

CMP: ₹ 3410 Target: ₹ 4025 (+18%) Target Period: 12 months

BUY

May 19, 2022

Margin improvement to continue...

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

Q4FY22 Results: Teamlease reported healthy numbers on the margin front.

- EBIT margin improved 20 bps QoQ to 2.3%
- EBITDA margins for specialised staffing improved 60 bps
- The company added 34,000 associates in general staffing for FY22, its highest ever

What should investors do? Teamlease's share price has grown ~2.9x over the past five years (from ~₹ 1169 in May 2017 to ~₹ 3,410 levels in May 2022).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Teamlease at ₹ 4025 i.e. 32x 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 16.8% CAGR in FY22-24E
- 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 ₹ 5,800



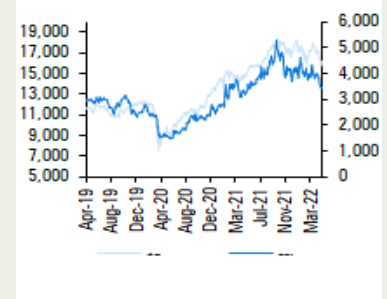
Particulars

Particular	Amount
Market Cap (₹ Crore)	5,851.7
Total Debt (₹ Crore)	79.5
Cash and Invst (₹ Crore)	343.4
EV (₹ Crore)	5,587.8
52 week H/L	5544 / 3206
Equity capital	17.1
Face value	10.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	34.0	32.5	32.5	31.5
FII	37.0	37.7	38.2	37.4
DII	17.6	18.0	17.9	21.2
Public	11.4	11.9	11.4	9.9

Price Chart



Recent event & key risks

- Highest ever net addition of 34,000+ associates in general staffing for FY22
- **Key Risk:** (i) Lower hiring in key sectors (ii) Lower than expected margins

Research Analyst

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	4,448	5,201	4,881	6,480	16.3	7,561	8,844	16.8
EBITDA	94	95	99	142	30.9	189	247	31.6
EBITDA Margins (%)	2.1	1.8	2.0	2.2		2.5	2.8	
Net Profit	98.0	35.0	77.5	38.4		162.4	214.4	
EPS (₹)	57.3	20.5	45.3	22.5		95.0	125.4	
P/E (x)	59.5	166.7	75.2	151.7		35.9	27.2	
RoCE (%)	18.6	15.0	14.2	15.4		19.2	20.7	
RoE (%)	18.3	6.5	11.6	(4.7)		18.9	20.2	

Source: Company, ICICI Direct Research

Key highlights of quarter & conference call highlights

- The company reported 3.1% QoQ, 35.6% YoY growth in revenues to ₹ 1,817 crore, aided by general staffing revenues, which were up 2.7% QoQ to ₹ 1,639 crores while specialised staffing revenue grew 7.9% QoQ to ₹ 147 crore and other HR services grew 5.6% QoQ to ₹ 32 crore. For FY22, general staffing, specialised staffing, other HR services reported revenue growth of 32%, 33%, 99%, respectively, resulting overall revenue growth of 33% to ₹ 6479.8 crore
- EBITDA margins at the company level were up 20 bps QoQ to 2.3%. General staffing margins were up 10 bps QoQ at 1.8% while that of specialised staffing were up 60 bps QoQ to 8.9%. Other HR services reported EBITDA margin of 13.2% for the quarter, up 560 bps QoQ. On an absolute basis, EBITDA improved 8.9% QoQ to ₹ 41 crore. For FY22, general staffing, specialised staffing, other HR services reported EBITDA margins of 1.8%, 8.9%, 6.2%, respectively, resulting in consolidated margins of 2.2%
- **In general staffing**, the management indicated that it has added 45 logos during the quarter and 220 logos in FY22. The demand is seen from sectors like IT, telecom, e-commerce, Retail, Pharma etc. Non-recruiter channel forms 53% share. The productivity ratio declined to 346 vs. 387 in Q3. The company indicated that PAPM has seen some decline QoQ. PAPM for the quarter was at ₹ 708 vs. 726 in Q3. In terms of outlook, the company expects strong hiring trends in IT, telecom, retail, e-commerce (2x hiring expected in FY23 vs. FY22 as per company). The company added 5,000 employees in general staffing in Q4. The company indicated that FMCG companies are seeing faster shift to organised sector, which would drive growth
- **Specialised staffing**: The company added 95 new logos in the quarter while the client count has gone up 22% in FY22. The company indicated that PBT dip in this business unit was on account of investment in talent and technology. The strong growth in Q4 was aided by continued strong momentum in the IT sector
- Regarding dispute with Income tax on benefits being availed by the company under section 80JJAA, the company is confident on the favourable outcome whenever it comes and indicated that they will continue to avail these benefits. The company also said that, in case of any unfavourable decision/judgment on this matter, the potential liability could be around ₹ 150 crore. The company further indicated that this can be set off against the TDS refund available with income tax
- The company indicated that margin expansion for FY22 could be attributed to automation, operational efficiency as well as turnaround of Other HR services margin performance. Teamlease indicated that other HR services (largely pertains to corporate trainings etc) will continue to remain profitable at EBITDA level and EBITDA margins will improve from here on as large investments in this business regarding manpower, technology is front loaded
- The company indicated that government training business is in sunset mode and expects this business to close it in FY23. The company also indicated they have not taken any new mandate in this business and only historical mandates are being worked out
- The company indicated that they are not shying away from acquisitions and are actively looking at inorganic opportunities
- Regarding productivity ratio decline for the quarter, the company indicated that it was on account of i) to cater to ~50,000 associates additions in FY22, highest in company's history ii) potential churn in their core employees in Q1FY23 due to increments, etc

