

Result beat; Status quo commentary; Neutral on Indian IT

- ACN reported 8% growth YoY in CC terms, above guided band of 2% to +6% growth; Outsourcing/Consulting was up 11%/6% YoY in CC.
- ACN's organic revenue growth guidance was upped by 100bps at 1% to 4% (Prev. 0% to +3%), with ~ 300bps inorganic contribution, OPM range stood at 15.6% to 15.8% (unchanged).
- View:** ACN commentary has largely maintained a status quo on macros and demand environment. The guidance implies negative CQGR for rest of the year (same as earlier). Thus, we do not see any meaningful uptick in Q3 performance or commentary for Indian peers in upcoming earnings season. Maintain our relative preference for LTIM/HCLT/MPHL/eClerx.

Better execution drives beat and FY'25 guidance uptick

With Revenue at \$17.7Bn, incremental growth was \$240mn higher than upper end of the guidance of \$17.5Bn. Guidance has been upgraded to 4-7% CC (Prev: 3-6% CC) for full year FY25e (from 3-6% earlier). For Q2'FY25e, organic guidance is at 2-5% YoY growth (or -5% to -8.4% QoQ decline, led by seasonality). Management commentary stated that beat was led by better than expected execution of few large deals won earlier (Q1 clocked \$240mn higher than exp, implied 40bps gain).

Read-through for Indian IT: Status quo on macro / demand

Management stated that the macro environment and demand has not seen any material change over previous quarter, i.e., clients continue to remain cautious on discretionary spends. An update on demand would be better visible after clients' concluding their budgeting exercise in Jan/Feb'2025.

Earnings KTA- Key Highlights

- Geography-wise commentary:** North America grew 11% YoY in CC led by Industrial, Software & Platforms, BFSI and CPG Retail. EMEA revenues grew 6% in CC led by growth in public service, life sciences and health, partially offset by a decline in banking and capital markets.
- On GenAI:** ACN's GenAI offerings saw new bookings of \$1.2Bn and ~\$500mn in Revenue for Q2. ACN increased its data and AI workforce to ~69K, and aims to re-skill of ~80K (~10%) employees by FY'26 end. GenAI remains a catalyst for reinvention in building the data foundation needed to support advanced digital solutions.
- Financial Services (18% of Rev):** Financial Services vertical grew 10.3% QoQ/4.5% YoY in Q1'25. Management commentary and outlook for the division was mixed, with some geos like UK doing well, U.S doing better than previous quarter, while EMEA continuing to weaken.
- Employee metrics:** It saw addition of 24k net headcount in Q1FY25 while attrition lowered to 12% (from 14% in Q4'FY24).
- Guidance:** Overall organic guidance stood at 1% to 4% for FY25. OPM guidance was unchanged at 15.7% (mid-point of 15.6%-15.8%). GAAP diluted EPS was lowered to \$12.43 -\$12.79 (from \$12.55-\$12.91).

Key Data

Market Cap	USD 234Bn
52-week High/Low	\$388/279
Avg. Volume (no)	24,38,000
Bloom Code	ACN US Equity

Price Performance	1M	3M	12M
Absolute (%)	0.9	6.1	3.8
S&P 500 (%)	(0.7)	4.5	24

Top 4 Holdings	Sept'24
Vanguard Group	9.5
Blackrock Inc.	7.9
State Street	4.3
Capital Group	3.0

FINANCIALS (USD Mn)

Particulars	FY22A	FY23A	FY24A
Revenue (\$mn)	61,594	64,112	64,896
Growth (%)	21.9	4.1	1.2
EBITDA (\$mn)	11,455	11,091	11,764
OPM (%)	15.2	13.7	14.8
PAT (\$mn)	6,877	6,906	7,265
Growth (%)	16.4	0.4	5.2
EPS(\$)	10.9	11.0	11.7
Growth (%)	19.2	1.0	6.1
PER(x)	27.5	27.3	28.9
ROIC	33	27	26
ROE	33	28	27

