Team Lease (TEASER)

CMP: ₹ 3637 | Target: ₹ 4205 (16%) | Target Period: 12 months | BUY

June 10, 2021

General staffing revenues surpass pre-Covid levels…

TeamLease Services' (TLS) revenues increased 5.1% QoQ (up 0.8% YoY) mainly led by 5.5% QoQ growth in general staffing and 32.9% QoQ growth in other HR services, partially offset by 3.5% QoQ decline in specialised staffing. EBITDA margins were flat QoQ at 1.9% in Q4FY21 (vs. our expectation of 2.0%). General staffing core to associate ratio also improved from 334 to 352.

Higher outsourcing, formalisation to drive growth

We expect revenues to be impacted in Q1FY22E mainly due to lockdown. However, we expect revenues to improve from Q2FY21E onwards led by a gradual recovery in the economy and improved traction in healthcare, education, e-commerce, manufacturing, essential retail and IT. This, coupled with addition of new logos and large ticket customer are expected to further drive general staffing revenues. In addition, from a structural perspective, we believe that since the pandemic has forced enterprises to variablise its cost structure, it will lead to higher outsourcing of labour making flexi staffing a key beneficiary. In addition, the introduction of labour laws and e-invoicing could boost formalisation of the economy making TeamLease a key beneficiary of the same. In specialised staffing, we expect revenues to improve (15.5% CAGR in FY21-23E) led by a revival in IT services. As a result, we expect overall revenues to increase at 21.7% CAGR in FY21-23E.

Near term margins to be impacted

General staffing margins in the quarter were impacted by wage reversal (₹ 70 lakh), provisions (₹ 60 lakh) and discounting. We expect margins to be impacted in the near term as we believe the reversal of discounting will take time. However, we expect the company to register healthy margins in FY23E mainly led by reversal of discounts, improving of core to associate ratio, improving specialised staffing margins and higher revenue growth. Hence, we expect margins to improve by 50 bps to 1.8% over FY21-23E.

Valuation & Outlook

We expect revenues to improve from Q2FY21E onwards led by a gradual recovery in the economy and addition of new logos. In addition, we believe TeamLease will be a key beneficiary of structural changes in the Indian economy led by higher formalisation and outsourcing. Further, we expect specialised staffing revenues to improve led by a revival in IT services. Further, improving cashflows and margins are other key positives. Hence, we maintain our **BUY** rating on the stock with a revised target price of ₹ 4,205 (45x PE FY23E EPS) (earlier target price ₹ 3,290).

Particulars

Particular	Amount
Market Cap (₹ Crore)	6,241.6
Total Debt (₹ Crore)	76.2
Cash and Invst (₹ Crore)	97.0
EV (₹ Crore)	6,220.8
52 week H/L	4065 / 1421
Equity capital	17.1
Face value	10.0

Key Risk

- Third wave of Covid, market share loss and decline in NETAP on private side will adversely impact financials
- Increased loss in HR services and lower productivity may adversely impact margins

Research Analyst

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	4,447.6	5,200.7	4,881.5	5,784.7	7,230.2	21.7%
EBITDA	94.4	95.1	98.5	101.3	166.3	29.9%
EBITDA Margins (%)	2.1	1.8	2.0	1.8	2.3	
Net Profit*	98.0	35.0	77.5	91.8	158.3	42.9%
EPS (₹)	57.3	20.5	45.3	53.7	92.6	
P/E (x)	63.4	177.8	80.2	67.7	39.3	
RoCE (%)	18.6	15.0	14.2	13.3	18.7	
RoE (%)	18.3	6.5	11.6	12.8	18.1	

*Source: Company, ICICI Direct Research, * we have bot adjusted pat for one off adjusting the same PAT would be higher in FY21*

