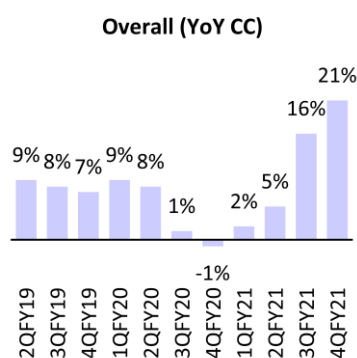


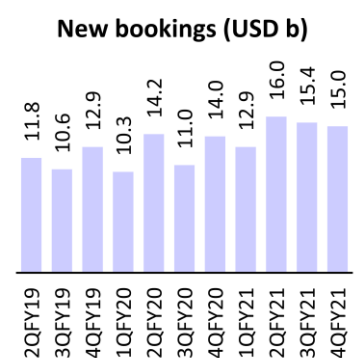


Posts strong growth in 4QFY21



Source: Company, MOFSL

Momentum in bookings continues in 4QFY21



Source: Company, MOFSL

Accenture's FY22 guidance validates our optimism on industry growth

Elevated hiring and attrition to add to near-term cost concerns

Accenture (ACN) reported an in line 4QFY21 revenue. The management provided a strong initial guidance on FY22 revenue, with a robust commentary around sustainability of demand. While supply-side pressures are evident, the FY22 margin guidance indicates its ability to offset costs. Its organic revenue growth guidance (7-10% in CC) is strong, given its penchant of raising the guidance over the fiscal. This implies a strong demand momentum for the industry over the next 12 months.

Snapshot of 4QFY21 result – in line revenue, strong guidance

- Robust operating performance:** Revenue at USD13.4b (21% YoY in CC terms and 23.8% YoY in USD terms) was at the top end of the management's guidance and in line with Bloomberg consensus estimates. ACN also reported deal bookings of USD15b (book-to-bill ratio of 1.12x), up 7% YoY. Outsourcing TCV fell 6% YoY.
- Outsourcing marginally outpaced Consulting:** Growth was balanced within services, with Outsourcing (+2% QoQ), marginally outpacing Consulting (+0.5%) in sequential growth.
- Strong guidance:** The management has provided a strong (12-15% YoY) FY22 growth guidance in CC terms. The guidance assumes strong double-digit growth in the Consulting business and high single-digit to low double-digit growth in the Outsourcing business.
- Focus on acquisitions:** ACN has increased its acquisition expectations, deploying over USD4b in FY22. It expects an additional ~5% growth from acquisitions in FY22 (v/s ~2% historically). In FY21, it acquired 46 companies.
- Strong net additions:** ACN added ~55k employees in 4QFY21, which implies a massive 10% QoQ increase in headcount. It added over 115k employees in FY21, which implies ~23% YoY increase in headcount. Moreover, the hiring momentum is expected to continue in 1QFY22.
- Uptick in attrition:** 4QFY21 saw a 200bp increase in employee attrition (after a 500bp rise in 3Q), with the bulk of the impact coming from the Indian workforce.

Read-across positive for Indian IT Services peers

- Demand environment remains conducive:** The management highlighted the continued strength in the demand environment, led by strong traction for Digital, Cloud, and Security. Demand is expected to sustain, given: 1) the early stage of Digital adoption, and 2) continuously evolving technology landscape, which will usher new opportunities. Its commentary reiterated the fact that Digital demand remains a structural trend.
- Guidance strong and conservative:** The management's strong guidance reflects strength in the demand momentum. We see scope for improvement in its guidance throughout the year, given the company's historical pattern.
- Headcount growth reflects the near term execution visibility:** ACN's headcount growth has remained strong over the past four quarters and has been accelerating steadily. We see strong headcount growth for 4QFY21 and 1QFY22E as an indication of strong execution pipeline for the current fiscal.

- **Supply pressures exist, but margin strength intact:** The management indicated high supply-side pressures for hiring Digital skills, especially in India. Attrition also inched up by 200bp QoQ to 19%. Despite supply pressures, its margin guidance implies ~20bp margin expansion, which is a key positive.

