

## IT SERVICES

27 September 2019

### Positive readthrough from Accenture results

Accenture posted record bookings worth US\$ 12.9bn in Q4FY19, including 16 US\$ 100mn+ TCV deals, besides guiding for 5-8% YoY CC revenue growth for FY20. We view the steady growth outlook and buoyant bookings as a positive demand readthrough for Indian IT players, but expect their EPS growth to lag in the near term on higher cost of delivery (in the absence of sharp INR depreciation). We continue to prefer TCS & HCLT amongst large-caps and NITEC, MPHL & LTI amongst mid-caps.

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**Record high bookings incl. 16 US\$ 100mn+ deals:** New outsourcing engagements worth US\$ 6.8bn (+45% YoY) in Q4FY19 (August year end) uplifted total deal wins to US\$ 12.9bn, a historic high for Accenture. About 65% of the deals are in new areas and 16 of them carry a TCV of US\$ 100mn+. Management indicated that average deal tenor remains unchanged. Buoyant deal activity coupled with big-ticket contracts is encouraging in our view, especially as a challenging global macro continues to unsettle the street.

**Status quo in BFSI, regional markets continue to drive growth:** Accenture reported 4% YoY CC growth in the BFSI segment, similar to that in the May quarter, led by growth in the US and regional markets while Europe contracted. Management expects continued improvement in the banking and capital markets globally. Amongst geographies, regional markets continued to lead growth, rising 12% YoY and posting a double-digit rise for the tenth quarter in a row.

**Steady growth outlook a positive readthrough for India IT:** Accenture has guided for 5-8% YoY CC revenue growth in FY20, which appears soft at first glance as it implies loss of business momentum versus FY19 when the company saw 8.5% YoY CC growth. But in three of the last four years, revenue growth has outpaced the 5-8% guidance put out at the beginning of each year. Also, continuation of the start-of-year guidance range despite current unfavourable macro dynamics suggests management's confidence in steady business growth, in our view. The FY20 outlook bakes in ~200bps contribution from inorganic revenues – similar to FY19.

**Other result highlights:** (1) Accenture invested US\$ 1.2bn to acquire 33 entities in FY19. (2) Accenture Interactive is now a US\$ 10bn+ revenue service. (3) New revenue share was ~65% in FY19, growing at ~20% CC.

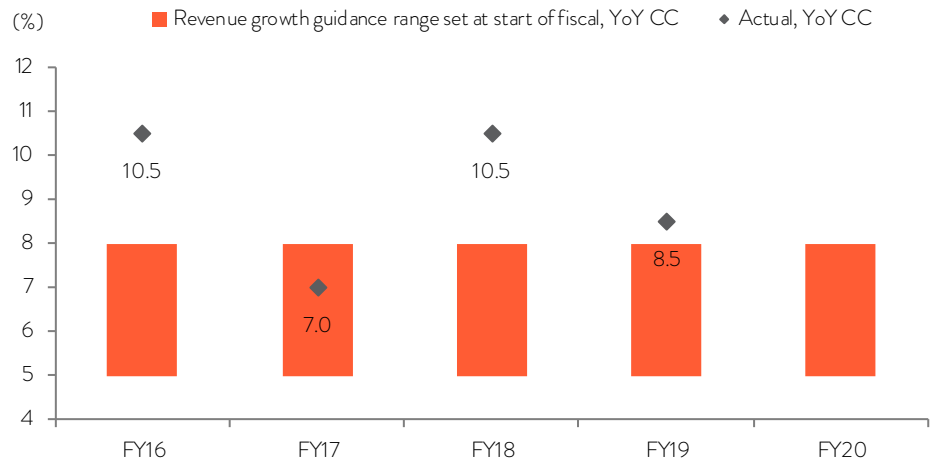
### RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,088	2,360	ADD
INFO IN	783	820	ADD
WPRO IN	237	230	SELL
HCLT IN	1,045	1,230	BUY
TECHM IN	786	660	REDUCE
LTI IN	1,715	2,010	BUY
MPHL IN	987	1,150	BUY
MTCL IN	696	670	SELL
HEXW IN	358	390	ADD
PSYS IN	629	650	REDUCE
NITEC IN	1,334	1,550	BUY
ECLX IN	441	490	SELL

