TeamLease (TEASER)

ICICI direct Research

CMP: ₹ 1722 | Target: ₹ 2000 (16%) | Target Period: 12 months | **BUY**

June 10, 2020

Covid-19 crisis impacts revenues, margins…

TeamLease's Q4FY20 revenues declined 1.6% QoQ (up 14.3% YoY) to ₹ 1330.3 crore (vs. our ₹ 1318 crore estimate). Revenues from general staffing declined 1.7% sequentially to ₹ 1195 crore, specialised staffing grew 1.8% QoQ to ₹ 106 crore while HR services declined 7.3% QoQ to ₹ 28 crore. EBITDA margins declined 53 bps QoQ to 1.5% (vs. our expectation of 2.1%). However, adjusting for provisions of ₹ 6.2 crore, EBITDA margins were at 1.9%, lower than our estimates, mainly due to losses in HR services. In the current quarter, the company has taken one time non-cash charge of MAT credit to move to new tax regime. This move will enable the company to improve its cashflow as under the new tax regime the company will get benefits of 80 JJA but will not have to pay MAT.

General staffing to drag FY21E revenues

Revenues from general staffing were impacted in Q4 mainly due to lower volumes (led by current Covid-19 crisis). In the near term, we expect general staffing volumes to decline led by layoffs and delay in new contracts. We believe general staffing could decline 15% YoY in Q1FY21E and then expect a gradual recovery from Q2FY20 onwards. We believe the key sector impacted in general staffing are BFSI and retail, which may see a revival in H2FY21E. In addition, higher demand from logistic, healthcare and FMCG could lead to healthy growth in general staffing in FY22E (leading to growth of 18% YoY). In specialised staffing, we expect revenues to improve from H2FY21E led by revival in IT services. In FY21E, we expect overall revenues to increase marginally by 2.4% YoY and then increase 17.2% YoY in FY22E led by a rebound in the economy and healthy traction in NETAP.

Margin improvement key to watch

EBITDA margins are expected to be impacted in the near term due to lower revenues from general staffing and pricing pressure from few clients. However, the company is taking various efforts to reduce its core employees in general and specialised staffing. Further, it aims to improve margins in specialised staffing and is focusing on achieving FY19 margins in FY21E. However, we believe this is optimistic. We expect the company to achieve FY19 margins of 2.1% in FY22E.

Valuation & Outlook

TeamLease's general staffing business continues to be on a strong footing. Going ahead, a revival in volume growth & margin improvement would lead to improved FY22E performance. The company is taking initiatives to improve margins by cutting low margin telecom contracts, reducing core employees, improving PBT growth. In addition, the company's cashflow is expected to improve led by lower tax outgo and efficient working capital management. Hence, we upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 2000.

TeamLease® Putting India to Work

Particulars

Particular	Amount
Market Cap (₹Crore)	2,964.7
Total Debt (₹Crore)	76.2
Cash and Invst (₹Crore)	116.7
EV (₹Crore)	2,924.2
52 week H/L	3191 / 1421
Equity capital	17.1
Face value	10.0

Key Highlights

- Decline in volumes in general staffing & NETAP to impact FY21E revenue growth. FY22E to see healthy growth in revenues led by rebound in the economy and healthy traction in NETAP on the private side
- FY22E margins to improve on the back of cost rationalisation and improved productivity
- Upgrade to BUY from HOLD recommendation with revised target price of ₹ 2000

