK and Einar in Norway. It also invested in sustainability with the acquisition of Green Domus in Brazil and in modern ERP services with the acquisition of Born Digital in Australia.
- ACN has been investing in AI for the last few years now and sees Generative AI as a key piece of the digital core and a big catalyst for even bigger and bolder total enterprise reinvention going forward. A survey of global executives that it completed last week showed that 97% of executives mentioning that Generative AI will be transformative to their company

and industry while 67% organizations are planning to increase their level of spending in technology besides prioritizing investments in data and AI.

- Last week, it announced a US$3bn investment in AI over the next three years, which includes doubling the data and AI workforce from 40,000 to 80,000, including the expansion of the Center for Advanced AI that today has over 1,600 Generative AI experts, bringing new assets such as the AI Navigator for enterprise to life and developing new Generative AI-powered industry solutions. It has sold over 100 Generative AI products over the last four months, amounting to US$100mn. This does indicate that currently these projects are very small.
- For 4QFY23, ACN indicated revenue to be in the range of US$15.75bn-US$16.35bn. This assumes that the impact of FX will be about flat compared to 4QFY22 and reflects ~2-6% growth in CC terms. The upper end of the guidance will happen if small deal performance improves, and the lower end will happen if there is further deterioration in the same.
- For FY23, it expects revenue growth to be in the range of 8-9% in CC terms, which assumes an inorganic contribution of ~2%. Business optimization costs of US$800mn are expected in FY23. EBIT margin for FY23 is expected at ~15.4%, which is 20bps higher than 4QFY22 EBIT margin of ~15.2%. Capex is expected to be US$600mn in FY23.
- ACN indicated that it will not see any headcount addition in 4QFY23 as was seen in the last two quarters. It will continue to focus on automation and up-skilling the workforce in the AI space. It has managed to automate ~13,000 jobs. It has trained 1,000 people in 3QFY23 in Generative AI and requires the entire workforce to take a course on AI to build a strong base. It has maintained a utilization level of 91% for the last 11 quarters.
- ACN indicated that the large deal momentum will continue due to the AI wave, although small deals will be impacted as the small deal clients do not yet have the data and scale to enter the AI space. So far, only 5-10% of global companies have the scale and resources to enter the AI space in a considerable way while 50% companies have not even started their AI journey.
- In terms of pricing, ACN saw improvement for the five consecutive quarters before stabilizing in 2QFY23. In 3QFY23, it saw lower pricing in some areas of the business.
- DSO in 3QFY23 stood at 42 days compared to 42 days in 2QFY23 and 44 days in 3QFY22. FCF for 3QFY23 was US$3.1bn. Capex stood at US$142mn in 3QFY23. In 3QFY23, it repurchased 2.8mn shares for US$789mn at an average price of US$279.65 per share. As of May 31, it has ~US$3.5bn of share repurchase authority remaining.

Our view on the Indian IT services sector: We had downgraded our view on the Indian IT Services sector to UW through a report on 10th April, 2022 (Positive surprises likely low in FY23; Tier-2 risky) and cut target prices further through our notes on 19th May, 2022 (Customer stress shows up), 8th July, 2022 (Negatives not in price), 10th October, 2022 (Growth expectations too high) and 20th March, 2023 (Sell into delayed landing outperformance). We advocate that investors use the 'delayed/no landing' rally seen since October 2022 to pare positions if 'overweight, especially in the Tier-2 set. Nifty IT index advanced by ~83% from 31st Dec, 2019 till 13thJune, 2023 while Nifty was up by ~52% during the same period. This massive outperformance of Nifty IT was on the back of pandemic-driven Digital Transformation (DT) services-based earnings acceleration and significant multiple expansion on unprecedented monetary stimulus in the US/Europe. DT high tide over the last 36 months has lifted all boats (including weak ones). However, accelerated normalization of monetary policy in the US raises probabilities of a hard landing there and consequently high probability of negative surprises on the fundamental side over the next 12 months. We believe consensus is underestimating growth and margin risks in FY24/FY25. While DT services will continue to remain a key theme for the next several years, we believe that 'willingness-to-spend' will be constrained by 'ability-to-spend' as enterprise customers battle earnings pressure from commodity and wage inflation, supply chain challenges, reduced customer spending power, higher interest rates and likely below-trend growth in western developed economies. This, in our view, will mean that the corporate profits of S&P 500 for CY23/CY24 are likely be weaker than currently estimated. We also believe that the broader enterprise customer profit picture might look worse. Beyond FY23, we see customers shifting from the current democratic 'skills/capability' focused vendor model to a more discriminating one based on 'ability-to-deliver' (1) cost take outs and (2) business model changes - in that order. It is here that one will see divergence in growth and valuation. Incrementally, risks are to the downside from both valuation as well as fundamental perspective. We favour Tier-1 IT companies vs Tier-2.

