

## Furlough impacts margins; outlook strong...

**About the stock:** TeamLease Ltd (TLL) is one of the leading providers of human resource services in the organised segment with ~6% share in flexi staffing.

- Employment services include temporary staffing solutions, IT staffing, regulatory consultancy for labour law compliance and training & skills
- Net debt free and healthy double digit RoCE (>14%) key positives

**Q3FY22 Results:** Teamlease reported healthy revenue growth.

- Revenues increased 15.7% QoQ, aided by 17% QoQ growth in general staffing
- EBITDA margins declined 10 bps QoQ 2.1%
- The company added 22,000 associates for the quarter

**What should investors do?** Teamlease's share price has grown ~4.2x over the past five years (from ~₹ 886 in January 2017 to ~₹ 3,800 levels in January 2022).

- We now revise our recommendation on the stock from HOLD to **BUY**

**Target Price and Valuation:** We value Teamlease at ₹ 4500 i.e. 36x P/E on FY24E

### Key triggers for future price performance:

- Key beneficiary of under penetrated temporary staffing market (0.5% in 2015 vs. global average of 1.7%) and formalisation (16% in 2018)
- The pandemic has forced enterprises to shift to a variables cost structure, which is leading to increased outsourcing of flexi staffing. Hence, we expect overall revenues to increase at 23.5% CAGR in FY21-24E
- TLL is expected to register healthy margins, mainly led by a reversal of discounts, improving of core to associate ratio, improving specialised staffing margins and higher revenue growth

**Alternate Stock Idea:** Apart from Teamlease, in our IT coverage we like InfoEdge.

- Leadership in recruitment segment and quasi play on Indian start-up like Zomato, PolicyBazaar, Shoekonect, Ustra, Gramophone
- BUY with a target price of ₹ 6,270

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	4,447.6	5,200.7	4,881.5	14.3%	5,872.0	7,346.9	9,197.1	23.5%
EBITDA	94.4	95.1	98.5	30.7%	123.4	169.0	229.9	32.7%
EBITDA Margins (%)	2.1	1.8	2.0		2.1	2.3	2.5	
Net Profit	98.0	35.0	77.5	25.6%	111.7	159.1	213.8	40.3%
EPS (₹)	57.3	20.5	45.3		65.3	93.0	125.1	
P/E (x)	66.3	185.8	83.8		58.2	40.8	30.4	
RoCE (%)	18.6	15.0	14.2		15.7	18.7	20.6	
RoE (%)	18.3	6.5	11.6		15.1	17.6	19.3	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Cap (₹ Crore)	7,378.9
Total Debt (₹ Crore)	51.8
Cash and Invst (₹ Crore)	235.8
EV (₹ Crore)	7,195.0
52 week H/L	5544 / 2311
Equity capital	17.1
Face value	10.0

### Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	34.0	34.0	32.5	32.5
FII	37.8	37.0	37.7	38.2
DII	17.0	17.6	18.0	17.9
Public	11.1	11.4	11.9	11.4

### Price Chart



### Recent event & key risks

- The company added 22,000 associates in Q3
- **Key Risk:** (i) Lower hiring in key sectors (ii) Lower than expected margins

