

## Revenues to improve in coming quarters...

**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

**Q1FY22 Results:** Teamlease reported healthy revenue growth.

- Revenues increased 2.7% QoQ led by general & specialised staffing
- EBITDA margins increased 20 bps QoQ 2.1%
- Operating cash flow conversion to EBITDA was 130%

**What should investors do?** Teamlease's share price has grown by ~4x over the past five years (from ~₹ 1030 in July 2016 to ~₹ 3,757 levels in July 2021).

- We continue to remain positive and retain our BUY rating on the stock

**Target Price and Valuation:** We value Teamlease at ₹ 4550 i.e. 45x P/E on FY23E

**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 variabilise its cost structure leading to increased outsourcing of flexi staffing. Hence, we expect overall revenues to increase at 22.7% CAGR in FY21-23E
- TLL is expected to register healthy margins mainly led by 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 ₹ 5,740



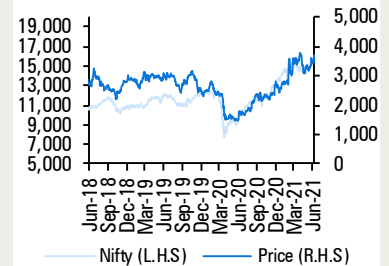
### Particulars

Particular	Amount
Market Cap (₹ Crore)	6,446.4
Total Debt (₹ Crore)	76.2
Cash and Invst (₹ Crore)	97.0
EV (₹ Crore)	6,425.7
52 week H/L	4065 / 1750
Equity capital	17.1
Face value	10.0

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	40.0	34.0	34.0	34.0
FII	37.4	38.3	37.8	37.0
DII	17.0	17.1	17.0	17.6
Public	5.7	10.6	11.1	11.4

### Price Chart



### Recent event & key risks

- Margins remains robust
- **Key Risk:** (i) Market share loss and decline in NETAP, (ii) Lower productivity to impact margins

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	4,447.6	5,200.7	4,881.5	14.3%	5,872.0	7,346.9	22.7%
EBITDA	94.4	95.1	98.5	30.7%	130.1	183.7	36.5%
EBITDA Margins (%)	2.1	1.8	2.0		2.2	2.5	
Net Profit*	98.0	35.0	77.5	25.6%	117.9	171.5	48.7%
EPS (₹)	57.3	20.5	45.3		68.9	100.3	
P/E (x)	65.5	183.6	82.9		54.5	37.5	
RoCE (%)	18.6	15.0	14.2		16.4	19.8	
RoE (%)	18.3	6.5	11.6		15.8	18.6	

Source: Company, ICICI Direct Research, \* we have not adjusted pat for one off adjusting the same PAT would be higher in FY21

## Key takeaways of conference call

### Q1FY22 Earnings Conference Call highlights

- **General staffing:** General staffing revenues increased 1.3% QoQ. The company has added 47 new logos with largest contribution from e-commerce, telecom and consumer verticals. The quantum of hiring was more in e-commerce, food tech and consumers. Total 24 new logos were added in the NETAP business. Going forward, we expect revenues to pick up from Q2FY22E onwards led by robust hiring plans of corporates. Further, the company expects its pricing to have stabilised. TLL has seen a few discount reversals. The current quarter core to associate ratio was impacted due to hiring (before pandemic). The company expects the ratio to improve leading to higher margins
- **Specialised staffing:** Revenues in the segment increased 17.0% QoQ to ₹ 114.3 crore. Margins in the quarter were impacted due to hiring. The company has seen healthy logo addition of 27 new logos. Going forward, TLL expects margins to improve led by focus on talent with digital technologies in IT, cloud in IT infra and 5G in telecom. The company is seeing healthy traction in IT & IT infra and is also focusing on gaming, health tech and mobile tech, which will drive growth in coming quarters
- **HR services:** Revenue in HR services increased 21.1% QoQ. The company expects HR services profitability to improve led by shutting of recruitment business, sunset in government business and Ed tech companies turning positive. Most bad debts in the company were due to government & permanent business. Once this is behind, the company will have more resilient 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 company will utilise cash for M&A. The company will do M&A to drive growth, transformation and build leadership
- **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 ₹ 1,480 crore while there is unrealised MTM gain of ₹ 96 crore on account of certain other investments. There is a net surplus of ₹ 18 crore as at June 30, 2021, without considering the impact of any MTM gains/losses on the investment portfolio of the trust

