



Sector Update

March 21, 2025

In line performance, but blurring visibility

Quick Pointers:

- FY25 revenue guidance narrowed to 5-7% YoY CC from 4-7% earlier
- Tariffs and macroeconomic uncertainties pose potential risks but impact yet to be seen

Accenture's (ACN: NYSE) quarterly performance exceeded the consensus estimates and reported at the top-end of the guidance. However, the outsourcing bookings were disappointing (down 6% YoY), which is again coming at the back of weak bookings reported in Q1 (down 4% YoY), partly risking the odds of achieving organic growth in H2. For the Indian IT Service context, the revenue growth was already a challenge, which might get intensified with muted bookings and delayed deal closures. We believe the weakness in consumer sentiment and inflationary tariffs are yet to get fully baked into enterprise operations, which might further delay closure activities going forward, especially on the discretionary programs. However, the incremental spending around cost-focused AI programs would partially support the growth. Hence, we prefer names that have balancing play on both cost and transformation programs.

- **Demand & Outlook:** Although ACN's performance in Q2 came at the top end of the guidance the management mentioned that the demand environment in recent times has deteriorated compared to December 2024 due to tariff wars & uncertainties. The impact of tariff wars & uncertainties are yet to play out, but ACN has surprisingly narrowed its revenue guidance to 5-7% YoY CC growth. Demand is still driven by cost optimization projects with no improvement in discretionary spending demand.
- **Outsourcing performance a mixed bag:** Outsourcing business (11% YoY CC growth) continued its momentum with 2nd successive quarters of double-digit growth. The growth momentum in outsourcing is a positive read-through for Indian IT services companies but the deal wins in outsourcing declined again on YoY basis for 2nd consecutive quarter.
- **Strong Gen AI demand:** Accenture's Generative AI bookings surged to \$1.4 billion in Q2, up from \$1 billion in Q1, signaling continued strong demand. Despite increasing adoption, clients are exercising caution in scaling due to immediate ROI concerns.
- **Tech Budget for CY25:** ACN mentioned that it has not seen a major uptick in the clients' tech budget for CY25 and it expects the budget to remain at similar levels. ACN also mentioned that pricing remains relatively stable but the competition among peers remains intense.

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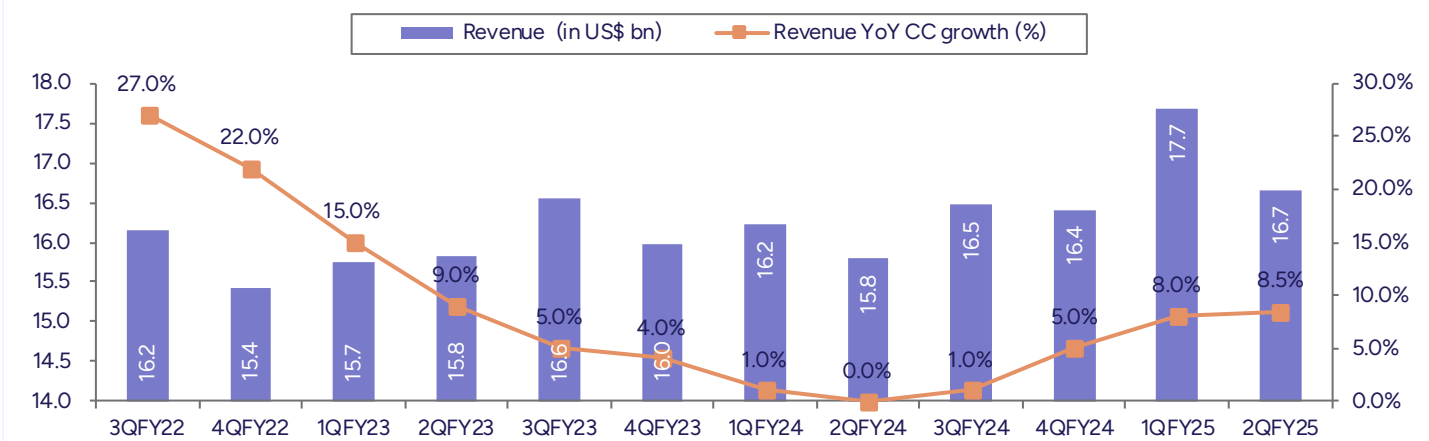
Accenture 2QFY25 first take: Steady performance with improved guidance, but disappointed on bookings