Street's Estimates

Particulars	FY24A	FY25E	FY26E
USD Rev.(\$mn)	64,896	68,552	73,308
YoY growth, %	1.2%	5.6%	6.9%
EBIT	9,596	10,726	11,709
EBIT Margin, %	14.8%	15.6%	16.0%
Net Profit	7,265	8,093	8,796
EPS (\$)	11.7	12.7	13.9
YoY growth, %	6.0%	8.9%	9.3%

Source: Company, Dolat Capital, Bloomberg

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Exhibit 1: Quarterly financial snapshot

(USD mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1'FY25	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
USD Revenue	16,224	15,800	16,467	16,406	17,690	7.8	9.0	64,112	64,896	1.2
Operating Expense	11,965	12,023	12,197	12,227	13,108	7.2	9.6	47,682	48,413	1.5
Cost of Sales	10,255	10,392	10,447	10,472	11,297	7.9	10.2	41,099	41,566	1.1
as % of sales	63.2	65.8	63.4	63.8	63.9	3 bps	66 bps	64.1	64.0	(6 bps)
Other Expenses	1,710	1,631	1,750	1,755	1,811	3.2	5.9	6,583	6,847	4.0
as % of sales	10.5	10.3	10.6	10.7	10.2	(46 bps)	(30 bps)	10.3	10.6	28 bps
EBITDA	3,086	2,575	3,152	2,950	3,518	19.2	14.0	11,091	11,764	6.1
Depreciation	521	529	521	596	569	(4.5)	9.2	2,281	2,168	(5.0)
EBIT	2,565	2,046	2,631	2,354	2,948	25.3	15.0	8,810	9,596	8.9
Net Other Income	52	49	24	(21)	7	(132.1)	(86.9)	364	103	(71.6)
PBT	2,617	2,096	2,654	2,333	2,955	26.7	12.9	9,174	9,699	5.7
Total Tax	607	387	673	614	639	4.1	5.3	2,136	2,280	6.8
PAT before MI	2,010	1,709	1,981	1,719	2,316	34.8	15.2	7,038	7,419	5.4
MI	37	34	49	34	37	8.5	2.1	132	154	17.0
PAT after MI	1,973	1,675	1,932	1,684	2,279	35.3	15.5	6,906	7,265	5.2
Reported EPS	3.1	2.6	3.1	2.7	3.6	32.4	16.0	11.0	11.6	5.2
Margins (%)						(bps)	(bps)			
EBIDTA	19.0	16.3	19.1	18.0	19.9	190 bps	86 bps	17.3	18.1	83 bps
EBIT	15.8	13.0	16.0	14.3	16.7	232 bps	86 bps	13.7	14.8	104 bps
PBT	16.1	13.3	16.1	14.2	16.7	249 bps	58 bps	14.3	14.9	64 bps
PAT	12.2	10.6	11.7	10.3	12.9	262 bps	72 bps	10.8	11.2	42 bps
Effective Tax rate	23.2	18.4	25.4	26.3	21.6	(469 bps)	(156 bps)	23.3	23.5	23 bps

