

TeamLease Services (TEASER)

₹ 2620

Mixed bag performance...

- TeamLease Services' (TLS) Q3FY19 results was a mixed bag with revenues above our estimates and margins below our estimates. Growth was led by general staffing and specialised staffing services
- Revenues grew 7.5% QoQ and 27.7% YoY to ₹ 1172.2 crore, above our ₹ 1145 crore estimate. Revenues from general staffing grew 8.6% sequentially to ₹ 1062 crore, specialised staffing grew 4.7% QoQ to ₹ 79 crore while HR services declined 16.8% QoQ to ₹ 31 crore
- In terms of associate count, addition of 7548 associates QoQ in general staffing and 3800 in NETAP trainees in the quarter led total associate count to 2.1 lakh
- EBITDA margins declined 10 bps QoQ to 2.1% (vs. our 2.2% estimate) due to drag in margin of specialised staffing & HR services

General staffing to be driving force of overall revenue growth...

Another healthy quarter in general staffing (90.6% of revenues) both from volume and margin perspective. Revenues grew 8.6% QoQ, 26.3% YoY led by volume growth of 6% while EBITDA margins expanded 20 bps QoQ. Going forward, we expect general staffing revenue growth to be the driving force of double-digit growth in overall revenues. Further, productivity improvement led by increase in associate to core ratio in general staffing (associate headcount increased 5.9% while core employees declined 2.2% QoQ) would support overall profitability. Consequently, we expect general staffing & allied services revenues to grow at 20.4% CAGR to ₹ 5898 crore in FY19E-21E.

HR services drag, expect to recover in Q4FY19E...

It was a steady quarter for specialised staffing from a revenue perspective wherein revenue grew 4.7% QoQ with volume growth of 0.9%. It was a drag in other HR services with revenue decline of 16.8% QoQ. This was due to higher provisioning in government training business, though it is expected to reverse in the next quarter. Going ahead, we expect CAGR of 18.2% in specialised staffing and 15% in HR services over FY19E-21E.

Margins miss estimates, see gradual improvement over FY19E-21E...

Segment wise EBITDA margin- 1) Margins in general staffing increased 20 bps QoQ to 2.1% led by improved productivity from associate to core ratio, 2) specialised staffing margins declined 170 bps to 5.6% due to pressure in telecom margins and 3) HR services margins declined from 10.6% to 1% due to a sharp decline in revenue growth. Going forward, the management expects EBITDA margins to be in ~8-10% range in HR services, ~12% range in IT staffing and ~1-1.5% in telecom staffing (in FY19E). Telecom margins lower expectations for FY19E are due to ongoing investment in the segment and would take time to recover to its ~5% margin levels. Taking into consideration, productivity enhancements through associate to core ratio, we expect EBITDA margins to improve 20 bps to 2.3% over FY19E-21E.

Margin trajectory to be watched, maintain HOLD...

TeamLease's general staffing business continues to be on strong momentum. However, continuous pressure from decline in mark-up poses a risk to margin profile and needs to be watched. Hence, we maintain our **HOLD** recommendation and roll over our valuation to FY21E with a revised target price of ₹ 2845/share (31x FY21E EPS).

Rating matrix		
Rating	:	Hold
Target	:	₹ 2845
Target Period	:	12-18 months
Potential Upside	:	9%

What's Changed?	
Target	Changed from ₹ 2830 to ₹ 2845
EPS FY19E	Changed from ₹ 65.9 to ₹ 57.0
EPS FY20E	Changed from ₹ 80.9 to ₹ 72.0
EPS FY21E	Introduced at ₹ 91.8
Rating	Unchanged

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	1,172.2	918.1	27.7	1,090.7	7.5
EBITDA	24.5	21.9	12.1	24.0	2.0
EBITDA (%)	2.1	2.4	-29 bps	2.2	-11 bps
PAT	25.3	22.4	12.8	24.9	1.3

Key Financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	3,624	4,515	5,459	6,515
EBITDA	69	96	118	148
Net Profit	74	97	123	157
EPS (₹)	43.0	57.0	72.0	91.8

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	61.0	46.0	36.4	28.5
Target P/E	66.4	50.0	39.5	31.0
EV / EBITDA	63.1	44.4	35.0	27.0
P/BV	10.2	8.3	6.9	5.7
RoNW (%)	16.7	18.1	18.9	19.8
RoCE (%)	16.8	17.5	18.2	19.1

