Team Lease (TEASER)

CMP: ₹ 1848 | Target: ₹ 2205 (19%) | Target Period: 12 months | BUY

August 1, 2020

Robust performance on margin front…

TeamLease Services' (TLS) results were above our expectation, especially on the profitability side. While revenues fell 14.6% QoQ, EBITDA margins improved 70 bps QoQ to 2.2%. This was mainly due to 20.5% QoQ fall in general staffing core employees and higher margins in specialised staffing. General staffing core to associate ratio also improved from 264 to 283. The company has moved to the new tax regime, which has helped improve its cash flow. The overall cash conversion has improved to 80% in Q1FY21.

General staffing to drive revenues

Despite challenging times, the company gained market share in general staffing business (added 78 accounts) in Q1FY21, helping TLS to register 14.5% fall in volumes vs. expected 18-20% dip. Going forward, we expect an economic recovery and market share gains to boost the topline. This coupled with traction in NETAP due to some improvement in manufacturing & auto will further give impetus to general staffing revenues. Also, we expect a revival in demand from BFSI, logistic, healthcare and FMCG to lead to healthy growth in general staffing. Hence, we assume 10.5% CAGR in FY20-22E in general staffing. In specialised staffing, we expect revenues to improve in coming quarters led by a revival in IT services. As a result, we expect overall revenues to increase at 9.7% CAGR in FY20-22E.

Margins expected to improve led by cost rationalisation

EBITDA margins in the quarter improved due to rationalisation of core associates, lower variable pay, lower reimbursement and lower facility cost. While some of the cost will return with growth, the company expects 25% of overall cost saved to be sustainable (which we believe could be ₹ 5-6 crore/quarter). This coupled with focus on high margin customers in specialised staffing will boost long-term margins. Hence, we expect a 20 bps increase in EBIT margin to 1.5% FY21E and 20 bps increase 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 performance in coming quarters. Further, the company has significantly reduced its core associates and could manage higher growth with lower associates, going forward, due to digitisation of business. This, coupled with other cost rationalisation like lower facility cost bodes well for margins. In addition, cashflows are expected to improve led by lower tax outgo and efficient working capital management. Hence, we maintain our **BUY** rating on the stock with a revised target price of ₹ 2205.

Result Update

ICICI Securities – Retail Equity Research

Particulars

Particular	Amount
Market Cap (₹Crore)	3,181.6
Total Debt (₹Crore)	76.2
Cash and Invst (₹Crore)	97.0
EV (₹Crore)	3,160.9
52 week H/L	3192 / 1421
Equity capital	17.1
Face value	10.0

Key Highlights

- Rebound in economy, market share gains and healthy traction in NETAP on private side to boost general staffing revenues
- Margins to improve on the back of cost rationalisation and improved productivity
- Maintain BUY with revised target price of ₹ 2205

Research Analyst

Devang Bhatt
devang.bhatt@icicisecurities.com

Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	3,624.1	4,447.6	5,200.7	5,327.1	6,253.3	9.7%
EBITDA	68.8	94.4	95.1	108.9	136.6	19.8%
EBITDA Margins (%)	1.9	2.1	1.8	2.0	2.2	
Net Profit*	74.0	98.0	35.0	86.1	117.8	83.5%
EPS (₹)	43.0	57.3	20.5	50.4	68.9	
P/E (x)	43.0	32.2	90.3	36.7	26.8	
RoCE (%)	16.8	18.6	15.0	13.1	15.1	
RoE (%)	16.7	18.3	6.5	13.4	15.6	

*Source: Company, ICICI Direct Research, *PAT CAGR is higher due to one off in FY20*