Source: Company, Dolat Capital

Exhibit 2: Operating Metrics

Operating Metrics	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
CC growth (%) (YoY)	15.0	9.0	5.0	4.0	1.0	0.5	1.4	5.0	8.0
Bookings (USD bn)									
Consulting	8.1	10.7	8.9	8.5	8.6	10.5	9.3	8.6	9.2
Managed Services	8.1	11.4	8.3	8.2	9.8	11.1	11.8	11.6	9.5
Total	16.2	22.1	17.3	16.7	18.5	21.6	21.1	20.2	18.7
Bookings Growth (YoY)									
Consulting	(13.6)	(2.4)	(2.0)	1.2	6.3	(1.2)	3.9	1.2	7.0
Managed Services	9.7	31.8	6.1	(17.2)	21.2	(3.2)	41.6	41.5	(3.6)
Total	(3.3)	12.8	1.8	(8.7)	13.7	(2.3)	22.1	21.0	1.4
Incremental Bookings (USD bn)									
Consulting	(0.3)	2.5	(1.7)	(0.4)	0.1	1.9	(1.2)	(0.7)	0.6
Managed Services	(1.8)	3.3	(3.1)	(0.1)	1.6	1.2	0.7	(0.2)	(2.1)
Total	(2.1)	5.9	(4.8)	(0.6)	1.8	3.1	(0.5)	(0.9)	(1.5)
LTM Bookings (USD bn)									
Consulting	36.5	36.3	36.1	36.2	36.7	36.6	36.9	37.0	37.6
Managed Services	34.5	37.3	37.8	36.1	37.8	37.4	40.9	44.3	43.9
Total	71.1	73.6	73.9	72.3	74.5	74.0	77.8	81.3	81.5
Book-to-Bill ratio									
Consulting	0.96	1.29	1.03	1.04	1.02	1.31	1.10	1.04	1.02
Managed Services	1.11	1.52	1.06	1.05	1.27	1.42	1.47	1.42	1.10
Total	1.03	1.40	1.04	1.04	1.14	1.37	1.28	1.23	1.06
Headcount									
Total employees	7,37,719	7,38,143	7,31,868	7,32,819	7,43,041	7,42,318	7,50,200	7,74,303	7,98,781
Growth YoY	9.4	5.7	3.0	1.6	0.7	0.6	2.5	5.7	7.5
Net Additions	16,340	424	(6,275)	951	10,222	(723)	7,882	24,103	24,478
Attrition	13.0	12.0	13.0	14.0	11.0	13.0	14.0	14.0	12.0
Utilization	91.0	91.0	91.0	91.0	91.0	92.0	92.0	92.0	91.0

Source: Company, DART, *Note: FY22/FY23/FY24 has inorganic contribution of 500bps/200bps/300bps.

Financial Performance

Profit and Loss Account

(USD Mn)	FY21A	FY22A	FY23A	FY24A
Revenue	50,533	61,594	64,112	64,896
Total Expense	41,021	50,139	51,958	48,413
Employees Cost	32,278	39,805	41,099	41,566
Other expenses	8,743	10,334	10,859	6,847
EBIDTA	9,513	11,455	11,091	11,764
Depreciation	1,891	2,088	2,281	2,168
EBIT	7,622	9,367	8,810	9,596
Interest	59	47	13	59
Other Income	199	(27)	377	162
Exc. / E.O. items	0	0	0	0
EBT	7,761	9,293	9,174	9,699
Tax	1,771	2,207	2,136	2,280
RPAT	5,907	6,974	6,906	7,265
Minority Interest	84	112	132	154
Profit/Loss share of associates	0	0	0	0
APAT	5,907	6,974	6,906	7,265

Balance Sheet

(USD Mn)	FY21A	FY22A	FY23A	FY23A
Sources of Funds				
Equity Capital	6,960	6,093	8,120	6,359
Minority Interest	568	641	766	880
Reserves & Surplus	12,569	16,014	17,573	21,929
Net Worth	19,529	22,107	25,693	28,289
Total Debt	12	9	105	946
Net Deferred Tax Liability	53	46	43	79
Total Capital Employed	20,163	22,802	26,606	30,193

Applications of Funds

Net Block	15,947	17,811	19,740	25,399
CWIP	0	0	0	0
Investments	334	322	202	340

Current Assets, Loans & Advances

Inventories	0	0	0	0
Receivables	9,728	11,777	12,227	13,665
Cash and Bank Balances	8,168	7,890	9,045	5,004
Loans and Advances	0	0	0	0
Other Current Assets	8,998	9,464	10,031	11,524
	26,895	29,130	31,303	30,194

Less: Current Liabilities & Provisions

Payables	2,274	2,559	2,491	2,744
Other Current Liabilities	20,739	21,902	22,148	22,995
sub total	23,013	24,461	24,639	25,739
Net Current Assets	3,881	4,669	6,664	4,454
Total Assets	20,163	22,802	26,606	30,193

