Equity Research

June 24, 2022

BSE Sensex: 52266

ICICI Securities Limited is the author and distributor of this report

Company update

Technology

INDIA

Accenture

ICICI Securities

Unrated

Clear signs of moderation

Accenture (ACN) reported healthy revenue growth of US$16.159bn (21.8% YoY US$) led by decent growth across consulting (24.4% YoY US$) and outsourcing (18.7% YoY US$). However, YoY revenue growth rate moderated compared to last two quarters in consulting (Chart 2). Moderation in YoY growth rate can be seen across verticals and US region as well.

ACN reported healthy deal bookings of US$17bn (10% YoY); however, book-to-bill reached near pre-covid levels – consulting bookings at US$9.1bn (13.8% YoY) with book-to-bill of 1.0x (vs 1.1-1.3x in last five quarters and 1.02x in FY18 and FY19) and outsourcing bookings at US$7.8bn (5.4% YoY) with book-to-bill of 1.09x (vs 1.2-1.4x in last five quarters and 1.06/1.09 in FY18/FY19). Management expects deal booking and revenue growth momentum to continue for next quarter as well and has upgraded revenue growth guidance for FY22 to be 25.5% to 26.5% in local currency (vs 24% to 26% previously).

ACN's pace of net headcount addition slowed down with *net addition of 11,928 employees (2% QoQ) vs ~40K average net addition* per quarter in the last four quarters. It used to be 8-10K per quarter pre-covid. Slowdown in headcount addition, decrease in book-to-bill ratio and moderation in revenue growth all point towards normalisation of growth momentum ahead for IT services industry. We believe revenue momentum is likely to slowdown in H2FY23 for Indian IT services as enterprises delay new projects amidst macro uncertainties.

Management mentioned there is more focus towards cost optimisation now along with growth compared to last year. Amidst high inflationary consumer goods companies are funding their change the business spends via cost optimisation elsewhere. In Europe, industries impacted by macro environment are leveraging technology to achieve energy efficiency, supply-chain resiliency, sustainability and cost optimisation.

Quarterly annualised attrition inched up to 20% (+200bps QoQ) owing to high attrition in India at lower end of pyramid. Onsite wage inflation continues to be major margin headwind. We expect attrition to remain at elevated levels (due to wage hikes) and margins to remain muted (high onsite wage inflation) for Indian IT services in H1FY23.

We re-iterate our underweight stance on the Indian IT services and believe deployment in the sector should be very slow and gradual as we believe there would be many unknown risks (normalisation of tech spend, downside risk on FY24 revenue growth etc.) ahead, which might further degrade valuations. We suggest investor to stick with TCS in large cap; Coforge in mid cap.

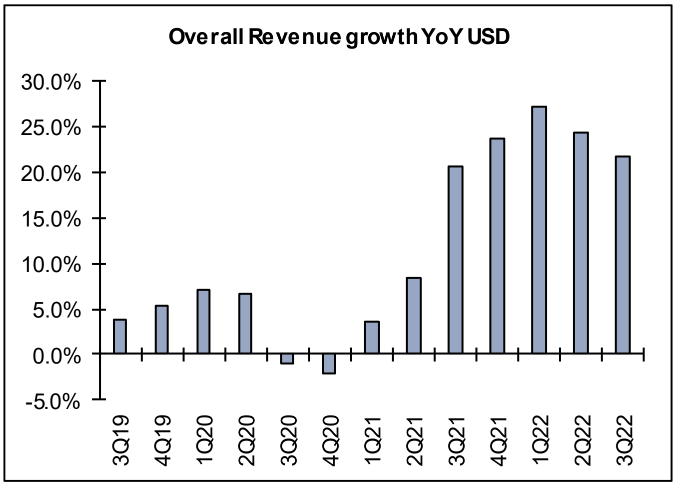
- **Moderation in revenue growth:** ACN reported healthy revenue growth of US$16.159bn (21.8% YoY US$). Adjusting for forex impact, revenue was US$160mn above top end of guidance (US$15.7-16.15bn) led by healthy growth across consulting (24.4% YoY US$) and outsourcing (18.7% YoY US$). However, YoY revenue growth rate moderated compared to last two quarters across consulting (Chart 2). Moderation in YoY growth rate can be seen across verticals and US region. We expect normalisation in revenue momentum going forward for Indian IT services as well.