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	1,136	1,087	1,251	-9.2	1,330	-14.6	The company's revenues declined by 14.6% QoQ mainly led by 14.4% QoQ decline in General staffing, 5.3% QoQ decline in specialized staffing and 57.2% QoQ decline in other HR services.
Employee expense	1,091	1,032	1,194	-8.6	1,262	-13.5	
Gross Profit	46	55	58	-20.6	69	-33.5	
Gross margin (%)	4.0	5.1	4.6	-58 bps	5.2	-114 bps	
Other expenses	21	39	34	-38.6	49	-56.6	
EBITDA	25	16	23	6.1	20	23.3	
EBITDA Margin (%	2.2	1.5	1.9	31 bps	1.5	66 bps	The 66 bps QoQ improvement in EBITDA margins is led by rationalisation of core employees headcount
Depreciation	8	6	6	35.1	8	-0.8	
EBIT	16	10	17	-17	12	24	
EBIT Margin (%)	1.4	0.9	1.4	7 bps	0.9	56 bps	
Other income	4	4	3	18.0	15	-72.1	
PBT	20	15	21	-0.5	26	-22.4	
Tax paid	0	0	-2	-100.0	52	NA	The migration new tax regime has helped the company to not pay MAT and also help get benefit of 80JJA leading to zero taxation
PAT	18	11	19	-6.3	-29	NA	PAT was above our expectation due to better performance at operating level

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
(₹Crore)	Old	New	% Change	Old	New	% Change	
Revenue	5,323	5,327	0.1	6,239	6,253	0.2	
EBITDA	98	109	11.7	130	137	5.0	
EBITDA Margin (%	1.8	2.0	21 bps	2.1	2.2	10 bps	We have revised our margin estimates upwards to factor in cost rationalisation of core assocaites
PAT	74	86	16.7	106	118	11.3	
EPS (₹	43.2	50.4	16.7	61.9	68.9	11.3	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **General Staffing:** General staffing revenues fell 14.4% QoQ (down 9.5% YoY) mainly due to 14.5% QoQ decline in volumes, which was impacted by the Covid-19 pandemic. Despite challenging times, the company gained market share in general staffing business (added 78 accounts) in Q1FY21, which helped TLS to register 14.5% fall in volumes vs. expected 18-20% dip. Going forward, we expect an economic recovery and market share gains to boost the topline. This is coupled with traction in NETAP due to some traction in manufacturing & auto. Hence, we expect general staffing revenues to increase 3.6% YoY in FY21E

- **Specialised staffing**: Revenues in the segment declined 5.3% QoQ to ₹ 101 crore mainly led by 6.0% QoQ decline in IT staffing revenues and 7.0% QoQ decline in telecom revenues. IT infra revenues were flat QoQ. On the margin side, specialised staffing was at 8.6%, improving from 6.1% in Q4FY20, mainly due to 460 bps improvement in IT staffing margins to 12.2% and 340 bps improvement in IT infra margins to 14% partially offset by 60 bps dip in telecom EBITDA margins to 2.2%. The margin improvement was due to focus on high margin logo acquisition, rationalisation of low margin clients, shared service for specialised staffing and rationalisation of core associates. This will drive margins in the long run

- **HR services**: Revenue in HR services declined 57.2% QoQ. We believe this is due to lower government revenues and decline in private business. Teamlease is looking to taper the revenue contribution from government business and permanent recruitment business. The company has reduced 250 core employees in the permanent recruitment business. TLS expects some 50% loss from this business in Q2 and no impact in Q3. The government business will end in FY22E. 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 general associate to core ratio improved from 264 to 283 mainly due to improvement in productivity and rationalisation associate headcount. TeamLease has rationalised its core associates and reduced it by 165 in the current quarter. Overall associate has been reduced by 478. The company expects to sustain this over a longer period thereby improving associate to core ratio

- **Adoption of new tax regime to boost cashflow:** TLS has adopted a new tax regime that has led to zero taxation and no cash outflow for the company. This is because it has to no longer pay MAT and will get the benefit of 80JJA. TLS' cash conversion has improved to 80% in Q1FY21. The company has also seen lower withholding tax and TDS refund of ₹ 30 crore, which has also improved its cash flows

- **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. The total assets under the PF Trust as on June 30, 2020, amount to ₹ 1,338.22 crores while there is unrealised MTM gain of ₹ 91 crore on account of certain other investments. There is a net surplus of ₹ 37.37 crores as at June 30, 2020, without considering the impact of any MTM gains/losses on the investment portfolio of the trust

