

# Information Technology

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## Accenture Q2 result read-through: Growth momentum remains strong; raises FY21 guidance

- **Q2FY21 revenue beats estimates on the back of double-digit growth in outsourcing business:** Accenture's (ACN) revenues rose 8.5% YoY to USD12.1bn (5% in local currency), well ahead of its guided range of USD11.55bn to USD11.95bn. A decline in revenues from reimbursable travel costs affected revenue growth by ~2%. ACN's revenue growth returned to the pre-Covid level in Q2, a quarter ahead of its expectations. ACN has seen strong, broad-based demand across industries, services and geographic markets, resulting in an all-round beat in the overall operating performance and strong order booking. After falling for three quarters, consulting revenues grew 4.3% YoY to USD6.4bn (1% in local currency; including ~3% impact from a decline in revenues from reimbursable travel costs). Outsourcing revenues maintained strong momentum with 13.7% YoY growth at USD5.7bn (11% in local currency). New bookings stood at an all-time high of USD16bn (12.7% YoY, book-to-bill 1.3x), with consulting bookings of USD8bn (12.2% YoY, book-to-bill 1.2x) and outsourcing bookings of USD8bn (13.3% YoY, book-to-bill 1.4x). Operating margin expanded by 30bps to 13.7%. Utilization increased to 94% in Q2 (vs. 93% in Q1 and 91% in Q2FY20). Attrition inched up to 12% in Q2 vs. 9% in Q1. It added 22,365 net employees during the quarter.
- **Health & Public Services and Financial Services lead growth:** Growth in Q2 was driven by Health & Public Services (14% in local currency) and Financial Services (10% in local currency). Communication, Media & Technology maintained its growth momentum and recorded 9% YoY growth in local currency (vs. 3% in Q1FY21). Products also returned to growth, up 2% YoY in local currency. Resources remained weak and fell 7% YoY in local currency. The company expects to sustain broad-based growth momentum and expects Resources' growth trajectory to improve.
- **FY21 guidance further raised to 6.5%-8.5%:** ACN raised its revenue growth guidance for FY21 to 6.5%-8.5% in local currency from 4%-6% previously. The guidance continues to assume about 1% negative impact from a decline in revenues from reimbursable travel costs. The operating margin is expected to expand by 30-40bps to 15%-15.1% (earlier 14.8%-15%). ACN expects Q3FY21 revenues to be in the range of USD12.55-12.95bn, up 10%-13% YoY in local currency. The company expects OCF and FCF to be in the range of USD7.65-8.15bn and USD7-7.5bn, respectively.
- **Earnings call takeaways:** Management noted that ACN has returned to the pre-pandemic growth trajectory, a quarter ahead of their expectations, while continuing to expand market share faster than the pre-Covid rate. Revised guidance factored in better than expected H1 and sustained growth momentum in H2. ~50% of ACN's revenues came from seven industries that were less impacted by the pandemic and in aggregate grew in low double digits in Q2. The severely affected industries, namely Travel, Retail, Energy, High-Tech (including Aerospace and Defense) and Industrial (collectively ~20% of revenues) reported improvement in revenue growth and posted a mid-single digit decline in Q2 (vs. double-digit decline in Q1). ACN signed deals worth over USD100mn with 18 clients in Q2. The company spent ~USD1.1bn on 19 acquisitions in H1 and increased its M&A budget to at least USD2bn for FY21 (from ~USD1.7bn). It expects M&A to contribute ~2.5% to revenue growth in FY21 (earlier ~2%). The company announced a one-time bonus, equal to one week of base pay, for all employees below managing director.
- **Read-through for Indian IT peers:** ACN's strong Q2 performance and second-time upward revision in FY21 revenue growth guidance (from 2-5% in early FY21; 4-6% at Q1-end) reflect strength in demand, particularly in outsourcing. A broad-based demand recovery and sustained growth momentum in revenue/order booking of the outsourcing business augur well for Indian IT peers. The Nifty IT index rose ~9%/~28%/~116% in last 3M/6M/12M. Strong demand environment, sustained acceleration in revenue growth and robust order booking should support higher valuations, in our views. We prefer INFO, HCLT and TECHM among Tier 1 companies.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 4\)](#)

