IT SERVICES

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Accenture's stellar show to energise Indian tech stocks

- **Accenture (ACN) reported a stellar Q3FY21 performance and raised its full-year growth guidance**
- **Outsourcing saw decade-high booking growth and management indicated secular demand growth, healthy deal momentum and a tight talent market**
- **ACN's results are a positive readthrough for Indian IT players. We prefer TECHM and HCLT among large-caps and Coforge among mid-caps**

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Positive readthrough for Indian IT: ACN clocked a stellar May'21 quarter performance, which offers a positive readthrough for Indian IT service players. Higher revenue growth outperformance compared to the prior two quarters and a stronger growth outlook driven by organic revenue indicate green shoots for Indian companies. Moreover, ACN characterised market dynamics as "more sustained growth in demand beyond mere recovery", pointing to a secular demand uptick.

Revenue growth 300bps above guidance: ACN's Q3FY21 (Y/E Aug) revenue grew 16% YoY in local currency and 21% in USD, 300bps above the upper end of its guidance. Though above-guided revenue is a trend at ACN, the quantum of the beat was higher in Q3FY21. Outsourcing revenue (comparable business segment for Indian IT) grew 20% YoY, the highest in the last 12 quarters.

Broad-based growth: Growth was broad-based across verticals, led by over 15% YoY growth across public and health services (up 21%), financial services, communications & hi-tech, and products (which broke its weak performance streak). All geographies saw broad-based growth, led by North America at 18% YoY. While outsourcing continued its momentum from Q4FY20, the consulting business ramped up quickly in Q3, delivering YoY growth of 21% (vs. 4% in Q2FY21) and QoQ growth of 13%.

FY21 outlook revised up: ACN has raised its revenue growth guidance for FY21 to 10-11% (vs. 6.5-8.5% CC indicated in Q2FY21), including a -1% impact from reimbursable travel costs. The revised revenue guidance is on the back of organic business traction. Inorganic revenue share guidance for FY21 is unchanged at ~2.5%.

Strong outsourcing bookings: ACN's Q3 bookings were robust at US$ 15.4bn, up by a stellar 40% YoY but down 4% QoQ given peak bookings of US$ 16bn last quarter. The pipeline includes a record 20 new clients with over US$ 100mn in bookings. Outsourcing formed 48% of the pipeline, growing by a strong 54% YoY (the highest in over a decade), with a high book-to-bill ratio of 1.2x (vs. 1.4x in Q2FY21). Consulting formed 52% of the pipeline, growing by 29% YoY.

Recommendation snapshot

Ticker	Price	Target	Rating
COFORGE IN	4,073	4,080	BUY
HCLT IN	990	1,190	BUY
INFOE IN	4,789	2,880	SELL
LTI IN	4,185	4,710	BUY
MPHL IN	2,049	1,580	SELL
PSYS IN	2,575	1,340	SELL
TCS IN	3,374	3,780	BUY
TECHM IN	1,080	1,190	BUY

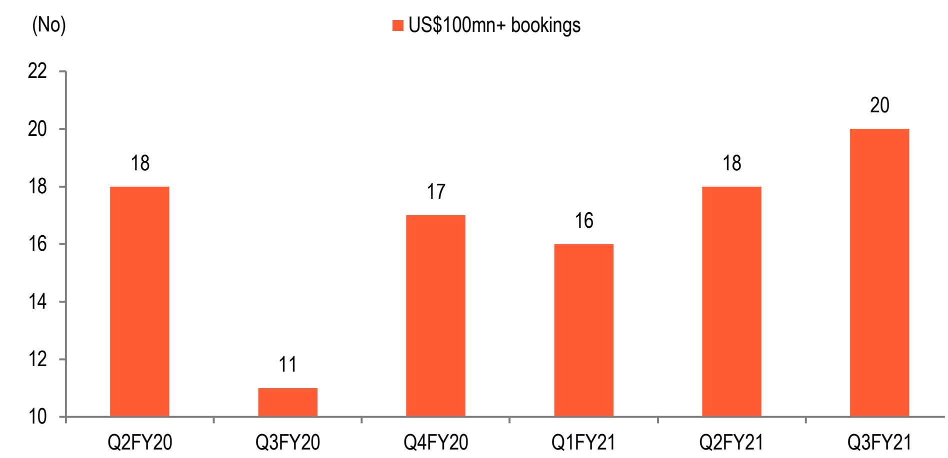
Price & Target in Rupees | Price as of 24 June 2021

Other highlights

- **M&A commitment scaled up:** ACN plans to spend a whopping US$ 4bn on acquisitions in FY21 vs. its US$ 1.7bn target set at the start of the financial year. Year-to-date, it has acquired 39 targets (10 in North America, 17 in Europe and 12 in growth markets), taking its M&A tally to ~200 since 2013.

- **Cloud growth acceleration:** ACN's key engines of growth are cloud, industry X (digitised manufacturing), interactive and security, of which cloud has continued its strong double-digit growth streak in Q3. The rest also grew by double digits YoY. The company saw a broader and better-than-expected pick-up in demand driven by cloud. Its US$ 3bn initiative – Accenture Cloud First – which helps enterprises re-platform their businesses, drove strong double-digit YoY growth in the cloud segment on a high base of over US$ 12bn, continuing the momentum from Q1FY21.

FIG 1 – Record large bookings



Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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