- Revenue at US\$ 16.7 bn, up 5.4% YoY (+8.5% CC YoY) near the top end of guidance band of 5-9% YoY CC growth vs consensus of 7.5% YoY CC growth
- Outsourcing revenue (50% of mix) came at US\$ 8.38 bn, up 8% YoY in reported & 11% YoY in CC term (2nd successive quarter of double-digit growth). Consulting revenue (50% of mix) came at US\$ 8.28 bn, up 3% YoY (+6% CC YoY)
- **FY25 revenue guidance narrowed to 5-7% from earlier 4-7%**
- 2QFY25 revenue guidance of US\$ 16.9- 17.5 bn, guidance band of 3-7% YoY growth with impact of forex of -0.5%
- Adjusted EBIT margin came at 13.7% (-20 bps YoY) and largely maintained FY25 GAAP Operating margin band of 15.6-15.7%
- **New booking at US\$ 20.9bn was flat in CC terms & declined by 3% YoY in reported terms. Outsourcing bookings declined by 6% YoY to US\$ 10.44 bn while consulting booking was flat YoY at US\$ 10.47 bn**
- Segments wise growth was broad based with Financial Services continuing its momentum with 11% YoY CC growth. Health, CMT, Products & Resources grew by 10%, 6%, 9% & 5% YoY CC growth respectively
- Geography wise also the growth was broad based with Americas, EMEA & reporting a growth of 11% & 8% YoY CC respectively while APAC reported muted growth of 1%
- Net employee addition was muted sequentially with 2.3k net addition taking the total headcount to 801k employees

Other KTA's

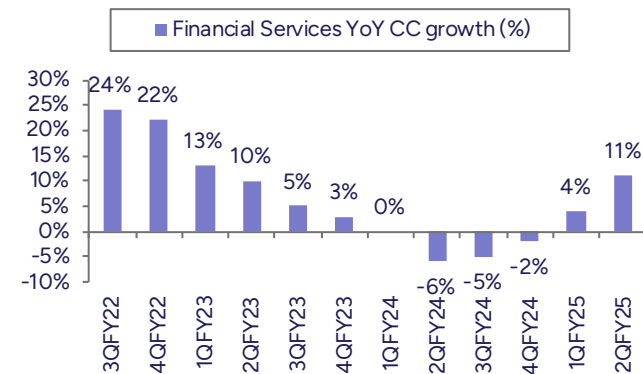
- ACN mentioned that it is currently facing challenges with US Federal Government services which forms ~8% of its revenue mix due to new administration focus on cost optimization. This specific challenge is unique to Accenture, while Indian IT service providers will remain unaffected as they don't have much exposure to US Federal Government services.
- **Geography- & sector-wise performance:** Growth in the Americas was primarily driven by the US, with strong momentum in banking and capital markets, industrials, healthcare, consumer goods, retail, and travel. In EMEA, public services, life sciences, consumer goods, retail, and travel were the key growth drivers, with the UK leading the region. The robust performance of financial services in the US is a positive indicator for Accenture's Indian competitors.
- ACN expects outsourcing businesses to grow in high single digit in CY25 while consulting to grow in mid-single digit. Also, for CY25 ACN expects organic growth of 2-4% YoY CC with an inorganic contribution of 3%.
- **Discretionary spending:** ACN indicated that it witnessed marginal uptick in discretionary demand in Banking & capital market in the US region, but overall discretionary demand continues to remain weak. They further mentioned that their revenue guidance reflects no assumed improvement in discretionary spending at the high end, while factoring in potential further deterioration at the low end.