While the chances of a near term Fed pivot (due to likely financial/economic stress event rather than lower inflation) and the consequent risk-assets run-up are fair, we persist with our 'UW' stance. This is because: (1) we believe that a conclusive Fed pivot is likely only when US core inflation falls to ~2%, which we think is unlikely in the next six months. Financial stress/accident related stopping/easing of current hawkish monetary policy could induce a short-term rally that may not be sustainable (2) consensus earnings estimates for FY24/FY25 continue to be too high and seem to implicitly assume a soft/no landing of the US economy while probability of a recession (shallow/deep) has risen significantly. The latter could lead to pressure on business volume and pricing. We are explicitly pricing in a shallow recession. (3) even if one were to ignore the next 12–18 months' risks around recession and take a 5-year view, we believe that starting valuations are expensive and can at best deliver mid to high single-digit total stock returns (including dividends) for TCS/Infosys, as we believe that structural revenue/earnings growth are being overestimated by the street. We believe that revenue/earnings growth over a 5-year period (FY23-FY28) will be 100-200bps higher than the FY15-FY20 period (~7%) whereas peers believe it will be 300-500bps higher. *Ceteris Paribus,* this has valuation/return implications. In our base case of a shallow recession in the US in CY23, we are expecting low-to-mid single-digit USD revenue growth for Tier-1 IT companies in FY24. In our estimates for FY24, we are assuming modest pricing compression while we believe the street is not considering the same. We continue to have a 'SELL' rating on all IT stocks under our coverage. Despite having EPS estimates lower than the street, we suspect it could still see downsides if there is a deep recession in the US.

We continue to maintain TCS as our industry valuation benchmark: We are valuing TCS at target 12-month forward PE of 19.3x on FY25E EPS, which represents 0.5SD below the last 10-year mean. We have changed the valuation multiple from the previous Target PE multiple of 19.9x that we were using, which was 1SD below the 5-year mean. We move away from looking at the 5-year mean because there was a pre-ponderance of high valuations during FY20-FY23. Target multiples for others are at a discount to TCS. If one were to look back in history, our Target PE multiples are not overly pessimistic as PE multiples of many Tier-1 IT stocks, including that of TCS and Infosys, had reached single-digit levels during GFC. Our target multiples are in fact at the higher end of the pre-pandemic PE range.

Tier-2 could face significant risks in the new environment: We fear that the Indian Tier-2 set would suffer more because of vendor consolidation under the pressured profit picture for customers, a less diversified revenue mix (client, service line, vertical), which could throw up negative growth surprises, and a larger exposure to non-Global 1000 clientele, whose profits are more vulnerable in the current macro environment. Indian Tier-2 IT is now at a PE premium of ~32% to Tier-1 (peak of ~60% in November 2021) from a discount of 14% on 1stJan, 2020, that too on elevated earnings. This premium reflects expectations of big positive earnings growth gap between Tier-2 and Tier-1 IT companies over FY21-FY23 and improving return ratios sustaining beyond FY23. The high PE multiples are also reflection of market's view that some Tier-2 IT companies will become US$5-10bn enterprises in the next 10-20 years. Once the 'Digital' high tide recedes, it remains to be seen which of the current Tier-2 set will continue to show promise. In the initial phase of any new tech cycle, customers tend to be open to new vendors, but as the cycle matures (post FY23 in our view), vendors that have scale – Tier-1 - tend to do better. We think customers are looking for revolutionary transformation, which Tier-1 companies with multi-vertical exposure and deeper domain/technology skills are best placed to deliver.

Why bother about Accenture? ACN is ~US$62bn (FY22 revenue) behemoth in the consulting and IT services space, which has done very well for itself unlike some of the other MNC players. It has been consistently gaining market share. ACN works with 80% of Global 500 corporations. It has deep relationships with its customers, with 99 of its top 100 customers having been with it for more than 10 years. Following ACN is critical to understanding the offshore IT/ITES industry business dynamics because ~75% of its ~732,000 workforce (as of 3QFY23) is based in the global delivery network (low-cost locations like India, Philippines, etc) with possibly ~320,000 in India. Managed Services (outsourcing) accounts for a very large part of its revenue (~47% on TTM basis, the other being Consulting), where we believe it is up directly in competition with India-centric IT players like TCS, Cognizant Technology Solutions or CTS, Infosys, Wipro, HCL Technologies, Tech Mahindra, etc.

Accenture gains market share through its balance sheet: In our earlier reports: Secret Sauce of Accenture-Part IandPart II), we had focused on the superior working capital (ex-cash) cycle of ACN in the past and how it contributed in taking away market share from Indian IT companies. While the working capital situation for ACN has been deteriorating for many years, in recent times, the bigger issue as to why RoIC has contracted substantially is the large goodwill sitting on its balance sheet and the additions to it. ACN has already invested in ~425 companies since FY14 to beef up its capabilities in new areas like digital, cloud and security services. While this has likely helped it gain market share, the same has been at the expense of lower RoIC (see Exhibit 5). It has also built 100 global innovation hubs, which are likely to have been a tad capex intensive.