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	4,510.7
Total Debt (₹ Crore)	1.1
Cash and Investments (₹ Crore)	170.5
EV (₹ Crore)	4,341.4
52 week H/L	3338 / 1951
Equity capital	17.1
Face value	10.0

Price performance (%)				
	1M	3M	6M	12M
TEAMLEASE	(5.3)	8.9	(1.3)	19.8
QUESS	0.7	(10.9)	(40.7)	(40.5)
SIS	3.7	(40.7)	(29.3)	NA

Research Analysts	
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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	1,172	1,145	918	27.7	1,091	7.5	Revenues from general staffing grew 8.6% sequentially to ₹ 1062 crore, specialised staffing grew 4.7% QoQ to ₹ 79 crore while HR services declined 16.8% QoQ to ₹ 31 crore
Employee expenses	1,108	1,079	876	26.6	1,024	8.2	
Gross Profit	64	66	43	50.2	66	-3.5	
Gross margin (%)	5.5	5.8	4.6	82 bps	6.1	-62 bps	
Other expenses	39	41	21	90.5	42	-6.7	
EBITDA	25	25	22	-40	24	3	
EBITDA Margin (%)	2.1	2.2	2.4	-29 bps	2.2	-11 bps	EBITDA margins declined 10 bps QoQ to 2.1% due to decline in margins of specialised staffing and HR services
Depreciation	2	3	2	2.8	3	-14.7	
EBIT	22	21	19	-43	21	18	
EBIT Margin (%)	1.9	1.9	2.1	-24 bps	1.9	-6 bps	
Other income	4	4	4	-14.3	4	-9.3	
PBT	26	26	24	8.3	25	2.2	
Tax paid	-1	0	0	-287.4	-1	-28.5	
PAT	25	25	22	12.8	25	1.3	PAT was above estimate mainly due to lower tax rate

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Introduced
	Old	New	% Change	Old	New	% Change	FY21E
Revenue	4,475	4,515	0.9	5,443	5,459	0.3	6,515
EBIT	95	86	-9.8	116	106	-8.3	135
EBIT Margin (%)	2.1	1.9	-23 bps	2.1	1.9	-18 bps	2.1
PAT	113	97	-13.8	138	123	-10.8	157
EPS (₹)	65.9	57.0	-13.5	80.9	72.0	-11.0	91.8

Change in margin estimates for FY19E and FY20E on account of continuous pressure from declining mark ups

Source: Company, ICICI Direct Research

Conference Call Highlights

- a. **Associate snapshot:** Associate headcount reached 211,335 representing YoY growth of 19.2%. This was led by 19.7% YoY growth in associate count in general staffing and 0.9% in specialised staffing. Healthy growth in associate headcount through the year would play a role in driving volume
- b. **Enhancing productivity through core to associate ratio:** Associate headcount in general staffing (including NETAP) has grown 5.9% QoQ to 205,218 while staffing core employees has declined 2.2% to 788. This has led to enhanced productivity with core to associate (general staffing) ratio increasing to 260 (vs. 241 in Q2FY19) supporting general staffing margins
- c. **Margin performance:** EBITDA margins declined 10 bps QoQ to 2.1% (below our 2.2% estimate) mainly because of increase in employee expenses. The management indicated that it expects EBITDA margins to be at ~8-10% in HR services, ~12% range in IT staffing and ~1-1.5% in telecom staffing (in FY19E). Telecom margins lower expectations for FY19E are due to ongoing investment in the segment and would take time to recover to its ~5% margin levels
- d. **Funding exposure reduced:** The company has reduced its funding exposure to 15% in general staffing business from 22% in Q3FY18. TeamLease has re-negotiated regarding funding methods with some of the existing customers and is putting non-funding option on the table to the new clients. This would lead to efficient working capital management and improvement in balance sheet
- e. **Mark-up per employee:** Average mark-up per employee per month (PEPM) for staffing associates was at ₹ 710 in Q3FY19, decline of 2.7% QoQ. A continuous decline in mark-up is mainly on account of reducing the funding exposure to 15% in general staffing business from 22% in Q3FY18

Company Analysis

Exhibit 1: Segment wise break-up

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue by segments (%)						
General Staffing & Allied Services	95.4	91.5	90.3	89.7	89.6	90.6
Specialised Staffing	3.1	6.4	7.4	7.3	6.9	6.8
Other HR Services	1.6	2.1	2.2	3.0	3.5	2.7

