

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR3,410 TP: INR 3,670 (+8%) Neutral

Strong demand to drive growth in FY23

Strong performance, but valuations remains fair

Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	58.3 / 0.8
52-Week Range (INR)	5544 / 3206
1, 6, 12 Rel. Per (%)	-8/-6/-5
12M Avg Val (INR M)	141

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	64.8	84.6	104.9
EBIT Margin (%)	1.6	1.7	1.9
PAT	1.1	1.6	2.1
EPS (INR)	65.1	91.9	122.2
EPS Gr. (%)	25.4	41.3	33.0
BV/Sh. (INR)	412.8	540.7	662.9

Ratios

RoE (%)	16.3	19.3	20.3
RoCE (%)	12.7	17.2	19.2
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	52.4	37.1	27.9
P/BV (x)	8.3	6.3	5.1
EV/EBITDA (x)	40.9	29.5	21.5
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	31.5	32.5	34.0
DII	21.2	17.9	17.0
FII	37.5	38.3	37.9
Others	9.8	11.3	11.0

FII Includes depository receipts

- TEAM delivered a strong operational performance in 4QFY22, with revenue up 3% QoQ on broad-based growth across verticals. It also added ~12k associates after a very strong hiring in recent quarters, benefitting from a strong demand environment. EBITDA margin rose 12bp QoQ to 2.26% due to higher core employee addition.
- The management remains positive on its growth outlook, as supportive macro and new logo additions boosts demand for associates. We expect TEAM to report good revenue growth in all verticals on continued improvement in General Staffing, a pickup in HR Services, increased manpower demand, and higher margin replacements in the IT Staffing business.
- Though there will be near-term margin pressure in 1HFY23, the management expects margin expansion from 3QFY23. We expect a stable margin in FY23 and the growth momentum in earnings to be more reasonable (28%) over FY22-24. With the ongoing dispute with income tax authorities creating near-term uncertainties, we bake in a 5% tax rate.
- While we remain positive on the medium to long term opportunities, as it should gain from the formalization of the labor market, there is near term margin pressure and uncertainty over income tax benefits claimed by TEAM. We feel it is fairly valued and hence maintain our **Neutral** rating.
- We are lowering our FY23E/FY24E Eestimates by -7.4%/-7.6% to factor in income tax expenses. Our TP of INR3,670/share implies 30x FY24E EPS.

Good revenue growth and margin expansion in 4QFY22

- Revenue growth at 3% QoQ was a little below our estimate of 6%. Growth was led by a rebound in Specialized Staffing (+8% QoQ). Other HR Services (+6% QoQ) and General staffing (+3%) also grew well.
- EBITDA margin grew 12bp QoQ to 2.26% v/s our estimate of flat profitability. TEAM reported an improved margin in all three verticals, despite reduced employee productivity due to higher core employee addition.
- Adjusted PAT rose 15% YoY to INR310m (est. 31%), impacted by higher than expected income tax expense in 4QFY22.

Key highlights from the management commentary

- The management remains optimistic about its growth prospects and said that all businesses are showing a good recovery.
- Corporate clients are bullish and are hiring forward for growth.
- The management expects margin expansion to continue from 3QFY23. HR Tech turned profitable in FY22 and should contribute to margin in FY23.

A key beneficiary of formalization

- Over the medium term, as both the Centre and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries.

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- Though we remain positive on growth as demand continues to remain strong, we remain cautious on near-term uncertainties on account of the on-going income tax dispute.
- We are lowering our FY23E/FY24E estimate by -7.4%/7.6% to factor in income tax expenses. Our TP of INR3,670/share implies 30x FY24E EPS.