Research Analyst

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	3,624.1	4,447.6	5,200.7	5,323.1	6,238.9	9.5%
EBITDA	68.8	94.4	95.1	97.5	130.1	17.0%
EBITDA Margins (%)	1.9	2.1	1.8	1.8	2.1	
Net Profit	74.0	98.8	39.1	73.8	105.8	64.4%
EPS (₹)	43.0	57.3	20.5	43.2	61.9	
P/E (x)	40.1	30.0	84.2	39.9	27.8	
RoCE (%)	16.8	18.6	15.0	11.9	14.5	
RoE (%)	16.7	18.3	6.8	11.4	14.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	1,330	1,319	1,163	14.3	1,351	-1.6	Revenues from general staffing and other HR services declined 1.7% QoQ and 7.0% QoQ which has led to decline in overall revenues in Q4FY20 on sequential basis
Employee expense	1,262	1,248	1,096	15.1	1,282	-1.6	
Gross Profit	69	70	67	2.3	70	-1.2	
Gross margin (%)	5.2	5.3	5.8	-61 bps	5.2	2 bps	
Other expenses	49	43	42	17.6	42	16.0	
EBITDA	20	25	26	-15	27	-17	
EBITDA Margin (%	1.5	2.1	2.2	-71 bps	2.0	-53 bps	The company's EBITDA margin declined 53 bps QoQ due to loss in HR services and provisions of doubtful debt made by the company to the tune of ₹6.2 crore
Depreciation	8	8	2	235.0	8	8.9	
EBIT	12	18	23	-250	20	-26	
EBIT Margin (%)	0.9	1.3	2.0	-112 bps	1.5	-60 bps	
Other income	15	5	5	182.8	7	102.0	
PBT	26	25	28	-7.4	27	-3.0	
Tax paid	52	-2	1	6,537.0	-2	-3,282.5	
PAT	-29	22	26	-213.1	25	-215.6	The company has migrated to new tax regime which has led to one time non cash charge of ~₹50 crore. This has led to company reporting loss at net levels.

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
(₹Crore)	Old	New	% Change	Old	New	% Change	
Revenue	6,130	5,323	-13.2	7,270	6,239	-14.2	We have revised our estimates downwards to factor in pressures relating to recent Covid 19 crisis
EBITDA	139	97	-29.9	184	130	-29.3	
EBITDA Margin (%	2.3	1.8	-44 bps	2.5	2.1	-45 bps	We expect margins to stabilise in FY22E
PAT	116	74	-36.4	158	106	-33.1	
EPS (₹	67.8	43.2	-36.4	92.4	61.9	-33.1	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **General Staffing:** The company's general staffing revenues declined 1.7% QoQ (up 13.2% YoY) mainly due to decline in volumes, which was impacted by Covid 19 pandemic. Going forward, volumes in Q1FY21E are expected to drop 15-20% due to layoffs and impact on demand side. Volumes and revenue from general staffing are expected to improve from Q2FY21E onwards. As a result, we expect general staffing revenues to increase ~2% YoY in FY21E

- **Specialised staffing**: Revenues in the segment increased 1.8% QoQ to ₹ 106 crore. This was primarily on account of acquisition integration of IMSI staffing contributing ₹ 13.3 crore to the segment revenue. On the other hand, revenue from IT staffing and telecom staffing both declined ~4% QoQ and 5% QoQ to ₹ 52.0 crore and ₹ 41.2 crore, respectively. On the margin side, specialised staffing was at 6.1%, declining from 7.3%, mainly due to a dip in IT staffing and IMSI revenues. The company, in the long run, expects margins from IT staffing to stabilise at 9% (from current 7.4%), for telecom at 3-4% (from current 2.8%) and IMSI at 11-12% (from current 10.6%). We believe this will drive margins in the long run. However, in the near term, we expect margins in specialised staffing to remain under pressure

- **HR services**: Revenue in HR services declined 7.3% QoQ due to lower government revenues and decline in private business. Teamlease is looking to taper the revenue contribution from government business. Overall margins were impacted by losses in HR services. In the long run, we expect the company to improve the growth and replace government business with private business

- **Enhancing productivity through associate to core ratio**: The company's associate to core ratio declined from 266 to 264 mainly due to lower than anticipated general staffing associates. TeamLease has rationalised its core associates and reduced it by 22 in the current quarter. The company expects further rationalisation of core associates that will increase associate to core ratio. It will also help it to maintain margins in the near term. The company is also planning to reduce associates in specialised staffing by reducing the total core associates by ~250

- **Funding exposure**: The company has maintained 14% funding exposure in the general staffing business over the last 24 months. In the previous call, the management said TeamLease has re-negotiated regarding funding methods with some existing customers and is putting non-funding options on the table to new clients. This would lead to efficient working capital management and improvement in balance sheet in general staffing. The company is also reducing working capital requirements in telecom staffing

- **Adoption of new tax regime to boost cashflow:** The company has adopted a new tax regime that has led to one-time non-cash charge to P&L. However, this migration to new tax regime will benefit the company. It has to no longer pay MAT and will get the benefit of 80JJA. This will lead to zero taxation and no cash outflow for the company

- **Investment in DHFL, IL&FS**: The company's own provident fund trust (PF trust) has investments amounting to ₹ 173.7 crore in two non-banking financial companies (DHFL and IL&FS) with maturities in FY20-21 and FY26-27