Exhibit 1: Local Currency (LC) growth guidance vs actual and contribution of inorganic part

(YE August) (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23P
LC growth guidance at year beginning	5-8	5-8	5-8	5-8	5-8	2-5	12-15	8-9
Actual LC Revenue Growth	10.5	7	10.5	8.5	4	11	26	-
Inorganic contribution	2	2	2.5	2	2	2.5	5	2
Organic Revenue Growth	8.5	5	8	6.5	2	8.5	21	6-7

Source: Company. Nirmal Bang Institutional Equities Research Note: Accenture started FY23 with 8-11% LC growth and 2.5% contribution from inorganic growth.

Exhibit 2: Indian IT Services sector valuations

	TCS	Infosys	Wipro	HCL Tech	Tech Mahindra	Persistent	LTIM	Mphasis	Coforge
Year ending	**March**	**March**	**March**	**March**	**March**	**March**	**March**	**March**	**March**
Prices as on 22-June-23	**3,239**	**1,282**	**382**	**1,163**	**1,119**	**4,870**	**5,026**	**1,855**	**4,535**
Currency	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**
Market Value (Rs Bn)	11,862.9	5,324.1	2,100.7	3,160.5	1,091.6	375.0	1,488.8	350.0	277.4
(US$mn)	**144,669**	**64,928**	**25,618**	**38,543**	**13,313**	**4,574**	**18,156**	**4,269**	**3,382**
Mar 2024 Target Price	2,636	1168	350	928	934	2985	3819	1420	3281
Upside/(downside)	-18.6%	-8.9%	-8.4%	-20.2%	-16.5%	-38.7%	-24.0%	-23.5%	-27.6%
Recommendation	Sell	Sell	Sell	Sell	Sell	Sell	Sell	Sell	Sell
FDEPS (Rs)									
FY20	86.2	38.9	16.6	40.8	45.2	44.4	87.1	63.6	71.5
FY21	89.3	45.5	19.1	47.7	49.9	58.8	111.2	64.7	74.7
FY22	103.6	52.4	22.3	49.8	62.7	90.2	133.3	76.4	109.0
FY23E	115.2	57.6	20.7	54.9	54.7	120.5	149.0	87.1	113.8
FY24E	123.1	60.8	22.9	57.9	58.8	150.2	172.7	90.4	165.9
FY25E	136.6	67.2	25.9	64.1	69.1	171.9	197.9	105.1	188.9
FY26E	151.8	76.3	29.8	73.7	81.8	209.3	233.1	119.9	229.6
PE (x)									
FY20	37.6	32.9	23.0	28.5	24.7	109.8	57.7	29.2	63.4
FY21	36.3	28.1	20.0	24.4	22.4	82.9	45.2	28.7	60.7
FY22	31.3	24.4	17.1	23.3	17.9	54.0	37.7	24.3	41.6
FY23E	28.1	22.3	18.5	21.2	20.5	40.4	33.7	21.3	39.8
FY24E	26.3	21.1	16.7	20.1	19.0	32.4	29.1	20.5	27.3
FY25E	23.7	19.1	14.8	18.1	16.2	28.3	25.4	17.6	24.0
FY26E	21.3	16.8	12.8	15.8	13.7	23.3	21.6	15.5	19.8
EV/EBITDA (x)									
FY20	27.9	24.2	14.7	18.4	15.8	74.6	43.2	22.4	37.1
FY21	25.3	19.1	11.6	14.5	12.6	53.1	32.0	20.2	33.9
FY22	22.1	17.1	10.5	14.6	11.4	38.2	16.5	17.3	23.8
FY23E	19.9	15.5	10.1	13.2	11.6	24.0	24.0	14.9	19.2
FY24E	18.1	14.6	9.3	12.2	10.7	20.6	21.3	14.1	16.3
FY25E	15.8	13.1	8.1	11.2	9.4	18.0	18.5	11.8	14.4
FY26E	13.9	11.4	7.0	9.8	8.1	14.7	15.6	10.0	11.9
EV/Sales (x)									
FY20	7.5	5.9	3.0	4.4	2.5	10.3	8.1	4.2	6.4
FY21	7.2	5.3	3.0	4.0	2.3	8.7	7.0	3.8	5.7
FY22	6.1	4.4	2.4	3.5	2.1	6.4	3.3	3.1	4.2
FY23E	5.2	3.7	2.0	2.9	1.7	4.4	4.4	2.6	3.4
FY24E	4.9	3.4	1.9	2.8	1.7	3.8	4.0	2.5	2.9
FY25E	4.4	3.1	1.6	2.5	1.5	3.3	3.6	2.2	2.6
FY26E	3.9	2.7	1.4	2.2	1.3	2.7	3.1	1.9	2.1
Pre Tax ROIC (%)									
FY20	55.5	43.0	32.2	33.3	28.6	35.1	56.3	33.5	31.8
FY21	54.9	45.7	35.9	33.7	32.8	57.2	67.6	33.1	33.7
FY22	59.7	47.0	32.3	33.0	33.3	58.0	79.5	35.6	35.3
FY23E	67.9	47.5	24.6	37.2	25.2	55.0	57.2	35.8	34.3
FY24E	71.7	47.0	24.6	38.8	26.4	51.1	56.5	33.8	37.2
FY25E	70.0	50.0	27.7	39.7	30.5	50.0	61.2	37.2	34.5
FY26E	65.9	53.1	30.9	43.0	35.5	55.1	64.2	40.6	36.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Key metrics