Consolidated quarterly performance

(INR m)

	FY21				FY22				FY21	FY22	FY22E 4QE	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue	11,364	11,291	12,754	13,405	13,768	15,236	17,621	18,174	48,815	64,798	18,678	-3%
YoY Change (%)	-9.2%	-10.9%	-6%	1%	21.1%	34.9%	38%	36%	-6.1%	33%	39.3%	
Total Expenditure	11,119	11,061	12,506	13,144	13,473	14,894	17,244	17,764	47,830	63,375	18,286	-3%
Reported EBITDA	246	230	248	261	295	342	377	410	985	1,424	392	5%
Margin (%)	2.2%	2.0%	1.9%	1.9%	2.1%	2.2%	2.1%	2.3%	2.0%	2.2%	2.1%	16bp
Reported EBIT	164	146	164	174	203	230	279	304	648	1,016	292	4%
Margin (%)	1.4%	1.3%	1.3%	1.3%	1.5%	1.5%	1.6%	1.7%	1.3%	1.6%	1.6%	11bp
Interest	26	19	12	12	8	14	10	8	69	40	15	-49%
Other Income	41	115	98	93	46	54	51	47	347	197	75	-38%
PBT before EO expense	179	243	250	255	240	270	319	343	926	1,173	352	-3%
Extra-Ord. expense	0	30	0	0	-26	750	0	-6	30	718	0	
Reported PBT	176	210	246	254	266	-480	319	350	885	456	352	-1%
Tax	5	24	15	-15	-3	14	17	33	29	61	0	
Rate (%)	3%	11%	6%	-6%	-1%	-3%	5%	10%	3%	13%	0%	957bp
Reported PAT	171	186	231	196	269	-493	302	316	785	395	352	-10%
YoY Change (%)	-9%	-8%	-9%	-167%	57%	-365%	31%	61%	124%	-50%	79%	-1832bp
Margin (%)	1.5%	1.6%	1.8%	1.5%	2.0%	-3.2%	1.7%	1.7%	1.6%	0.6%	1.9%	-15bp
Adjusted PAT	171	216	231	268	243	257	302	310	887	1,112	352	-12%
YoY Change (%)	-9%	7%	-9%	40%	42%	19%	31%	15%	6%	25%	31%	-1582bp
Margin (%)	1.5%	1.9%	1.8%	2.0%	1.8%	1.7%	1.7%	1.7%	1.8%	1.7%	1.9%	-18bp

Key performance indicators

Y/E March	FY21				FY22				FY21	FY22
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Headcount										
General Staffing associates	1,45,259	1,45,778	1,52,773	1,59,955	1,60,014	1,74,075	1,89,560	1,94,650	1,59,955	1,94,650
Apprentices	35,888	42,927	52,000	61,086	58,142	68,448	74,800	81,110	61,086	81,110
Specialized Staffing	7,461	7,228	7,166	7,109	7,817	8,713	9,140	9,470	7,109	9,470
Revenue										
General Staffing	10,234	10,197	11,602	12,242	12,397	13,637	15,960	16,389	44,276	58,383
Specialized Staffing	1,009	986	1,012	977	1,143	1,342	1,359	1,466	3,983	5,309
Other HR Services	122	108	140	186	228	257	302	319	556	1,105
Operating Margin										
General Staffing	1.9	2.0	1.9	1.8	1.9	1.6	1.7	1.7	1.9	1.7
Specialized Staffing	8.7	9.0	9.0	10.1	8.5	8.7	8.1	8.6	9.2	8.5
Other HR Services	(36.7)	(48.2)	(17.7)	(10.9)	(7.4)	0.5	4.1	8.2	(25.5)	2.1

Key highlights from the management commentary

Demand and industry outlook

- TEAM added ~12,000 employees along with good revenue growth in 4QFY22.
- The management remains optimistic about its growth prospects and suggested that all the businesses are showing good recovery.
- Corporate clients are very bullish and hiring forward for growth.



General Staffing

- The company saw a strong revival in BFS, which grew 300% over last year. e-commerce, Telecom, Healthcare, and IT also registered strong growth.
- TEAM added 220 new logos in FY22, of which 45 logos were in 4Q.
- TEAM added ~5,000 employees in General Staffing in 4QFY22.
- There is higher demand anticipated from Tier I cities and entry-level jobs.
- FMCG is seeing faster shift to organized sector which should aid growth.
- The impact of the semiconductor shortage on hiring should normalize by 2QFY23.

Specialized Staffing

- TEAM saw a significant improvement in market share in FY22. Wallet share with existing clients also saw a good expansion in FY22.
- Over FY22, TEAM has incubated new business lines and made investments in technology to drive future growth.
- TEAM added 95 new logos in Specialized Staffing in FY22.
- The growth in 4QFY22 was driven by strong momentum in IT business.

