

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR2,322 TP: INR 2,430 (+5%) Neutral

Near-term challenges to impact FY24 growth adversely

Expect gradual margin recovery; reiterate Neutral

- TEAM's revenue rose 0.9% QoQ in 4QFY23 (in line). Revenue growth was affected by a decline of 0.6% QoQ in specialized staffing and the impact of discontinuation of NEEM, which resulted in the release of additional ~9k trainees. General staffing revenue was up 1% QoQ/13% YoY. EBITDA margin (at 1.7%) was in line with our estimate.
- TEAM continued to face macro headwinds. Specialized staffing for the company was further affected by a reduction in headcount for IT Services. The management guided for flattish revenue growth in specialized staffing for FY24. Discontinuation of the NEEM program (part of NETAP) was a further drag on 4QFY23 revenue. The remaining trainees in the NEEM program will be released by 2QFY24, which will remain a drag for TEAM in 1HFY24. Overall, we expect ~14%/21% growth in FY24/FY25, leading to a revenue CAGR of ~17% over FY23-25.
- On the other hand, we see a gradual margin recovery, supporting earnings growth over FY23-25. TEAM has started to rationalize its core headcount and is also trying to cross-sell and up-sell to improve its PAPM. The management also suggested that margins for specialized staffing have bottomed out unless there is further impact on demand. We expect a gradual margin recovery over FY23-25 and estimate FY24/FY25 margin at 1.7%/2.1%. This should translate to earnings growth of ~33% over FY23-25, which we feel is already factored into the stock price.
- While we remain positive on the medium- to long-term opportunities, owing to gains from the formalization of the labor market, there are near-term uncertainties on growth in specialized staffing and DA. We feel TEAM is fairly valued; hence, we reiterate our **Neutral** rating on the stock.
- We largely maintain our FY24/FY25 EPS on in-line results. Our TP of INR2,430 implies 21x FY25E EPS.

In-line performance in 4QFY23

- Revenue growth for TEAM at 1% QoQ/12% YoY was in line with our expectations. Growth was adversely impacted by Specialized staffing (down 0.6%QoQ/down 4.5% YoY), owing to headwinds in the IT Industry. HR Services revenue jumped 16% QoQ. General staffing revenue growth was weak at 1% QoQ/13% YoY.
- General staffing associate addition (net) was good at 8k. Specialized staffing headcount was down by 4.6k. Degree Apprenticeship – Headcount dropped by 9k on account of discontinuation of the NEEM program.
- EBITDA margin (1.66% in 4Q) was in line with our expectations. General Staffing recorded a margin of 1.55% and Specialized staffing reported a margin of 6.54%. HR staffing reported a strong margin of 11.77% v/s 2.38% in 3Q, on robust revenue growth.
- Adj. PAT at INR244m was down 14% YoY (est. down 15% YoY). An Exceptional Item of INR23m was recorded, which included impairment of loan, recovery from PF trust, and buy back expenses.

Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	39.7 / 0.5
52-Week Range (INR)	3816 / 2012
1, 6, 12 Rel. Per (%)	4/-9/-45
12M Avg Val (INR M)	91

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	78.7	89.9	108.5
EBIT Margin (%)	1.0	1.3	1.7
Adj. PAT	1.1	1.3	2.0
EPS (INR)	65.1	77.2	115.6
EPS Gr. (%)	189.8	18.6	49.7
BV/Sh. (INR)	479.9	558.5	676.3

Ratios

RoE (%)	14.9	15.1	19.1
RoCE (%)	12.5	12.6	16.2
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	35.7	30.1	20.1
P/BV (x)	4.8	4.2	3.4
EV/EBITDA (x)	33.0	25.3	16.8
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	31.5	31.5	31.5
DII	24.8	23.8	21.2
FII	36.5	37.3	37.5
Others	7.1	7.4	9.8

FII Includes depository receipts

Mukul Garg – Research analyst (Mukul.Garg@MotilalOswal.com)

Research analyst: Raj Prakash Bhanushali (raj.bhanushali@motilaloswal.com) | Pritesh Thakkar (Pritesh.Thakkar@motilaloswal.com)

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Key highlights from the management commentary

- The pipeline remains strong for general staffing and TEAM has good growth visibility in H1FY24.
- In specialized staffing, the macro environment is not conducive for the companies to resume hiring. TEAM's on-going dialogue with its customers suggests near-term impact, due to uncertain macro events.
- The headcount dropped by 9k in 4QFY23, due to the impact from the discontinuation of the NEEM program. A further drop is expected in 1HFY24 and downsizing will complete in 2QFY24.
- INR 40m impact from wage hikes is expected in 1QFY24.

