

TeamLease

Estimate change



TP change



Rating change



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Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	40.1 / 0.5
52-Week Range (INR)	3816 / 2012
1, 6, 12 Rel. Per (%)	-7/-11/-55
12M Avg Val (INR M)	92

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	78.7	93.5	111.9
EBIT Margin (%)	1.0	1.1	1.6
Adj. PAT	1.1	1.4	2.0
EPS (INR)	65.1	81.9	117.8
EPS Gr. (%)	189.8	25.7	43.9
BV/Sh. (INR)	479.9	559.3	673.6

Ratios

RoE (%)	14.9	15.3	18.5
RoCE (%)	12.5	13.1	16.1
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	36.8	29.2	20.3
P/BV (x)	5.0	4.3	3.6
EV/EBITDA (x)	34.0	27.1	18.3
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	31.6	31.5	31.5
DII	27.8	24.8	21.1
FII	32.9	36.5	37.4
Others	7.7	7.1	9.9

FII Includes depository receipts

CMP: INR2,394

TP: INR 2,950 (+23%)

BUY

Growth stays on course, margin recovery to be slow

Valuations remain attractive to play business rebound

- TEAM's revenue growth came in ahead of our estimate of 16% YoY in 1QFY24. Revenue growth was led by 18% YoY growth in general staffing. Specialized staffing reported flat growth due to weak IT services demand. It reported 1.2% EBITDA margin, missing our estimate of 1.4% on wage hike and continued pressure on PAPM (stable QoQ).
- The performance in general staffing was encouraging, as TEAM added 13k associates to its workforce and increased the core staff marginally, leading to better productivity. We expect demand to stay robust in general staffing, although it will take time to translate into 2.0%+ EBITDA margin (expected towards 2HFY25). Moreover, while the company has faced headwinds due to cancellation of NEET, a pickup in replacement scheme demand (NATS/ NAPS) should help improve growth and margins in the vertical.
- TEAM's specialized staffing business was flat QoQ but declined 3% YoY. We see increased likelihood of headcount pressure to bottom out in the next 1-2 quarters, due to a reduction in headcount for IT Services. The management has guided for continued weakness for specialized staffing in FY24. The discontinuation of the NEEM program (part of NETAP) was a further drag on 1Q revenue. The apprenticeship program is expected to pick up by 3Q, which implies growth headwind in 2Q. After good 1Q, on the back of good pipeline, general staffing should register healthy growth in 2Q and further acceleration in 3Q on festive demand. Though other HR services were negatively impacted in 1Q due to seasonality, the management suggested 30% YoY growth for other HR services in FY24. Overall, we expect ~19%/20% growth in FY24/FY25, leading to a revenue CAGR of ~19% 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 have bottomed out and should start improving going forward. We expect a gradual margin recovery over FY23-25 and estimate FY24/FY25 EBITDA margin at 1.6%/1.9%. This should translate to healthy earnings growth of ~31% over FY23-25.
- We remain positive on the medium- to long-term opportunities owing to gains from the formalization of the labor market and maintain BUY rating on the stock.
- We increase our FY24/FY25 EPS estimates by 3-7% to account for a better growth outlook. Our TP of INR2,950 implies 25x FY25E EPS.

Good revenue performance; margin lower

- Revenue growth at 7% QoQ/16% YoY was slightly ahead of our estimate of +14% YoY. Growth was led by general staffing, up 8% QoQ. Specialized staffing was flat QoQ. Other HR services declined 13% QoQ on seasonality.
- General staffing associate addition (net) was strong at 13.4k. Specialized staffing headcount was largely flat QoQ. Degree Apprenticeship – Headcount dropped by 7.8k on account of the discontinuance of the NEEM program.

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- EBITDA margin (1.2% in 1Q) was lower vs. our expectations of 1.4%. General Staffing EBITDA margin was at 1.26% (est. 1.40%) and Specialized staffing margin was at 6.69% (in line). Other HR services reported -2.49% margin (est. -1.5%) vs. 11.77% in 4QFY23 on account of seasonality.
- Adj. PAT at INR258m was down 3% YoY (est. -10% YoY) despite lower margins on account of higher other income and lower ETR.

