FIRST LIGHT

11 January 2021

RESEARCH

Tata Consultancy Services | Target: Rs 3,710 | +19% | BUY

Strongest Q3 in nine years – growth and margins outperform

Media & Entertainment

Strong content slate to boost multiplex occupancy in FY22

SUMMARY

Tata Consultancy Services

TCS's QoQ dollar revenue growth of 5.1% beat street estimates (~3.1%) in a seasonally weak quarter. Growth was broad-based across verticals and geographies. Adj. EBIT margin stood at 26.6%, up 40bps QoQ despite salary hikes. TCV was strong at US$ 6.8bn. We raise our target P/E to 27.4x from 24.2x backed by strong demand growth and stable margins. On rollover, we have a revised Dec'22 TP of Rs 3,710 (Rs 3,180 earlier). Being the industry leader, TCS will be the prime beneficiary of vendor consolidation. BUY.

Click here for the full report.

Media & Entertainment

We hosted Amit Sharma, MD – Miraj Entertainment, on a call with select investors. Key takeaways: 1) Footfalls gained some traction after release of 'Tenet' and 'Wonder Woman 1984' in Dec'20, 2) FY22 content slate appears to be strong with at least 25 upcoming movies where management sees blockbuster potential (collection of Rs 1bn+), 3) management expects to revert to EBITDA breakeven in Apr'21, and reach pre-Covid occupancy levels by Jul'21, and 4) rentals for new screens have declined 30-35% post Covid, which augurs well for multiplexes.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.08	4bps	16bps	(78bps)
India 10Y yield (%)	5.86	0bps	2bps	(67bps)
USD/INR	73.32	(0.3)	0.8	(3.0)
Brent Crude (US$/bbl)	54.38	0.1	11.5	(16.8)
Dow	31,041	0.7	3.2	7.2
Shanghai	3,576	0.7	4.7	15.6
Sensex	48,093	(0.2)	5.9	16.0
India FII (US$ mn)	**6 Jan**	**MTD**	**CYTD21**	**FYTD**
FII-D	(9.0)	151.7	151.7	(3,941.9)
FII-E	(47.2)	465.8	465.8	30,441.6

Source: Bank of Baroda Economics Research

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 3,710 | ⮝ 19%

TATA CONSULTANCY SERVICES | IT Services | 08 January 2021

Strongest Q3 in nine years – growth and margins outperform

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TCS's QoQ dollar revenue growth of 5.1% beat street estimates (~3.1%) in a seasonally weak quarter. Growth was broad-based across verticals and geographies. Adj. EBIT margin stood at 26.6%, up 40bps QoQ despite salary hikes. TCV was strong at US$ 6.8bn. We raise our target P/E to 27.4x from 24.2x backed by strong demand growth and stable margins. On rollover, we have a revised Dec'22 TP of Rs 3,710 (Rs 3,180 earlier). Being the industry leader, TCS will be the prime beneficiary of vendor consolidation. BUY.

Stellar Q3 performance: TCS reported QoQ revenue growth of 4.1% CC/ 5.1% USD, beating our optimistic estimates of 2.6% CC/3% USD and setting the tone for a strong Q3 for Indian IT despite seasonality. At 2.1%, YoY growth was positive for the first time since pandemic onset. Demand is robust as indicated by TCV of US$ 6.8bn (excluding Postbank acquisition), up 13% YoY. Geographically, India grew the highest at 18.1% QoQ CC. North America was strong at 3.3% CC, followed by Europe at 2.5%. Vertical-wise, life sciences/ manufacturing posted stellar growth of 5.2%/7.1% CC. BFSI/retail-CPG increased 2%/3.1% QoQ. The strong all-round showing indicates the beginning of a multi-year demand growth cycle wherein TCS will be the prime beneficiary.

