

 TECHNOLOGY & INTERNET

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Accenture guidance signals tepid near-term outlook for India IT

- ACN narrowed its FY23 revenue growth guidance to 8-9% YoY CC from 8-10% due to a material decline in consulting engagements
- Per management, macro uncertainty continues to hamper the deal cycle, especially for small projects
- Poor consulting deal trends dim the Q1FY24 outlook for INFO and WPRO; CMT slowdown to put pressure on TECHM

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Modest Q3 revenue: Accenture (ACN US, Not Rated) reported revenue of US\$ 16.6bn (+5% YoY CC) for the third quarter ended May, aided by below-expected cross-currency headwinds (-2.5% vs. -3.5% built into the guidance) and 13% YoY growth in managed services business. The company indicated that it seeing rising client interest in the areas of cloud, data, generative AI and security. Management anticipates large opportunities in software-as-a-service (SaaS) and generative AI, and has invested US\$ 3bn to double its data and AI workforce to 80 and to expand its centre of advanced-AI/generative-AI-powered industry solutions.

Slowdown in managed services, CMT a concern: In a key negative, the managed services business posted its lowest book-to-bill ratio post pandemic at 1.06x in Q3FY23, mainly because of lower backfilling and softer bookings. Among verticals, communications, media and technology (CMT) declined by 8% YoY while health & public services/resources grew by 12%/14%. BFSI was up 5% YoY but declined in North America. Consequently, North America revenue for the quarter was weak (+2% YoY).

Guidance cut: ACN has guided for revenue growth of 2-6% YoY CC in Q4FY23 – a seasonally weak quarter – and also narrowed its growth guidance for FY23 to 8-9% YoY CC (from 8-10%) citing deterioration in small-size deal wins, especially in the CMT vertical and North American market.

Readthrough for Indian IT services firms: ACN's poor consulting deal booking trend in Q3FY23 dims the outlook for INFO and WPRO given their higher exposure to the consulting business. The slowdown in CMT is expected to put pressure on TECHM in the near term. On the positive side, ACN performed better in Europe than North America which bodes well for TCS and COFORGE.

The Dublin-based company continues to believe that the IT transformation and cloud business carries multiyear tailwinds and is likely to boost growth for the IT services sector. This provides a sentimental boost for Indian IT companies from a long-term perspective. We maintain our positive stance on the sector.



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