Key highlights from the management commentary

- **Bookings and pipeline:** Around 18 clients had bookings of more than USD100m. Strong bookings were seen across Consulting and Outsourcing. The number of diamond clients (over USD100m) stood at 229 (v/s 216 in FY20).
- **Early stages in the Digital transformation:** The management highlighted that the industry is in early stages of Digital transformation for both core modernization and Cloud transformation. Around 20% of core is Digital and 25-30% workloads are currently on Cloud.
- **Strong growth in Digital:** Accenture Cloud First is now an USD18b business (+44% YoY). The company's Security business is valued ~USD4.4b and is growing at 29%. Industry X is ~USD5b business and is growing at 36%.
- **1QFY22 guidance:** The management has guided at 1QFY22 revenue of USD13.9-14.35b, implying 18-22% YoY CC growth and +0.5% FX impact.

Valuation and view – positive for Indian IT

The management commentary reinforces our view that the demand environment continues to remain strong and is sustainable. Solid and conservative guidance for FY22 and strong headcount addition provides visibility to India's IT growth momentum. While supply-side challenges remain a point of concern, ACN's margin guidance implies margin strength will continue in FY22. We maintain our positive stance on the sector as we expect sustained growth with stable margin. Infosys and HCL Technologies remain our preferred picks within Tier I IT.

Key takeaways from the management interaction:

Performance and operations

- ACN reported strong revenue growth (21% YoY CC) in 4QFY21, at the top end of its guided range. Growth was broad based with all markets, industries, and services growing at strong double-digits.
- Growth in Europe was led by Consumer Goods, Retail, Travel, Industrial, Banking, and Capital Markets.
- The company also reported solid bookings in 4QFY21, up 7% YoY, with a book-to-bill ratio of 1.1x. Of these, 18 clients saw bookings of more than USD100m. Deal bookings are across all deal sizes and includes a good amount of small and medium size deals. The management indicated that quarterly bookings can be lumpy, but the deal pipeline continues to remain strong.

Industry overview

- The growth in Cloud continues to remain strong. Accenture Cloud First is now an USD18b business (+44% YoY). Security has also become very important and is now an USD4.4b business, growing at 29%.
- The management expects the Industry X (Digital Engineering and Manufacturing) and Sustainability to be new frontiers driving growth.

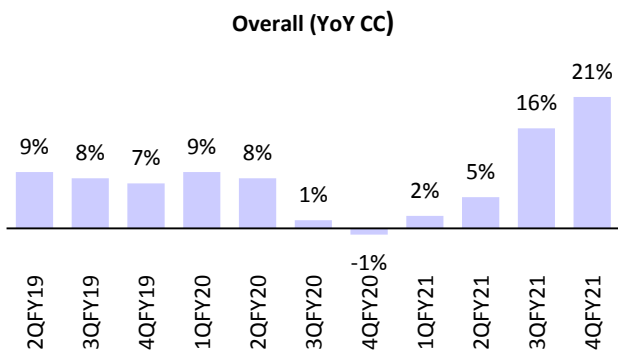
- Attrition is going up due to market dynamics, but attrition in 4QFY21 was in line with the management’s expectations. Moreover, it is confident about modest margin improvement in FY22, despite higher wages.

Outlook

- The management has guided at 1QFY22 revenue of USD13.9-14.35b, implying 18-22% YoY CC growth and +0.5% FX impact.
- For FY22, it has guided at a revenue growth of 12-15% YoY CC, with a -0.5% FX impact. Inorganic contribution would be ~5% for FY22. Margin would be at 15.1-15.3% in FY22.