Growth QoQ (%)

General Staffing & Allied Services	2.3	0.6	5.1	3.7	6.7	8.6
Specialised Staffing	9.1	118.8	24.0	3.0	0.8	4.7
Other HR Services	16.4	38.2	14.4	39.3	24.6	-16.8

Source: Company, ICICI Direct Research

Exhibit 2: Segment wise margins

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q1FY19	Q1FY20
EBITDA Margin by segments (%)						
General Staffing & Allied Services	1.7	2.1	1.8	1.7	1.9	2.1
Specialised Staffing	14.1	10.0	7.2	7.1	7.3	5.6
Other HR Services	-1.8	3.8	12.3	7.8	10.6	1.0

Source: Company, ICICI Direct Research

Exhibit 3: Headcount break-up

	Q1FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Associate Count						
General staffing associates (GSA)	129787	130950	132323	137735	145145	152693
NETAP Trainees	28051	40423	43052	47493	48725	52525
Specialised Staffing	1423	5910	5948	6407	6065	6117
Total Outsourced	159261	177283	181323	191635	199935	211335

Core Count

Staffing Core Employees	773	781	798	800	806	788
Total Core Employees	1467	1632	1704	1726	1704	1708
Total Headcount	160728	178915	183027	193361	201639	213043

Productivity

GSA to core employee ratio	204	219	220	232	241	260
Total Associate to core employee ratio	109	109	106	111	117	124

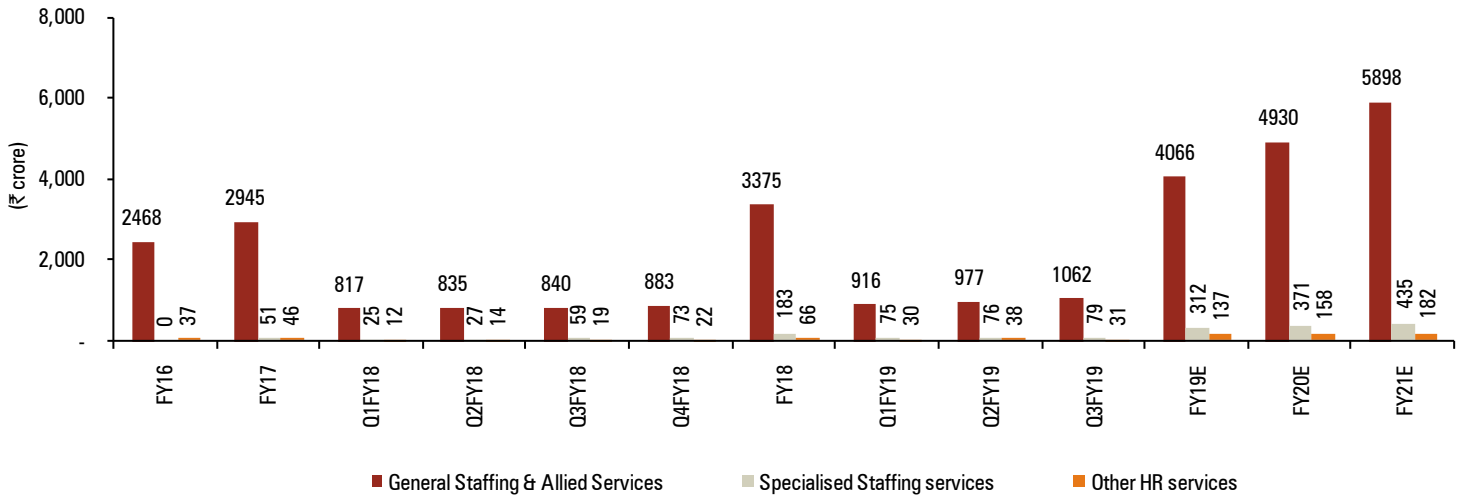
Source: Company, ICICI Direct Research

Though there was a decline in HR services due to higher provisioning in government, the training business is expected to reverse in the next quarter