Research Analyst:

Aniket Pande
aniket.pande@icicisecurities.com
+91 22 6807 7573

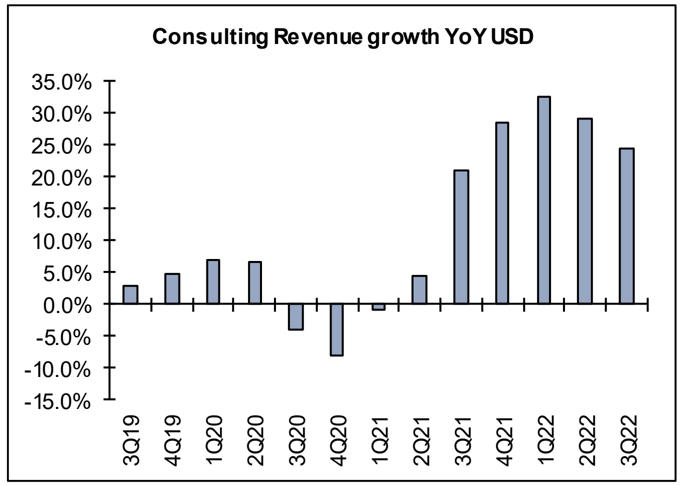
- **Book-to-bill ratio back to pre-covid levels:** ACN reported healthy deal bookings of US$17bn (10% YoY), second highest bookings in absolute value terms. However, book-to-bill reached to pre-covid levels - consulting bookings at US$9.1bn (13.8% YoY) with book-to-bill of 1.01 (vs 1.1-1.3 in last five quarters and 1.02 in FY18 & FY19) and outsourcing bookings at US$7.8bn (5.4% YoY) with book-to-bill of 1.09 (vs 1.2-1.4 in last five quarters and 1.06/1.09 in FY18/FY19). Management mentioned about strong deal pipeline and expects deal bookings momentum to continue in Q4FY22 (Sept-22) as well. ACN had 18 clients with more than US$100mn+ bookings.
- **Focus back on cost optimisation:** Management mentioned demand for total enterprise reinvention continues to be robust. At the same time, there is more focus on cost optimisation now along with growth compared to last year. For example, given consumer goods industry is impacted by high inflationary environment, ACN is helping North American multi-brand retailer scale their digital business while reducing operational costs up to US$100mn over the next five years. In Europe, industries impacted by macro environment are leveraging technology to achieve energy efficiency, supply-chain resiliency, sustainability and cost optimisation. We note demand continues to be driven by cloud, data and AI.
- **Pace of net headcount addition returning to pre-covid levels:** ACN's pace of net headcount addition slowed down with net addition of 11,928 employees (2% QoQ) vs ~40K average net addition per quarter in the last four quarters and 8-10K per quarter pre-covid. Headcount addition being lead indicator of demand momentum, points to normalisation of growth momentum ahead.
- **Attrition inched up QoQ:** Quarterly annualised attrition inched up to 20% (+200bps QoQ), in-line with seasonal uptick in attrition in Q3 and Q4 observed historically. Management mentioned uptick in attrition can be attributed to high attrition in India at the lower end of the pyramid.
- **Operating margin guidance intact, high onsite wage inflation:** Management mentioned onsite wage inflation continues to be high. Levers of pricing improvement, changing mix of people and use of technology are still lagging compensation increases. EBIT margin increased by 10bps YoY to 16.1% this quarter. For the full year, operating margin guidance of 15.2%, +10bps YoY remains intact. Utilisation trended down by 100bps YoY to 91% (vs 90-91% pre-covid).
- **ACN is growing 3x higher than the market:** Accenture is growing 3x times the market given its ahead-of-time investments in cloud, digital, industry X and cybersecurity. Its wide presence across verticals, markets and service lines as well as across strategy, consulting and operations enables it to become a strategic partner of client and garner larger wallet share.
- **Investing in new areas of growth - Metaverse and sustainability:** Clients are still in very early stages of exploring Metaverse. ACN is collaborating with an international property developer to develop their business model and design their customer experience in the Metaverse. ACN is also seeing demand traction in sustainability and is building skills and capabilities in this area. It announced three acquisitions in sustainability domain in this quarter.