**Exhibit 1: Variance Analysis**

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	1,377	1,284	1,136	21.1	1,341	2.7	Key highlight of quarter was that the company's general staffing headcount was flat QoQ despite second wave of Covid
Employee expenses	1,313	1,234	1,091	20.4	1,288	1.9	
Gross Profit	63	50	46	38.7	52	21.5	
Gross margin (%)	4.6	3.9	4.0	58 bps	3.9	71 bps	
Other expenses	34	21	21	60.3	26	30.0	
EBITDA	30	30	25	20.0	26	13.0	
EBITDA Margin (%)	2.1	2.3	2.2	-2 bps	1.9	20 bps	Profitability has improved as losses at other HR services have reduced
Depreciation	9	8	8	12.4	9	6.6	
EBIT	20	21	16	23.9	17	16.2	
EBIT Margin (%)	1.5	1.6	1.4	3 bps	1.3	17 bps	
Other income	5	4	4	11.3	9	-50.8	
PBT	25	25	20	21.4	27	-7.0	
Tax paid	0	1	1	-160.9	6	-105.4	
PAT	26.9	22	17	57.4	19	42.3	PAT adjusted for exceptional items was at ~ ₹ 24 crore

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,785	5,872	1.5	7,230.0	7,347	1.6	We expect revenues to improve led by opening of economy and market share gains
EBITDA	111	130	17.2	166	184	10.6	
EBITDA Margin (%)	1.9	2.2	30 bps	2.3	2.5	20 bps	We expect margins to improve led by productivity gains and higher margins in specialised staffing
PAT	101	118	16.7	158.0	171	8.5	
EPS (₹)	59.1	68.9	16.7	92.4	100.3	8.5	

Source: Company, ICICI Direct Research

## Key Metrics

### Exhibit 3: Segment wise break-up

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Revenue by segments (%)</b>					
General Staffing & Allied Services	90.1	90.3	91.0	91.3	0.0
Specialised Staffing	8.9	8.7	7.9	7.3	0.0
Other HR Services	1.1	1.0	1.1	1.4	0.0
<b>Growth QoQ (%)</b>					
General Staffing & Allied Services	-14.4	-0.4	13.8	5.5	1.3
Specialised Staffing	-5.3	-2.3	2.6	-3.5	17.0
Other HR Services	-57.2	-11.6	30.3	32.9	22.2

Source: Company, ICICI Direct Research

General & Specialised staffing drove QoQ revenues in the quarter

### Exhibit 4: Segment wise margins

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>EBITDA Margin by segments (%)</b>					
General Staffing & Allied Services	2.0	2.1	1.9	1.8	1.9
Specialised Staffing	8.6	9.1	10.6	11.0	9.1
Other HR Services	-32.9	-42.7	-14.3	15.6	-3.1

Source: Company, ICICI Direct Research

Higher profitability in general staffing

### Exhibit 5: Headcount break-up

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Associate Count</b>					
General staffing associates (GSA)	145259	145778	152773	159955	160014
NETAP Trainees	35888	42927	52000	61086	58142
Specialised Staffing	7461	7228	7166	7109	7817
Total Outsourced	188608	195933	211939	228150	225973
<b>Core Count</b>					
Staffing Core Employees	639	628	612	628	633
Total Core Employees	1544	1519	1632	1672	1761
<b>Total Headcount</b>	<b>190152</b>	<b>197452</b>	<b>213571</b>	<b>229822</b>	<b>227734</b>
<b>Productivity</b>					
GSA to core employee ratio	283	300	334	352	342
Total Associate to core employee ratio	122	129	130	136	128

Source: Company, ICICI Direct Research

General staffing headcount flat QoQ

## Financial summary

Exhibit 6: Profit and loss statement				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
<b>Revenue from operations</b>	<b>5,200.7</b>	<b>4,881.5</b>	<b>5,872.0</b>	<b>7,346.9</b>
Growth (%)	16.9	(6.1)	20.3	25.1
Other Income	30.8	34.7	37.0	42.7
Total Revenue	5,231.6	4,916.2	5,909.0	7,389.6
Employee benefits expense	4,936.5	4,687.0	5,613.6	7,016.3
Other Expenses	169.2	96.0	128.3	146.9
Total Operating Expenditure	5,105.6	4,783.0	5,741.9	7,163.2
<b>EBITDA</b>	<b>95.1</b>	<b>98.5</b>	<b>130.1</b>	<b>183.7</b>
Growth (%)	0.7	3.6	32.1	41.2
Interest	12.3	6.9	6.9	6.9
Depreciation	28.6	33.7	33.9	34.0
PBT	85.1	92.6	126.4	185.4
Tax	48.0	10.1	10.1	13.0
<b>PAT</b>	<b>35.0</b>	<b>77.5</b>	<b>117.9</b>	<b>171.5</b>
Growth (%)	(64.3)	121.6	52.1	45.5
Diluted EPS	20.5	45.3	68.9	100.3
Growth (%)	(64.3)	121.6	52.1	45.5