Valuation and view - A key beneficiary of formalization

- Over the medium term, as the Centre and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries.
- Though we are positive on longer-term growth, we are cautious on near-term headwinds in degree apprenticeship and slowdown in IT hiring.
- We largely maintain our FY24/FY25 EPS on in-line results. Our TP of INR2,430 implies 21x FY25E EPS.

Consolidated quarterly performance

(INR m)

	FY22				FY23				FY22	FY23	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%/bp)
Revenue	13,768	15,236	17,621	18,174	18,794	19,551	20,083	20,273	64,798	78,700	20,264	0%
Change (YoY %)	21	35	38	36	37	28	14	12	33	21	12	
Total Expenditure	13,473	14,894	17,244	17,764	18,541	19,234	19,767	19,936	63,375	77,477	19,940	0%
Reported EBITDA	295	342	377	410	253	317	316	337	1,424	1,223	324	4%
Margin (%)	2.1	2.2	2.1	2.3	1.3	1.6	1.6	1.7	2.2	1.6	1.6	6bp
Reported EBIT	203	230	279	304	163	216	203	209	1,016	791	234	-11%
Margin (%)	1.5%	1.5%	1.6%	1.7%	0.9%	1.1%	1.0%	1.0%	1.6%	1.0%	1.2%	-12bp
Interest	8	14	10	8	7	12	17	21	40	57	10	112%
Other Income	46	54	51	47	123	118	100	99	197	439	50	98%
PBT before EO expense	240	270	319	343	279	322	286	287	1,173	1,174	274	5%
Extra-Ord. expense	-26	750	0	-6	0	0	0	23	718	23	0	
Reported PBT	266	-480	319	350	279	322	286	264	456	1,150	274	-4%
Tax	-3	14	17	33	14	5	-4	20	61	35	11	
Rate (%)	-1	-3	5	10	5	2	-1	8	13	3	4	351bp
Reported PAT	269	-493	302	316	265	316	290	244	395	1,115	263	-7%
Change (YoY %)	57	-365	31	61	-1	-164	-4	-23	-50	183	-17	-617bp
Margin (%)	2.0	-3.2	1.7	1.7	1.4	1.6	1.4	1.2	0.6	1.4	1.3	-10bp
Adjusted PAT	243	257	302	310	265	316	290	267	1,112	1,139	263	1%
Change (YoY %)	42	19	31	15	9	23	-4	-14	25	2	-15	122bp
Margin (%)	1.8	1.7	1.7	1.7	1.4	1.6	1.4	1.3	1.7	1.4	1.3	2bp

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Headcount										
General Staffing associates	1,60,014	1,74,075	1,89,560	1,94,650	2,08,260	2,12,969	2,15,000	2,23,500	1,94,650	2,23,500
Apprentices	58,142	68,448	74,800	81,110	76,847	79,592	59,000	50,350	81,110	50,350
Specialized Staffing	7,817	8,713	9,140	9,470	9,800	8,883	9,100	8,600	9,470	8,600
Revenue										
General Staffing	12,397	13,637	15,960	16,389	17,039	17,834	18,384	18,536	58,383	71,794
Specialized Staffing	1,143	1,342	1,359	1,466	1,444	1,407	1,408	1,399	5,309	5,658
Other HR Services	228	257	302	319	311	309	291	337	1,105	1,248
Operating Margin										
General Staffing	1.9	1.6	1.7	1.7	1.5	1.6	1.6	1.4	1.7	1.5
Specialized Staffing	8.5	8.7	8.1	8.6	8.4	8.7	6.2	5.9	8.5	7.3
Other HR Services	(7.4)	0.5	4.1	8.2	(3.1)	1.3	(1.6)	8.2	2.1	1.4



Key highlights from the management commentary

General Staffing

- TEAM saw good growth in Financial services, telecom, and FMCG. It expects growth to continue in those areas.
- With all the investments and capacity expansions in manufacturing space, it expects good growth there.
- The funding freeze is expected to have an impact on the start-up space, leading to subdued demand in both startups and the e-commerce sector.
- The pipeline remains strong and TEAM has good growth visibility in 1HFY24.
- Digitalization efforts continue to bring efficiencies. FTE saw good improvement of 11% in 4QFY23.
- TEAM added 39 new logos in 4QFY23.

