



Stock covered

TCS

Infosys

Wipro

HCL Technologies

Tech Mahindra

LTI

Mphasis

Hexaware

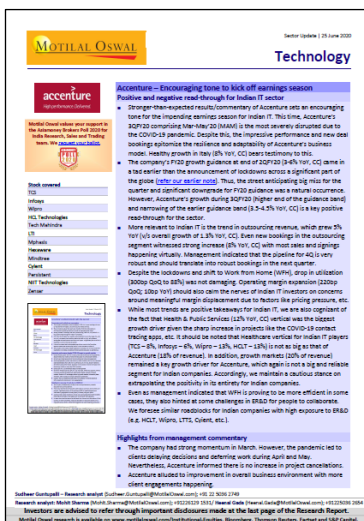
Mindtree

Cyient

Persistent

NIIT Technologies

Zensar



Accenture – an encouraging outlook

Strong order bookings

With Accenture reporting its 4QFY20 results yesterday, we present a read-through of key industry trends from the perspective of the Indian IT sector:

- **4QFY20 revenue largely in line with consensus estimates:** Accenture's revenue at USD10.8b (mid-point of the company's guidance of USD10.6–11.0b) was largely in line with the consensus estimate of USD10.9b. Revenues declined 1% YoY CC (including a 2pp impact from reduced travel reimbursements in consulting).
- **Verticals doing well:** Software, Lifesciences, and Public Services continued to do well, reaching the high-single to low-double digits (YoY). On the other hand, Communication and BFSI were largely stable – a positive for Indian IT companies. Health & Public Services (12% YoY, CC) were the biggest growth drivers given the sharp increase in projects such as COVID-19 contact-tracing apps, etc. Notably, the Healthcare vertical for Indian IT players (TCS – 10%, Infosys – 7%, Wipro – 13%, and HCLT – 14%) is not as big as that of Accenture (19% of revenue). Accordingly, we maintain a cautious stance on extrapolating this as a positive for the overall Indian sector.
- **Verticals remain challenged:** Energy, Retail, Travel, and Hi-tech (Aero & Defense) continue to face challenges, and recovery is likely to be elongated. This is in line with our expectation of delayed recovery in these segments for Indian IT Services firms as well.
- **Strong order bookings encouraging:** Accenture reported its second highest order booking ever – USD14b (8% YoY) in 4QFY20. Outsourcing bookings were strong, up 10% YoY. We understand these bookings could be lumpy, but they still indicate demand is on the path to normalization/recovery, with the worst behind us. Management hinted at a robust deal pipeline, which is encouraging for Indian IT companies as well.
- **High cash conversion:** Accenture reported FCF/NI of ~150% as the Days Sales Outstanding (DSO) improved by 6 days QoQ to 35 days. Indian IT companies have been following a disciplined collections process too, and have reported similar improvements recently. DSO should continue to be largely stable for them going forward.
- **Guidance for FY21:** Accenture guided for revenue growth of 2–5% YoY CC in FY21 (Sep'20–Aug'21) and margin expansion of 10–30bp, which is encouraging.
 - 2HFY21 (Mar–Sep'21) is expected to see high single digit to low double digit growth. This is a positive for Indian IT companies and further solidifies our expectation of a better FY22 outlook.
 - Accenture's revenue guidance for the next quarter stands at USD11.1–11.55b (v/s consensus estimate of USD11.54b), implying slightly elongated recovery in the near term.

Highlights from management commentary

- The company stated trends – with regard to impacted industries and pricing pressures – in 3QFY20 (comprising Mar–May’20) continued in 4QFY20 (comprising Jun–Aug’20) as well.
- Management alluded that they are no more navigating the crisis but rather facing a new reality and emerging stronger from last couple of quarters.
- Accenture did see acceleration in cloud adoption as clients, impacted by the pandemic, were required to change virtually every aspect of the business and move to cloud.
- During the quarter, the company had substantial new bookings in the Healthcare sector, and boasts a strong and healthy deal pipeline going into FY21.
- Management is confident of returning to its pre-COVID growth rates by 2HFY21 as it is seeing improvement in the macro-environment and expects to benefit from the transformation deals won.
- In terms of margins, the company believes it would continue to deliver modest margin expansion in FY21. It does not expect travel costs to return to prior levels next year as it would continue to leverage virtual sales wherever possible.
- Accenture has continued to gain market share as it has grown faster than some of its peers.
- With 70% of its new bookings coming from Digital, the company now has a new core business. It would stop reporting this separately going forward.