Key highlights from the management commentary

- In general staffing, Telecom, BFSI and FMCG should see strong growth ahead. Manufacturing presents a big opportunity with the PLI scheme. The pipeline for 2QFY24 remains strong and demand for 3QFY24 should be better than 2QFY24 on account of festivals. The management believes that 25-30k headcount addition is possible in FY24.
- Specialized staffing remains muted as IT Services companies slow down hiring while focusing on improving utilization levels. The open positions are down 40-50% from the normal levels. TEAM is seeing green-shoots of demand from GCCs, and expects to mitigate the impact on IT by growth in GCCs and Tech in non-tech space.
- The management suggested that the new programs (under DA) come with lower PAPM than NEEM app and thus have a lower margin profile. The discontinuation of NEEM program will have INR40m impact over next two quarters.

Valuation and view - A key beneficiary of formalization

- Due to concerns about growth moderation and margin pressure, the stock has seen a significant de-rating in the recent past. We believe that valuations have bottomed out and already factor in near-term downsides.
- As both the central and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries in the medium term.
- Strong growth and expected margin recovery should help TEAM deliver a 31% earnings CAGR over FY23-25E, which should drive a significant re-rating in the stock. We maintain BUY rating on the stock with a TP of INR2,950, implying 25x FY25E EPS.

Consolidated quarterly performance

(INR m)

	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%/bp)
Revenue	18,794	19,551	20,083	20,273	21,716	23,128	24,059	24,631	78,700	93,535	21,331	2%
Change (YoY %)	37%	28%	14%	12%	16%	18%	20%	22%	21%	19%	14%	
Total Expenditure	18,541	19,234	19,767	19,936	21,453	22,781	23,638	24,163	77,477	92,036	21,043	2%
Reported EBITDA	253	317	316	337	263	347	421	468	1,223	1,499	288	-9%
Margin (%)	1.3%	1.6%	1.6%	1.7%	1.2%	1.5%	1.8%	1.9%	1.6%	1.6%	1.4%	-14bp
Reported EBIT	163	216	203	209	138	247	321	368	791	1,074	188	-26%
Margin (%)	0.9%	1.1%	1.0%	1.0%	0.6%	1.1%	1.3%	1.5%	1.0%	1.1%	0.9%	-24bp
Interest	7	12	17	21	21	20	20	20	57	81	10	106%
Other Income	123	118	100	99	140	90	90	90	439	410	70	101%
PBT before EO expense	279	322	286	287	258	317	391	438	1,174	1,404	248	4%
Extra-Ord. expense	0	0	0	23	0	0	0	0	23	0	0	
Reported PBT	279	322	286	264	258	317	391	438	1,150	1,404	248	4%
Tax	14	5	-4	20	1	13	16	18	35	47	10	
Rate (%)	5%	2%	-1%	8%	0%	4%	4%	4%	3%	3%	4%	-373bp
Reported PAT	265	316	290	244	258	304	375	420	1,115	1,358	238	8%
Change (YoY %)	-1%	-164%	-4%	-23%	-3%	-4%	29%	73%	183%	22%	-10%	737bp
Margin (%)	1.4%	1.6%	1.4%	1.2%	1.2%	1.3%	1.6%	1.7%	1.4%	1.5%	1.1%	7bp
Adjusted PAT	265	316	290	267	258	304	375	420	1,139	1,358	238	8%
Change (YoY %)	9%	23%	-4%	-14%	-3%	-4%	29%	57%	2%	19%	-10%	737bp
Margin (%)	1.4%	1.6%	1.4%	1.3%	1.2%	1.3%	1.6%	1.7%	1.4%	1.5%	1.1%	7bp

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Headcount										
General Staffing associates	2,08,260	2,12,969	2,15,000	2,23,500	2,36,900				2,23,500	
Apprentices	76,847	79,592	59,000	50,350	42,600				50,350	
Specialized Staffing	9,800	8,883	9,100	8,600	8,320				8,600	
Revenue										
General Staffing	17,039	17,834	18,384	18,536	20,024	21,347	22,208	22,707	71,794	86,286
Specialized Staffing	1,444	1,407	1,408	1,399	1,398	1,428	1,478	1,539	5,658	5,843
Other HR Services	311	309	291	337	294	353	373	385	1,248	1,405
Operating Margin										
General Staffing	1.5	1.6	1.6	1.4	1.2				1.5	
Specialized Staffing	8.4	8.7	6.2	5.9	6.2				7.3	
Other HR Services	(3.1)	1.3	(1.6)	8.2	(8.9)				1.4	