Productivity in terms of associate to core ratio continue to rise

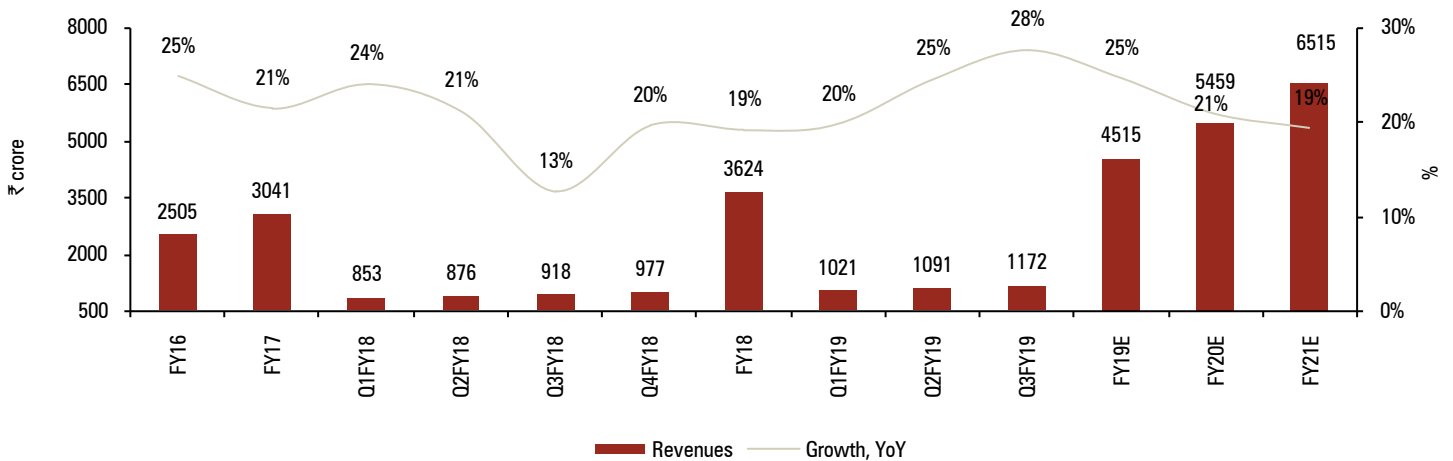
Financial story in charts

Exhibit 4: General Staffing & Allied Services revenues may grow at 20.4% CAGR in FY19E-21E