Price &amp; Target in Rupees

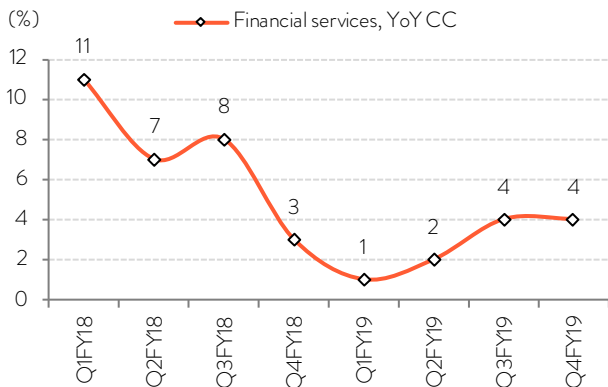


**FIG 1 – ACCENTURE’S REVENUE GREW ABOVE ITS UPPER END OF START-OF-YEAR GUIDANCE IN 3 OF LAST 4 FISCAL YEARS**



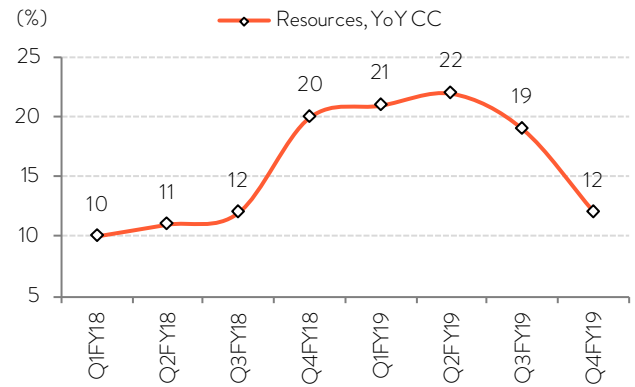
Source: Company, BOBCAPS Research | Note: Accenture follows August ending fiscal year

**FIG 2 – BFSI GROWTH STEADY IN Q4FY19, MANAGEMENT SEES IMPROVEMENT AHEAD**



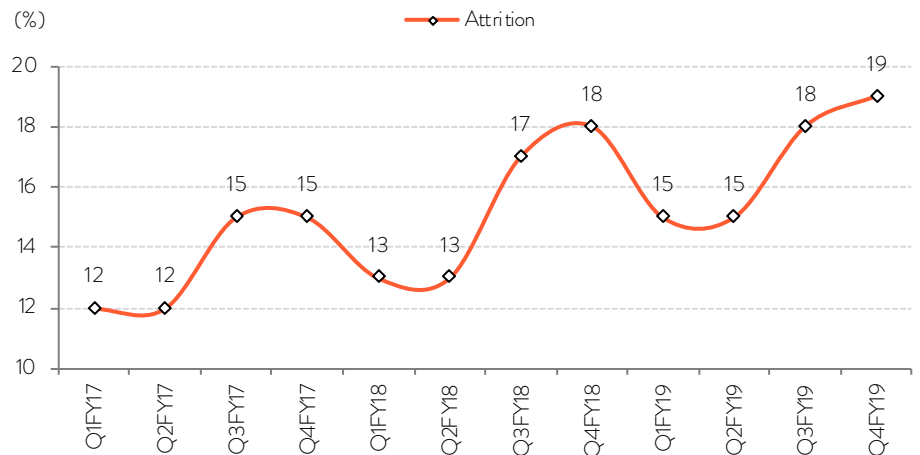
Source: Company, BOBCAPS Research

**FIG 3 – RESOURCES\* LED GROWTH AMONGST VERTICALS**



Source: Company, BOBCAPS Research | \*Resources include Chemicals & Natural Resources, Energy and Utilities

**FIG 4 – ATTRITION CONTINUES TO INCH UP**



Source: Company, BOBCAPS Research

**FIG 5 – BOBCAPS IT SERVICES UNIVERSE: VALUATION SUMMARY**

Company	CMP (Rs)	Mkt Cap (US\$ bn)	Rating	Target Price (Rs)	US\$ revenue CAGR (%)		EBIT CAGR (%) FY19-21E	EPS (Rs)		P/E (x)		EV/EBIT (x)		ROE (%)	
					FY17-19	FY19-21E		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
TCS	2,088	110.4	ADD	2,360	9.1	10.1	8.9	87.4	99.4	23.9	21.0	20.1	17.3	33.3	32.0
INFO	783	48.1	ADD	820	7.5	9.1	8.8	36.3	41.8	21.6	18.7	16.8	14.0	24.8	25.8
WPRO	237	19.1	SELL	230	3.4	4.4	4.5	15.6	16.9	15.2	14.0	10.5	9.0	16.0	16.4
HCLT	1,045	20.0	BUY	1,230	11.2	12.2	9.2	74.7	84.7	14.0	12.3	10.4	8.8	22.8	23.0
TECHM	786	9.7	REDUCE	660	7.0	6.6	3.1	46.4	52.8	16.9	14.9	14.0	11.2	18.6	19.0
LTI	1,715	4.2	BUY	2,010	17.9	9.7	6.1	85.5	98.4	20.1	17.4	17.7	14.4	28.1	27.5
MPHL	987	2.6	BUY	1,150	10.7	12.5	13.3	61.9	68.5	15.9	14.4	13.0	11.3	20.9	21.0
MTCL	696	1.6	SELL	670	13.3	9.7	6.6	34.9	47.4	20.0	14.7	13.9	10.1	16.5	20.2
HEXW*	358	1.5	ADD	390	13.6	15.7	12.2	21.6	23.7	16.6	15.1	12.7	10.8	24.9	23.1
PSYS	629	0.7	REDUCE	650	5.7	9.3	5.9	46.6	50.3	13.5	12.5	11.9	9.8	15.4	15.3
NITEC	1,334	1.2	BUY	1,550	13.0	12.6	14.1	72.4	88.4	18.4	15.1	12.7	10.0	20.2	21.5
ECLX	441	0.2	SELL	490	8.9	8.9	2.4	48.4	59.7	9.1	7.4	5.6	4.5	16.8	19.2

Source: Bloomberg, Company, BOBCAPS Research | Price as on 26 Sep 2019 | \*FY20 refers to CY19 and so on for Hexaware

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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