### Research Analyst

Sameer Pardikar  
sameer.pardikar@icicisecurities.com

## Key highlights of quarter & conference call highlights

- The company reported 15.7% QoQ, 38.2% YoY growth in revenues to ₹ 1,762 crore, aided by general staffing revenues, which were up 17.0% QoQ to ₹ 1,596 crores while other HR services grew 17.7% QoQ to ₹ 30 crore, while specialised staffing revenue were muted at 1.2% QoQ to ₹ 136 crore
- EBITDA margins at the company level were down 10 bps QoQ to 2.1%. General staffing margins were flat QoQ at 1.7% while that of specialised staffing were down 70 bps QoQ to 8.4%. Other HR services reported EBITDA margin of 7.6% for the quarter, up 330 bps QoQ. On an absolute basis, EBITDA improved 10% QoQ to ₹ 38 crore
- The management indicated that new virus variant impact seems to be limited vs. earlier waves. The company also indicated that business plans and hiring plans across clients continue to be strong
- The company indicated that they are witnessing unprecedented churn in the IT sector, which is expected to keep hiring market buoyant. As per the management, other sectors that are expected to continue strong hiring are education, health, e-commerce, tech start-ups Teamlease also indicated that they have witnessed organisations moving away from metro cities to smaller towns to enhance catchment areas
- **In general staffing**, the management indicated that it has added 53 logos during the quarter. The demand is seen from sectors like BFSI, telecom, e-commerce, consumer, etc. Non-recruiter channel forms 50% share. The productivity ratio improved to 387 vs. 365 in Q2. The company indicated that PAM has seen a recovery in Q3FY22 but is still seeing some pressure on account of wage inflation and discounts given in Covid times. PAM for the quarter was at ₹ 726, growth of 2% QoQ
- **Specialised staffing**: The company added 43 new logos in the quarter. The management indicated that margins in this segment were impacted by 15 day furloughs and unplanned leaves, especially in December 2021. There was an impact of 60 bps on PBT. The company indicated that they continue to focus on margins in the business and expects steady state margins in the range of 8-8.5%. The company also indicated that they have added two new sectors of telecom and infra in this segment, which are currently commanding low margins. This also had an impact on margins in the business. The company is also looking to capitalise on growth in other sectors of Gaming, health –tech, OTT verticals
- Teamlease has hired two senior executives to build up capabilities in the HR tech space. Sundar PD, with over two decades of experience primarily in consumer digital businesses, has joined the company to head the HireTech business (FW.com & TL.com). Sumit Sabharwal has joined the company to head Digital Workforce Solutions, a new business unit that it is carving out under HR services
- The company, in Q2FY22 had taken a provision of ₹ 75 crore due to shortfall in realisations of its PF trust investments. Teamlease do not see any incremental provision requirement as it indicated that the provision made so far is adequate

**Exhibit 1: Variance Analysis**

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	1,762	1,599	1,275	38.2	1,524	15.7	Revenue growth aided by 17% QoQ in general staffing and 17% QoQ growth in other HR services while specialised staffing reported 1.2% QoQ growth
Employee expenses	1,681	1,533	1,224	37.4	1,458	15.3	
Gross Profit	81	66	52	56.5	65	24.2	
Gross margin (%)	4.6	4.1	4.1	54 bps	4.3	32 bps	
Other expenses	43	32	27	60.8	31	39.5	
EBITDA	38	34	25	51.9	34	10.3	
EBITDA Margin (%)	2.1	2.1	1.9	19 bps	2.2	-10 bps	Margins were impacted due to lower margins in specialised HR services, due to furlough
Depreciation	10	12	8	16.0	11	-12.2	
EBIT	28	22	16	70.3	23	21.2	
EBIT Margin (%)	1.6	1.4	1.3	30 bps	1.5	7 bps	
Other income	5	6	10	-48.2	5	-5.6	
PBT	33	28	26	25.8	28	16.1	
Tax paid	2	1	1		1		
PAT	30	25	23		-49		
Adjusted PAT	30	25	23	32.2	-52		

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY22E			FY23E			FY24E	Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	5,872	5,872	0.0	7,347	7,347	0.0	9,197	
EBITDA	130	123	-5.1	184	169	-8.2	230	
EBITDA Margin (%)	2.2	2.1	-11 bps	2.5	2.3	-20 bps	2.5	We realign margins in specialised staffing services
PAT	118	112	-5.4	171	159	-7.0	214	
EPS (₹)	68.9	65.3	-5.4	100.3	93.0	-7.0	125.1	