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	1,817	1,856	1,341	35.6	1,762	3.1	Specialised staffing recoup after muted performance last quarter and grew by 7.9% QoQ , while general staffing & other HR services grew by 2.7%/5.6% QoQ respectively
Employee expenses	1,728	1,771	1,288	34.1	1,681	2.8	
Gross Profit	90	85	52	71.6	81	10.8	
Gross margin (%)	4.9	4.6	3.9	104 bps	4.6	34 bps	
Other expenses	49	44	26	86.1	43	12.4	
EBITDA	41	41	26	57.1	38	8.9	
EBITDA Margin (%)	2.3	2.2	1.9	31 bps	2.1	12 bps	Margins aided by specialised staffing and other HR services
Depreciation	11	11	9	22.1	10	8.3	
EBIT	30	30	17	74.6	28	9.1	
EBIT Margin (%)	1.7	1.6	1.3	37 bps	1.6	9 bps	
Other income	5	5	9	-49.8	5	-8.7	
PBT	35	35	27	31.4	33	6.4	
Tax paid	3	2	6		2		
PAT	32	34	19		30		
Adjusted PAT	32	34	19	67.2	28		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	7,347	7,561	2.9	9,197	8,844	-3.8	
EBITDA	184	189	2.7	230	247	7.3	
EBITDA Margin (%)	2.5	2.5	0 bps	2.5	2.8	29 bps	We are now building in profitability in other HR services as guided by management
PAT	171	162	-5.0	214	214	0.2	
EPS (₹)	100.3	95.0	-5.0	125.1	125.4	0.2	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 3: Segment wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by segments (%)					
General Staffing & Allied Services	91.3	90.0	89.5	90.6	90.2
Specialised Staffing	7.3	8.3	8.8	7.7	8.1
Other HR Services	1.4	1.7	1.7	1.7	1.8
Growth QoQ (%)					
General Staffing & Allied Services	5.5	1.3	10.0	17.0	2.7
Specialised Staffing	-3.5	17.0	17.4	1.2	7.9
Other HR Services	32.9	22.2	12.7	17.7	5.6

Source: Company, ICICI Direct Research

Recovery in specialised staffing aided revenues

Exhibit 4: Segment wise margins

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
EBITDA Margin by segments (%)					
General Staffing & Allied Services	1.8	1.9	1.7	1.7	1.8
Specialised Staffing	11.0	9.1	9.1	8.4	8.9
Other HR Services	15.6	-3.1	4.3	7.6	13.2

Source: Company, ICICI Direct Research

Specialised staffing and other HR services reported margin improvement

Exhibit 5: Headcount break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Associate Count					
General staffing associates (GSA)	159955	160014	174075	189560	194650
NETAP Trainees	61086	58142	68448	74800	81110
Specialised Staffing	7109	7817	8713	9140	9470
Total Outsourced	228150	225973	251236	273500	285230
Core Count					
Staffing Core Employees	628	633	662	682	794
Total Headcount	229822	227734	252997	274997	285230
Productivity					
GSA to core employee ratio	352	342	365	387	346

Source: Company, ICICI Direct Research

Productivity is down by 10.6% QoQ

Financial summary

Exhibit 6: Profit and loss statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Revenue from operations	4,881.5	6,479.8	7,561.3	8,844.1
Growth (%)	(6.1)	32.7	16.7	17.0
Other Income	34.7	19.7	23.9	25.7
Total Revenue	4,916.2	6,499.5	7,585.2	8,869.7
Employee benefits expense	4,687.0	6,180.7	7,221.0	8,437.2
Other Expenses	96.0	156.7	151.2	160.1
Total Operating Expenditure	4,783.0	6,337.5	7,372.3	8,597.3
EBITDA	98.5	142.4	189.0	246.7
Growth (%)	3.6	44.5	32.8	30.5
Interest	6.9	4.0	4.0	4.0
Depreciation	33.7	40.8	33.2	36.9
PBT	92.6	117.3	175.8	231.6
Tax	10.1	6.1	12.3	16.2
PAT	77.5	38.4	162.4	214.4
Growth (%)	121.6	(50.4)	322.7	32.0
Diluted EPS	45.3	22.5	95.0	125.4
Growth (%)	121.6	(50.4)	322.7	32.0