Chart 1: Revenue growth moderating



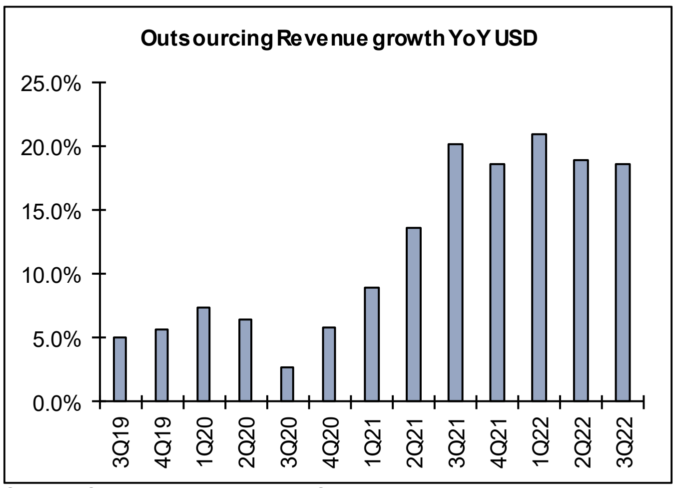
Source: Company, Bloomberg, I-Sec research

Chart 2: Moderation in consulting and…



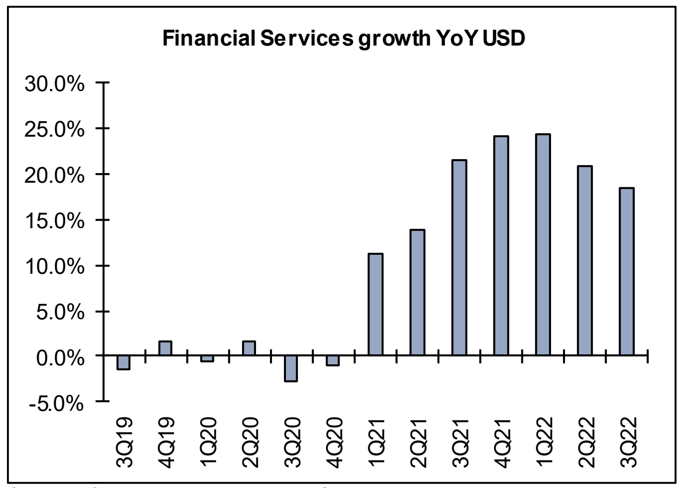
Source: Company, Bloomberg, I-Sec research

Chart 3: …outsourcing revenue growth



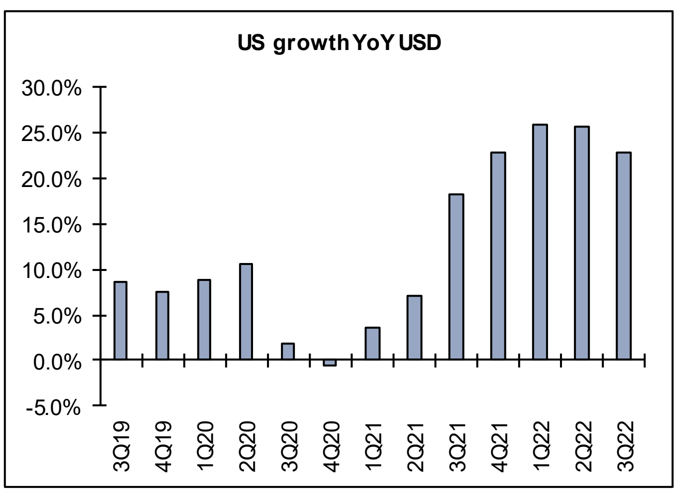
Source: Company, Bloomberg, I-Sec research

