

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR 3637 **TP: INR 4000 (+10%)** **Buy**

Near term impact to be manageable

Long term outlook optimistic

- TEAM delivered an in line performance in 4QFY21, with total revenue increasing 5% QoQ. Revenue growth was led by the General Staffing business (+5.5% QoQ) – general staffing and NETAP trainee headcount increased by 16k (+8% QoQ). Margin in 4QFY21 were stable, despite an impressive improvement in FTE productivity (352 v/s 334 in 2Q), led by continued customer discounts. It reported an adjusted PAT of INR268m, implying a PAT margin (in line) of 2%.
- TEAM remains optimistic about a recovery in long term growth. We expect the revenue impact in 1QFY22E, on account of the second COVID wave induced lockdowns, to be much more manageable than FY21. We expect a quicker recovery in the General Staffing business and expect 24% revenue CAGR in this segment over FY21-23E.
- Increased manpower demand and higher margin replacements in the IT Staffing business should improve margin by 30bp in FY23E from FY21 levels. This, in turn, should result in an adjusted PAT CAGR of 43% over FY21-23E.
- Over the medium term, as both the central and state governments look forward to liberalizing and formalizing the labor market, TEAM should be among the biggest direct beneficiaries.
- We marginally reduce our FY22E estimate by 2% to factor in a revenue impact from the ongoing lockdown. Our TP of INR4,000/share implies 41x FY23E EPS. Reiterate **Buy**.

Operations in line, growth in headcount encouraging

- Revenue was flat YoY at INR13.4b (in line). EBITDA grew 31% YoY (est. +35%) to INR261m. Adjusted PAT rose 40% YoY (in line) to INR268m.
- Revenue growth for TEAM stood at 5% QoQ, but was flat YoY. Growth was led by General Staffing (5.5% QoQ) and Other HR Services (33% QoQ), but was partly offset by a decline in the Specialized Staffing segment (3.5% QoQ). General Staffing surpassed its pre-COVID revenue run-rate.
- EBITDA margin stood at 1.9%, flat QoQ, but was up 40bp YoY. Margin was aided by a rise in FTE productivity to 352 in 4QFY21 from 264 in 4QFY20.
- Adjusted PAT grew 40% YoY to INR268m. The same was impacted by lower other income. Without adjusting for DTL on goodwill amortization, reported PAT stood at INR196m in 4QFY21.
- Billable headcount was up 8% QoQ and 4% YoY. General Staffing headcount is back to pre-COVID levels.
- Cash conversion ratio to PBT improved to over 300%, of which 156% is contributed by tax refunds and the balance by efficient working capital management. Cash available at the end of FY21 stood at INR2.5b.

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Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USD\$)	62.2 / 0.9
52-Week Range (INR)	4065 / 1630
1, 6, 12 Rel. Per (%)	5/27/50
12M Avg Val (INR M)	86

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	48.8	60.1	75.5
EBIT Margin (%)	1.3	1.6	1.8
PAT	0.9	1.2	1.7
EPS (INR)	48.9	53.8	82.9
EPS Gr. (%)	6.1	37.8	36.4
BV/Sh. (INR)	383.7	455.2	552.7

Ratios

RoE (%)	14.4	17.0	19.4
RoCE (%)	11.5	16.0	18.6
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	70.4	51.1	37.4
P/BV (x)	9.5	8.0	6.6
EV/EBITDA (x)	61.8	46.5	33.2
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	34.0	34.0	40.0
DII	17.0	17.1	10.5
FII	37.9	38.4	41.0
Others	11.0	10.5	8.5

FII Includes depository receipts

Research Analyst: Mukul Garg (Mukul.Garg@MotilalOswal.com)

Anmol Garg (Anmol.Garg@MotilalOswal.com) | Heenal Gada (Heenal.Gada@motilalosal.com)

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Key highlights from the management commentary

- The General Staffing segment has surpassed its pre-COVID revenue run-rate, with headcount at pre-COVID levels. Performance in 4QFY21 is on the back of strong performance in Jan-Feb'21. The effects of the second COVID wave started in Mar'21. Clients are cautious, but the management expects the turnaround to be faster than FY21.
- The company added 100 new logos in FY21 despite the pandemic. New signups resulted in a 43% growth in associates, whereas the balance came from existing customers.
- TEAM incorporates certain permanent discounts in its pricing for a few customers, which will pressurize margin. However, this should be offset by an increase in productivity.

