

Teamlease Services

Slow recovery, focus on cost control

Teamlease delivered lower than expected revenue performance due to a slight delay in recovery. The core staffing (-0.4% QoQ) stabilised post a sharp drop in 1Q, while specialised staffing (-2.3% QoQ) was impacted by pruning of low-margin tail accounts. The core staffing headcount was up 4.2% QoQ, led by NETAP (+19.6% QoQ). The recovery in core staffing was a bit delayed, and started in Sep-20; in 2H, it will be led by higher hiring activity in sectors like Auto, e-commerce, BFS and Consumer durables. Core staffing margin expanded 11bps QoQ to 2.1% (estimate of 2.0%), led by cost control and higher core employee productivity (+6.0% QoQ). The cash generation has improved due to lower withholding tax, tax refunds and lower DSO days.

We like the company's low-risk business model (non-outcome based) and diversified exposure across sectors. Factors such as (1) formalisation of jobs, (2) vendor consolidation, (3) focus on collect & pay, (4) cost-cutting by enterprises, and (5) change in labour laws will benefit market leaders like Teamlease. There is further scope for margin expansion through productivity benefits and better business mix. Teamlease's ability to grow ~15-20% organically, focus on driving productivity through automation, lower funding exposure, domestic focus, and high management pedigree are the reasons it commands a premium valuation. We increase FY22/23E EPS estimate by 5.5/9.0% to factor in the higher margin. The stock is trading at a P/E of 47.9/34.2x FY21/22E. Our target price of Rs 2,480 is based on 30x Sep-22E EPS (5Y average P/E of ~35x). Maintain BUY.

- **2QFY21 highlights:** Revenue stood at Rs 11.29bn, down 0.6% QoQ, vs. our estimate of Rs 11.53bn. Core/Specialised/HR services revenue was down 0.4/2.3/11.6% QoQ. The mark-up declined to Rs 718 (-4.3% QoQ), and the associate to core ratio increased to 300 (+6.0% QoQ). EBITDA margin for core/specialised stood at 2.1/9.1%, an expansion of +11/+51 bps QoQ. Teamlease received Rs 0.37bn as an income tax refund and is expected to receive Rs 0.30bn in 3Q.

Quarterly Financial summary

YE March (Rs bn)	2Q		YoY (%)	1Q		FY19	FY20	FY21E	FY22E	FY23E
	FY21	FY20		FY21	QoQ (%)					
Net Revenue	11.29	12.68	(10.9)	11.36	(0.6)	44.48	52.01	47.43	57.97	71.26
EBITDA	0.23	0.24	(6.1)	0.25	(6.5)	0.94	0.95	1.03	1.43	1.91
APAT	0.22	0.21	2.8	0.17	26.4	0.98	0.85	0.84	1.18	1.65
Diluted EPS (Rs)	12.6	12.3	2.8	10.0	26.4	57.3	49.5	49.0	68.7	96.7
P/E (x)						41.0	47.5	47.9	34.2	24.3
EV / EBITDA (x)						41.2	42.0	37.8	26.7	19.5
RoE (%)						20.0	15.2	13.7	16.4	19.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E		Change %	FY22E		Change %	FY23E		Change %
	Old	Revised		Old	Revised		Old	Revised	
Revenue	47.91	47.43	(1.0)	58.03	57.97	(0.1)	70.92	71.26	0.5
EBITDA	1.08	1.03	(4.3)	1.39	1.43	3.0	1.79	1.91	6.3
EBITDA margin (%)	2.3	2.2	-7bps	2.4	2.5	7bps	2.5	2.7	15bps
APAT	0.79	0.84	6.0	1.11	1.18	5.5	1.52	1.65	9.0
EPS (Rs)	46.2	49.0	6.0	65.2	68.7	5.5	88.7	96.7	9.0

Source: Company, HSIE Research

BUY

CMP (as on 10 Nov 2020)	Rs 2,350
Target Price	Rs 2,480
NIFTY	12,631

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 2,310	Rs 2,480
EPS %	FY21E	FY22E
	+6.0	+5.5

KEY STOCK DATA

Bloomberg code	TEAM IN
No. of Shares (mn)	17
MCap (Rs bn) / (\$ mn)	40/541
6m avg traded value (Rs mn)	71
52 Week high / low	Rs 2,908/1,415

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.3	50.7	(15.8)
Relative (%)	(1.0)	13.9	(23.1)

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	40.02	40.02
FIs & Local MFs	11.01	13.64
FPIs	39.89	37.36
Public & Others	9.08	8.98
Pledged Shares	0.49	0.49

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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