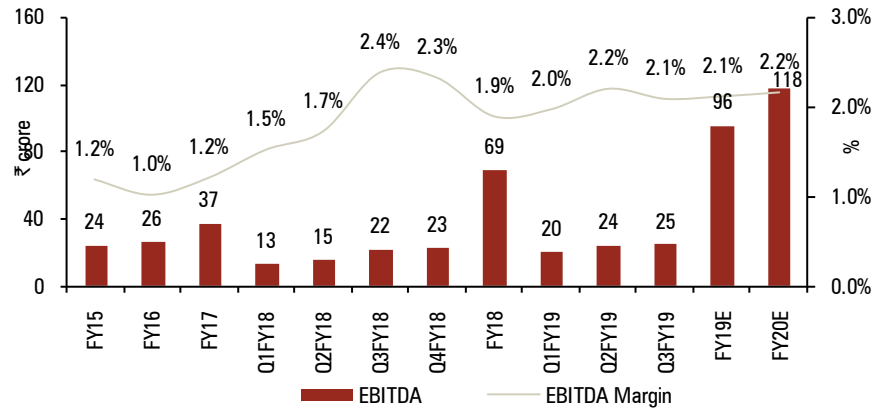
Source: Company, ICICI Direct Research

Exhibit 5: Overall revenues may grow at 20% CAGR in FY19E-21E



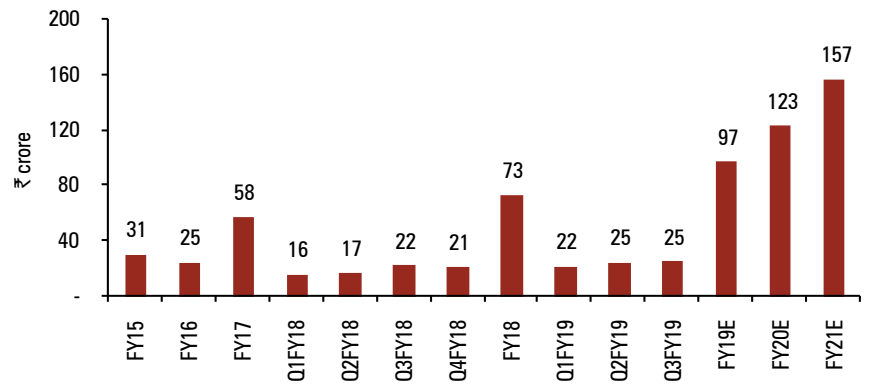
Source: Company, ICICI Direct Research

Exhibit 6: Margin miss estimates



Source: Company, ICICI Direct Research

Exhibit 7: Reported PAT to grow strongly at 27% CAGR in FY19E-21E



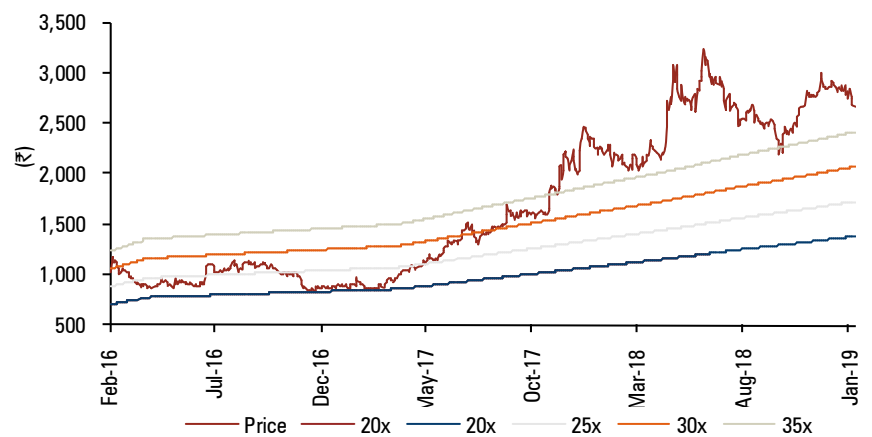
Source: Company, ICICI Direct Research

Outlook and valuation

TeamLease Services' (TLS) Q3FY19 results was a mixed bag with revenues above our estimates and margins below our estimates. Growth was led by general staffing and specialised staffing services. Revenues from general staffing grew 8.6% sequentially to ₹ 1062 crore, specialised staffing grew 4.7% QoQ to ₹ 79 crore while HR services declined 16.8% QoQ to ₹ 31 crore.

TeamLease's general staffing business continues to be on strong momentum. However, continuous pressure from decline in mark-up poses a risk to margin profile and needs to be watched. Hence, we maintain our **HOLD** recommendation and roll over our valuation to FY21E with a revised target price of ₹ 2845/share (31x FY21E EPS).

Exhibit 8: One year forward rolling PE



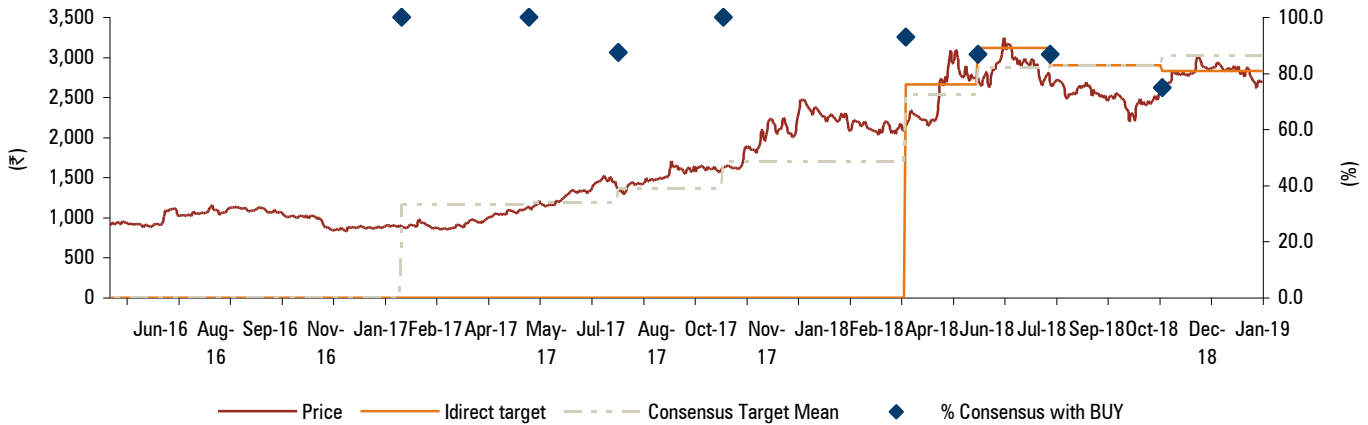
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	3,041	21.4	38.8	143.7	67.5	117.2	15.7	14.3
FY18	3,624	19.2	43.0	10.7	61.0	63.1	16.7	16.8
FY19E	4,515	24.6	57.0	32.6	46.0	44.4	18.1	17.5
FY20E	5,459	20.9	72.0	26.4	36.4	35.0	18.9	18.2
FY21E	6,515	19.4	91.8	27.4	39.5	27.0	19.8	19.1