($mn) YE August	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Revenue	10,991	10,835	11,762	12,088	13,264	13,419	14,965	15,047	16,159	15,424	15,748	15,814	16,565
Gross Margin	3,529	3,441	3,898	3,595	4,404	4,466	4,917	4,524	5,315	4,946	5,186	4,835	5,529
EBIT	1,713	1,545	1,891	1,654	2,119	1,959	2,434	2,062	2,603	2,268	2,593	1,945	2,359
PAT	1,228	1,288	1,500	1,441	1,549	1,416	1,791	1,635	1,786	1,665	1,965	1,524	2,010
Margins (%)													
Gross Margin	32.1	31.8	33.1	29.7	33.2	33.3	32.9	30.1	32.9	32.1	32.9	30.6	33.4
EBIT Margin	15.6	14.3	16.1	13.7	16.0	14.6	16.3	13.7	16.1	14.7	16.5	12.3	14.2
Vertical Mix (%)													
Communications & High Tech	20.0	20.3	19.8	20.5	20.4	20.6	20.6	21.2	21.2	20.0	18.9	18.2	17.4
Financial Services	19.5	19.4	19.9	19.7	19.6	19.5	19.5	19.1	19.1	19.1	18.8	19.0	18.9
Health & Public Service	18.3	19.3	18.8	18.7	19.0	18.7	18.2	17.9	18.1	18.8	19.1	19.1	19.7
Products	27.3	26.7	27.3	27.6	27.7	27.8	28.6	28.8	28.5	29.0	29.6	29.8	30.0
Resources	14.9	14.2	14.1	13.5	13.3	13.4	13.0	13.1	13.2	13.2	13.6	13.8	14.0
Other	0.05	0.05											
Geography Mix (%)													
Americas	47.7	48.0	46.6	46.6	46.7	47.6	46.2	47.0	47.1	48.8	48.5	46.8	46.6
EMEA	32.5	31.5	33.7	33.3	33.6	32.0	34.1	33.3	33.1	31.1	32.1	33.5	33.9
Asia Pacific	19.8	20.6	19.7	20.1	19.7	20.3	19.8	19.7	19.8	20.1	19.3	19.7	19.5
Services Mix in Revenues(%)													
Consulting	54.6	52.4	53.8	53.3	54.7	54.4	56.1	55.3	55.9	54.0	53.6	52.4	52.5
Outsourcing	45.4	47.6	46.2	46.7	45.3	45.6	43.9	44.7	44.1	46.0	46.4	47.6	47.5
Order Inflow ($bn)													
Consulting	6.2	6.5	6.6	8.0	8.0	8.0	9.4	10.9	9.1	8.4	8.1	10.7	8.9
Outsourcing	4.8	7.5	6.3	8.0	7.4	7.1	7.4	8.7	7.8	9.9	8.1	11.4	8.3
Total	11.0	14.0	12.9	16.0	15.4	15.0	16.8	19.6	17.0	18.4	16.2	22.1	17.3
Order Inflow Mix (%)													
Consulting	56.4	46.4	51.5	50.0	51.9	53.3	56.0	55.6	53.5	45.7	50.0	48.4	51.8
Outsourcing	43.6	53.6	48.8	50.0	48.1	47.3	44.0	44.4	45.9	53.8	50.0	51.6	48.2
Other Metrics													
Number of employees	513,229	505,733	514,288	537,000	568,727	624,268	674,325	698,504	710,432	721,379	737,719	738,143	731,868
Employee growth YoY (%)	6.6	2.8	1.9	5.6	10.8	23.4	31.1	30.1	24.9	15.6	9.4	5.7	3.0
Net addition of employees	4,657	(7,496)	8,555	22,712	31,727	55,541	50,057	24,179	11,928	10,947	16,340	424	(6,275)
Voluntary Attrition (%)	11	7	9	12	17	19	17	18	20	20	13	12	13
Utilisation	88	90	93	94	93	92	92	92	91	91	91	91	91
TCV (US$bn)	11.0	14.0	12.9	16.0	15.4	15.0	16.8	19.6	17.0	18.4	16.2	22.1	17.3
TTM TCV (US$bn)	48.4	49.5	52.1	53.9	58.3	59.3	63.2	66.8	68.4	71.8	71.2	73.7	74.0
Growth TTM TCV (YoY %)	11.5	8.9	14.3	12.3	20.5	19.8	21.3	23.9	17.3	21.1	12.7	10.4	8.1
TTM Revenue (US$bn)	44.5	44.3	44.7	45.7	47.9	50.5	53.7	56.7	59.6	61.6	62.4	63.1	63.6
Book/Bill (TTM)	1.09	1.12	1.16	1.18	1.22	1.17	1.18	1.18	1.15	1.17	1.14	1.17	1.16
Revenue Per Capita (US$)	86,054	85,069	92,251	91,987	95,964	89,987	92,193	87,683	91,750	86,177	86,343	85,722	90,147
EBIT Per Capita (US$)	27,627	27,012	30,574	27,359	31,866	29,950	30,290	26,363	30,177	27,635	28,435	26,207	30,090
PAT Per Capita (US$)	13,410	12,128	14,828	12,583	15,329	13,135	14,997	12,014	14,781	12,673	14,218	10,541	12,840
Average Employees	510,901	509,481	510,011	525,644	552,864	596,498	649,297	686,415	704,468	715,906	729,549	737,931	735,006