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit before Tax	92.6	117.3	175.8	231.6
Add: Depreciation	33.7	40.8	33.2	36.9
(Inc)/dec in Current Assets	(54.8)	(184.7)	(58.6)	(137.7)
Inc/(dec) in CL and Provisions	99.0	88.9	158.5	135.9
Taxes paid	137.8	(59.3)	(12.3)	(16.2)
CF from operating activities	303.3	(6.1)	296.6	250.4
(Inc)/dec in Investments	12.6	(65.4)	23.9	25.7
(Inc)/dec in Fixed Assets	(24.8)	(23.1)	(15.1)	(17.7)
Others				
CF from investing activities	(12.3)	(88.5)	8.7	8.0
Inc/(dec) in loan funds	(37.8)	(10.0)	-	-
Dividend paid & dividend tax	-	-	(9.7)	(12.9)
Others	(6.6)	(3.1)	(4.0)	(4.0)
CF from financing activities	(44.4)	(13.1)	(13.7)	(16.8)
Net Cash flow	246.7	(107.7)	291.6	241.6
Opening Cash	12.4	259.1	151.4	443.0
Closing Cash	259.1	151.4	443.0	684.6

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	632.5	688.7	841.4	1,042.9
Total Shareholders funds	649.6	705.8	858.5	1,060.0
Long term borrowings	-	-	-	-
Short term borrowings	-	27.7	27.7	27.7
Bank overdraft	51.8	51.8	51.8	51.8
Total Debt	51.8	79.5	79.5	79.5
Other long term liabilities	102.5	120.7	158.7	185.7
Long term provisions	-	-	-	-
Liabilities Total	827	906	1,097	1,325
Fixed Assets	271.6	280.0	241.0	221.8
Tangible	43.5	40.1	34.0	26.5
Intangible+ Goodwill	216.7	222.0	189.2	177.5
Non-current Investments	25.3	3.0	3.0	3.0
Deferred tax asset	13.5	2.6	21.0	24.5
Long terms loans and advances	57.8	50.2	89.6	104.8
Other non-current assets	306.4	266.2	250.7	267.0
Inventories	-	-	-	-
Trade receivables	277.8	369.7	430.3	503.3
Current Investments	-	166.8	166.8	166.8
Cash	259.1	176.5	443.0	684.6
Short term loans and advances	5.6	-	8.7	10.2
Other current assets	158.1	275.6	244.9	286.5
Total Current Assets	700.6	988.6	1,293.7	1,651.3
Trade Payable	35.5	41.9	55.0	64.3
Other current liabilities	512.6	644.3	793.9	928.6
Short term provisions	-	-	-	-
Total Current Liabilities	548.1	686.2	848.9	992.9
Net Current Assets	152.6	302.4	444.8	658.3
Assets Total	827	906	1,097	1,325

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	45.3	22.5	95.0	125.4
Cash EPS	66.7	(53.4)	114.4	146.9
BV	389.6	(475.7)	502.1	620.0
DPS	-	0.9	4.0	5.3
Cash Per Share	155.4	(119.0)	259.1	400.4
Operating Ratios (%)				
EBIT Margin	1.3	1.6	2.1	2.4
PBT Margin	1.9	1.8	2.3	2.6
PAT Margin	1.5	(0.5)	2.1	2.4
Debtor days	21	21	21	21
Creditor days	3	2	3	3
Return Ratios (%)				
RoE	11.6	(4.7)	18.9	20.2
RoCE	14.2	15.4	19.2	20.7
RoIC	13.9	23.1	55.4	86.6
Valuation Ratios (x)				
P/E	75.2	151.7	35.9	27.2
EV / EBITDA	57.3	39.2	28.2	20.6
EV / Net Sales	1.2	0.9	0.7	0.6
Market Cap / Sales	1.2	0.9	0.8	0.7
Price to Book Value	8.8	(7.2)	6.8	5.5
Solvency Ratios				
Debt / EBITDA	0.5	0.6	0.4	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.3	1.2	1.0	1.0
Quick Ratio	1.3	1.2	1.0	1.0

Source: Company, ICICI Direct Research

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