

July 27, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		ACCUMULATE	
Target Price	3,573		3,642	
Sales (Rs. m)	78,913	90,690	79,737	93,175
% Chng.	(1.0)	(2.7)		
EBITDA (Rs. m)	1,479	2,202	1,796	2,285
% Chng.	(17.7)	(3.6)		
EPS (Rs.)	77.8	102.0	86.2	105.8
% Chng.	(9.7)	(3.6)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	48,815	64,798	78,913	90,690
EBITDA (Rs. m)	985	1,424	1,479	2,202
Margin (%)	2.0	2.2	1.9	2.4
PAT (Rs. m)	826	1,112	1,330	1,744
EPS (Rs.)	48.3	65.1	77.8	102.0
Gr. (%)	162.2	34.7	19.6	31.1
DPS (Rs.)	-	3.5	11.7	15.3
Yield (%)	-	0.1	0.3	0.4
RoE (%)	13.4	16.3	17.2	18.8
RoCE (%)	5.1	7.1	7.0	9.2
EV/Sales (x)	1.2	0.9	0.8	0.7
EV/EBITDA (x)	61.7	43.0	41.1	27.0
PE (x)	77.9	57.8	48.4	36.9
P/BV (x)	9.8	9.1	7.7	6.3

Key Data

TLVS.BO | TEAM IN

52-W High / Low	Rs.5,550 / Rs.2,910
Sensex / Nifty	55,816 / 16,642
Market Cap	Rs.64bn / \$ 805m
Shares Outstanding	17m
3M Avg. Daily Value	Rs.78.92m

Shareholding Pattern (%)

Promoter's	31.51
Foreign	37.84
Domestic Institution	20.64
Public & Others	10.01
Promoter Pledge (Rs bn)	0.32

Stock Performance (%)

	1M	6M	12M
Absolute	20.9	(8.2)	(2.8)
Relative	15.2	(5.8)	(8.4)

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Margins disappoint, uncertain demand environment limit upside

Quick Pointers:

- Sharp decline in EBIT margin by 81bps QoQ, 61bps YoY
- Modest revenue growth of 3.4% QoQ led by lower realisation in General & Specialised Staffing and decline in NETAP headcount.

We downgrade TEAM to HOLD (earlier: Accumulate) as we believe current valuations fully price in potential earnings growth. Our EPS estimates cut by 9.7%/3.6% led by cut in EBIT margin estimate by 25 bps in FY23 and 3% cut in revenue in FY24. Slowing hiring demand in manufacturing and new gen sectors affected by funding freeze, plus delay in hiring decisions in specialized staffing signal slowdown compared to strong hiring demand seen in FY22. We note that hiring picked up towards end of Q1 and management expects growth to recover in Q2, plus sub-contracting is likely to be preferred over hiring employees on payroll amidst uncertain demand. However, we expect normalization in revenue growth in FY23 due to early signs of slowdown in demand in early part of Q1 and lower realisation.

EBIT margin declined by 81bps QoQ, 61bps YoY due to salary inflation of associates, annual salary appraisal of core employees (12% YoY vs 7-8% historically), seasonality in EdTech business, one-time costs related to IndAS 111 adjustment and relocation to another office in Bangalore. We expect margins to gradually improve in next three quarters led by revenue growth and FTE productivity improvement but expect it to be lower at 1.4% for FY23 (vs 1.6% in FY22). We continue to value TEAM on 35x multiple on FY24 EPS to arrive at target price of Rs.3573 (earlier: 3642). At CMP, the stock trades at 48x/36x multiple on FY23/24 EPS of 77.9/102.1 with EPS CAGR of 26% over FY22-24E.