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	1,341	1,340	1,330	0.8	1,275	5.1	The key highlight of the quarter was that the company's general staffing headcount has reached pre-Covid levels and revenue run rate has surpassed pre Covid run rate
Employee expenses	1,288	1,285	1,262	2.1	1,224	5.3	
Gross Profit	52	55	69	-24.1	52	1.0	
Gross margin (%)	3.9	4.1	5.2	-128 bps	4.1	-16 bps	
Other expenses	26	28	49	-46.5	27	-2.9	
EBITDA	26	27	20	30.9	25	5.2	
EBITDA Margin (%)	1.9	2.0	1.5	45 bps	1.9	0 bps	The profitability of specialised staffing has improved and losses at other HR services have reduced
Depreciation	9	8	8	4.5	8	3.0	
EBIT	17	19	12	49.7	16	6.4	
EBIT Margin (%)	1.3	1.4	0.9	43 bps	1.3	2 bps	
Other income	9	8	15	-36.9	10	-5.9	
PBT	27	27	26	1.4	26	1.8	
Tax paid	6	1	52	-88.9	1	289.4	
PAT	18.9	23	-29	LP	23	-17.3	PAT adjusted for exceptional items was at ~ ₹ 26 crore
Adjusted PAT	26	23	20	28.3	23	13.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	6,020	5,785	-3.9	7,192.0	7,230	0.5	We expect revenues to improve led by opening of economy and market share gains
EBITDA	137	101	-26.0	165	166	0.8	
EBITDA Margin (%)	2.3	1.8	-52 bps	2.3	2.3	1 bps	We expect near term margins to be impacted by discounting
PAT	124	92	-25.9	159.0	158	-0.4	
EPS (₹)	72.5	53.7	-25.9	93.0	92.6	-0.4	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **General Staffing:** General staffing revenues increased 5.5% QoQ mainly due to 4.7% QoQ increase in volumes. The addition of 9086 trainees in NETAP led overall volumes to increase 7.9% QoQ. Going forward, we expect the company to report subdued Q1FY22E mainly led by second wave of Covid. However, we expect revenues to pick up from Q2FY22 onwards. However, we expect near term margins to be hit due to discounts given by the company

- **Specialised staffing**: Revenues in the segment declined 3.5% QoQ to ₹ 97.7 crore. Going forward, the company is focusing on engineering & gaming to drive revenues. Further, the company expects IT staffing to witness healthy revenue traction in coming quarters. On the margin side, specialised staffing was at 10.9%, improving from 10.6% in Q3FY21. 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. In addition, the company is seeing healthy traction higher end talent (AI, Devops & Machine Learning) which will be margin accretive. This is expected to drive margins in the long run

- **HR services**: Revenue in HR services increased 32.9% QoQ. We believe this is due bottoming out of government revenues. 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. The government business will end in FY22E. In the long run, we expect TeamLease 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 334 to 352 mainly due to improvement in productivity. TeamLease expects improving productivity to help boost margins in the long run

- **Adoption of new tax regime to boost cashflow:** TeamLease 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. As a result its cash conversion to PBT has increased partly due to refunds and partly due to efficient working capital. The free cash was at ₹ 250 crore in FY21

- **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 March 31, 2021, amount to ₹ 1,442 crore while there is unrealised MTM gain of ₹ 103 crore on account of certain other investments. There is a net surplus of ₹ 25 crore as at March 31, 2021, without considering the impact of any MTM gains/losses on the investment portfolio of the trust

Key Metrics

Exhibit 3: Segment wise break-up

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue by segments (%)					
General Staffing & Allied Services	89.9	90.1	90.3	91.0	91.3
Specialised Staffing	8.0	8.9	8.7	7.9	7.3
Other HR Services	2.1	1.1	1.0	1.1	1.4
Growth QoQ (%)					
General Staffing & Allied Services	-1.7	-14.4	-0.4	13.8	5.5
Specialised Staffing	1.8	-5.3	-2.3	2.6	-3.5
Other HR Services	-7.3	-57.2	-11.6	30.3	32.9