Key Metrics

Exhibit 3: Segment wise break-up

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue by segments (%)						
General Staffing & Allied Service	90.6	90.8	90.4	89.9	90.0	89.9
Specialised Staffing	6.8	6.8	7.8	7.9	7.7	8.0
Other HR Services	2.7	2.4	1.8	2.2	2.3	2.1
Growth QoQ (%)						
General Staffing & Allied Service	8.6	-0.5	7.0	0.8	6.8	-1.7
Specialised Staffing	4.7	0.3	23.7	2.3	4.2	1.8
Other HR Services	-16.8	-12.3	-18.5	25.5	8.8	-7.3

Source: Company, ICICI Direct Research

Volume dip in general staffing impacted its revenues on sequential basis

Exhibit 4: Segment wise margins

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
EBITDA Margin by segments (%)						
General Staffing & Allied Service	2.1	2.3	2.1	1.8	1.6	2.2
Specialised Staffing	5.6	6.1	6.4	6.3	7.3	6.1
Other HR Services	1.0	5.8	-27.6	-0.7	2.0	-10.6

Source: Company, ICICI Direct Research

Losses in HR services and lower margin in specialised staffing impacted overall margins on sequential basis

Exhibit 5: Headcount break-up

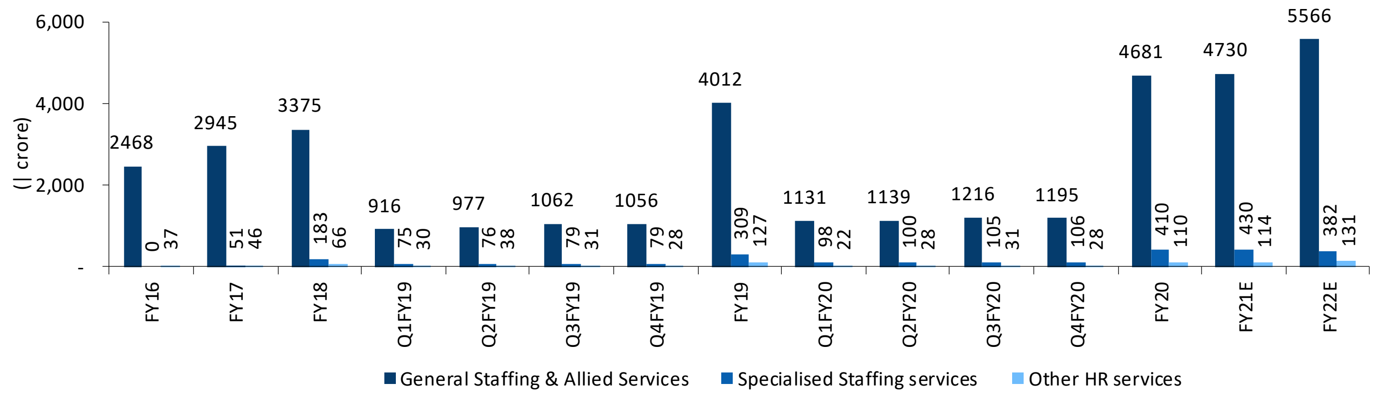
	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Associate Count						
General staffing associates (GSA)	152693	154095	160614	165029	167216	161365
NETAP Trainees	52525	56169	57292	51341	52388	50620
Specialised Staffing	6117	5947	6858	6549	8244	8225
Total Outsourced	211335	216211	224764	222919	227848	220210
Core Count						
Staffing Core Employees	788	780	788	829	826	804
Total Core Employees	1708	1687	1818	2005	2150	2022
Total Headcount	**213043**	**217898**	**226582**	**224924**	**229998**	**222232**
Productivity						
GSA to core employee ratio	260	270	277	261	266	264
Total Associate to core employee rati	124	128	124	111	106	109

