

Uncertainty Persists; Long-term Demand Continues Strong

Accenture's Q2FY24 results stood below street expectations on all financial and operational fronts. Revenue for the quarter stood at \$15.8 Bn, flat in local currency YoY and a decline of 0.1% in US\$ terms. It registered GAAP EPS of \$2.63 for the quarter while adjusted EPS stood at \$2.77, reporting 10% YoY growth. The company's new bookings stood at \$21.6 Bn, which was its second-highest ever. It reported a Managed Services book/bill of \$11.6 Bn while Consulting Business bookings stood at \$10.52 Bn. Overall, Q2FY24 bookings are resilient, indicating robust demand despite prevailing uncertainties. Robust client relationships are reflected in the top 30 clients with quarterly bookings of ~ \$100 Mn, and 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 Q2FY24 revenue of \$16.25-\$16.85 Bn, implying a growth of -1% to +3% YoY in CC terms. The management reduced guidance for FY24 revenue growth to the range of 1% to 3% (2% to 5% previously), indicating tepid growth in FY24. This reduction was attributed to uncertainty in macroeconomic conditions and spending delays. Accenture continues to expect GAAP operating margin for FY24 to be in the range of 14.8%, compared to 14.8% to 15.2% previously, indicating pricing pressure, despite easing supply-side constraints. Adjusted operating margin, which excludes an estimated \$450 Mn for business optimization costs in FY4 and \$1.1 Bn in FY23, are to be at 15.5%, an expansion of 10bps over FY23 levels.

Verticals Performance: Communications, Media & Technology: Revenue for the vertical stood at \$2.65 Bn, reporting a decrease of 8% YoY. **Financial Services:** Revenue for the vertical stood at \$2.81 Bn, a decrease of 6% YoY. **Health & Public Service:** Revenue for the vertical stood at \$3.33 Bn, up 10% YoY. **Products:** Revenue for the vertical stood at \$4.76 Bn, up 1% YoY. **Resources:** Revenue for the vertical stood at \$2.24 Bn, up 3% YoY.

Outlook: IT services continue to face 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 may lead to a quicker recovery. Hence, **the medium to long-term outlook still remains intact and it 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 levers for longer-term growth.**

Impact on Indian IT Services Companies

We believe strong investments in new edge technologies like 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 & 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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