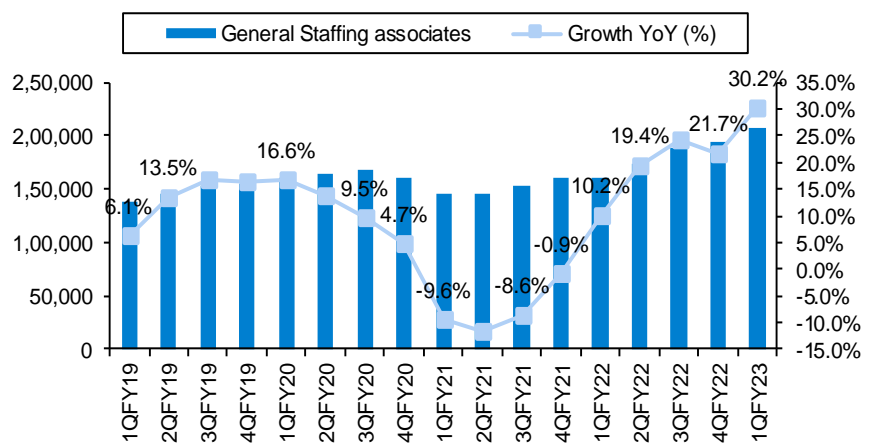
- Modest revenue of growth:** TEAM reported revenue at Rs. 18,794 mn, modest growth of 3.4% QoQ in Q1FY23. General staffing revenue growth was at 4% QoQ led by healthy addition of 13.6K (7% QoQ) in associate headcount but lower realisation due to associate salary inflation. Specialised staffing revenue was down 1.5% QoQ due to high associate salary inflation in IT sector and modest headcount addition of 330 (3.5% QoQ). HR services declined 3% QoQ due to seasonality in Ed-Tech business.
- Concall highlights:** 1) NETAP headcount down by 5.3% QoQ because one large client absorbed large portion of trainees as employees, focus on high margin and degree integrated programs and demand slowdown in 3 of the 4 verticals. 2) Management is re-organizing NETAP business to focus on 4 key verticals (Auto & Industrial, BFSI & Technology, Consumer & Retail, Ecommerce) and also on high margin Degree Apprentice business. 3) Team added 125 new logos in general staffing and 15 new logos in specialized staffing, 4) FTE productivity improved to 350 (vs 346 in Q4) and is expected to improve further due to completion of investments in core employees, 5) PF Trust transition to EPFO is expected to be completed by end of September 22.

Exhibit 1: Q1FY23: Quick view on results

Y/e March (Rs mn)	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.	PL Estimates	Variance
Revenues	18,794	18,174	3.4%	13,768	36.5%	18,847	-0.3%
EBITDA	253	410	-38.3%	295	-14.3%	414.6	-39.0%
<i>EBITDA Margins</i>	1.3%	2.7%	-133 bps	2.1%	-80 bps	2.2%	-85 bps
EBIT	163	304	-46.4%	202.5	-19.5%	306.5	-46.8%
<i>EBIT Margin</i>	0.9%	1.7%	-81 bps	1.5%	-60 bps	1.6%	-76 bps
Reported Profit	265	309	-14.1%	271	-2.0%	340	-21.9%
Adjusted Profit	265	309	-14.1%	245	8.3%	340	-21.9%
Reported EPS	16	18	-14.1%	16	-2.0%	20	-21.9%