Key Metrics

Exhibit 3: Segment wise break-up

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue by segments (%)						
General Staffing & Allied Service	90.8	90.4	89.9	90.0	89.9	90.1
Specialised Staffing	6.8	7.8	7.9	7.7	8.0	8.9
Other HR Services	2.4	1.8	2.2	2.3	2.1	1.1
Growth QoQ (%)						
General Staffing & Allied Service	-0.5	7.0	0.8	6.8	-1.7	-14.4
Specialised Staffing	0.3	23.7	2.3	4.2	1.8	-5.3
Other HR Services	-12.3	-18.5	25.5	8.8	-7.3	-57.2

Source: Company, ICICI Direct Research

Volume dip across segment led to decline in revenues across segments

Exhibit 4: Segment wise margins

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
EBITDA Margin by segments (%)						
General Staffing & Allied Service	2.3	2.1	1.8	1.6	2.2	2.0
Specialised Staffing	6.1	6.4	6.3	7.3	6.1	8.6
Other HR Services	5.8	-27.6	-0.7	2.0	-10.6	-32.9

Source: Company, ICICI Direct Research

Improvement in specialised staffing margins key positive

Exhibit 5: Headcount break-up

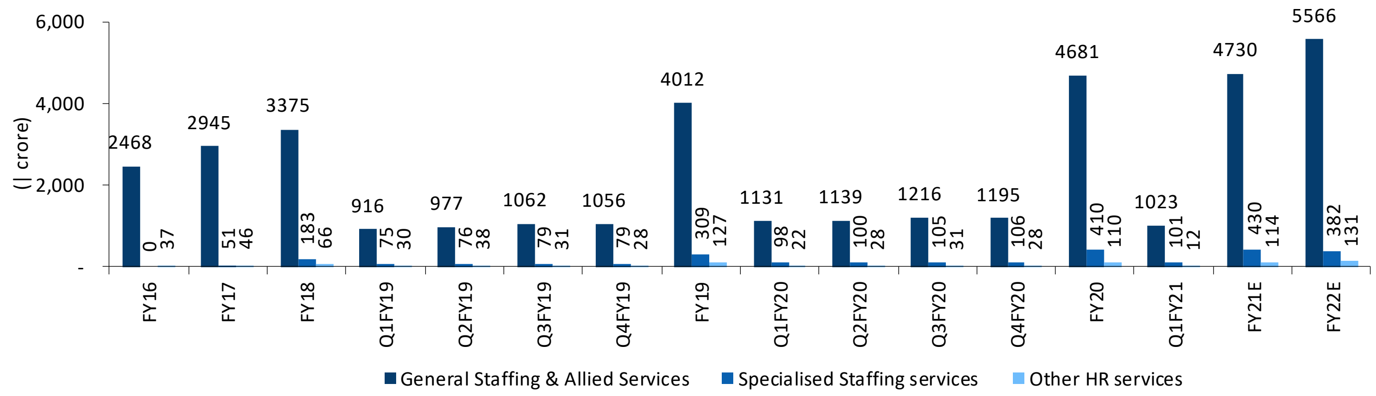
	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Associate Count						
General staffing associates (GSA)	154095	160614	165029	167216	161365	145259
NETAP Trainees	56169	57292	51341	52388	50620	35888
Specialised Staffing	5947	6858	6549	8244	8225	7461
Total Outsourced	216211	224764	222919	227848	220210	188608
Core Count						
Staffing Core Employees	780	788	829	826	804	639
Total Core Employees	1687	1818	2005	2150	2022	1544
Total Headcount	**217898**	**226582**	**224924**	**229998**	**222232**	**190152**
Productivity						
GSA to core employee ratio	270	277	261	266	264	283
Total Associate to core employee rati	128	124	111	106	109	122

Source: Company, ICICI Direct Research

Reduction in core employees and improvement in associate to core ratio key highlights