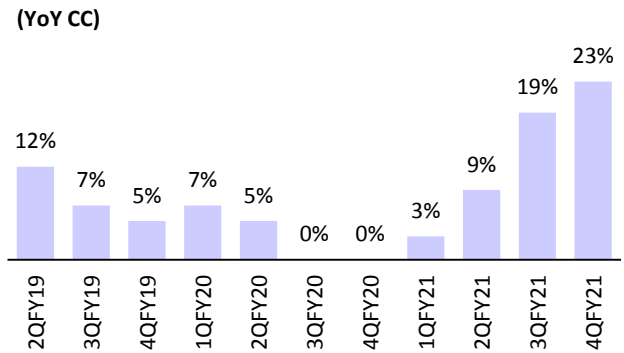
Story in charts

Exhibit 1: Posts strong growth on the back of...



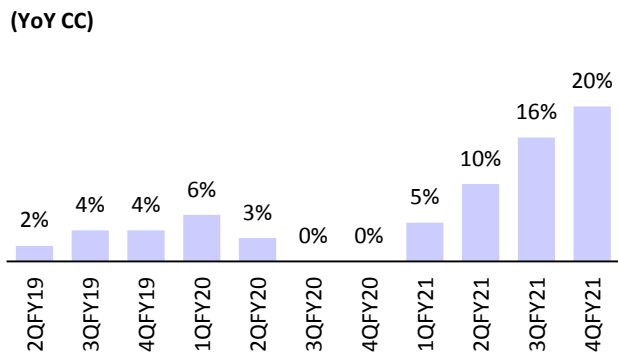
Source: Company, MOFSL

Exhibit 2: ...robust growth in Communications...



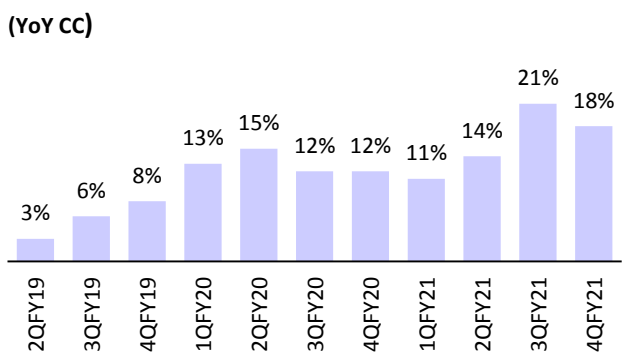
Source: Company, MOFSL

Exhibit 3: ...Financial Services...



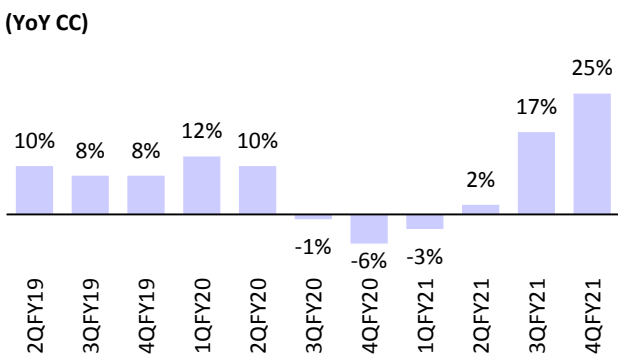
Source: Company, MOFSL

Exhibit 4: ...and Healthcare



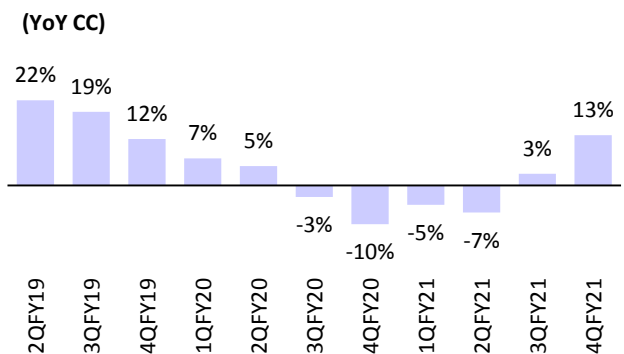
Source: Company, MOFSL

Exhibit 5: Products witness strong growth...