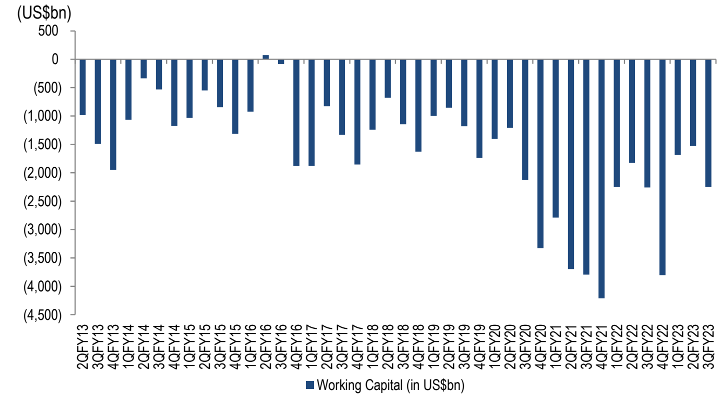
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: QoQ & YoY growth of various parameters (USD)

QoQ Growth	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Overall Revenue (%)	-1	-1	9	3	10	1	12	1	7	-5	2	0	5
Vertical Wise (%)													
Communications & High Tech	(2)	0	6	6	9	2	11	4	7	(10)	(3)	(3)	(0)
Financial Services	2	(2)	12	1	9	1	12	(2)	7	(4)	1	1	5
Health & Public Service	4	4	6	2	11	(1)	9	(2)	9	(1)	4	1	8
Products	(5)	(3)	11	4	10	2	15	1	6	(3)	4	1	5
Resources	(4)	(6)	8	(2)	9	2	8	1	9	(5)	5	2	6
Other													
Geography Wise (%)													
Americas	(0)	(1)	5	3	10	3	8	2	8	(1)	2	(3)	4
EMEA	(1)	(5)	16	2	10	(3)	19	(2)	7	(10)	6	4	6
Asia Pacific	(3)	2	4	5	8	5	8	0	8	(3)	(1)	2	4
Services Wise (%)													
Consulting	(3)	(5)	11	2	13	1	15	(1)	9	(8)	1	(2)	5
Outsourcing	0	3	5	4	6	2	8	2	6	(0)	3	3	4
Growth Rate in Bookings (%)													
New	(23)	27	(8)	24	(4)	(3)	12	17	(13)	8	(12)	36	(22)
Consulting	(14)	5	2	20	0	0	18	16	(17)	(8)	(3)	32	(17)
Outsourcing	(31)	56	(16)	27	(8)	(4)	4	18	(10)	27	(18)	41	(27)
YoY Growth													
Overall Revenue (%)	-1	-2	4	8	21	24	27	24.47	22	15	5	5	3
Vertical Wise (%)													
Communications & High Tech	(2)	(1)	4	11	23	26	32	29	27	11	(3)	(10)	(16)
Financial Services	(3)	(1)	7	14	21	24	24	21	19	13	2	5	2
Health & Public Service	11	11	12	16	25	20	23	19	16	15	10	13	12
Products	(3)	(6)	(0)	6	23	29	34	30	25	20	9	9	8
Resources	(6)	(11)	(4)	(4)	8	17	17	21	21	13	10	11	8
Other	0	(12)											
Geography Wise (%)													
Americas	2	(1)	4	7	18	23	26	26	23	18	11	5	1
EMEA	(5)	(4)	5	11	25	26	29	24	20	12	(1)	6	5
Asia Pacific	(0)	(1)	1	8	20	23	28	22	22	13	3	5	1
Services Wise (%)													
Consulting	(4)	(8)	(1)	4	21	29	33	29	24	14	1	(1)	(4)
Outsourcing	3	6	9	14	20	19	21	19	19	16	11	12	10
Growth Rate in Bookings (%)													
Total	4	9	25	13	40	7	30	23	10	23	(3)	13	1
Consulting	3	7	11	11	29	23	42	36	14	5	(14)	(2)	(2)
Outsourcing	5	10	46	14	54	(5)	18	9	5	39	10	31	7