Source: Company, ICICI Direct Research

General staffing drove QoQ revenues in the quarter

Exhibit 4: Segment wise margins

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
EBITDA Margin by segments (%)					
General Staffing & Allied Services	2.2	2.0	2.1	1.9	1.8
Specialised Staffing	6.1	8.6	9.1	10.6	11.0
Other HR Services	-10.6	-32.9	-42.7	-14.3	-5.9

Source: Company, ICICI Direct Research

Improvement in specialised staffing margins and decline in losses in other HR services key positive

Exhibit 5: Headcount break-up

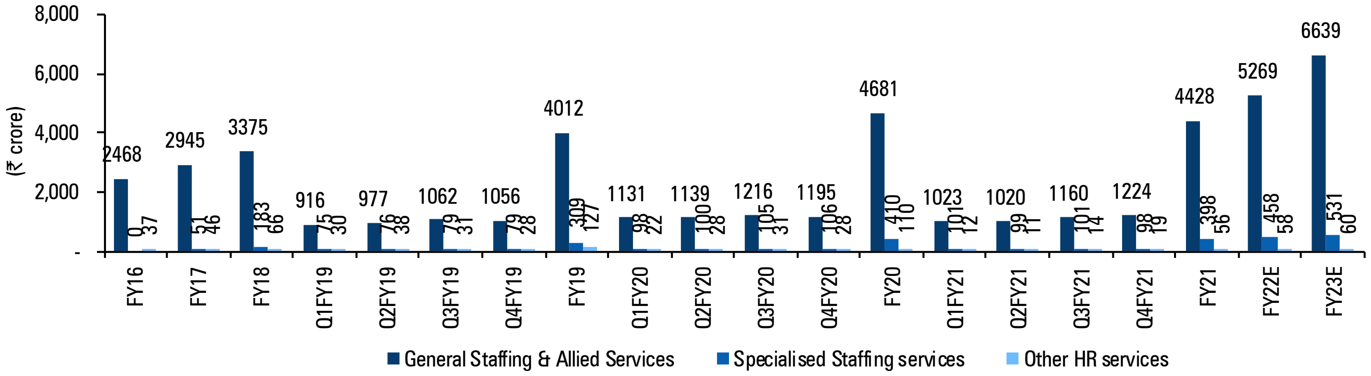
	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Associate Count					
General staffing associates (GSA)	161365	145259	145778	152773	159955
NETAP Trainees	50620	35888	42927	52000	61086
Specialised Staffing	8225	7461	7228	7166	7109
Total Outsourced	220210	188608	195933	211939	228150
Core Count					
Staffing Core Employees	804	639	628	612	628
Total Core Employees	2022	1544	1519	1632	1672
Total Headcount	**222232**	**190152**	**197452**	**213571**	**229822**
Productivity					
GSA to core employee ratio	264	283	300	335	352
Total Associate to core employee ratio	109	122	129	130	136

Source: Company, ICICI Direct Research

General staffing headcount at almost pre-Covid levels. In NETAP, the company added 9086 employees QoQ