Exhibit 1: Outsourcing business momentum drives growth in Q2



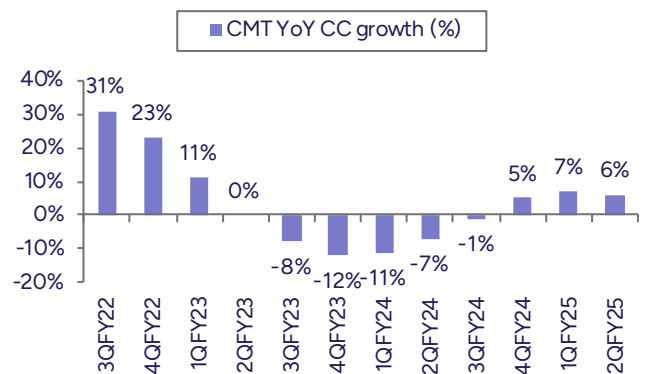
Source: Company, PL

Exhibit 2: FS see strong rebound



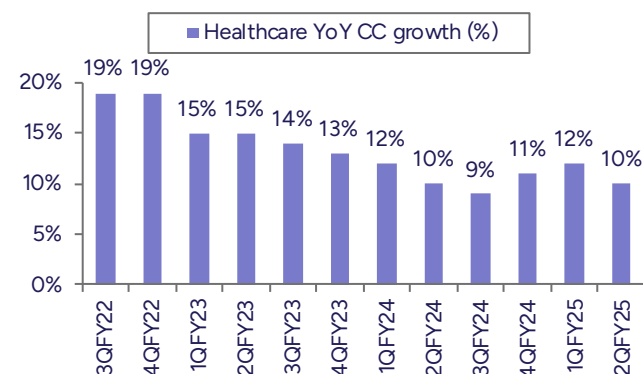
Source: Company, PL

Exhibit 3: CMT performance steady



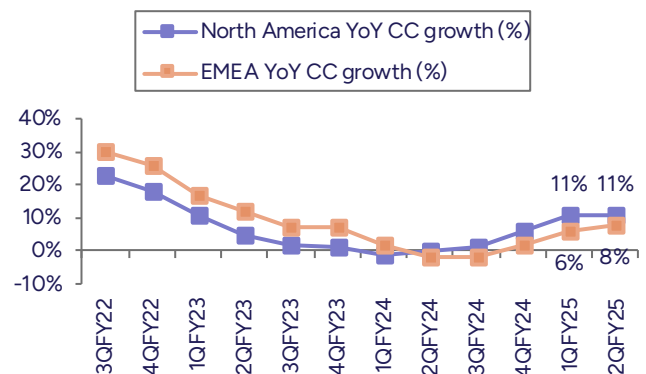
Source: Company, PL

Exhibit 4: Healthcare momentum continues



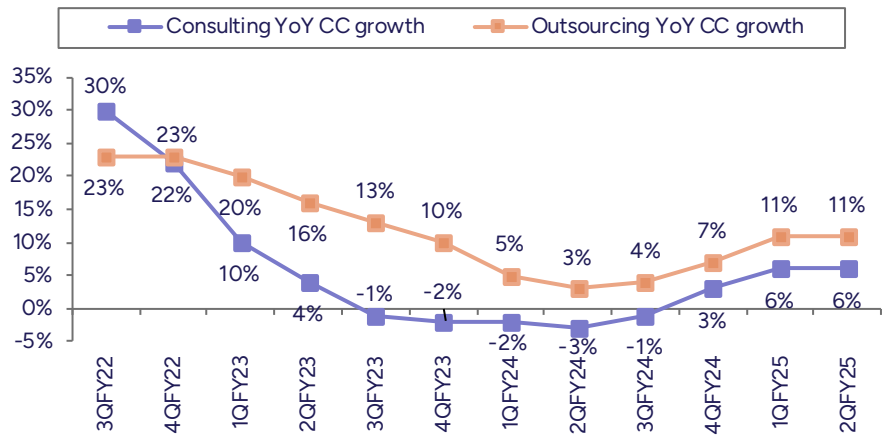
Source: Company, PL

Exhibit 5: Broad based growth in key geographies



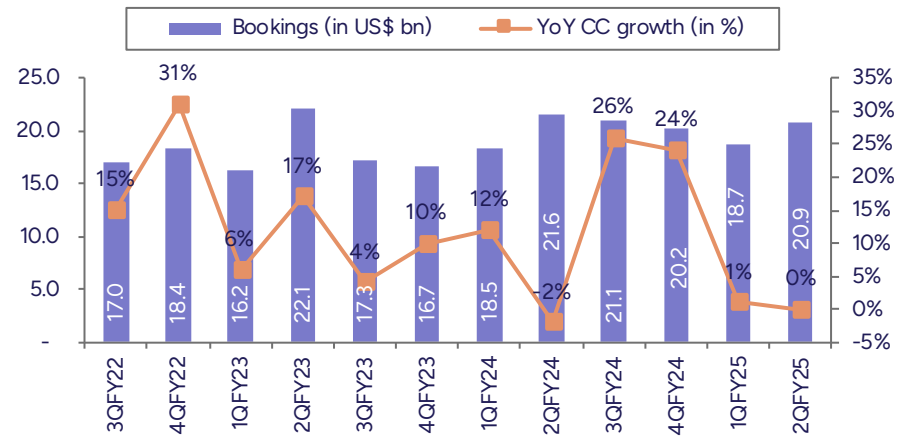
Source: Company, PL

Exhibit 6: Outsourcing business strong for 2nd successive quarter



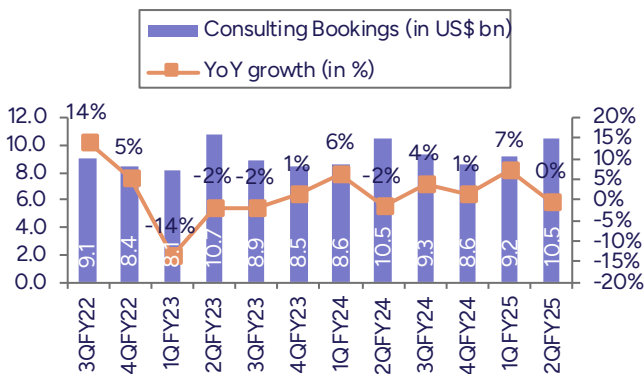
Source: Company, PL

Exhibit 7: Bookings flat in CC in Q2