Key highlights from the management commentary

General Staffing

- TEAM saw good growth in 1QFY24 on account of scaling up of large accounts.
- Consumer and BFSI registered strong growth in 1QFY24.
- TEAM saw clients returning and there is increased push for compliance, which is positive for TEAM.
- Telecom, BFSI and FMCG should see strong growth ahead. Manufacturing presents a big opportunity with the PLI scheme.
- The pipeline for 2QFY24 remains strong and demand for 3QFY24 should be better than 2QFY24 on account of festivals. The management believes that 25-30k headcount addition is possible for FY24.

Specialized Staffing

- Specialized staffing remains muted as IT Services companies slow down hiring while focusing on improving utilization levels.

- The open positions are down 40-50% from the normal levels. TEAM is seeing green-shoots of demand from GCCs and expects to mitigate the impact on IT by growth in GCCs and Tech in non-tech space.
- Amid the current environment, companies remain cautious on hiring and the situation is not expected to improve in the near term.

Degree apprenticeship

- The headcount dropped by 8k in 1QFY24, due to the impact from the discontinuation of the NEEM program. There are around 10k associates under NEEM, which will be released over next two quarters.
- TEAM is seeing green-shoots of growth in other programs, which should help drive net growth at 2Q-end.

Other HR Services

- The business was impacted by seasonality in Ed-tech business. Usually 90% of the billing happens in last three quarters of the year.
- It has association with 26 universities in FY23, the management is expecting to add 10-12 universities this year.
- TEAM sees strong 30% YoY growth with 8% EBITDA margin in this business for FY24.

Margin and outlook

- 1Q margin was impacted by NEEM headcount reduction, wage hikes for core employees and seasonality in other HR services.
- Larger clients continue to grow faster, which puts pressure on PAPM. TEAM was able to maintain PAPM during the quarter, with the help of cross-selling and up-selling initiatives.
- The management is confident of maintaining the core headcount, along with strong growth in FY24, which will help expand margins.
- In specialized staffing, TEAM maintains additional capacity to meet upcoming demand. The demand revival will boost productivity and improve margins.
- The management suggested that the new programs (under DA) come with lower PAPM than NEEM app, and thus have a low margin profile. The discontinuation of NEEM program will have INR40m impact over the next two quarters.
- For general staffing, Tech and Digitalization aspects will continue to help improve margins.
- The management remains confident of improving margins going forward.

Valuation and view - A key beneficiary of formalization

- Due to concerns about growth moderation and margin pressure, the stock has seen a significant de-rating in the recent past. We believe that valuations have bottomed out and already factor in near-term downsides.
- As both the central and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries in the medium term.
- Strong growth and expected margin recovery should help TEAM deliver a 31% earnings CAGR over FY23-25E, which should drive a significant re-rating in the stock. We maintain BUY on the stock with a TP of INR2,950 (25x FY25E EPS).

Exhibit 1: Revisions to our estimates

	Revised estimates		Earlier estimates		Change (%/bp)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue (INR m)	93,535	1,11,948	92,439	1,11,503	1.2%	0.4%
Revenue growth (%)	18.8%	19.7%	17.5%	20.6%	140bps	-90bps
EBITDA (INR m)	1,499	2,156	1,548	2,242	-3.1%	-3.8%
EBITDA margin (%)	1.60%	1.93%	1.67%	2.01%	-10bps	-10bps
EBIT (INR m)	1,074	1,756	1,148	1,842	-6.4%	-4.7%
EBIT margin (%)	1.1%	1.6%	1.2%	1.7%	-10bps	-10bps
EPS (INR)	81.9	117.8	76.5	114.8	7.0%	2.7%