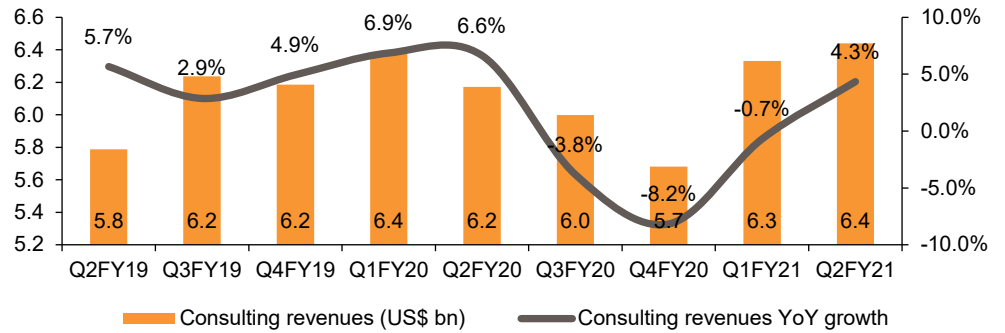
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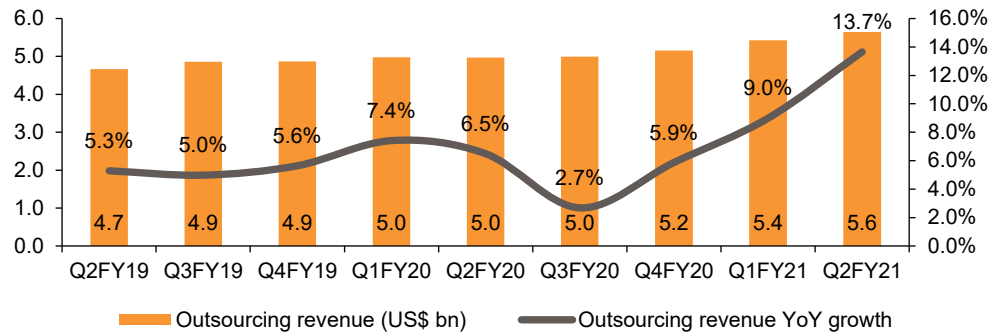
# Story in Charts

**Exhibit 1: Consulting revenues returned to growth trajectory in Q2FY21**



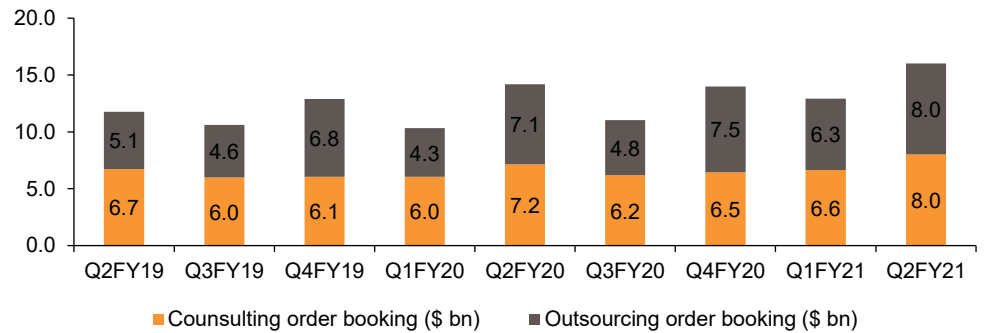
Source: Company, Emkay Research

**Exhibit 2: Outsourcing revenue continued its strong growth momentum; returned to double-digit growth after 10 quarters**