Valuation and view – A key beneficiary of formalization

- Given some level of uncertainty in the economy (due to the back and forth on lockdowns), some of the otherwise permanent roles are likely to be fulfilled through flexi-staffing, as employers attempt to maintain variable costs. We noticed similar trends in the immediate aftermath of the GFC and demonetization, when staffing companies benefitted due to positive hiring trends in some verticals. Such a trend should likely play out in the near term, benefitting staffing firms such as TEAM.
- Over the medium term, as both the central and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries.
- We marginally reduce our FY22E estimate by 2% to factor in revenue impact from the ongoing lockdown. Our TP of INR4,000/share implies 41x FY23E EPS. Reiterate **Buy**.

Consolidated quarterly performance

	FY20				FY21				FY20	FY21	4QFY21E	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue	12,512	12,678	13,514	13,303	11,364	11,291	12,754	13,405	52,007	48,815	13,417	0%
YoY Change (%)	23%	16%	15%	14.3%	-9%	-11%	-6%	0.8%	17%	-6.1%	0.9%	
Total Expenditure	12,281	12,433	13,239	13,104	11,119	11,061	12,506	13,144	51,056	47,830	13,149	0%
Reported EBITDA	232	245	275	199	246	230	248	261	951	985	268	-3%
Margin (%)	1.9%	1.9%	2.0%	1.5%	2.2%	2.0%	1.9%	1.9%	1.8%	2.0%	2.0%	-5bQ
Depreciation	61	66	76	83	82	83	84	87	286	337	82	
Reported EBIT	171	179	199	116	164	146	164	174	665	648	186	-6%
Margin (%)	1.4%	1.4%	1.5%	0.9%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.4%	-9bp
Interest	28	29	29	37	26	19	12	12	123	69	15	-20%
Other Income	35	54	73	147	41	115	98	93	308	347	100	-7%
Reported PBT	173	195	238	224	176	210	246	254	830	885	266	-5%
Tax	-15	-6	-16	518	5	24	15	-15	480	29	0	
Rate (%)	-9%	-3%	-7%	232%	3%	11%	6%	-6%	58%	3%	0%	-580bp
Reported PAT	188	202	255	-294	171	186	231	196	350	785	266	-26%
YoY Change (%)	-14%	-19%	1%	-213%	-9%	-8%	-9%	-167%	-64%	124%	-191%	2377bp
Margin (%)	1.5%	1.6%	1.9%	-2.2%	1.5%	1.6%	1.8%	1.5%	0.7%	1.6%	2.0%	-52bp
Adjusted PAT	188	202	255	192	171	216	231	268	836	887	266	1%
YoY Change (%)	-14%	-19%	1%	-26%	-9%	7%	-9%	40%	-15%	6%	39%	107bp
Margin (%)	1.5%	1.6%	1.9%	1.4%	1.5%	1.9%	1.8%	2.0%	1.6%	1.8%	2.0%	2bp

Key performance indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Headcount										
General Staffing associates	1,60,614	1,65,029	1,67,216	1,61,365	1,45,259	1,45,778	1,52,773	1,59,955	1,61,365	1,59,955
Apprentices	57,292	51,341	52,388	50,620	35,888	42,927	52,000	61,086	50,620	61,086
Specialized Staffing	6,858	6,549	8,244	8,225	7,461	7,228	7,166	7,109	8,225	7,109
Revenue										
General Staffing	11,306	11,392	12,161	11,954	10,234	10,197	11,602	12,242	46,813	44,276
Specialized Staffing	982	1,005	1,046	1,065	1,009	986	1,012	977	4,098	3,983
Other HR Services	224	282	306	284	122	108	140	186	1,096	556
Operating Margin										
General Staffing	2.0	1.8	1.6	2.1	1.9	2.0	1.9	1.8	1.9	1.9
Specialized Staffing	6.4	6.1	7.4	6.7	8.7	9.0	9.0	10.1	6.6	9.2
Other HR Services	(28.3)	(1.3)	1.9	(13.8)	(36.7)	(48.2)	(17.7)	(10.9)	(9.2)	(25.5)



Key highlights from the management commentary

Operations

- The General Staffing segment has surpassed its pre-COVID revenue run-rate, with headcount at pre-COVID levels.
- Performance in 4QFY21 is on the back of strong performance in Jan-Feb'21. The effects of the second COVID wave started in Mar'21. Clients are cautious, but the management expects the turnaround to be faster than FY21.
- Revenue in FY21 fell 6% due to the impact in 1Q.
- In the case of the government business, the pandemic has resulted in delayed payments. However, the management is confident that collections will come through once the situation normalizes.