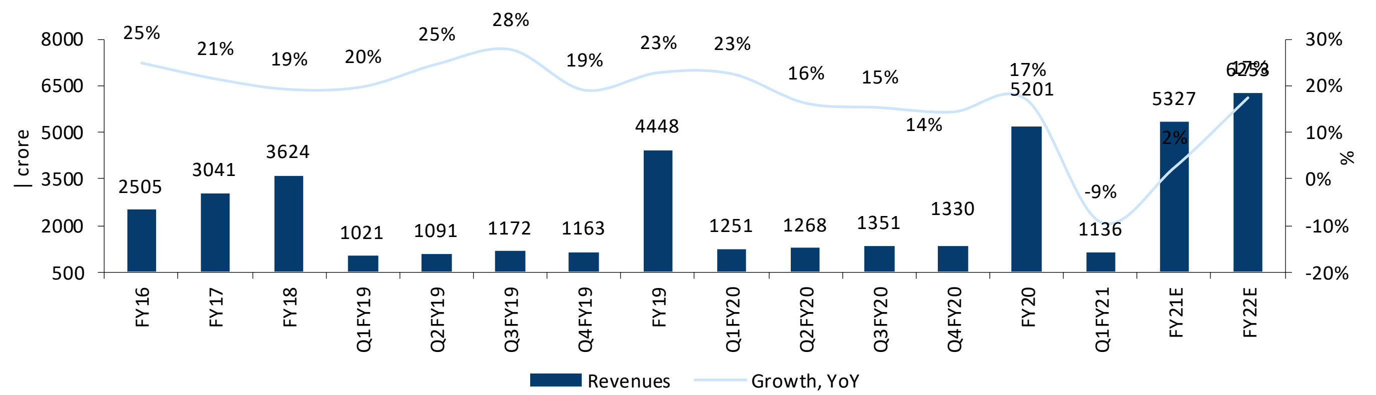
Financial story in charts

Exhibit 6: General staffing expected to register revenue CAGR of 10.5% over FY20-22E



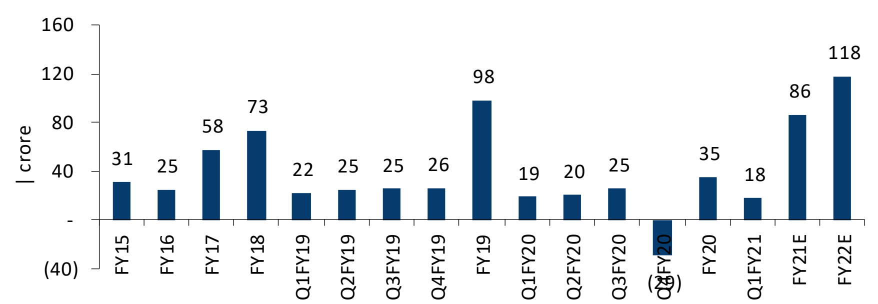
Source: Company, ICICI Direct Research

Exhibit 7: Overall revenues expected to increase at CAGR of 9.7% over FY20-22E



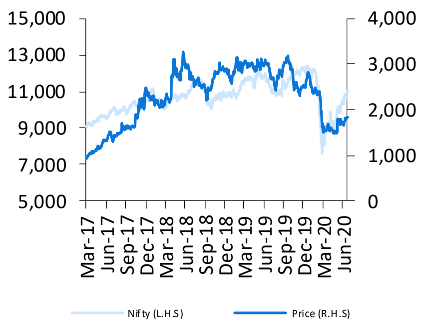
Source: Company, ICICI Direct Research

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**	**5,327.1**	**6,253.3**
Growth (%)	22.7	16.9	2.4	17.4
Other Income	18.1	30.8	16.0	20.5
Total Revenue	4,465.7	5,231.6	5,343.0	6,273.9
Employee benefits expens	4,197.2	4,936.5	5,082.0	5,934.4
Other Expenses	156.0	169.2	136.2	182.3
Total Operating Expenditu	4,353.1	5,105.6	5,218.2	6,116.7
EBITDA	**94.4**	**95.1**	**108.9**	**136.6**
Growth (%)	37.3	0.7	14.5	25.4
Interest	5.2	12.3	12.3	12.3
Depreciation	10.5	28.6	28.5	29.1
PBT	96.8	85.1	84.0	115.7
Tax	(1.6)	48.0	-	-
PAT	**98.0**	**35.0**	**86.1**	**117.8**
Growth (%)	0.3	(64.3)	146.3	36.7
Diluted EPS	57.3	20.5	50.4	68.9
Growth (%)	33.5	(64.3)	146.3	36.7