Specialized Staffing

- On a full-year basis, the hiring in IT Services was down 60%.
- Tech in non-tech is picking up well. TEAM captured a decent market share in that area.
- The macro environment is not conducive for the companies to resume hiring.
- TEAM's on-going dialogue with its customers suggests near-term impact due to uncertain macro conditions.
- It added a total of 53 new logos in FY23, 23 of which were large clients with the potential of multi-year contracts.
- It does not see much pressure on margins at gross realization levels.
- Amid the headwinds, TEAM aims to maintain its current revenue numbers in FY24. It has completed the cost optimization initiatives and if the demand does not weaken further, it expects improved margins going forward.

NETAP

- The headcount dropped by 9k in 4QFY23, due to the impact from the discontinuation of the NEEM program. A further drop is expected in 1HFY23 and downsizing will complete in 2QFY24.
- TEAM plans to ramp up in other programs but that will take time to scale up and will kick off only from 2QFY24.

- The discontinuation of the NEEM program had ~20bp impact on margins in 4QFY23.

Margin and outlook

- The larger clients are growing faster (42% volume contribution in 4QFY23 v/s 38% in 3QFY23). As larger clients negotiate lower PAPM, the same dropped by INR 15 in 4QFY23. The clients remain cautious on margins, resulting in limited opportunities to improve pricing. TEAM plans to cross-sell and up-sell to improve PAPM.
- PAPM for medium/small clients is 1.5x/2x of large clients.
- 80% of the clients are on fixed PAPM model and the rest of the clients are on a flexible PAPM model.
- INR 40m impact from wage hikes is expected in 1QFY24.

Valuation and view - A key beneficiary of formalization

- Over the medium term, as the Centre and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries.
- Though we are positive on longer-term growth, we are cautious on near-term headwinds in degree apprenticeship and slowdown in IT hiring.
- We largely maintain our FY24/FY25 EPS on in-line results. Our TP of INR2,430 implies 21x FY25E EPS.

Exhibit 1: Revisions to our estimates

	Revised estimates		Earlier estimates		Change (%/bp)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue (INR m)	89,926	1,08,460	91,187	1,10,879	-1.4%	-2.2%
Revenue growth (%)	14.3%	20.6%	15.9%	21.6%	-160bps	-100bps
EBITDA (INR m)	1,560	2,257	1,528	2,307	2.1%	-2.2%
EBITDA margin (%)	1.7%	2.1%	1.7%	2.1%	10bps	0bps
EBIT (INR m)	1,160	1,857	1,128	1,867	2.9%	-0.5%
EBIT margin (%)	1.3%	1.7%	1.2%	1.7%	10bps	0bps
EPS (INR)	77.2	115.6	76.6	118.0	0.9%	-2.0%

Source: MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	36,241	44,476	52,007	48,815	64,798	78,700	89,926	1,08,460
Change (%)	19.1	22.7	16.9	-6.1	32.7	21.5	14.3	20.6
Employee Benefit Expense	34,712	41,971	49,365	46,870	61,807	75,698	86,462	1,03,915
Other Expense	841	1,560	1,691	960	1,567	1,779	1,904	2,288
Total Expenditure	35,553	43,531	51,056	47,830	63,375	77,477	88,366	1,06,203
As a percentage of Sales	98.1	97.9	98.2	98.0	97.8	98.4	98.3	97.9
EBITDA	688	945	951	985	1,424	1,223	1,560	2,257
Margin (%)	1.9	2.1	1.8	2.0	2.2	1.6	1.7	2.1
Depreciation	92	105	286	337	408	432	400	400
EBIT	596	839	665	648	1,016	791	1,160	1,857
Int. and Finance Charges	25	52	123	69	40	57	40	40
Other Income	154	177	288	336	197	439	280	280
PBT bef. EO Exp.	725	964	830	915	1,173	1,174	1,400	2,097
EO Items	0	0	0	-30	-750	-23	0	0
PBT	725	964	830	885	423	1,150	1,400	2,097
Total Tax	-9	-16	480	101	61	35	56	84
Tax Rate (%)	-1.3	-1.7	57.8	11.4	14.4	3.0	4.0	4.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	735	980	350	785	362	1,115	1,344	2,013
Adjusted PAT	735	980	836	887	1,112	1,139	1,344	2,013
Change (%)	10.7	33.4	-14.7	6.1	25.4	2.4	18.1	49.7
Margin (%)	2.0	2.2	1.6	1.8	1.7	1.4	1.5	1.9