Source: Company, ICICI Direct Research

## Key Metrics

**Exhibit 3: Segment wise break-up**

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b><u>Revenue by segments (%)</u></b>					
General Staffing & Allied Services	91.0	91.3	90.0	89.5	90.6
Specialised Staffing	7.9	7.3	8.3	8.8	7.7
Other HR Services	1.1	1.4	1.7	1.7	1.7
<b><u>Growth QoQ (%)</u></b>					
General Staffing & Allied Services	13.8	5.5	1.3	10.0	17.0
Specialised Staffing	2.6	-3.5	17.0	17.4	1.2
Other HR Services	30.3	32.9	22.2	12.7	17.7

Source: Company, ICICI Direct Research

General & Other HR staffing drove QoQ revenues in the quarter

**Exhibit 4: Segment wise margins**

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b><u>EBITDA Margin by segments (%)</u></b>					
General Staffing & Allied Services	1.9	1.8	1.9	1.7	1.7
Specialised Staffing	10.6	11.0	9.1	9.1	8.4
Other HR Services	-14.3	15.6	-3.1	4.3	7.6

Source: Company, ICICI Direct Research

Specialised staffing margin had impact of furlough

**Exhibit 5: Headcount break-up**

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b><u>Associate Count</u></b>					
General staffing associates (GSA)	152773	159955	160014	174075	189560
NETAP Trainees	52000	61086	58142	68448	74800
Specialised Staffing	7166	7109	7817	8713	9140
Total Outsourced	211939	228150	225973	251236	273500
<b><u>Core Count</u></b>					
Staffing Core Employees	612	628	633	662	682
Total Core Employees	1632	1672	1761	1761	1497
<b>Total Headcount</b>	<b>213571</b>	<b>229822</b>	<b>227734</b>	<b>252997</b>	<b>274997</b>
<b><u>Productivity</u></b>					
GSA to core employee ratio	334	352	342	365	387
Total Associate to core employee ratio	130	136	128	143	183

Source: Company, ICICI Direct Research

Added 22,000 associates for the quarter

## Financial summary

Exhibit 6: Profit and loss statement ₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
<b>Revenue from operations</b>	<b>4,881.5</b>	<b>5,872.0</b>	<b>7,346.9</b>	<b>9,197.1</b>
Growth (%)	(6.1)	20.3	25.1	25.2
Other Income	34.7	37.0	42.7	44.5
Total Revenue	4,916.2	5,909.0	7,389.6	9,241.6
Employee benefits expense	4,687.0	5,607.8	7,031.0	8,783.2
Other Expenses	96.0	140.9	146.9	183.9
Total Operating Expenditure	4,783.0	5,748.7	7,177.9	8,967.2
<b>EBITDA</b>	<b>98.5</b>	<b>123.4</b>	<b>169.0</b>	<b>229.9</b>
Growth (%)	3.6	25.2	37.0	36.1
Interest	6.9	6.9	6.9	6.9
Depreciation	33.7	33.9	32.7	36.5
PBT	92.6	119.6	172.1	231.0
Tax	10.1	9.6	12.0	16.2
<b>PAT</b>	<b>77.5</b>	<b>111.7</b>	<b>159.1</b>	<b>213.8</b>
Growth (%)	121.6	44.1	42.5	34.4
Diluted EPS	45.3	65.3	93.0	125.1
Growth (%)	121.6	44.1	42.5	34.4