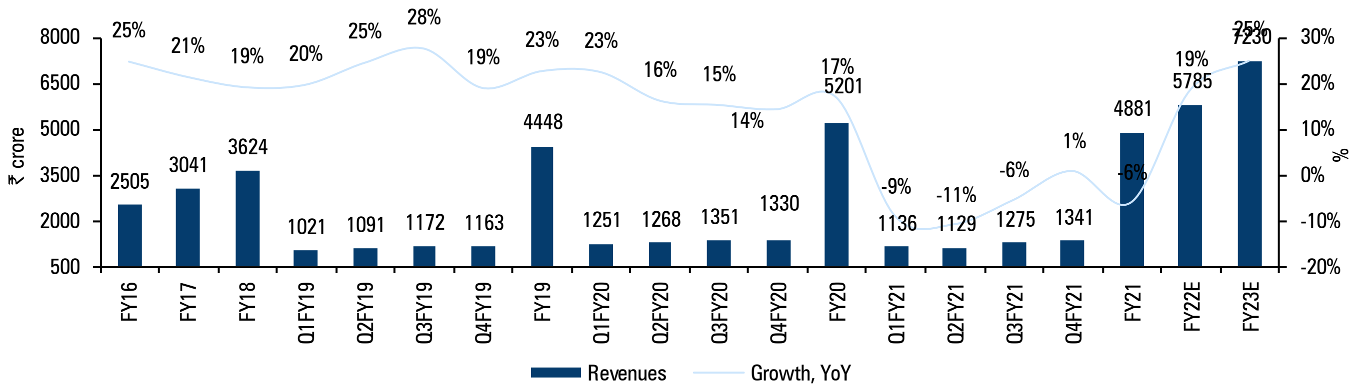
Financial story in charts

Exhibit 6: General staffing expected to register revenue CAGR of 22.4% over FY21-23E



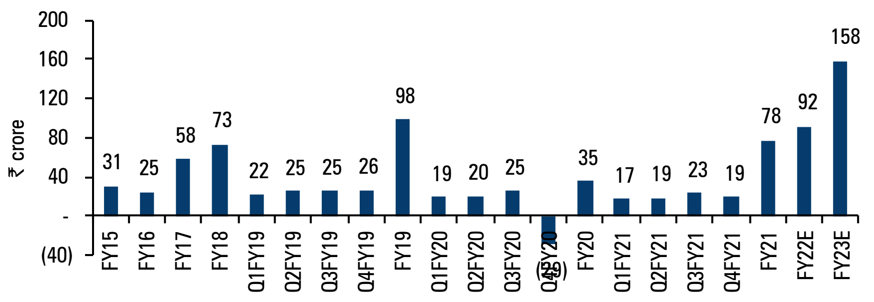
Source: Company, ICICI Direct Research

Exhibit 7: Overall revenues expected to increase at CAGR of 22.4% over FY21-23E



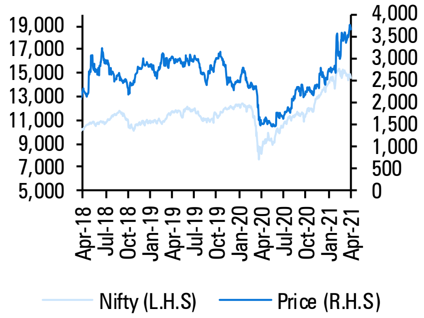
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore

(₹ Crore)	FY20	FY21	FY22E	FY23E
Revenue from operations	**5,200.7**	**4,881.5**	**5,784.7**	**7,230.2**
Growth (%)	16.9	(6.1)	18.5	25.0
Other Income	30.8	34.7	37.0	42.7
Total Revenue	5,231.6	4,916.2	5,821.7	7,272.8
Employee benefits expense	4,936.5	4,687.0	5,559.1	6,919.3
Other Expenses	169.2	96.0	124.3	144.6
Total Operating Expenditure	5,105.6	4,783.0	5,683.3	7,063.9
EBITDA	**95.1**	**98.5**	**101.3**	**166.3**
Growth (%)	0.7	3.6	2.9	64.1
Interest	12.3	6.9	6.9	6.9
Depreciation	28.6	33.7	33.8	34.0
PBT	85.1	92.6	97.6	168.1
Tax	48.0	10.1	7.8	11.8
PAT	**35.0**	**77.5**	**91.8**	**158.3**
Growth (%)	(64.3)	121.6	18.5	72.4
Diluted EPS	20.5	45.3	53.7	92.6
Growth (%)	(64.3)	121.6	18.5	72.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21E*	FY22E	FY23E
Profit before Tax	85.1	92.6	97.6	168.1
Add: Depreciation	28.6	33.7	33.8	34.0
(Inc)/dec in Current Assets	(49.5)	1.1	(111.8)	(166.5)
Inc/(dec) in CL and Provisions	18.8	52.3	95.7	153.1
Taxes paid	(85.5)	(10.1)	(7.8)	(11.8)
CF from operating activities	**9.7**	**152.8**	**109.5**	**178.9**
(Inc)/dec in Investments	(31.6)	34.7	37.0	42.7
(Inc)/dec in Fixed Assets	(15.7)	(17.4)	(17.4)	(21.0)
Others				
CF from investing activities	**(47.3)**	**17.3**	**19.7**	**21.6**
Inc/(dec) in loan funds	-	(24.4)	-	-
Dividend paid & dividend tax	-	-	(5.5)	(9.5)
Others	(0.1)	(6.9)	(6.9)	(6.9)
CF from financing activities	**(0.1)**	**(31.3)**	**(12.4)**	**(16.4)**
Net Cash flow	(26.0)	138.8	116.7	184.2
Opening Cash	123.0	97.0	235.8	352.5
Closing Cash	**97.0**	**235.8**	**352.5**	**536.7**