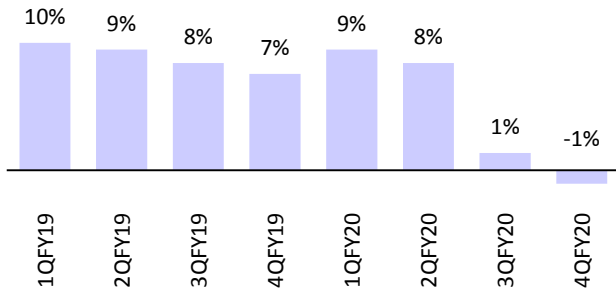
Valuation and view – reiterate the business model’s adaptability

- We see Accenture’s results and commentary as a mere reiteration of the adaptability and resilience of the business model.
- We continue to like Infosys/HCLT among Tier I and LTI/Mindtree among Tier II. This is attributable to their robust business models, high return ratios, strong management teams, and reasonable valuations.
- These companies have the legacy of having overcome multiple business challenges and technology change cycles in the past.

Story in charts

Exhibit 1: Revenue growth declines marginally

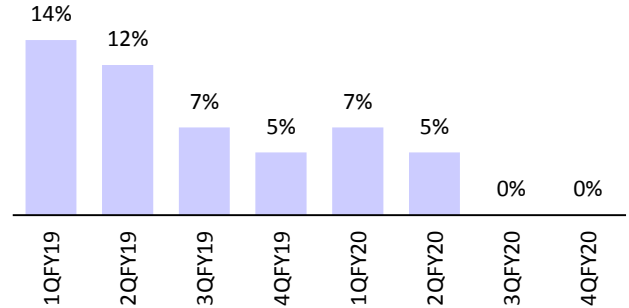
Overall (YoY CC)



Source: Company, MOFSL

Exhibit 2: Flattish revenue in Communications

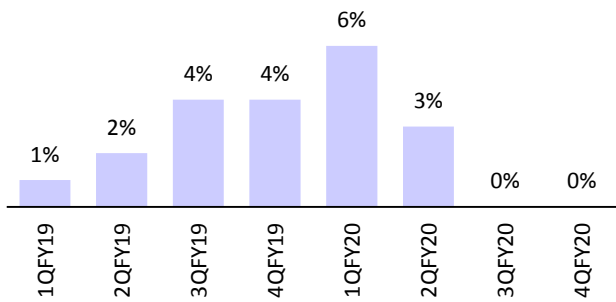
Communication, Media & Tech (YoY CC)



Source: Company, MOFSL

Exhibit 3: Flattish revenue in Financial Services

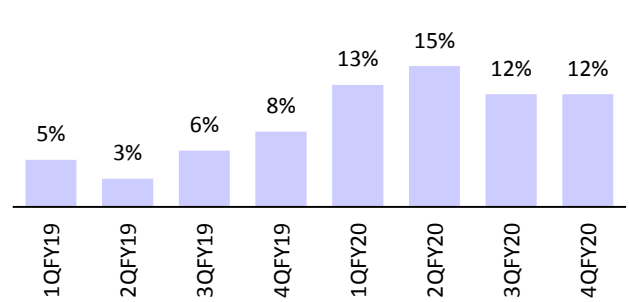
Financial services (YoY CC)



Source: Company, MOFSL

Exhibit 4: Growth entirely driven by Healthcare

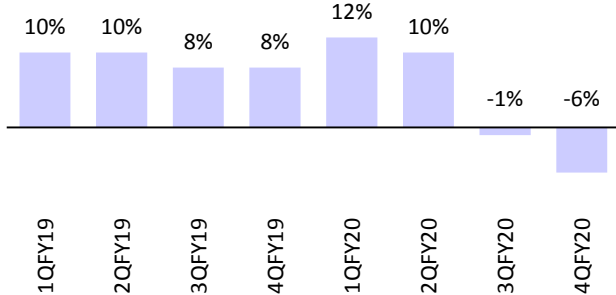
Health & Public services (YoY CC)



Source: Company, MOFSL

Exhibit 5: Products and Resources verticals report...

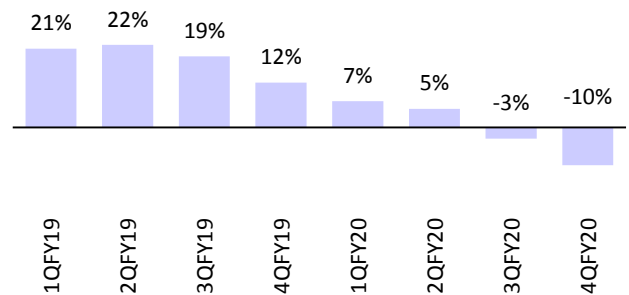
Products (YoY CC)



Source: Company, MOFSL

Exhibit 6: ...YoY decline in revenue

Resources (YoY CC)



Source: Company, MOFSL

Exhibit 7: While the Americas reports flat growth...