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Year	Event
2005	Strengthened the technology infrastructure with centralizing the operations in head office at Bengaluru
2008	Started New Service Offerings & Makes Compliance a separate strategic business unit
2009	First round of PE investment by Gaja Capital. First inorganic acquisition of IIJT Education Pvt Ltd
2011	Signs a memorandum of understanding (MoU) for setting up the country's first skills university with Gujarat government
2016	Comes out with IPO in February 2016 with IPO oversubscribed 66 times. Adds IT staffing as a new service offering, acquires ASAP Info Systems & Nichepro Technologies
2017	Acquires Keystone Business Solutions to strengthen IT staffing.
2017	Acquires 30% stake in Freshersworld.com
2017	Acquires Evolve Technologies to enter telecom staffing business
2017	Acquires 40% stake in education start-up Schoolguru
Oct-18	According to media sources, hiring of temporary staff has increased by 20% YoY to 3 lakhs (from 2.5 lakhs) during festive season. According to teamlease hiring in warehousing, fulfillment technology and last mile delivery has increased by 45.0% YoY.

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	HR Offshoring Ventures Pte. Ltd.	31-Dec-18	25.8%	4.4	0.0
2	Goldman Sachs Asset Management International	30-Nov-18	9.3%	1.6	0.0
3	Ned Consultants, L.L.P.	31-Dec-18	9.0%	1.5	0.0
4	Dhana Management Consultancy L.L.P.	31-Dec-18	5.2%	0.9	0.0
5	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Dec-18	4.9%	0.8	0.0
6	T. Rowe Price International (UK) Ltd.	31-Dec-18	4.4%	0.8	0.0
7	T. Rowe Price Singapore Private Ltd.	31-Dec-18	4.4%	0.8	0.0
8	Indus India Fund Mauritius Ltd	31-Dec-18	3.5%	0.6	0.0
9	Kotak Mahindra Asset Management Company Ltd.	31-Dec-18	3.4%	0.6	0.0
10	Fidelity Management & Research Company	31-Dec-18	3.3%	0.6	0.6

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18
Promoter	40.83	40.78	40.78
Public	58.81	58.87	58.87
Others	0.35	0.35	0.35
Total	100.00	100.00	100.00