Source: Company, ICICI Direct Research

Management indicated of reduction in core employees over the coming quarters

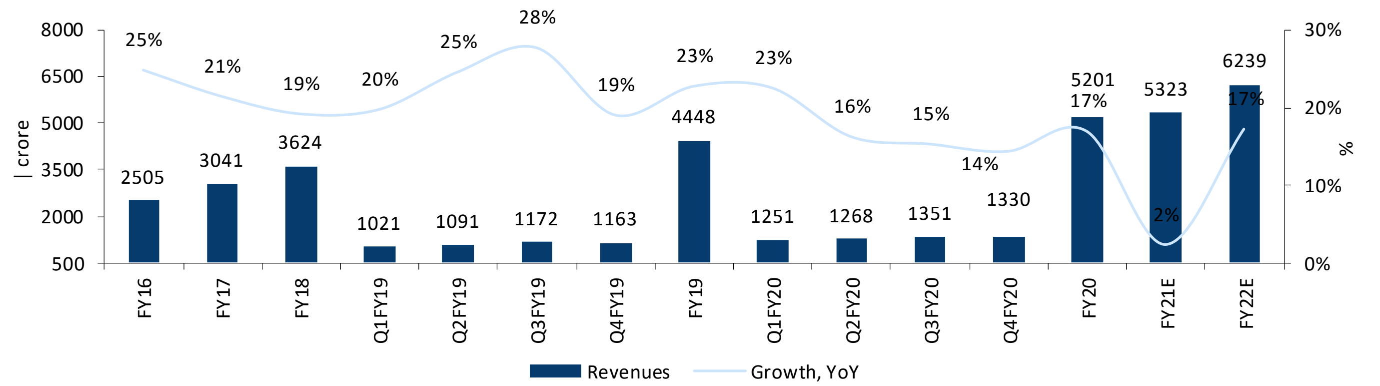
Financial story in charts

Exhibit 6: General staffing expected to register revenue CAGR of 9% over FY20-22E



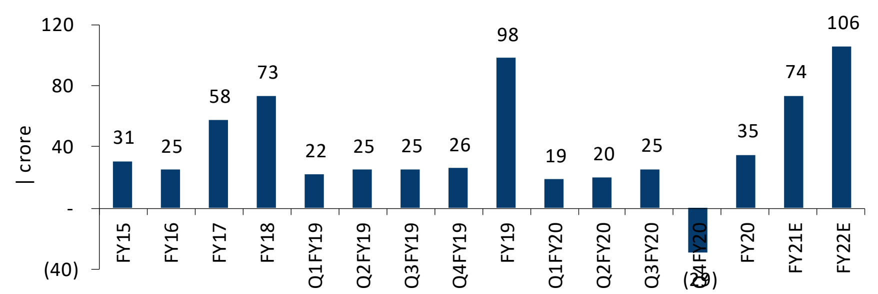
Source: Company, ICICI Direct Research

Exhibit 7: Overall revenues expected to increase at CAGR of 8.1% over FY20-22E



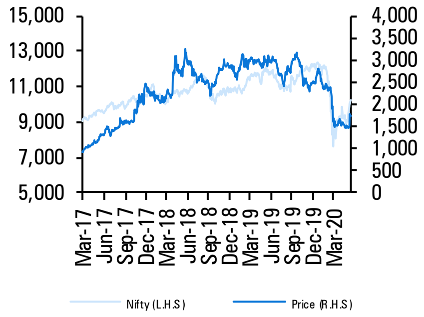
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Three Year Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore

(₹Crore)	FY19	FY20	FY21E	FY22E
Revenue from operation	**4,447.6**	**5,200.7**	**5,323.1**	**6,238.9**
Growth (%)	22.7	16.9	2.4	17.2
Other Income	18.1	30.8	17.9	22.0
Total Revenue	4,465.7	5,231.6	5,341.0	6,260.9
Employee benefits expens	4,197.2	4,936.5	5,051.6	5,908.2
Other Expenses	156.0	169.2	174.0	200.6
Total Operating Expenditu	4,353.1	5,105.6	5,225.6	6,108.8
EBITDA	**94.4**	**95.1**	**97.5**	**130.1**
Growth (%)	37.3	0.7	2.5	33.5
Interest	5.2	12.3	14.7	14.7
Depreciation	10.5	28.6	28.9	32.7
PBT	96.8	85.1	71.7	104.7
Tax	(1.6)	48.0	-	-
PAT	**98.4**	**37.1**	**71.7**	**104.7**
Growth (%)	33.5	(62.3)	93.5	46.0
Diluted EPS	57.3	20.5	43.2	61.9
Growth (%)	33.5	(64.3)	111.0	43.3