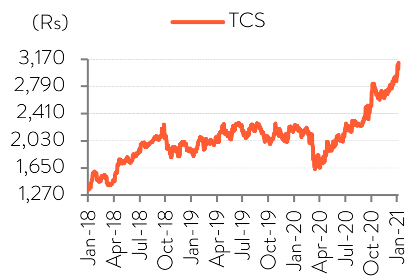
Margins surprise: Adj. EBIT margin at 26.6% expanded 40bps QoQ (est. 24.7%), entering TCS's target band of 26-28% and recovering from a trough of 23.6% in Q1. Management expects to maintain margins, aided by accelerated growth.

Strong BFSI TCV growth: BFSI is gaining momentum with TCV at an all-time high of US$ 2.6bn (+44% YoY), excluding Postbank. Growth was aided by closure of the Prudential deal in December. TCS is beginning to invest more in Europe as it sees opportunity there. However, UK banking remains stressed.

Ticker/Price	TCS IN/Rs 3,121
Market cap	US$ 159.9bn
Shares o/s	3,753mn
3M ADV	US$ 132.8mn
52wk high/low	Rs 3,128/Rs 1,506
Promoter/FPI/DII	72%/17%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	1,464,630	1,569,490	1,662,306	2,106,950	2,489,786
EBITDA (Rs mn)	395,050	421,100	467,862	603,187	702,831
Adj. net profit (Rs mn)	315,240	323,400	337,873	444,595	518,335
Adj. EPS (Rs)	84.0	86.2	91.3	120.2	140.1
Adj. EPS growth (%)	25.3	2.6	6.0	31.6	16.6
Adj. ROAE (%)	35.5	37.0	37.7	43.6	42.1
Adj. P/E (x)	37.2	36.2	34.2	26.0	22.3
EV/EBITDA (x)	29.5	27.7	24.9	19.4	16.6

Source: Company, BOBCAPS Research

MEDIA & ENTERTAINMENT

08 January 2021

Strong content slate to boost multiplex occupancy in FY22

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We hosted Amit Sharma, MD – Miraj Entertainment (Miraj), on a call with select investors. Following are the key takeaways:

- Though cinema screens reopened in mid-October, footfalls were negligible till end-November due to weak content. Since the release of 'Tenet' and 'Wonder Woman 1984' in December, footfalls have gained traction. South Indian circuits have done relatively better due to good regional content.
- Miraj believes a lack of good content rather than virus fears is the key reason behind muted footfalls. Big-ticket films are unlikely to opt for theatrical release till 100% occupancy is restored in cinema halls.
- Management expects to revert to EBITDA breakeven in Apr'21. A strong movie slate in FY22 – at least 25 upcoming movies where management sees blockbuster potential (collection of Rs 1bn+)– should take occupancy back to pre-Covid levels by Jul'21.
- Advertising revenue may take longer than other revenue streams (exhibition, F&B) to normalise. If pre-Covid occupancy is achieved in Q2FY22, ad revenue should gather traction from Q3FY22 onwards.
- Miraj has entered into rent-sharing agreements with some mall developers. The revenue share varies depending on attractiveness of the property.
- The company has also taken several new initiatives to save costs such as installation of QR codes for F&B orders and manpower rationalisation. Management expects some of these initiatives to continue post FY21 as well.
- About 1,000-1,500 single-screen properties are estimated to have closed down following the pandemic, mainly in South India. Hence, some footfalls are likely to be diverted to multiplexes in these regions.
- The multiplex industry may see only 150-200 new screens in FY22 due to tight liquidity with exhibitors. Screen additions from FY23 on should total 300-350 a year, but are contingent upon the pace of mall development.
- Pre-Covid, Miraj had 25 screens in the fit-out stage which are likely to be completed in FY21. Rentals for new properties have declined 30-35%, which is a major positive for the industry.

RECOMMENDATION SNAPSHOT

Ticker	Target	Rating
PVRL IN	1,160	REDUCE
INOL IN	315	BUY

Target in Rupees

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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