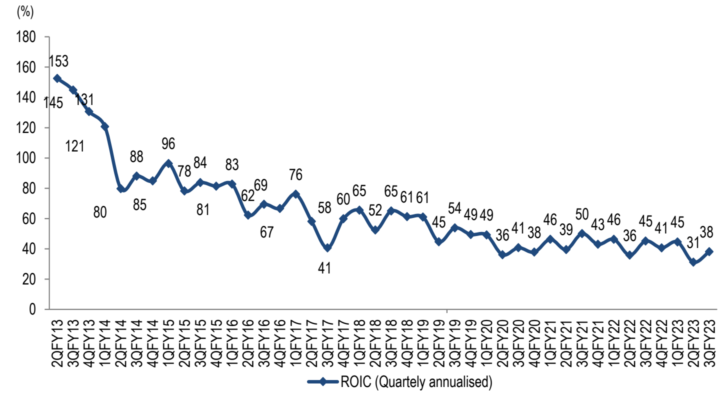
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Quarterly working capital situation



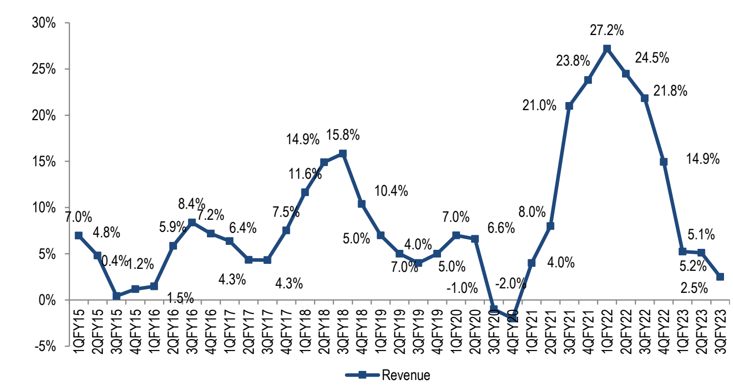
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: RoIC (%) remains low



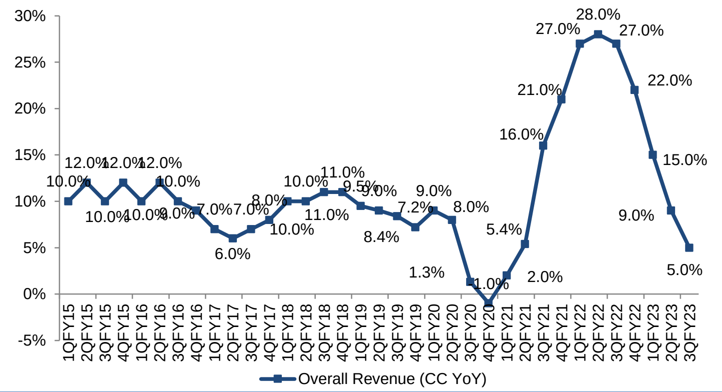
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: USD YoY growth rate



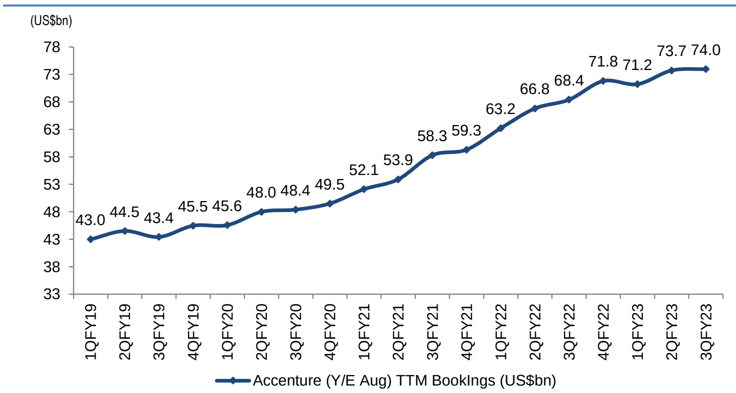
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Local currency YoY growth rate - decelerating



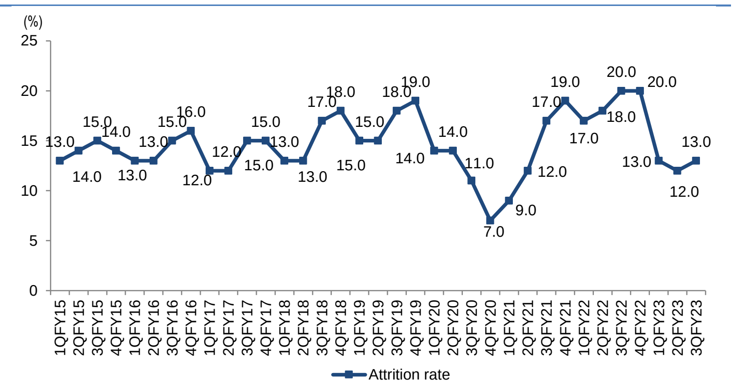
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: TTM order inflow increases