Chart 4: BFSI revenue growth



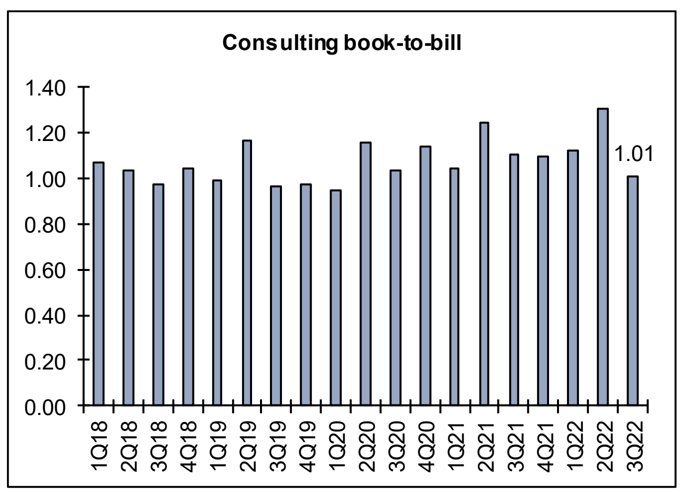
Source: Company, Bloomberg, I-Sec research

Chart 5: US revenue growth



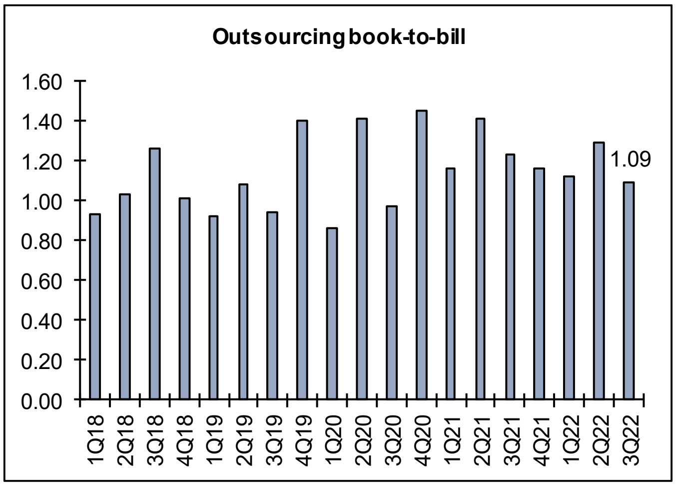
Source: Company, Bloomberg, I-Sec research

Chart 6: Book-to-bill ratio back to pre-covid level



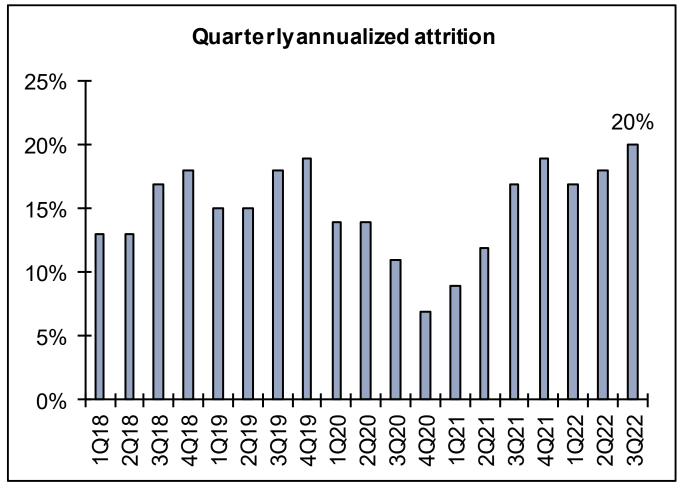
Source: Company, Bloomberg, I-Sec research

