

Alphabet: AI lifts Cloud growth

Alphabet's Q3FY25 revenue grew +15% CC YoY to USD102bn, surpassing Street's estimate of USD99.8bn. Operating margin decreased 190bp QoQ to 30.5%, below Street's estimate of 32%, primarily impacted by the European Commission's fine of USD3.5bn. EPS at USD2.87, too, was below Street's expectation of USD3.4.

Google Cloud delivered another strong quarter with accelerating growth of +33.5% YoY, driven by robust AI-led demand. Capex in Q3FY25 was USD24bn, and the company raised the annual capex guidance again to USD91–93bn (from USD85bn). Management highlighted diversified revenue with 13 product lines now exceeding USD1bn annual run rate each. Alphabet is *not rated*.

AI-fuelled cloud drives broad-based growth

Revenue reached USD102bn, +15% CC YoY, primarily driven by Cloud (+33.5% YoY). YouTube ads grew 15% YoY supported by strong direct response and brand advertising while Google Search delivered 14.5% YoY growth across major verticals, particularly retail and financial services. Google Services revenues rose 14% to USD87.1bn, reflecting continued strength in Search and YouTube, partially offset by a decline in the network segment. AI is transforming Search, boosting overall and commercial queries through new AI experiences, creating more opportunities for monetisation.

In Q2, all geographies delivered double-digit growth, yet again, led by APAC (+22.5%), followed by Other Americas (+19.1% YoY), EMEA (+17.4% YoY) and the US (+13% YoY). Employee headcount increased 8,898 YoY to 190,167.

Margin impacted by one-off; capex outlook raised again

EBIT margin fell 180bp YoY to 30.5%, impacted by a USD3.5bn European Commission fine. Excluding this, operating margin stood at 33.9%, supported by strong revenue growth and cost efficiencies, partially offset by the legal charge and higher depreciation expense. Cloud delivered another strong quarter with accelerating AI-led growth, with backlog surging 46% QoQ to USD155bn and operating margin expanding to 23.7% (+300bp QoQ/+660bp YoY). Capex was USD24bn (USD39.6 in H1FY25), mainly led by technical infrastructure. Management revised the capex guidance to USD91–93bn for FY25 (versus USD85bn earlier) driven by the strong cloud demand and growth opportunities.

Outlook: Growth in Cloud driven by AI

Cloud delivered strong growth of +33% YoY—driven by AI demand—also reflecting in it higher capex guidance. Strong Cloud growth demonstrates continued investment by the enterprise on strategic initiatives. We are experiencing a similar trend in Indian IT Services companies as cost-takeout deals continue to drive growth and the deal pipeline remains strong despite uncertainty.