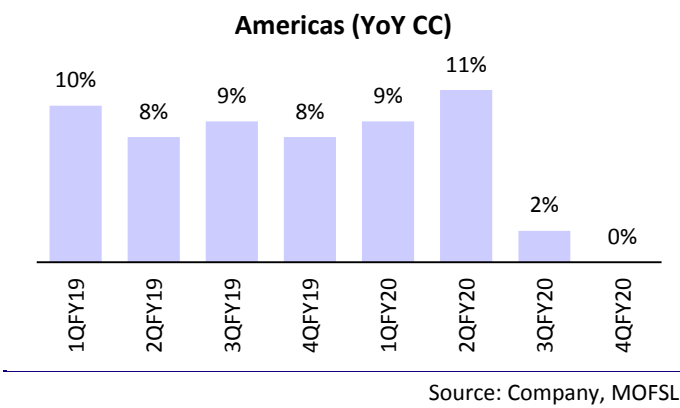


Exhibit 8: ...revenue from Europe declines

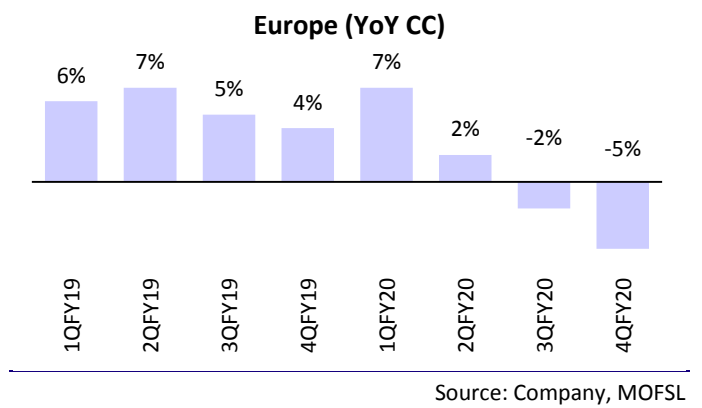


Exhibit 9: Growth markets the key growth drivers

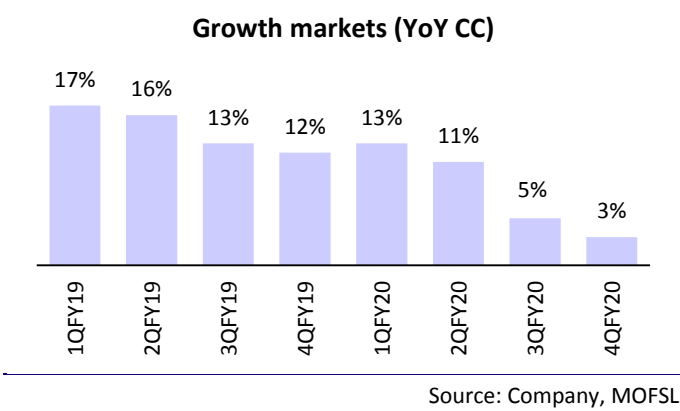


Exhibit 10: Healthy increase in new bookings

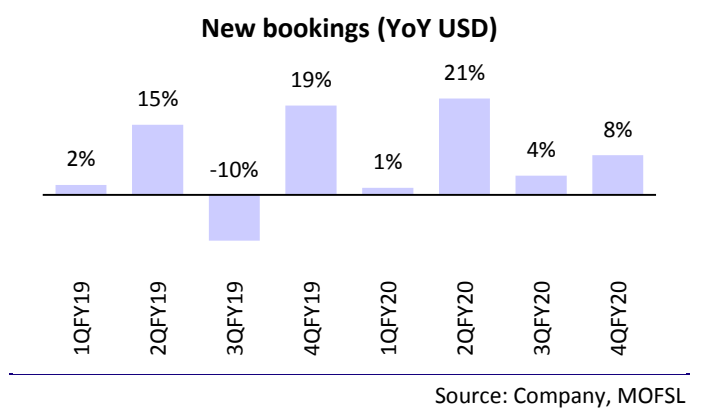


Exhibit 11: 2nd highest new bookings in 4Q

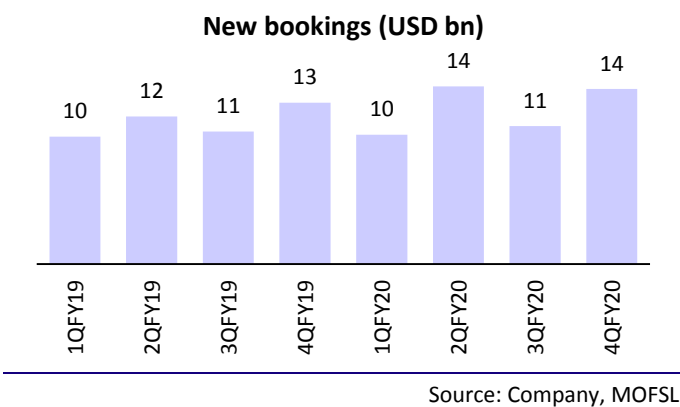


Exhibit 12: Margins improve 10bp YoY

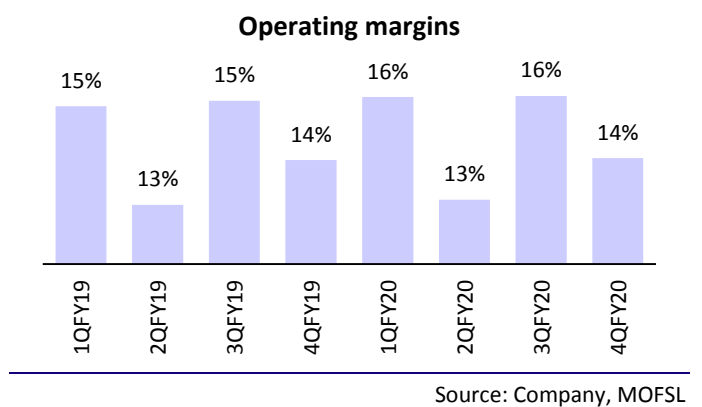