Source: Company, ICICI Direct Research

Exhibit 8: 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	743.3	904.5
Total Shareholders funds	572.1	649.6	760.4	921.6
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	123.3	154.2
Long term provisions	-	-	-	-
<b>Liabilities Total</b>	<b>757.5</b>	<b>803.9</b>	<b>917.3</b>	<b>1,096.5</b>
Fixed Assets	276.1	271.6	255.4	242.4
Tangible	53.5	43.5	39.0	37.7
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	16.3	20.4
Long terms loans and advanc	61.6	57.8	69.6	87.0
Other non-current assets	310.4	306.4	319.0	337.7
Inventories	-	-	-	-
Trade receivables	295.9	277.8	334.1	418.1
Current Investments	-	-	-	-
Cash	97.0	235.8	360.7	544.8
Short term loans and advanc	6.0	5.6	6.8	8.5
Other current assets	168.5	158.1	190.2	238.0
Total Current Assets	567.4	677.3	883.9	1,198.8
Trade Payable	37.8	35.5	42.7	53.4
Other current liabilities	459.9	512.6	616.6	771.4
Short term provisions	-	-	-	-
Total Current Liabilities	497.7	548.1	649.5	811.7
Net Current Assets	69.6	129.2	234.4	387.0
<b>Assets Total</b>	<b>757.5</b>	<b>803.9</b>	<b>917.3</b>	<b>1,096.5</b>

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

Exhibit 7: Cash flow statement				
₹ crore				
(Year-end March)	FY20	FY21E*	FY22E	FY23E
Profit before Tax	85.1	92.6	126.4	185.4
Add: Depreciation	28.6	33.7	33.9	34.0
(Inc)/dec in Current Assets	(49.5)	1.1	(119.7)	(169.2)
Inc/(dec) in CL and Provisions	18.8	52.3	95.7	153.1
Taxes paid	(85.5)	(10.1)	(10.1)	(13.0)
<b>CF from operating activities</b>	<b>9.7</b>	<b>152.8</b>	<b>118.2</b>	<b>178.9</b>
(Inc)/dec in Investments	(31.6)	34.7	37.0	42.7
(Inc)/dec in Fixed Assets	(15.7)	(17.4)	(17.6)	(21.0)
Others	-	-	-	-
<b>CF from investing activities</b>	<b>(47.3)</b>	<b>17.3</b>	<b>19.4</b>	<b>21.6</b>
Inc/(dec) in loan funds	-	(24.4)	-	-
Dividend paid & dividend tax	-	-	(7.1)	(10.3)
Others	(0.1)	(6.9)	(6.9)	(6.9)
<b>CF from financing activities</b>	<b>(0.1)</b>	<b>(31.3)</b>	<b>(14.0)</b>	<b>(17.2)</b>
Net Cash flow	(26.0)	138.8	124.9	184.2
Opening Cash	123.0	97.0	235.8	360.7
<b>Closing Cash</b>	<b>97.0</b>	<b>235.8</b>	<b>360.7</b>	<b>544.8</b>

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

Exhibit 9: Key ratios				
₹ crore				
(Year-end March)	FY20	FY21E*	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	20.5	45.3	68.9	100.3
Cash EPS	36.2	66.7	86.8	120.2
BV	315.8	389.6	435.2	539.0
DPS	-	-	2.9	4.2
Cash Per Share	53.5	141.4	206.8	314.7
<b>Operating Ratios (%)</b>				
EBIT Margin	1.3	1.3	1.6	2.0
PBT Margin	1.6	1.9	2.2	2.5
PAT Margin	0.7	1.5	2.1	2.3
Debtor days	21	21	21	21
Creditor days	3	3	3	3
<b>Return Ratios (%)</b>				
RoE	6.5	11.6	15.8	18.6
RoCE	15.0	14.2	16.4	19.8
RoIC	12.1	13.9	17.7	33.1
<b>Valuation Ratios (x)</b>				
P/E	183.6	82.9	54.5	37.5
EV / EBITDA	67.6	61.5	53.6	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	11.9	9.6	8.6	7.0
<b>Solvency Ratios</b>				
Debt / EBITDA	0.8	0.5	0.4	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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Sell: <-15%



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