General Staffing

- Most of the growth in associate hiring was led by segments like Digital, e-commerce, Consumer business, BFSI, and Telecom, whereas Travel and Hospitality remained subdued.
- The company added 100 new logos in FY21 despite the pandemic. New signups resulted in a 43% growth in associates, whereas the balance came from existing customers.
- TEAM incorporates certain permanent discounts in its pricing for a few customers, which will pressurize margin. However, this should be offset by an increase in productivity.
- Going forward, the management stated that sales and hiring capabilities would be focused towards growth sectors.

Specialized Staffing

- This segment witnessed subdued hiring and was more focused on replacement hiring, which helped increase margin and quality.
- Improvement in margin was led by a focus on high margin accounts and adjacent sectors like Gaming. The company has let go of some low margin accounts.
- The management is confident of strong growth in FY22.

Provisions

- General Staffing was impacted by a one-time provision of INR13m. Of this, INR7m was on account of a wage cut reversal.

- Profitability in 4QFY21 was impacted by a provision of INR40m in the HR Services segment on account of the government business, which is expected to come back in 1Q/2QFY22.
- These provisions are made on a prudent basis and is expected to be collected without a doubt.

Guidance

- The management expects 1QFY22 to be muted given the second COVID wave, which has resulted in lockdowns.
- There is a lot of optimism regarding future plans and need for hiring. Based on this, the management is excited about growth in FY22.
- The initiatives taken by the management should aid margin improvement in FY22.

Other highlights

- The company received an INR2b tax refund in FY21. Total TDS outstanding at the end of FY21 is INR1b.
- The management is having active M&A discussions across all businesses.
- FY22 should see a net addition in headcount, resulting in a substantial benefit from 80JJAA.

Valuation and view – A key beneficiary of formalization

- Given some level of uncertainty in the economy (due to the back and forth on lockdowns), some of the otherwise permanent roles are likely to be fulfilled through flexi-staffing, as employers attempt to maintain variable costs. We noticed similar trends in the immediate aftermath of the GFC and demonetization, when staffing companies benefitted due to positive hiring trends in some verticals. Such a trend should likely play out in the near term, benefitting staffing firms such as TEAM.
- Over the medium term, as both the central and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries.
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Financials and valuations

Income Statement								(INR m)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	20,071	25,049	30,419	36,241	44,476	52,007	48,815	60,125	75,545
Change (%)	31.2	24.8	21.4	19.1	22.7	16.9	-6.1	23.2	25.6
Employee Benefit Expense	19,445	24,391	29,377	34,712	41,971	49,365	46,870	57,674	72,341
Other Expense	385	400	599	841	1,560	1,691	960	1,169	1,466
Total Expenditure	19,830	24,791	29,976	35,553	43,531	51,056	47,830	58,842	73,807
% of Sales	98.8	99.0	98.5	98.1	97.9	98.2	98.0	97.9	97.7
EBITDA	240	258	443	688	945	951	985	1,282	1,738
Margin (%)	1.2	1.0	1.5	1.9	2.1	1.8	2.0	2.1	2.3
Depreciation	27	30	43	92	105	286	337	340	360
EBIT	213	228	400	596	839	665	648	942	1,378
Int. and Finance Charges	1	4	11	25	52	123	69	60	60
Other Income	114	154	224	154	177	288	336	340	350
PBT bef. EO Exp.	326	378	613	725	964	830	915	1,222	1,668
EO Items	0	0	0	0	0	0	-30	0	0
PBT	326	378	613	725	964	830	885	1,222	1,668
Total Tax	18	130	-50	-9	-16	480	101	0	0
Tax Rate (%)	5.5	34.4	-8.2	-1.3	-1.7	57.8	11.4	0.0	0.0
Minority Interest	0	0	0	0	0	0	0	0	0
Reported PAT	308	248	663	735	980	350	785	1,222	1,668
Adjusted PAT	308	248	663	735	980	836	887	1,222	1,668
Change (%)	73.2	-19.4	167.5	10.7	33.4	-14.7	6.1	37.8	36.4
Margin (%)	1.5	1.0	2.2	2.0	2.2	1.6	1.8	2.0	2.2