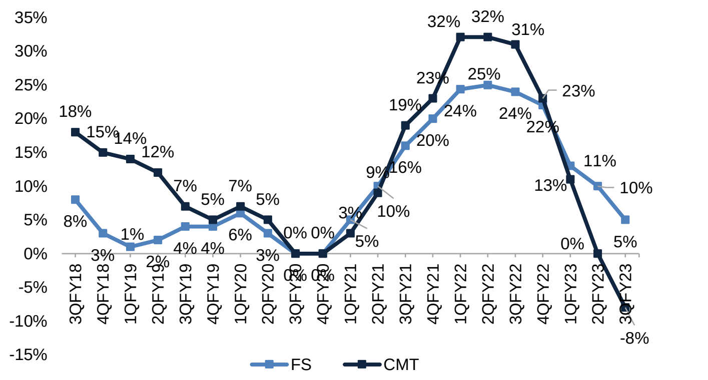
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Attrition Trend – flat



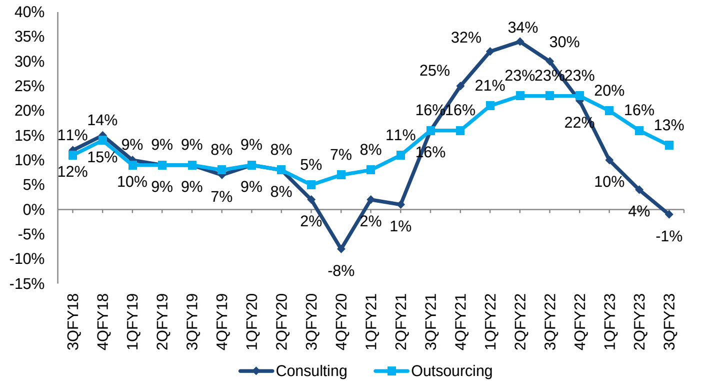
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: LC growth of both CMT and FS declines sharply in 3QFY23



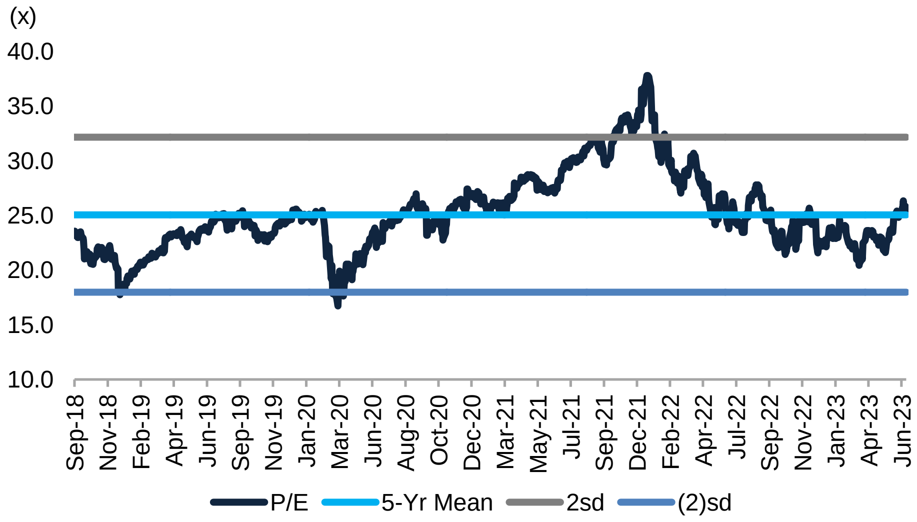
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Growth trajectory in services lines in LC terms



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: 5-year PE Multiple Chart trajectory



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 14: Income statement

(YE Aug) (USDbn)	FY18	FY19	FY20	FY21	FY22
Net Sales	**41.6**	**43.2**	**44.3**	**50.5**	**61.6**
-Growth (%)	*13.2%*	*3.9%*	*2.6%*	*14.0%*	*21.9%*
Cost of services	29.2	29.9	30.4	34.2	41.9
Gross Profit	12.4	13.3	14.0	16.4	19.7
Gross Margin (%)	*30%*	*31%*	*32%*	*32%*	*32%*
SG&A	6.60	7.01	7.46	8.74	0.00
% of sales	*16%*	*16%*	*17%*	*17%*	*0%*
Total Operating expenses	35.8	36.9	37.8	42.9	52.2
% of sales	86.0%	85.4%	85.3%	84.9%	84.8%
EBIT	**5.8**	**6.3**	**6.5**	**7.6**	**9.4**
% of sales	*14.0%*	*14.6%*	*14.7%*	*15.1%*	*15.2%*
Other income (net)	*-0*	*-0*	*0*	*0*	*-0*
PBT	5.8	6.3	6.8	7.8	9.3
-PBT margin (%)	*14.0%*	*14.5%*	*15.3%*	*15.4%*	*15.1%*
Provision for tax	1.6	1.4	1.6	1.8	2.2
Effective tax rate (%)	*27.4%*	*22.5%*	*23.5%*	*22.8%*	*23.8%*
Net profit	**4.2**	**4.8**	**5.2**	**6.0**	**7.1**
Minority Interest & share of profit/(loss) of associate	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Net reported profit	**4.06**	**4.78**	**5.11**	**5.91**	**6.97**
-Growth (%)	*17.4%*	*17.7%*	*6.9%*	*15.6%*	*16.4%*
-Net profit margin (%)	*10.1%*	*11.2%*	*11.7%*	*11.9%*	*11.5%*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Balance sheet