Exhibit 1: Quarterly financial snapshot

Amount (USD mn)	Q123	Q223	Q323	Q423	Q124	Q224	Q324	Q424	Q125	Q225	Q325
Revenues	69,787	74,604	76,693	86,310	80,539	84,742	88,268	96,469	90,234	96,428	1,02,346
QoQ Growth	-8.2%	6.9%	2.8%	12.5%	-6.7%	5.2%	4.2%	9.3%	-6.5%	6.9%	6.1%
YoY Growth	2.6%	7.1%	11.0%	13.5%	15.4%	13.6%	15.1%	11.8%	12.0%	13.8%	15.9%
Gross Profit	39,175	42,688	43,464	48,735	46,827	49,235	51,794	55,856	53,873	57,389	60,977
QoQ Growth	-3.8%	9.0%	1.8%	12.1%	-3.9%	5.1%	5.2%	7.8%	-3.6%	6.5%	6.3%
YoY Growth	2.0%	7.8%	14.6%	19.7%	19.5%	15.3%	19.2%	14.6%	15.0%	16.6%	17.7%
Gross Margin	56.1%	57.2%	56.7%	56.5%	58.1%	58.1%	58.7%	57.9%	59.7%	59.5%	59.6%
EBIT	17,415	21,838	21,343	23,697	25,472	27,425	28,521	30,972	30,606	31,271	31,228
QoQ Growth	-4.1%	25.4%	-2.3%	11.0%	7.5%	7.7%	4.0%	8.6%	-1.2%	2.2%	-0.1%
YoY Growth	-13.3%	12.3%	24.6%	30.5%	46.3%	25.6%	33.6%	30.7%	20.2%	14.0%	9.5%
EBIT Margin	25.0%	29.3%	27.8%	27.5%	31.6%	32.4%	32.3%	32.1%	33.9%	32.4%	30.5%
Profit before Tax	18,205	21,903	21,197	24,412	28,315	27,551	31,706	32,243	41,789	33,933	43,987
QoQ Growth	6.2%	20.3%	-3.2%	15.2%	16.0%	-2.7%	15.1%	1.7%	29.6%	-18.8%	29.6%
YoY Growth	-3.9%	15.2%	30.6%	42.4%	55.5%	25.8%	49.6%	32.1%	47.6%	23.2%	38.7%
As % of Rev	26.1%	29.4%	27.6%	28.3%	35.2%	32.5%	35.9%	33.4%	46.3%	35.2%	43.0%
Provision for Income Taxes	3,154	3,535	1,508	3,725	4,653	3,932	5,405	5,707	7,249	5,737	9,008
Tax Rate	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%
PAT	15,051	18,368	19,689	20,687	23,662	23,619	26,301	26,536	34,540	28,196	34,979
QoQ Growth	10.5%	22.0%	7.2%	5.1%	14.4%	-0.2%	11.4%	0.9%	30.2%	-18.4%	24.1%
YoY Growth	-8.4%	14.8%	41.5%	51.8%	57.2%	28.6%	33.6%	28.3%	46.0%	19.4%	33.0%
As % of Rev	21.6%	24.6%	25.7%	24.0%	29.4%	27.9%	29.8%	27.5%	38.3%	29.2%	34.2%
Basic EPS	1.18	1.45	1.56	1.66	1.91	1.91	2.14	2.17	2.84	2.33	2.89
Diluted EPS (USD)	1.17	1.44	1.55	1.64	1.89	1.89	2.12	2.15	2.81	2.31	2.87

Source: Company, Nuvama Research

Exhibit 2: Revenue contribution by segment

	Q123	Q223	Q323	Q423	Q124	Q224	Q324	Q424	Q125	Q225	Q325
Google Services total	89%	89%	89%	88%	87%	87%	87%	87%	86%	86%	85%
Google Search & other	58%	57%	57%	56%	57%	57%	56%	56%	56%	56%	55%
YouTube ads	10%	10%	10%	11%	10%	10%	10%	11%	10%	10%	10%
Google Network	11%	11%	10%	10%	9%	9%	9%	8%	8%	8%	7%
- Google advertising	78%	78%	78%	76%	77%	76%	75%	75%	74%	74%	72%
- Google other	11%	11%	11%	13%	11%	11%	12%	12%	12%	12%	13%
Google Cloud	11%	11%	11%	11%	12%	12%	13%	12%	14%	14%	15%
Other Bets	0.4%	0.4%	0.4%	0.8%	0.6%	0.4%	0.4%	0.4%	0.5%	0.4%	0.3%

Source: Company, Nuvama Research

Exhibit 3: Google Cloud revenue growth profile

USD mn	Q123	Q223	Q323	Q423	Q124	Q224	Q324	Q424	Q125	Q225	Q325
Google Cloud	7,454	8,031	8,411	9,192	9,574	10,347	11,353	11,955	12,260	13,624	15,157
QoQ growth	1.9%	7.7%	4.7%	9.3%	4.2%	8.1%	9.7%	5.3%	2.6%	11.1%	11.3%
YoY growth	28.1%	28.0%	22.5%	25.7%	28.4%	28.8%	35.0%	30.1%	28.1%	31.7%	33.5%

Source: Company, Nuvama Research

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