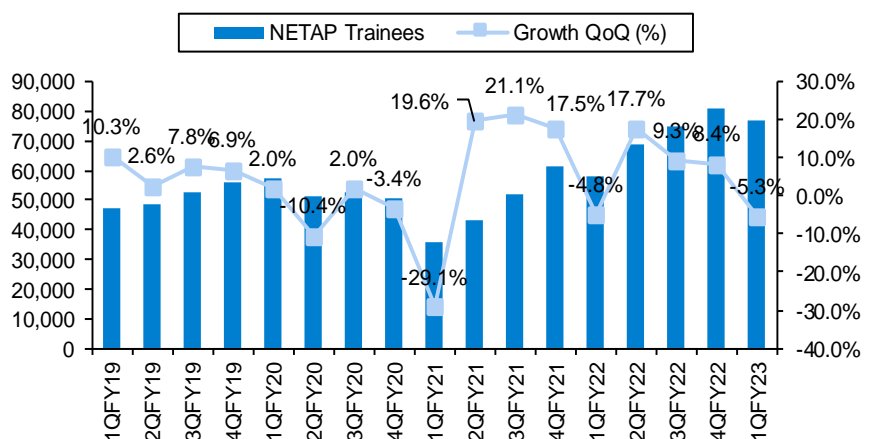
Source: Company, PL

Exhibit 2: Healthy associate headcount addition of 13.6K in 1Q23



Source: Company, PL

Exhibit 3: Dip in headcount addition in NETAP trainees



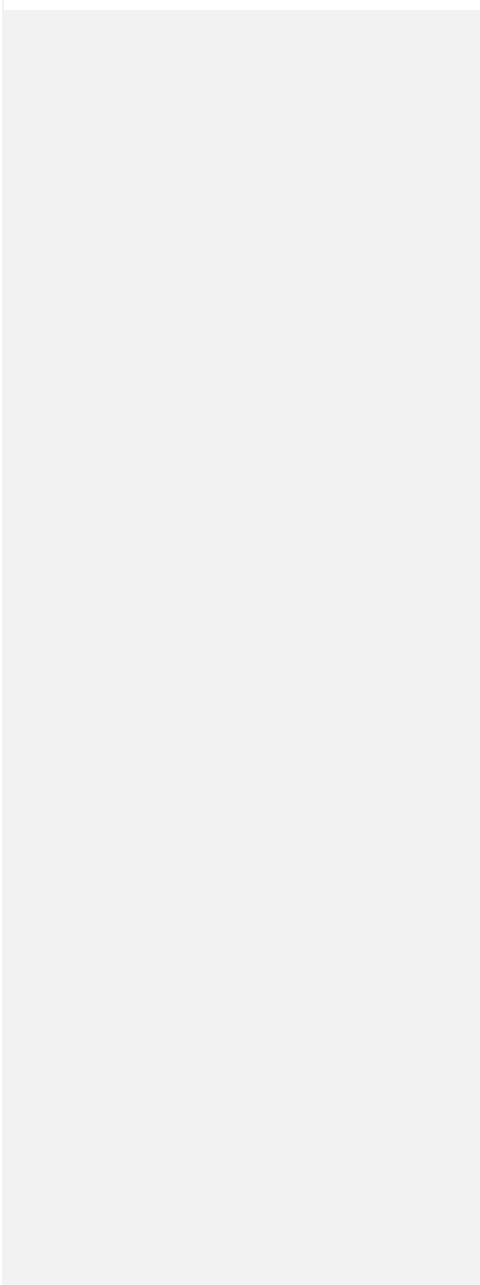
Source: Company, PL



Exhibit 4: Segment-wise performance Analysis

Particulars	1QFY23	4QFY22	YoY gr.	1QFY22	QoQ gr.
Revenue:					
General Staffing and Allied Services	17039	16389	4.0%	12398	37.4%
Specialized Staffing Services	1444	1466	-1.5%	1143	26.3%
Other HR Services	311	319	-2.7%	227	36.8%
Total Income from Operations	18794	18174	3.4%	13768	36.5%
EBITDA:					
General Staffing and Allied Services	248	282	-12.0%	238	4.0%
Specialized Staffing Services	122	126	-3.3%	104	17.0%
Other HR Services	-10	26	-136.2%	-7	36.0%
EBITDA Margin					
General Staffing and Allied Services	1.5%	1.7%	-26 bps	1.9%	-47 bps
Specialized Staffing Services	8.4%	8.6%	-97 bps	9.1%	-67 bps
Other HR Services	-3.1%	8.2%	-662 bps	-3.1%	2 bps

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	48,815	64,798	78,913	90,690
YoY gr. (%)	(6.1)	32.7	21.8	14.9
Employee Cost	46,870	61,807	75,530	86,630
Gross Profit	1,945	2,991	3,383	4,060
Margin (%)	4.0	4.6	4.3	4.5
SG&A Expenses	-	-	-	-
Other Expenses	960	1,567	1,904	1,857
EBITDA	985	1,424	1,479	2,202
YoY gr. (%)	3.6	44.5	3.9	48.9
Margin (%)	2.0	2.2	1.9	2.4
Depreciation and Amortization	337	408	366	606
EBIT	648	1,016	1,113	1,596
Margin (%)	1.3	1.6	1.4	1.8
Net Interest	69	40	43	48
Other Income	347	197	299	232
Profit Before Tax	926	1,173	1,369	1,780
Margin (%)	1.9	1.8	1.7	2.0
Total Tax	101	61	38	36
Effective tax rate (%)	10.9	5.2	2.8	2.0
Profit after tax	826	1,112	1,330	1,744
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	826	1,112	1,330	1,744
YoY gr. (%)	162.1	34.7	19.6	31.1
Margin (%)	1.7	1.7	1.7	1.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	826	1,112	1,330	1,744
YoY gr. (%)	162.1	34.7	19.6	31.1
Margin (%)	1.7	1.7	1.7	1.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	826	1,112	1,330	1,744
Equity Shares O/s (m)	17	17	17	17
EPS (Rs)	48.3	65.1	77.8	102.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	775	889	889	889
Tangibles	318	401	401	401
Intangibles	457	488	488	488
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	775	889	889	889
Tangibles	318	401	401	401
Intangibles	457	488	488	488
Capital Work In Progress	151	178	178	178
Goodwill	1,774	1,733	1,417	861
Non-Current Investments	1,007	1,142	1,142	1,142
Net Deferred tax assets	50	26	26	26
Other Non-Current Assets	1,006	1,551	1,551	1,551
Current Assets				
Investments	609	503	503	503
Inventories	-	-	-	-
Trade receivables	2,777	3,697	4,756	5,466
Cash & Bank Balance	2,887	2,930	3,317	4,707
Other Current Assets	197	366	366	366
Total Assets	13,108	15,404	16,535	18,079
Equity				
Equity Share Capital	171	171	171	171
Other Equity	6,389	6,887	8,218	9,962
Total Network	6,560	7,058	8,389	10,133
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	1,027	1,383	1,383	1,383
Other non current liabilities	42	42	42	42
Current Liabilities				
ST Debt / Current of LT Debt	0	277	277	277
Trade payables	288	419	419	419
Other current liabilities	5,190	6,225	6,025	5,825
Total Equity & Liabilities	13,108	15,404	16,535	18,079