Balance Sheet								(INR m)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	5	171	171	171	171	171	171	171	171
Total Reserves	1,480	2,945	3,640	4,246	5,220	5,550	6,389	7,611	9,279
Net Worth	1,485	3,116	3,811	4,417	5,391	5,721	6,560	7,782	9,450
Total Loans	228	526	435	559	767	1,854	1,070	582	729
Capital Employed	1,713	3,642	4,247	4,976	6,158	7,575	7,630	8,364	10,179
Net Fixed Assets	95	111	1,029	1,378	1,578	2,360	2,499	2,299	2,105
Total Investments	0	0	103	593	414	253	700	700	700
Curr. Assets, Loans and Adv.	3,354	5,629	5,641	6,491	8,251	9,795	9,860	11,589	15,290
Inventory	2	2	2	0	0	0	0	3	4
Account Receivables	805	1,205	1,872	2,235	2,643	2,959	2,777	3,459	4,346
Cash and Bank Balance	218	496	247	671	504	126	2,593	3,359	5,450
Loans and Advances	2,329	3,926	3,520	3,585	5,103	6,710	4,490	4,767	5,489
Curr. Liability and Prov.	1,792	2,144	2,677	3,885	4,737	4,977	5,478	6,273	7,965
Other Current Liabilities	1,702	2,051	2,525	3,661	4,347	4,490	4,962	6,009	7,631
Provisions	90	93	152	224	391	487	516	264	334
Net Current Assets	1,562	3,485	2,964	2,606	3,513	4,818	4,382	5,316	7,325
Deferred Tax assets	56	45	149	399	653	144	50	50	50
Appl. of Funds	1,713	3,642	4,247	4,976	6,158	7,575	7,630	8,364	10,179

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)									
EPS	18.0	14.5	38.8	43.0	57.3	48.9	51.9	71.5	97.5
Cash EPS	19.6	16.3	41.3	48.3	63.5	65.6	71.6	91.4	118.6
BV/Share	86.9	182.2	222.9	258.3	315.3	334.6	383.7	455.2	552.7
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)									
P/E	202.7	251.6	94.1	84.9	63.7	74.7	70.4	51.1	37.4
Cash P/E	186.3	224.4	88.4	75.5	57.5	55.6	51.0	39.9	30.8
P/BV	42.0	20.0	16.4	14.1	11.6	10.9	9.5	8.0	6.6
EV/Sales	3.1	2.5	2.1	1.7	1.4	1.2	1.2	1.0	0.8
EV/EBITDA	259.5	242.2	141.3	90.6	66.3	67.4	61.8	46.5	33.2
FCF per share	17.8	-8.9	18.3	45.0	-13.8	-3.5	171.4	27.3	104.2
Return Ratios (%)									
RoE	23.0	10.8	19.2	17.9	20.0	15.0	14.4	17.0	19.4
RoCE	20.0	9.4	17.1	16.5	18.6	5.8	11.5	16.0	18.6
RoIC	19.8	6.4	12.3	15.9	19.1	4.5	10.0	21.8	33.1
Working Capital Ratios									
Asset Turnover (x)	11.7	6.9	7.2	7.3	7.2	6.9	6.4	7.2	7.4
Debtor (Days)	15	18	22	23	22	21	21	21	21
Leverage Ratio (x)									
Current Ratio	1.9	2.6	2.1	1.7	1.7	2.0	1.8	1.8	1.9
Interest Coverage Ratio	153.5	58.1	36.5	24.2	16.1	5.4	9.4	15.7	23.0
Net Debt/Equity	0.0	0.0	0.0	-0.2	0.0	0.3	-0.3	-0.4	-0.6

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
(INR m)									
OP/(Loss) before Tax	316	378	613	728	968	851	885	1,222	1,668
Depreciation	27	30	43	92	105	286	337	340	360
Interest and Finance Charges	-65	-99	-114	-28	-49	122	-93	-300	-310
Direct Taxes Paid	17	-265	-191	-655	-862	-855	1,378	0	0
(Inc.)/Dec. in WC	48	-150	-19	656	-285	-307	525	-656	229
CF from Operations	343	-105	332	792	-124	97	3,033	606	1,946
Others	0	0	0	0	0	0	0	0	0
CF from Operations incl. EO	343	-105	332	792	-124	97	3,033	606	1,946
(Inc.)/Dec. in FA	-38	-47	-18	-23	-113	-157	-103	-140	-165
Free Cash Flow	305	-152	314	769	-236	-61	2,930	466	1,781
(Pur.)/Sale of Investments	-186	-1,192	-202	-202	105	-431	-743	0	0
Others	-20	52	51	-10	26	115	723	300	310
CF from Investments	-244	-1,187	-169	-235	18	-473	-123	160	145
Issue of Shares	0	1,380	-2	0	0	0	0	0	0
Inc./(Dec.) in Debt	-8	194	-399	-109	-12	117	-378	0	0
Interest Paid	-1	-4	-11	-25	-49	-118	-66	0	0
CF from Fin. Activity	-10	1,569	-412	-133	-61	-1	-444	0	0
Inc./Dec. in Cash	89	277	-249	424	-167	-377	2,467	766	2,091
Opening Balance	129	218	496	247	671	504	127	2,593	3,359
Closing Balance	218	496	247	671	504	127	2,593	3,359	5,450

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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