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20E*	FY21E	FY22E
Profit before Tax	96.8	85.1	71.7	104.7
Add: Depreciation	10.5	28.6	28.9	32.7
(Inc)/dec in Current Assets	(130.4)	(65.6)	(11.4)	(85.4)
Inc/(dec) in CL and Provision	101.8	(7.9)	8.1	60.9
Taxes paid	(86.2)	(48.0)	-	-
CF from operating activitie	**(12.4)**	**(28.5)**	**96.3**	**106.6**
(Inc)/dec in Investments	13.0	30.8	17.9	22.0
(Inc)/dec in Fixed Assets	(11.2)	(62.0)	(26.6)	(31.2)
Others				
CF from investing activitie	**1.8**	**(31.2)**	**(8.8)**	**(9.2)**
Inc/(dec) in loan funds	-	65.6	-	-
Dividend paid & dividend tax	-	-	-	(6.3)
Others	(6.1)	(12.3)	(14.7)	(14.7)
CF from financing activitie	**(6.1)**	**53.3**	**(14.7)**	**(21.1)**
Net Cash flow	(16.8)	(6.4)	72.8	76.4
Opening Cash	142.4	123.0	116.7	189.5
Closing Cash	**123.0**	**116.7**	**189.5**	**265.8**

*Source: Company, ICICI Direct Research. * to be updated post receipt of annual report*

Exhibit 12: Balance sheet ₹ crore

(₹Crore)	FY19	FY20E*	FY21E	FY22E
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	522.0	557.0	630.8	730.2
Total Shareholders funds	539.1	574.1	647.9	747.3
Long term borrowings	-	-	-	-
Short term borrowings	-	-	-	-
Bank overdraft	10.6	76.2	76.2	76.2
Total Debt	10.6	76.2	76.2	76.2
Other long term liabilities	66.1	77.2	79.1	92.7
Long term provisions	-	-	-	-
Liabilities Total	**615.8**	**727.6**	**803.2**	**916.2**
Fixed Assets	157.8	207.2	204.9	203.4
Tangible	9.3	64.3	64.6	65.6
Intangible+Goodwill	142.4	136.9	134.3	131.8
Non-current Investments	25.4	25.4	25.4	25.4
Deferred tax asset	65.3	76.4	78.2	91.6
Long terms loans and adv	66.2	83.2	85.2	99.8
Other non-current assets	216.1	223.8	225.3	236.3
Inventories	-	-	-	-
Trade receivables	264.3	301.6	308.7	361.9
Current Investments	16.0	-	-	-
Cash	123.0	116.7	189.5	265.8
Short term loans and adva	1.4	1.6	1.6	1.9
Other current assets	153.9	182.0	186.3	218.4
Total Current Assets	558.7	601.9	686.1	847.9
Trade Payable	28.0	32.7	33.5	39.3
Other current liabilities	445.8	457.7	468.4	549.0
Short term provisions	-	-	-	-
Total Current Liabilities	473.7	490.4	501.9	588.3
Net Current Assets	84.9	111.6	184.2	259.6
Assets Total	**615.8**	**727.6**	**803.2**	**916.2**

*Source: Company, ICICI Direct Research, *to be updated post receipt of Annual report*

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY19	FY20E*	FY21E	FY22E
Per share data (₹)				
EPS	57.3	20.5	43.2	61.9
Cash EPS	63.2	34.3	58.8	80.4
BV	313.0	300.0	379.0	437.1
DPS	-	-	-	2.6
Cash Per Share	71.4	61.0	110.8	155.5
Operating Ratios (%)				
EBIT Margin	1.9	1.3	1.3	1.6
PBT Margin	2.2	1.6	1.3	1.7
PAT Margin	2.2	0.8	1.4	1.7
Debtor days	22	21	21	21
Creditor days	2	2	2	2
Return Ratios (%)				
RoE	18.3	6.8	11.4	14.2
RoCE	18.6	15.0	11.9	14.5
RoIC	20.4	12.5	12.8	17.5
Valuation Ratios (x)				
P/E	30.0	84.2	39.9	27.8
EV / EBITDA	30.0	30.8	29.3	21.3
EV / Net Sales	0.6	0.6	0.5	0.4
Market Cap / Sales	0.7	0.6	0.6	0.5
Price to Book Value	5.5	5.7	4.5	3.9
Solvency Ratios				
Debt/EBITDA	0.1	0.8	0.8	0.6
Current Ratio	1.5	1.6	1.6	1.6
Quick Ratio	1.5	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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