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	885	456	1,369	1,780
Add. Depreciation	337	408	366	606
Add. Interest	69	40	43	48
Less Financial Other Income	347	197	299	232
Add. Other	(162)	-	-	-
Op. profit before WC changes	1,130	903	1,777	2,434
Net Changes-WC	525	(1,296)	(1,155)	(978)
Direct tax	1,378	(61)	(38)	(36)
Net cash from Op. activities	3,033	(454)	584	1,420
Capital expenditures	(33)	(30)	(30)	(30)
Interest / Dividend Income	-	-	-	-
Others	(90)	-	-	-
Net Cash from Invt. activities	(123)	(30)	(30)	(30)
Issue of share cap. / premium	0	-	-	-
Debt changes	(378)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(66)	(40)	(43)	(48)
Others	-	-	-	-
Net cash from Fin. activities	(444)	(40)	(43)	(48)
Net change in cash	2,467	(524)	511	1,342
Free Cash Flow	2,996	(484)	554	1,390

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	48.3	65.1	77.8	102.0
CEPS	68.0	88.9	99.2	137.5
BVPS	383.9	412.8	490.7	592.7
FCF	175.3	(28.3)	32.4	81.3
DPS	-	3.5	11.7	15.3
Return Ratio(%)				
RoCE	5.1	7.1	7.0	9.2
ROIC	6.0	8.0	8.5	12.2
RoE	13.4	16.3	17.2	18.8
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.4)	(0.4)	(0.5)
Debtor (Days)	21	21	22	22
Valuation(x)				
PER	77.9	57.8	48.4	36.9
P/B	9.8	9.1	7.7	6.3
P/CEPS	68.0	88.9	99.2	137.5
EV/EBITDA	61.7	43.0	41.1	27.0
EV/Sales	1.2	0.9	0.8	0.7
Dividend Yield (%)	-	0.1	0.3	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	15,236	17,621	18,174	18,794
YoY gr. (%)	34.9	38.2	35.6	36.5
Raw Material Expenses	14,584	16,812	17,278	18,058
Gross Profit	651	809	896	736
Margin (%)	4.3	4.6	4.9	3.9
EBITDA	342	377	410	253
YoY gr. (%)	48.5	51.9	57.1	(14.3)
Margin (%)	2.2	2.1	2.3	1.3
Depreciation / Depletion	111	98	106	90
EBIT	230	279	304	163
Margin (%)	1.5	1.6	1.7	0.9
Net Interest	14	10	8	7
Other Income	54	51	47	123
Profit before Tax	270	319	343	279
Margin (%)	1.8	1.8	1.9	1.5
Total Tax	14	17	33	14
Effective tax rate (%)	5.1	5.3	9.8	4.9
Profit after Tax	257	302	310	265
Minority interest	-	-	-	-
Share Profit from Associates	(1)	(3)	(8)	-
Adjusted PAT	255	300	302	265
YoY gr. (%)	18.1	29.6	58.7	8.3
Margin (%)	1.7	1.7	1.7	1.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	255	300	302	265
YoY gr. (%)	18.1	29.6	58.7	8.3
Margin (%)	1.7	1.7	1.7	1.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	255	300	302	265
Avg. Shares O/s (m)	17	17	17	17
EPS (Rs)	14.9	17.5	17.7	15.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	Accumulate	3,642	3,300
2	05-Apr-22	Accumulate	4,647	4,034
3	26-Jan-22	Accumulate	4,429	3,800
4	04-Jan-22	Reduce	4,366	4,187
5	15-Nov-21	Reduce	4,259	4,668
6	05-Oct-21	BUY	4,892	4,645
7	06-Aug-21	BUY	4,716	3,954
8	29-Jul-21	BUY	4,716	3,731

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,342	1,009
2	Coforge	BUY	4,031	3,726
3	Cyient	Hold	776	799
4	HCL Technologies	Hold	982	928
5	Infosys	Accumulate	1,630	1,506
6	L&T Technology Services	Hold	3,184	3,093
7	Larsen & Toubro Infotech	Accumulate	4,280	3,874
8	Mindtree	Accumulate	3,131	2,901
9	Mphasis	Hold	2,382	2,276
10	Persistent Systems	Hold	3,500	3,633
11	Redington (India)	BUY	162	127
12	Sonata Software	Hold	704	750
13	Tata Consultancy Services	Accumulate	3,607	3,265
14	TeamLease Services	Accumulate	3,642	3,300
15	Tech Mahindra	Hold	1,042	1,017
16	Wipro	Hold	418	412
17	Zensar Technologies	Hold	279	270

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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