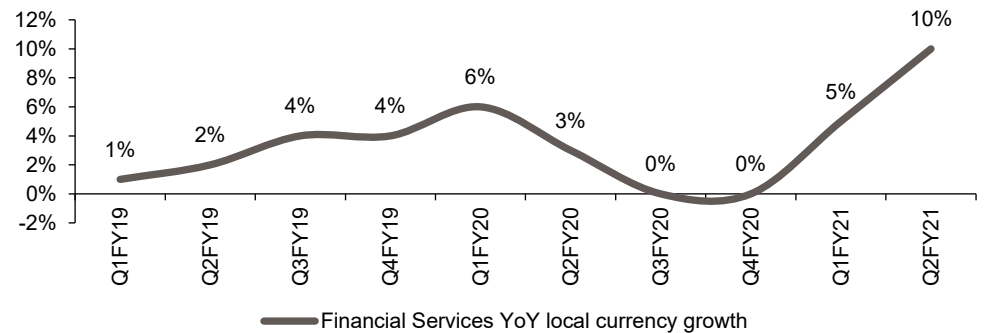
Source: Company, Emkay Research

**Exhibit 3: Order bookings remained robust, up ~13% YoY**



Source: Company, Emkay Research

**Exhibit 4: Financial Services returned to double-digit growth in Q2FY21 after 13 quarters**



Source: Company, Emkay Research

## Exhibit 5: Valuation Summary

Co Name	CMP	Reco.	Target Price	USD revenue growth (%)			EPS			P/E			EV/EBIT		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	3,037	HOLD	3,150	0.4	15.0	11.0	87.2	106.6	121.0	34.8	28.5	25.1	26.8	22.1	19.3
Infosys	1,337	BUY	1,550	6.2	17.0	12.5	45.5	54.9	61.8	29.4	24.3	21.6	21.7	18.0	15.8
Wipro	410	HOLD	450	-1.6	16.9	10.0	19.7	20.7	22.4	20.8	19.8	18.3	16.1	15.4	13.7
HCL Tech	948	BUY	1,130	2.4	12.0	9.5	49.4	51.5	56.6	19.2	18.4	16.7	15.1	13.4	12.0
Tech Mahindra	996	BUY	1,170	-1.0	10.0	9.0	52.1	58.3	65.2	19.1	17.1	15.3	14.9	12.3	10.7
L&T Infotech	4,012	SELL	3,430	9.1	16.0	14.5	107.3	125.2	142.9	37.4	32.0	28.1	29.0	24.9	21.8
Mphasis	1,638	HOLD	1,570	6.0	12.8	10.0	65.8	77.3	87.3	24.9	21.2	18.8	18.1	15.4	13.5
Mindtree	1,970	SELL	1,580	-1.7	13.0	11.0	68.8	74.8	79.0	28.6	26.3	24.9	21.5	19.1	18.0
Persistent Systems	1,849	BUY	1,800	12.2	14.0	13.0	57.1	69.3	82.2	32.4	26.7	22.5	25.4	20.4	16.8
Birlasoft	241	HOLD	290	3.6	14.0	13.0	10.7	14.4	17.7	22.6	16.8	13.6	13.5	10.4	8.2
Coforge	2,874	HOLD	2,740	5.1	16.0	13.0	75.5	101.5	119.3	38.1	28.3	24.1	27.6	21.6	17.9
Firstsource Solutions	111	BUY	125	16.6	11.7	8.5	6.3	7.2	8.2	17.6	15.3	13.5	14.4	12.1	10.5

Source: Company, Emkay Research

## Emkay Alpha Portfolio – Information Technology



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#### Sector

IT Services, ITeS and Software

#### Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Information Technology</b>	<b>13.48</b>	<b>13.23</b>	<b>-2%</b>	<b>-26</b>	<b>100.00</b>
BirlaSoft*	0.00	0.10	NA	10	0.76
Coforge	0.00	0.00	NA	0	0.00
eClerx Services*	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.09	NA	9	0.64
HCL Tech	1.30	1.40	8%	10	10.36
Infosys	6.15	6.24	1%	9	46.25
Intellect Design*	0.00	0.00	NA	0	0.00
L&T Infotech*	0.21	0.00	-100%	-21	0.00
Majesco*	0.00	0.00	NA	0	0.00
Mindtree	0.10	0.00	-100%	-10	0.00
Mphasis	0.17	0.14	-15%	-3	1.05
MPS*	0.00	0.00	NA	0	0.00
NIIT*	0.00	0.00	NA	0	0.00
Nucleus Software*	0.00	0.00	NA	0	0.00
Oracle Financial Services*	0.09	0.00	-100%	-9	0.00
Persistent Systems	0.00	0.48	NA	48	3.53
Ramco Systems*	0.00	0.00	NA	0	0.00
TCS	3.96	3.33	-16%	-62	24.73
Tech Mahindra	0.76	0.78	2%	2	5.79
Wipro	0.75	0.67	-11%	-8	5.00
<b>Cash</b>	<b>0.00</b>	<b>0.26</b>	<b>NA</b>	<b>26</b>	<b>1.89</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	01-Apr-19	18-Mar-20	16-Sep-20	16-Dec-20	15-Feb-21	17-Mar-21
EAP - Information Technology	100.0	77.5	134.7	153.8	173.3	178.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	75.0	127.5	146.0	163.7	168.3

\*Performance measurement base date 1<sup>st</sup> April 2019

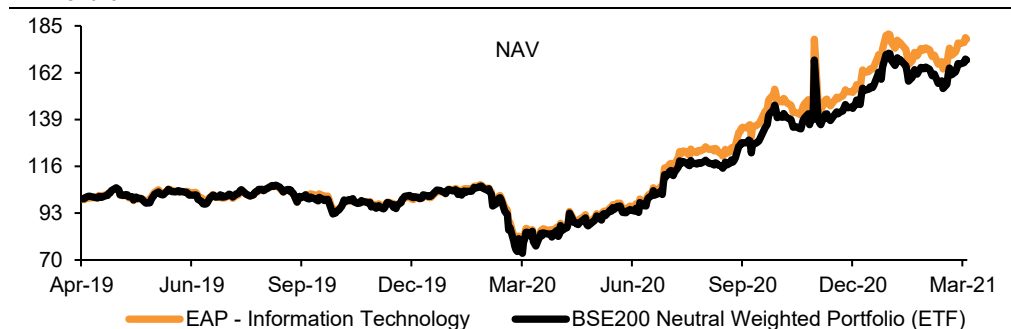
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	3.0%	16.1%	32.5%	130.4%
BSE200 Neutral Weighted Portfolio (ETF)	2.8%	15.2%	32.0%	124.4%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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