(YE Aug) (USDbn)	FY18	FY19	FY20	FY21	FY22
Net worth	10.7	14.8	17.5	20.1	22.7
Other liabilities	3.6	3.9	4.2	4.6	4.4
Lease iabilities	-	-	2.7	2.7	2.6
Total loans	0.0	0.0	0.1	0.1	0.0
Total liabilities	**14.3**	**18.7**	**24.4**	**27.5**	**29.7**
Goodwill	5.4	6.2	7.7	11.1	13.1
Lease Assets			3.2	3.2	3.0
Net block	1.3	1.4	1.5	1.6	1.7
Other non-current assets	4.2	6.7	10.1	10.7	10.9
Debtors	5.0	8.1	7.8	9.7	11.8
Cash & bank balance	5.1	6.1	8.4	8.2	7.9
Current investments	0.0	0.0	0.1	0.0	0.0
Other current assets	3.5	1.2	1.4	1.8	1.9
Total current assets	13.6	15.5	17.7	19.7	21.6
Total current liabilities	10.2	11.1	12.7	15.7	17.5
Net current assets	3.4	4.4	5.1	4.0	4.1
Total assets	**14.3**	**18.7**	**24.4**	**27.5**	**29.7**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Cash flow

(YE Aug) (USDbn)	FY18	FY19	FY20	FY21	FY22
EBIT	5.8	6.3	6.5	7.6	9.4
(Inc.)/dec. in working capital	-1.2	-1.0	-0.7	1.1	0.6
Cash flow from operations	5	5	6	9	10
Other income	0.0	0.1	(0.3)	(0.1)	0.1
Depreciation & amortisation	0.9	1	1	1.9	1.9
Financial Expenses	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)
Tax paid	(1.6)	(1.4)	(1.6)	(1.8)	(2.2)
Dividends paid	(1.7)	(0.93)	(1.87)	(2.27)	(2.33)
Net cash from operations	**2.3**	**3.8**	**3.0**	**6.4**	**7.3**
Capital expenditure	(0.0)	(0.0)	(0.1)	(0.1)	(0.0)
Net cash after capex	2.3	3.8	2.9	6.3	7.3
Inc./(dec.) in debt	(0.0)	(0.0)	0.0	0.0	(0.0)
(Inc)/dec. in Investments	(0.0)	(0.0)	(0.1)	(0.0)	0.0
Equity issue/ (buyback)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Cash from financial activities	**(2.6)**	**(2.7)**	**(2.7)**	**(2.6)**	**(2.6)**
Opening cash	4.1	5.1	6.1	8.4	8.2
Closing cash	5.1	6.1	8.4	8.2	7.9
Change in cash	0.9	1.1	2.3	(0.2)	(0.3)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

(YE Aug) (USDbn)	FY18	FY19	FY20	FY21	FY22
Per Share (US$)					
EPS	4.9	7.5	8.0	9.3	10.9
FDEPS	6.3	7.4	7.9	9.1	10.7
Dividend Per Share	5.6	2.9	5.3	3.5	4.0
Book Value	11	15	17	20	23
Dividend Payout Ratio (excl DT)	88%	38%	66%	38%	37%
Return ratios (%)					
RoE	38.9%	33.0%	30.1%	32.9%	36.9%
Pre-Tax RoCE	41.7%	34.7%	27.3%	30.6%	36.5%
Pre-Tax ROIC	61.5%	49.6%	39.9%	46.6%	55.9%
Turnover Ratios					
Asset Turnover Ratio	1.7	1.5	1.2	1.2	1.4
Debtor Days (incl. unbilled Rev)	42.8	66.8	66.1	66.2	67.8
Working Capital Cycle Days	-14	-14	-28	-29	-14
Valuation ratios (x)					
PER	63.4	41.0	38.3	33.0	28.3
P/BV	18.4	13.2	11.2	9.7	8.5
EV/EBIT	33.3	30.9	29.9	25.5	20.7
EV/Sales	4.9	4.5	4.4	3.9	3.2
M-cap/Sales	4.9	4.5	4.4	3.9	3.2

Source: Company, Nirmal Bang Institutional Equities Research

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Team Details:			
Name		**Email Id**	**Direct Line**
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010