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit before Tax	96.8	85.1	84.0	115.7
Add: Depreciation	10.5	28.6	28.5	29.1
(Inc)/dec in Current Assets	(130.4)	(49.5)	(11.4)	(83.8)
Inc/(dec) in CL and Provision	101.8	18.8	11.3	82.8
Taxes paid	(86.2)	(85.5)	-	-
CF from operating activitie	**(12.4)**	**9.7**	**110.8**	**137.7**
(Inc)/dec in Investments	13.0	(31.6)	16.0	20.5
(Inc)/dec in Fixed Assets	(11.2)	(15.7)	(21.3)	(25.0)
Others				
CF from investing activitie	**1.8**	**(47.3)**	**(5.4)**	**(4.5)**
Inc/(dec) in loan funds	-	-	-	-
Dividend paid & dividend tax	-	-	-	(7.1)
Others	(6.1)	(0.1)	(12.3)	(12.3)
CF from financing activitie	**(6.1)**	**(0.1)**	**(12.3)**	**(19.4)**
Net Cash flow	(19.4)	(26.0)	93.2	113.8
Opening Cash	142.4	123.0	97.0	190.2
Closing Cash	**123.0**	**97.0**	**190.2**	**304.1**

Source: Company, ICICI Direct Research.

Exhibit 12: Balance sheet ₹ crore

(₹Crore)	FY19	FY20	FY21E	FY22E
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	522.0	555.0	641.1	751.8
Total Shareholders funds	539.1	572.1	658.2	768.9
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	109.2	111.8	131.3
Long term provisions	-	-	-	-
Liabilities Total	**615.8**	**757.5**	**846.3**	**976.5**
Fixed Assets	157.8	276.1	268.9	264.7
Tangible	9.3	53.5	58.0	65.6
Intangible+Goodwill	142.4	211.1	199.4	187.7
Non-current Investments	25.4	25.3	25.3	25.3
Deferred tax asset	65.3	14.4	14.8	17.3
Long terms loans and adv	66.2	61.6	63.1	74.1
Other non-current assets	216.1	310.4	312.1	323.8
Inventories	-	-	-	-
Trade receivables	264.3	295.9	303.1	355.8
Current Investments	16.0	-	-	-
Cash	123.0	97.0	190.2	304.1
Short term loans and adva	1.4	6.0	6.1	7.2
Other current assets	153.9	168.5	172.6	202.6
Total Current Assets	558.7	567.4	672.0	869.6
Trade Payable	28.0	37.8	38.7	45.5
Other current liabilities	445.8	459.9	471.1	553.0
Short term provisions	-	-	-	-
Total Current Liabilities	473.7	497.7	509.8	598.5
Net Current Assets	84.9	69.6	162.2	271.2
Assets Total	**615.8**	**757.5**	**846.3**	**976.5**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	57.3	20.5	50.4	68.9
Cash EPS	63.5	36.2	64.3	83.2
BV	314.2	315.8	375.8	441.9
DPS	-	-	-	2.9
Cash Per Share	71.7	53.5	108.6	174.7
Operating Ratios (%)				
EBIT Margin	1.9	1.3	1.5	1.7
PBT Margin	2.2	1.6	1.6	1.8
PAT Margin	2.2	0.7	1.7	1.9
Debtor days	22	21	21	21
Creditor days	2	3	3	3
Return Ratios (%)				
RoE	18.3	6.5	13.4	15.6
RoCE	18.6	15.0	13.1	15.1
RoIC	20.4	12.1	14.8	19.9
Valuation Ratios (x)				
P/E	32.2	90.3	36.7	26.8
EV / EBITDA	32.3	33.2	28.2	21.6
EV / Net Sales	0.7	0.6	0.6	0.5
Market Cap / Sales	0.7	0.6	0.6	0.5
Price to Book Value	5.9	5.9	4.9	4.2
Solvency Ratios				
Debt/EBITDA	0.1	0.8	0.7	0.6
Current Ratio	1.5	1.5	1.5	1.4
Quick Ratio	1.5	1.5	1.5	1.4

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors 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 categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Devang Bhatt, PGDBM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.