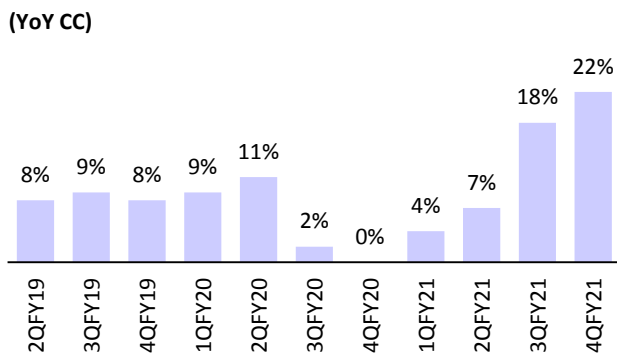
Source: Company, MOFSL

Exhibit 6: ...while growth in Resources rebounds



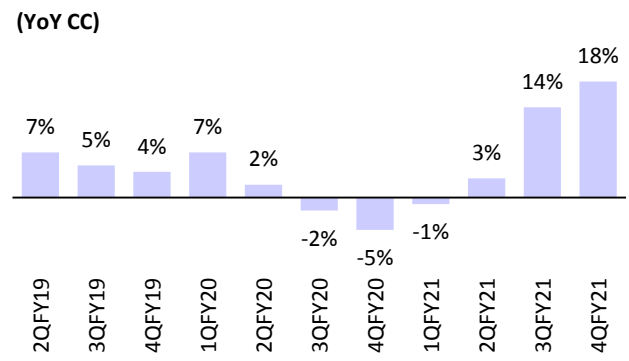
Source: Company, MOFSL

Exhibit 7: Strong growth in America...