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit before Tax	92.6	119.6	172.1	231.0
Add: Depreciation	33.7	33.9	32.7	36.5
(Inc)/dec in Current Assets	1.1	(119.7)	(169.2)	(204.9)
Inc/(dec) in CL and Provisions	52.3	104.9	156.2	196.0
Taxes paid	(10.1)	(9.6)	(12.0)	(16.2)
<b>CF from operating activities</b>	<b>152.8</b>	<b>129.1</b>	<b>179.8</b>	<b>242.4</b>
(Inc)/dec in Investments	34.7	37.0	42.7	44.5
(Inc)/dec in Fixed Assets	(17.4)	(17.6)	(14.7)	(18.4)
Others				
<b>CF from investing activities</b>	<b>17.3</b>	<b>19.4</b>	<b>28.0</b>	<b>26.1</b>
Inc/(dec) in loan funds	(24.4)	-	-	-
Dividend paid & dividend tax	-	(6.7)	(9.5)	(12.8)
Others	(6.9)	(6.9)	(6.9)	(6.9)
<b>CF from financing activities</b>	<b>(31.3)</b>	<b>(13.6)</b>	<b>(16.4)</b>	<b>(19.7)</b>
Net Cash flow	138.8	134.9	191.3	248.8
Opening Cash	97.0	235.8	370.7	562.0
<b>Closing Cash</b>	<b>235.8</b>	<b>370.7</b>	<b>562.0</b>	<b>810.8</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet ₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	632.5	737.4	887.0	1,088.0
Total Shareholders funds	649.6	754.5	904.1	1,105.0
Long term borrowings	-	-	-	-
Short term borrowings	-	-	-	-
Bank overdraft	51.8	51.8	51.8	51.8
Total Debt	51.8	51.8	51.8	51.8
Other long term liabilities	102.5	123.3	154.2	193.1
Long term provisions	-	-	-	-
<b>Liabilities Total</b>	<b>804</b>	<b>930</b>	<b>1,110</b>	<b>1,350</b>
Fixed Assets	271.6	255.4	237.4	219.2
Tangible	43.5	39.0	32.7	26.2
Intangible+ Goodwill	216.7	205.0	193.3	181.6
Non-current Investments	25.3	25.3	25.3	25.3
Deferred tax asset	13.5	16.3	20.4	25.5
Long terms loans and advances	57.8	69.6	87.0	108.9
Other non-current assets	306.4	319.0	337.7	361.3
Inventories	-	-	-	-
Trade receivables	277.8	334.1	418.1	523.3
Current Investments	-	-	-	-
Cash	235.8	370.7	562.0	810.8
Short term loans and advances	5.6	6.8	8.5	10.6
Other current assets	158.1	190.2	238.0	297.9
Total Current Assets	677.3	901.8	1,226.5	1,642.6
Trade Payable	35.5	42.7	53.4	66.9
Other current liabilities	512.6	616.6	771.4	965.7
Short term provisions	-	-	-	-
Total Current Liabilities	548.1	659.3	824.9	1,032.6
Net Current Assets	129.2	242.5	401.7	610.0
<b>Assets Total</b>	<b>804</b>	<b>930</b>	<b>1,110</b>	<b>1,350</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	45.3	65.3	93.0	125.1
Cash EPS	66.7	83.2	112.1	146.4
BV	389.6	431.4	528.8	646.3
DPS	-	2.7	3.9	5.3
Cash Per Share	141.4	211.9	328.7	474.2
<b>Operating Ratios (%)</b>				
EBIT Margin	1.3	1.5	1.9	2.1
PBT Margin	1.9	2.0	2.3	2.5
PAT Margin	1.5	1.9	2.2	2.3
Debtor days	21	21	21	21
Creditor days	3	3	3	3
<b>Return Ratios (%)</b>				
RoE	11.6	15.1	17.6	19.3
RoCE	14.2	15.7	18.7	20.6
RoIC	13.9	20.6	34.7	55.8
<b>Valuation Ratios (x)</b>				
P/E	83.8	58.2	40.8	30.4
EV / EBITDA	64.3	50.3	35.6	25.1
EV / Net Sales	1.3	1.1	0.8	0.6
Market Cap / Sales	1.3	1.1	0.9	0.7
Price to Book Value	9.8	8.8	7.2	5.9
<b>Solvency Ratios</b>				
Debt / EBITDA	0.5	0.4	0.3	0.2
Debt / Equity	0.1	0.1	0.1	0.0
Current Ratio	1.3	1.2	1.2	1.1
Quick Ratio	1.3	1.2	1.2	1.1

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 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](mailto:pankaj.pandey@icicisecurities.com)

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

## ANALYST CERTIFICATION

I/We, Sameer Pardikar, MBA (Finance), 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 is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst 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](http://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 and its analysts, persons reporting to analysts and their relatives are generally prohibited 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](http://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, and 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 and ICICI Securities as a entity 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.