Margin outlook

- The management expects margin expansion to continue from 3QFY23.
- HR tech turned profitable in FY22 and should contribute to margin in FY23.
- Administration charges are higher in EPFO but the management is confident of covering it within a few quarters

Other

- TEAM has completely migrated their PF to the EPFO effective 1st Apr'22.
- There is an ongoing dispute with income tax authorities on the eligibility for benefits under section 80JJAA. As per the management, the outcome of this should be positive.

Valuation and view – A key beneficiary of formalization

- Over the medium term, as both the Centre and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries.
- Though we remain positive on the growth as the demand continues to be strong, we remain cautious on near term uncertainties on account of on-going income tax dispute.
- We are lowering our FY23E/FY24E estimates by -7.4%/7.6% to factor in income tax expenses. Our TP of INR3,670/share implies 30x FY24E EPS.

Exhibit 1: Revisions to our estimates

	Revised			Earlier			Change (%/bp)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Revenue (INR m)	64,798	84,646	1,04,856	65,302	84,994	1,05,480	-0.8%	-0.4%	-0.6%
Revenue growth (%)	32.7%	30.6%	23.9%	33.8%	30.2%	24.1%	-100bps	50bps	-20bps
EBITDA (INR m)	1,424	1,854	2,440	1,406	1,831	2,426	1.3%	1.3%	0.6%
EBITDA margin (%)	2.2%	2.2%	2.3%	2.2%	2.2%	2.3%	0bps	0bps	0bps
EBIT (INR m)	1,016	1,454	2,000	1,004	1,431	1,986	1.2%	1.6%	0.7%
EBIT margin (%)	1.6%	1.7%	1.9%	1.5%	1.7%	1.9%	0bps	0bps	0bps
EPS (INR)	22.5	89.7	119.3	24.8	96.8	129.0	-9.5%	-7.4%	-7.6%

Source: MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	30,419	36,241	44,476	52,007	48,815	64,798	84,646	1,04,856
Change (%)	21.4	19.1	22.7	16.9	-6.1	32.7	30.6	23.9
Employee Benefit Expense	29,377	34,712	41,971	49,365	46,870	61,807	80,528	99,616
Other Expense	599	841	1,560	1,691	960	1,567	2,264	2,801
Total Expenditure	29,976	35,553	43,531	51,056	47,830	63,375	82,792	1,02,417
As a percentage of Sales	98.5	98.1	97.9	98.2	98.0	97.8	97.8	97.7
EBITDA	443	688	945	951	985	1,424	1,854	2,440
Margin (%)	1.5	1.9	2.1	1.8	2.0	2.2	2.2	2.3
Depreciation	43	92	105	286	337	408	400	440
EBIT	400	596	839	665	648	1,016	1,454	2,000
Int. and Finance Charges	11	25	52	123	69	40	40	40
Other Income	224	154	177	288	336	197	240	240
PBT bef. EO Exp.	613	725	964	830	915	1,173	1,654	2,200
EO Items	0	0	0	0	-30	-750	0	0
PBT	613	725	964	830	885	423	1,654	2,200
Total Tax	-50	-9	-16	480	101	61	83	110
Tax Rate (%)	-8.2	-1.3	-1.7	57.8	11.4	14.4	5.0	5.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	663	735	980	350	785	362	1,572	2,090
Adjusted PAT	663	735	980	836	887	1,112	1,572	2,090
Change (%)	167.5	10.7	33.4	-14.7	6.1	25.4	41.3	33.0
Margin (%)	2.2	2.0	2.2	1.6	1.8	1.7	1.9	2.0

Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	171	171	171	171	171	171	171	171
Total Reserves	3,640	4,246	5,220	5,550	6,389	6,887	9,073	11,163
Net Worth	3,811	4,417	5,391	5,721	6,560	7,058	9,244	11,334
Total Loans	435	559	767	1,854	1,070	1,702	729	812
Capital Employed	4,247	4,976	6,158	7,575	7,630	8,760	9,973	12,146
Net Fixed Assets	1,029	1,378	1,578	2,360	2,499	2,512	2,300	2,088
Total Investments	103	593	414	253	700	533	1,374	1,374
Curr. Assets, Loans, and Adv.	5,641	6,491	8,251	9,795	9,860	12,332	15,134	19,599
Inventory	2	0	0	0	0	0	4	5
Account Receivables	1,872	2,235	2,643	2,959	2,777	3,697	4,870	6,033
Cash and Bank Balance	247	671	504	126	2,593	1,765	4,344	6,698
Loans and Advances	3,520	3,585	5,103	6,710	4,490	6,870	5,916	6,863
Curr. Liability and Prov.	2,677	3,885	4,737	4,977	5,478	6,644	8,884	10,964
Other Current Liabilities	2,525	3,661	4,347	4,490	4,962	6,010	8,550	10,592
Provisions	152	224	391	487	516	634	334	373
Net Current Assets	2,964	2,606	3,513	4,818	4,382	5,688	6,250	8,634
Deferred Tax assets	149	399	653	144	50	26	50	50
Appl. of Funds	4,247	4,976	6,158	7,575	7,630	8,760	9,973	12,146

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	38.8	43.0	57.3	48.9	51.9	65.1	91.9	122.2
Cash EPS	41.3	48.3	63.5	65.6	71.6	88.9	115.3	148.0
BV/Share	222.9	258.3	315.3	334.6	383.7	412.8	540.7	662.9
DPS	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
Valuation (x)								
P/E	87.9	79.4	59.5	69.7	65.7	52.4	37.1	27.9
Cash P/E	82.5	70.6	53.7	52.0	47.6	38.4	29.6	23.0
P/BV	15.3	13.2	10.8	10.2	8.9	8.3	6.3	5.1
EV/Sales	1.9	1.6	1.3	1.2	1.2	0.9	0.6	0.5
EV/EBITDA	132.0	84.6	62.0	63.1	57.6	40.9	29.5	21.5
FCF per share	18.3	45.0	-13.8	-3.5	171.4	-11.4	169.9	126.0
Return Ratios (%)								
RoE	19.2	17.9	20.0	15.0	14.4	16.3	19.3	20.3
RoCE	17.1	16.5	18.6	5.8	11.5	12.7	17.2	19.2
RoIC	12.3	15.9	19.1	4.5	10.0	16.1	25.8	45.6
Working Capital Ratios								
Asset Turnover (x)	7.2	7.3	7.2	6.9	6.4	7.4	8.5	8.6
Debtor (Days)	22	23	22	21	21	21	21	21
Leverage Ratio (x)								
Current Ratio	2.1	1.7	1.7	2.0	1.8	1.9	1.7	1.8
Interest Coverage Ratio	36.5	24.2	16.1	5.4	9.4	25.6	36.4	50.0
Net Debt/Equity ratio	0.0	-0.2	0.0	0.3	-0.3	-0.1	-0.5	-0.6

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)								
OP/(Loss) before Tax	613	728	968	851	885	456	1,654	2,200
Depreciation	43	92	105	286	337	408	400	440
Interest and Finance Charges	-114	-28	-49	122	-93	608	-200	-200
Direct Taxes Paid	-191	-655	-862	-855	1,378	-593	-83	-110
(Inc.)/Dec. in WC	-19	656	-285	-307	525	-939	1,320	53
CF from Operations	332	792	-124	97	3,033	-61	3,092	2,382
Others	0	0	0	0	0	0	0	0
CF from Operations incl. EO	332	792	-124	97	3,033	-61	3,092	2,382
(Inc.)/Dec. in FA	-18	-23	-113	-157	-103	-134	-187	-228
Free Cash Flow	314	769	-236	-61	2,930	-195	2,904	2,154
(Pur.)/Sale of Investments	-202	-202	105	-431	-743	-807	0	0
Others	51	-10	26	115	723	305	200	200
CF from Investments	-169	-235	18	-473	-123	-636	13	-28
Issue of Shares	-2	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	-399	-109	-12	117	-378	-100	-277	0
Interest Paid	-11	-25	-49	-118	-66	-31	0	0
CF from Fin. Activity	-412	-133	-61	-1	-444	-131	-277	0
Inc./Dec. in Cash	-249	424	-167	-377	2,467	-828	2,828	2,354
Opening Balance	496	247	671	504	127	2,593	1,516	4,344
Closing Balance	247	671	504	127	2,593	1,765	4,344	6,698

NOTES

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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