Chart 7: Outsourcing book-to-bill moderating



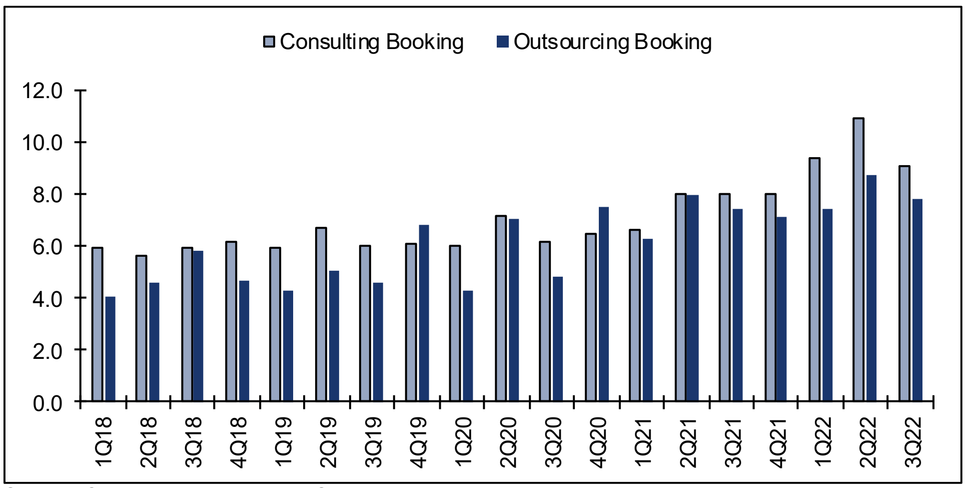
Source: Company, Bloomberg, I-Sec research

Chart 8: Attrition continues to increase



Source: Company, Bloomberg, I-Sec research

Chart 9: Order books remain strong US$bn



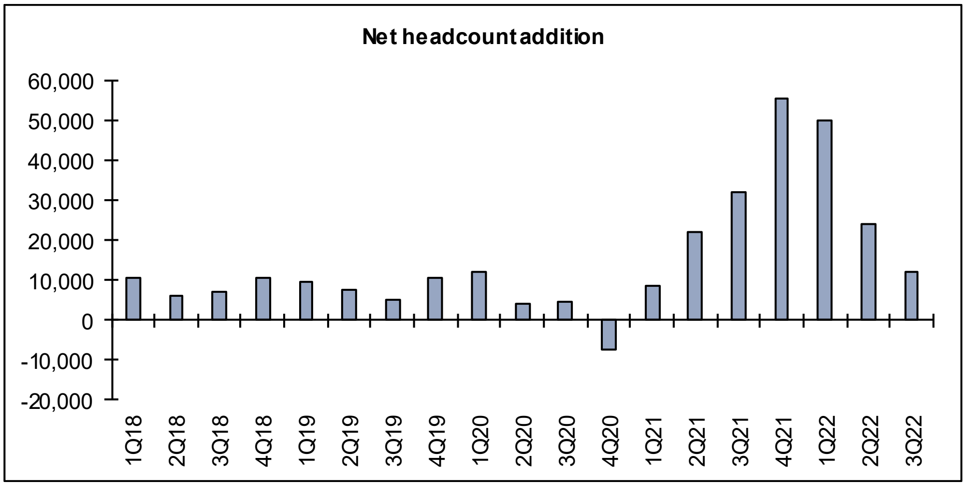
Source: Company, Bloomberg, I-Sec research

Table 1: Massive moderation seen in headcount addition

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Total headcount	4,68,888	4,76,542	4,81,577	4,92,292	5,04,538	5,08,572	5,13,229	5,05,733	5,14,288	5,36,653	5,68,727	6,24,268	6,74,325	6,98,504	7,10,432
Net headcount addition	9,710	7,654	5,035	10,715	12,246	4,034	4,657	-7,496	8,555	22,365	32,074	55,541	50,057	24,179	11,928

Source: Company, Bloomberg, I-Sec research

Chart 10: Declining headcount addition trend



Source: Company, Bloomberg, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, *Aniket Pande, MBA* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.