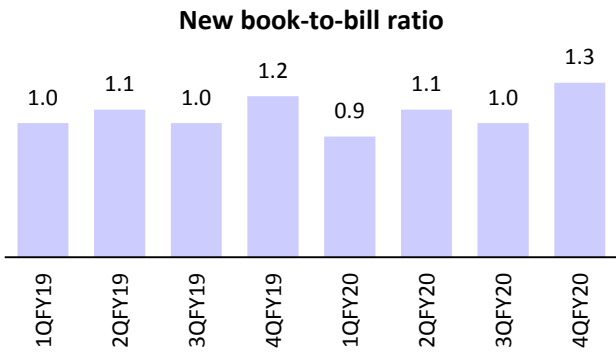
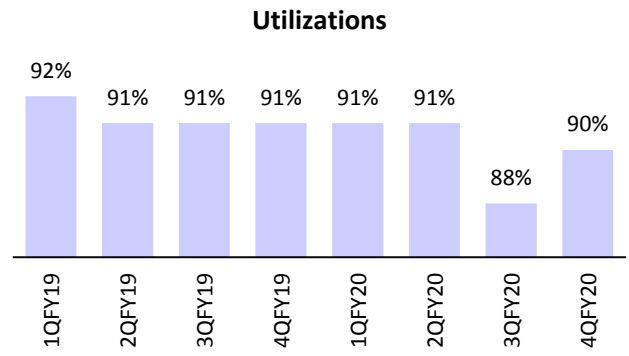


Exhibit 13: Book-to-bill ratio increases



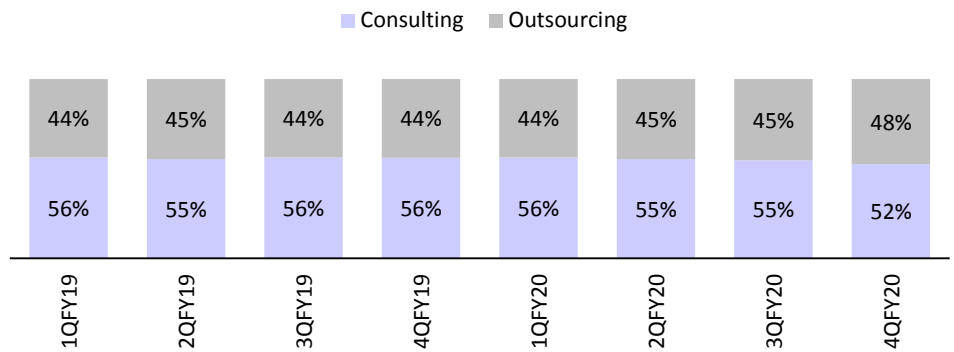
Source: Company, MOFSL

Exhibit 14: Utilizations improve during quarter



Source: Company, MOFSL

Exhibit 15: Share of outsourcing revenue increases



Source: Company, MOFSL

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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