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	171	171	171	171	171	171	171	171
Total Reserves	4,246	5,220	5,550	6,389	6,887	8,034	9,378	11,391
Net Worth	4,417	5,391	5,721	6,560	7,058	8,205	9,549	11,562
Total Loans	559	767	1,854	1,070	1,702	2,100	2,100	2,100
Capital Employed	4,976	6,158	7,575	7,630	8,760	10,305	11,650	13,662
Net Fixed Assets	1,378	1,578	2,360	2,499	2,512	2,432	2,259	2,033
Total Investments	593	414	253	700	533	1,939	1,939	1,939
Curr. Assets, Loans, and Adv.	6,491	8,251	9,795	9,860	12,332	13,239	14,757	16,996
Account Receivables	2,235	2,643	2,959	2,777	3,697	3,803	4,528	5,174
Cash and Bank Balance	671	504	126	2,593	1,765	1,495	2,287	3,880
Loans and Advances	3,585	5,103	6,710	4,490	6,870	7,942	7,942	7,942
Curr. Liability and Prov.	3,885	4,737	4,977	5,478	6,644	7,373	7,373	7,373
Other Current Liabilities	3,661	4,347	4,490	4,962	6,010	6,632	6,632	6,632
Provisions	224	391	487	516	634	741	741	741
Net Current Assets	2,606	3,513	4,818	4,382	5,688	5,867	7,385	9,623
Deferred Tax assets	399	653	144	50	26	68	68	68
Appl. of Funds	4,976	6,158	7,575	7,630	8,760	10,305	11,650	13,662

Financials and valuations

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	42.9	57.4	20.5	47.1	22.5	65.1	77.2	115.6
Cash EPS	48.3	63.5	65.6	71.6	88.9	91.9	102.0	141.1
BV/Share	258.3	315.3	334.6	383.7	412.8	479.9	558.5	676.3
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 ratio	54.2	40.5	113.4	49.3	103.3	35.7	30.1	20.1
Cash P/E ratio	48.0	36.6	35.4	32.4	26.1	25.3	22.8	16.5
P/BV ratio	9.0	7.4	6.9	6.1	5.6	4.8	4.2	3.4
EV/Sales ratio	1.1	0.9	0.8	0.8	0.6	0.5	0.4	0.3
EV/EBITDA ratio	57.6	42.3	43.6	38.8	27.8	33.0	25.3	16.8
FCF per share	45.0	-13.8	-3.5	171.4	-11.4	62.4	32.3	79.1
Return Ratios (%)								
RoE	17.9	20.0	15.0	14.4	16.3	14.9	15.1	19.1
RoCE	16.5	18.6	5.8	11.5	12.7	12.5	12.6	16.2
RoIC	15.9	19.1	4.5	10.0	16.1	11.5	15.6	23.4
Working Capital Ratios								
Asset Turnover (x)	7.3	7.2	6.9	6.4	7.4	7.6	7.7	7.9
Debtor (Days)	23	22	21	21	21	18	18	17
Leverage Ratio (x)								
Current Ratio	1.7	1.7	2.0	1.8	1.9	1.8	2.0	2.3
Interest Coverage Ratio	24.2	16.1	5.4	9.4	25.6	13.9	29.0	46.4
Net Debt/Equity ratio	-0.2	0.0	0.3	-0.3	-0.1	-0.2	-0.2	-0.3

Cash Flow Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	728	968	851	885	456	1,150	1,400	2,097
Depreciation	92	105	286	337	408	432	400	400
Interest and Finance Charges	-28	-49	122	-93	608	-246	-240	-240
Direct Taxes Paid	-655	-862	-855	1,378	-593	-761	-56	-84
(Inc.)/Dec. in WC	656	-285	-307	525	-939	687	-725	-646
CF from Operations	792	-124	97	3,033	-61	1,262	779	1,527
Others	0	0	0	0	0	0	0	0
CF from Operations incl. EO	792	-124	97	3,033	-61	1,262	779	1,527
(Inc.)/Dec. in FA	-23	-113	-157	-103	-134	-196	-226	-174
Free Cash Flow	769	-236	-61	2,930	-195	1,067	553	1,353
(Pur.)/Sale of Investments	-202	105	-431	-743	-807	-1,134	0	0
Others	-10	26	115	723	305	99	240	240
CF from Investments	-235	18	-473	-123	-636	-1,232	14	66
Issue of Shares	0	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	-109	-12	117	-378	-100	-177	0	0
Interest Paid	-25	-49	-118	-66	-31	125	0	0
CF from Fin. Activity	-133	-61	-1	-444	-131	-53	0	0
Inc./Dec. in Cash	424	-167	-377	2,467	-828	-22	793	1,593
Opening Balance	247	671	504	127	2,593	1,516	1,495	2,287
Closing Balance	671	504	127	2,593	1,765	1,495	2,287	3,880

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Explanation of Investment Rating	
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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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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal,

Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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