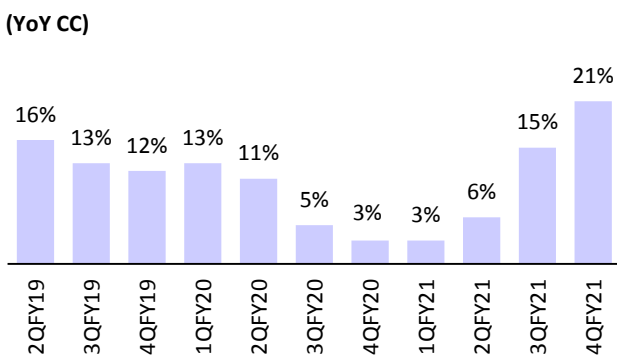
Source: Company, MOFSL

Exhibit 8: ...as well as Europe



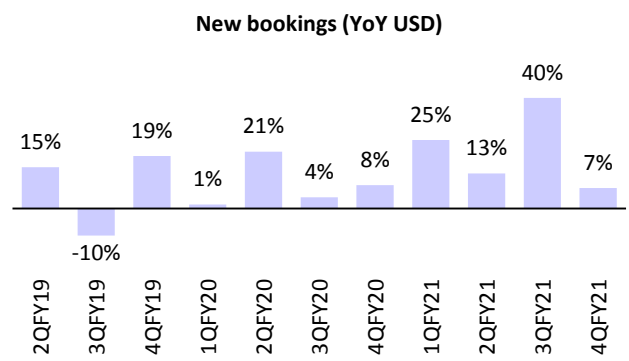
Source: Company, MOFSL

Exhibit 9: Growth markets report healthy growth



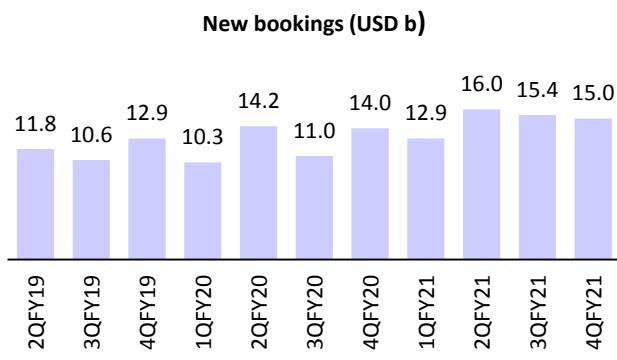
Source: Company, MOFSL

Exhibit 10: Growth in bookings moderates on a high base



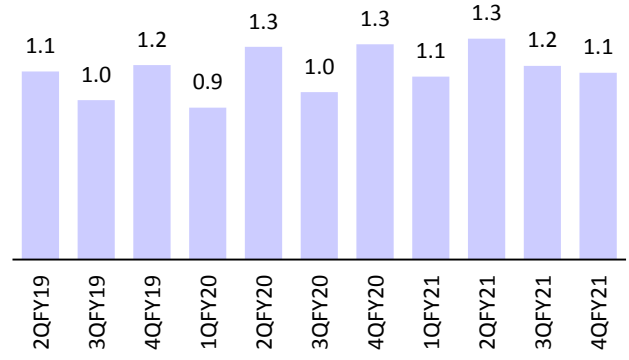
Source: Company, MOFSL

Exhibit 11: Momentum in bookings continues in 4QFY21



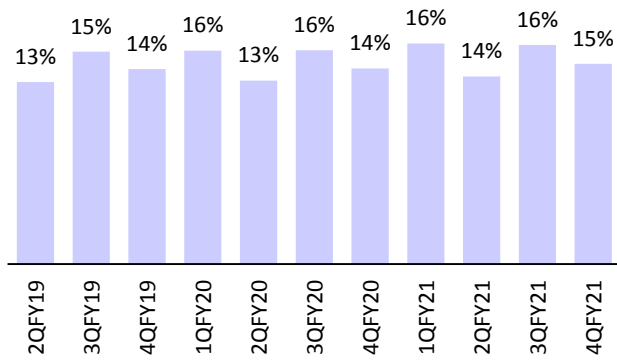
Source: Company, MOFSL

Exhibit 12: New book-to-bill ratio dips



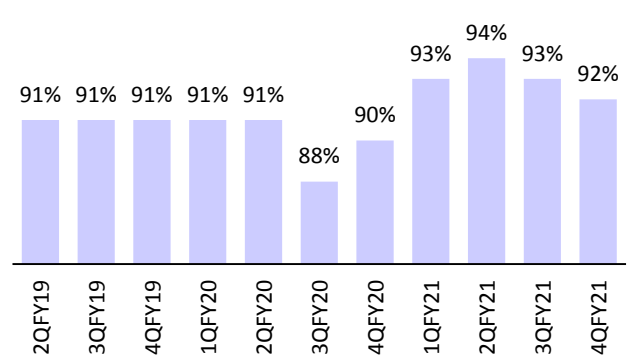
Source: Company, MOFSL

Exhibit 13: Operating margin declines on a QoQ basis



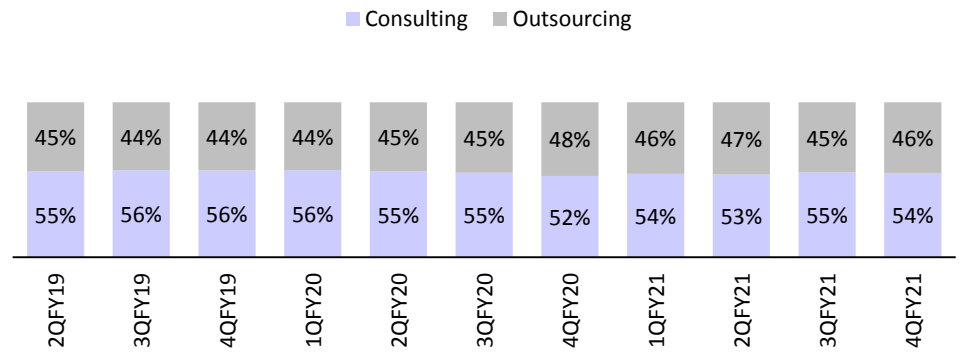
Source: Company, MOFSL

Exhibit 14: Utilization rate declines during 4QFY21



Source: Company, MOFSL

Exhibit 15: Share of Outsourcing revenue increases



Source: Company, MOFSL

NOTES

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