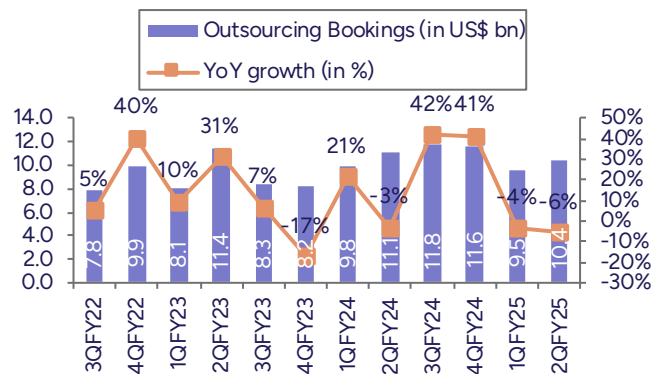
Source: Company, PL

Exhibit 8: Consulting bookings flattish in Q2



Source: Company, PL

Exhibit 9: Outsourcing bookings weak for 2nd qtr



Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	2,010	1,755
2	HCL Technologies	Accumulate	2,080	1,989
3	Infosys	BUY	2,250	1,928
4	LTIMindtree	BUY	7,000	5,979
5	Mphasis	Accumulate	3,200	3,011
6	Persistent Systems	Hold	5,970	5,683
7	Tata Consultancy Services	BUY	4,810	4,039
8	Tech Mahindra	Accumulate	1,760	1,660
9	Wipro	Accumulate	310	282

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Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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