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

Exhibit 12: Balance sheet ₹ crore

(₹ Crore)	FY20	FY21E*	FY22E	FY23E
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	555.0	632.5	718.8	867.7
Total Shareholders funds	572.1	649.6	735.9	884.8
Long term borrowings	-	-	-	-
Short term borrowings	-	-	-	-
Bank overdraft	76.2	51.8	51.8	51.8
Total Debt	76.2	51.8	51.8	51.8
Other long term liabilities	109.2	102.5	121.4	151.8
Long term provisions	-	-	-	-
Liabilities Total	**757.5**	**803.9**	**909.2**	**1,088.3**
Fixed Assets	276.1	271.6	255.2	242.2
Tangible	53.5	43.5	38.8	37.6
Intangible+ Goodwill	211.1	216.7	205.0	193.3
Non-current Investments	25.3	25.3	25.3	25.3
Deferred tax asset	14.4	13.5	16.0	20.1
Long terms loans and advanc	61.6	57.8	68.5	85.6
Other non-current assets	310.4	306.4	317.9	336.3
Inventories	-	-	-	-
Trade receivables	295.9	277.8	329.2	411.4
Current Investments	-	-	-	-
Cash	97.0	235.8	352.5	536.7
Short term loans and advanc	6.0	5.6	6.7	8.3
Other current assets	168.5	158.1	187.4	234.2
Total Current Assets	567.4	677.3	875.7	1,190.6
Trade Payable	37.8	35.5	42.1	52.6
Other current liabilities	459.9	512.6	607.4	759.2
Short term provisions	-	-	-	-
Total Current Liabilities	497.7	548.1	649.5	811.7
Net Current Assets	69.6	129.2	226.3	378.9
Assets Total	**757.5**	**803.9**	**909.2**	**1,088.4**

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

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY20	FY21E*	FY22E	FY23E
Per share data (₹)				
EPS	20.5	45.3	53.7	92.6
Cash EPS	36.2	66.7	71.9	111.1
BV	315.8	389.6	421.3	511.0
DPS	-	-	2.3	3.9
Cash Per Share	53.5	141.4	201.8	310.0
Operating Ratios (%)				
EBIT Margin	1.3	1.3	1.2	1.8
PBT Margin	1.6	1.9	1.7	2.3
PAT Margin	0.7	1.5	1.6	2.2
Debtor days	21	21	21	21
Creditor days	3	3	3	3
Return Ratios (%)				
RoE	6.5	11.6	12.8	18.1
RoCE	15.0	14.2	13.3	18.7
RoIC	12.1	13.9	15.5	33.1
Valuation Ratios (x)				
P/E	177.8	80.2	67.7	39.3
EV / EBITDA	65.4	61.5	58.6	34.6
EV / Net Sales	1.2	1.2	1.0	0.8
Market Cap / Sales	1.2	1.3	1.1	0.9
Price to Book Value	11.5	9.3	8.6	7.1
Solvency Ratios				
Debt / EBITDA	0.8	0.5	0.5	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.5	1.3	1.2	1.2
Quick Ratio	1.5	1.3	1.2	1.2

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

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