E – Estimates

Important Ratios

Particulars	FY21A	FY22A	FY23A	FY24A
(A) Margins (%)				
Gross Profit Margin	36.1	35.4	35.9	36.0
EBIDTA Margin	18.8	18.6	17.3	18.1
EBIT Margin	15.1	15.2	13.7	14.8
Tax rate	22.8	23.8	23.3	23.5
Net Profit Margin	11.7	11.3	10.8	11.2
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.0	0.0	0.0
Employee	63.9	64.6	64.1	64.0
Other	17.3	16.8	16.9	10.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	128.1	198.3	692.7	162.7
Average Cost of Debt	597.9	444.4	22.3	11.2
Debtors days	70	70	70	77
Inventory days	0	0	0	0
Payable days	16	15	14	15
Working Capital days	28	28	38	25
FA T/O	3.2	3.5	3.2	2.6
(D) Measures of Investment				
AEPS (\$)	9.1	10.9	10.8	11.4
CEPS (\$)	12.1	14.1	14.4	14.8
DPS (\$)	3.5	3.8	4.4	5.1
Dividend Payout (%)	37.8	35.2	40.9	44.6
BVPS (\$)	30.2	34.5	40.2	44.5
RoANW (%)	32.3	33.5	28.9	26.9
RoACE (%)	32.1	33.2	28.5	26.3
RoAIC (%)	72.1	69.6	54.3	44.9
(E) Valuation Ratios				
CMP (\$)	372	372	372	372
P/E	40.7	34.1	33.8	31.9
Mcap (\$ Mn)	2,36,092	2,36,092	2,36,092	2,36,092
MCap/ Sales	4.7	3.8	3.7	3.6
EV	2,09,181	2,07,786	2,06,285	2,09,907
EV/Sales	4.1	3.4	3.2	3.2
EV/EBITDA	22.0	18.1	18.6	17.8
P/BV	11.1	9.8	8.4	7.6
Dividend Yield (%)	1.0	1.2	1.3	1.5
(F) Growth Rate (%)				
Revenue	14.0	21.9	4.1	1.2
EBITDA	14.8	20.4	(3.2)	6.1
EBIT	17.0	22.9	(5.9)	8.9
PBT	14.6	19.7	(1.3)	5.7
APAT	15.6	18.1	(1.0)	5.2
EPS	16.0	19.0	(0.7)	5.7

E – Estimates

Cash Flow

Particulars	FY21A	FY22A	FY23A	FY24A
Profit before tax	5,991	6,989	7,004	7,419
Depreciation & w.o.	1,891	2,088	2,281	2,168
Net Interest Exp	0	0	0	0
Direct taxes paid	1,343	1,680	1,913	1,942
Change in Working Capital	(250)	(1,216)	(1,673)	(2,398)
Non Cash	0	0	0	0
(A) CF from Operating Activities	8,975	9,541	9,524	9,131
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(167)	(826)	(104)	(488)
Free Cash Flow	8,809	8,715	9,420	8,643
(Inc.)/ Dec. in Investments	0	0	0	0
Other	0	0	0	0
(B) CF from Investing Activities	(4,310)	(4,261)	(2,622)	(7,062)
Issue of Equity/ Preference	1,013	1,263	1,512	875
Inc./(Dec.) in Debt	0	0	0	0
Interest exp net	(3,703)	(4,116)	(4,330)	(3,697)
Dividend Paid (Incl. Tax)	(2,236)	(2,457)	(2,827)	(3,241)
Other	0	0	0	0
(C) CF from Financing	(4,926)	(5,311)	(5,645)	(6,064)
Net Change in Cash	(247)	(278)	1,155	(4,041)
Opening Cash balances	8,415	8,168	7,890	9,045
Closing Cash balances	8,168	7,890	9,045	5,004

E – Estimates

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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