Recent Activity

Investor name			Investor name		
Fidelity Management & Research Company	23.30m	0.57m	J.P. Morgan Asset Management (Hong Kong) Ltd.	-3.35m	-0.08m
Aditya Birla Sun Life AMC Limited	1.64m	0.04m	Canara HSBC Oriental Bank of Commerce Life Insurance Co., Ltd.	-3.04m	-0.07m
Indus Capital Partners, LLC	0.80m	0.02m	Fidelity International	-1.08m	-0.03m
Amundi Hong Kong Limited	0.35m	0.01m	BNP Paribas Asset Management India Pvt. Ltd.	-1.24m	-0.03m
ICICI Prudential Asset Management Co. Ltd.	0.32m	0.01m	BOI AXA Investment Managers Private Limited	-0.35m	-0.01m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E	
Revenue from operations	3,624.1	4,515.5	5,458.8	6,515.2	
Growth (%)	19.2	24.6	20.9	19.4	
Other Income	15.6	16.7	22.3	28.2	
Total Revenue	3,639.7	4,532.2	5,481.1	6,543.4	
Employee benefits expense	3,471.2	4,259.7	5,155.8	6,146.6	
Other Expenses	84.1	160.0	184.9	220.6	
Total Operating Expenditure	3,555.3	4,419.8	5,340.7	6,367.2	
EBITDA	68.8	95.7	118.1	148.0	
Growth (%)	85.7	39.2	23.4	25.4	
Interest	2.5	5.1	5.6	6.6	
Depreciation	9.2	10.0	11.7	12.7	
PBT	72.8	97.3	123.1	156.9	
Tax	(0.9)	-	-	-	
PAT	73.7	97.3	123.1	156.9	
Growth (%)	28.0	32.0	26.6	27.4	
Diluted EPS	43.0	57.0	72.0	91.8	
Growth (%)	10.7	32.6	26.4	27.4	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E	
Equity Capital	17.1	17.1	17.1	17.1	
Reserve and Surplus	424.6	522.0	632.8	774.0	
Total Shareholders funds	441.7	539.1	649.9	791.1	
Long term borrowings	-	-	-	-	
Short term borrowings	1.2	1.2	1.2	1.2	
Bank overdraft	6.1	45.2	54.6	65.2	
Total Debt	7.3	46.4	55.8	66.4	
Other long term liabilities	48.6	60.6	73.2	87.4	
Long term provisions	-	-	-	-	
Liabilities Total	497.6	646.1	779.0	944.9	
Fixed Assets	137.8	133.1	129.5	126.5	
Tangible	5.4	8.1	11.8	15.2	
Intangible + Goodwill	132.1	124.8	117.4	111.1	
Non-current Investments	27.0	27.0	27.0	27.0	
Deferred tax asset	39.9	49.7	60.1	71.8	
Long terms loans and advance	51.3	64.0	77.3	92.3	
Other non-current assets	143.8	154.6	166.0	178.8	
Inventories	-	-	-	-	
Trade receivables	223.5	280.0	338.4	403.9	
Current Investments	32.3	32.3	32.3	32.3	
Cash	142.4	279.6	400.6	552.3	
Short term loans and advances	1.4	1.7	2.1	2.5	
Other current assets	86.6	107.9	130.5	155.8	
Total Current Assets	486.3	701.6	904.0	1,146.8	
Trade Payable	17.6	21.9	26.5	31.7	
Other current liabilities	370.9	462.1	558.6	666.8	
Short term provisions	-	-	-	-	
Total Current Liabilities	388.5	484.0	585.2	698.4	
Net Current Assets	97.8	217.5	318.8	448.4	
Assets Total	497.6	646.1	779.0	944.9	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit before Tax	72.8	97.3	123.1	156.9	
Add: Depreciation	9.2	10.0	11.7	12.7	
(Inc)/dec in Current Assets	(34.7)	(78.1)	(81.4)	(91.2)	
Inc/(dec) in CL and Provisions	100.3	74.3	78.6	88.0	
Taxes paid	(65.5)	-	-	-	
CF from operating activities	79.2	91.9	115.3	144.9	
(Inc)/dec in Investments	(21.2)	16.7	22.3	28.2	
(Inc)/dec in Fixed Assets	(2.3)	(5.4)	(8.1)	(9.7)	
Others	-	-	-	-	
CF from investing activities	(23.5)	11.3	14.2	18.5	
Inc/(dec) in loan funds	-	39.1	9.4	10.6	
Dividend paid & dividend tax	-	-	(12.3)	(15.7)	
Others	(13.3)	(5.1)	(5.6)	(6.6)	
CF from financing activities	(13.3)	34.0	(8.5)	(11.8)	
Net Cash flow	42.3	137.2	121.0	151.6	
Opening Cash	160.2	142.4	279.6	400.6	
Closing Cash	142.4	279.6	400.6	552.3	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Per share data (₹)					
EPS	43.0	57.0	72.0	91.8	
Cash EPS	48.1	62.8	78.8	99.2	
BV	256.5	315.3	380.1	462.7	
DPS	-	-	9.9	12.6	
Cash Per Share	82.7	163.6	234.3	323.0	
Operating Ratios (%)					
EBIT Margin	1.6	1.9	1.9	2.1	
PBT Margin	2.0	2.2	2.3	2.4	
PAT Margin	2.0	2.2	2.3	2.4	
Debtor days	23	23	23	23	
Creditor days	2	2	2	2	
Return Ratios (%)					
RoE	16.7	18.1	18.9	19.8	
RoCE	16.8	17.5	18.2	19.1	
RoIC	21.7	31.3	39.0	49.6	
Valuation Ratios (x)					
P/E	61.0	46.0	36.4	28.5	
EV / EBITDA	63.1	44.4	35.0	27.0	
EV / Net Sales	1.2	0.9	0.8	0.6	
Market Cap / Sales	1.2	1.0	0.8	0.7	
Price to Book Value	10.2	8.3	6.9	5.7	
Solvency Ratios					
Debt/EBITDA	0.1	0.5	0.5	0.4	
Current Ratio	1.3	1.2	1.2	1.2	
Quick Ratio	1.3	1.2	1.2	1.2	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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ANALYST CERTIFICATION

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