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	93,535	1,11,948
Change (%)	19.1	22.7	16.9	-6.1	32.7	21.5	18.8	19.7
Employee Benefit Expense	34,712	41,971	49,365	46,870	61,807	75,698	90,228	1,07,636
Other Expense	841	1,560	1,691	960	1,567	1,779	1,808	2,157
Total Expenditure	35,553	43,531	51,056	47,830	63,375	77,477	92,036	1,09,793
As a percentage of Sales	98.1	97.9	98.2	98.0	97.8	98.4	98.4	98.1
EBITDA	688	945	951	985	1,424	1,223	1,499	2,156
Margin (%)	1.9	2.1	1.8	2.0	2.2	1.6	1.6	1.9
Depreciation	92	105	286	337	408	432	425	400
EBIT	596	839	665	648	1,016	791	1,074	1,756
Int. and Finance Charges	25	52	123	69	40	57	81	80
Other Income	154	177	288	336	197	439	410	360
PBT bef. EO Exp.	725	964	830	915	1,173	1,174	1,404	2,036
EO Items	0	0	0	-30	-750	-23	0	0
PBT	725	964	830	885	423	1,150	1,404	2,036
Total Tax	-9	-16	480	101	61	35	47	81
Tax Rate (%)	-1.3	-1.7	57.8	11.4	14.4	3.0	3.3	4.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	735	980	350	785	362	1,115	1,358	1,954
Adjusted PAT	735	980	836	887	1,112	1,139	1,358	1,954
Change (%)	10.7	33.4	-14.7	6.1	25.4	2.4	19.2	43.9
Margin (%)	2.0	2.2	1.6	1.8	1.7	1.4	1.5	1.7

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	9,392	11,346
Net Worth	4,417	5,391	5,721	6,560	7,058	8,205	9,563	11,517
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	11,663	13,617
Net Fixed Assets	1,378	1,578	2,360	2,499	2,512	2,432	2,234	2,008
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	14,796	16,976
Account Receivables	2,235	2,643	2,959	2,777	3,697	3,803	4,528	5,381
Cash and Bank Balance	671	504	126	2,593	1,765	1,495	2,325	3,652
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	7,423	9,603
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	11,663	13,617

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	81.9	117.8
Cash EPS	48.3	63.5	65.6	71.6	88.9	91.9	104.3	137.7
BV/Share	258.3	315.3	334.6	383.7	412.8	479.9	559.3	673.6
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	55.8	41.7	116.9	50.8	106.5	36.8	29.2	20.3
Cash P/E ratio	49.5	37.7	36.5	33.4	26.9	26.1	23.0	17.4
P/BV ratio	9.3	7.6	7.2	6.2	5.8	5.0	4.3	3.6
EV/Sales ratio	1.1	0.9	0.8	0.8	0.6	0.5	0.4	0.4
EV/EBITDA ratio	59.3	43.6	44.9	40.0	28.7	34.0	27.1	18.3
FCF per share	45.0	-13.8	-3.5	171.4	-11.4	62.4	29.3	61.2
Return Ratios (%)								
RoE	17.9	20.0	15.0	14.4	16.3	14.9	15.3	18.5
RoCE	16.5	18.6	5.8	11.5	12.7	12.5	13.1	16.1
RoIC	15.9	19.1	4.5	10.0	16.1	11.5	14.6	21.9
Working Capital Ratios								
Asset Turnover (x)	7.3	7.2	6.9	6.4	7.4	7.6	8.0	8.2
Debtor (Days)	23	22	21	21	21	18	18	18
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	13.3	21.9
Net Debt/Equity ratio	-0.2	0.0	0.3	-0.3	-0.1	-0.2	-0.2	-0.3

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	728	968	851	885	456	1,150	1,404	2,036
Depreciation	92	105	286	337	408	432	425	400
Interest and Finance Charges	-28	-49	122	-93	608	-246	-330	-280
Direct Taxes Paid	-655	-862	-855	1,378	-593	-761	-47	-81
(Inc.)/Dec. in WC	656	-285	-307	525	-939	687	-725	-854
CF from Operations	792	-124	97	3,033	-61	1,262	728	1,221
Others	0	0	0	0	0	0	0	0
CF from Operations incl. EO	792	-124	97	3,033	-61	1,262	728	1,221
(Inc.)/Dec. in FA	-23	-113	-157	-103	-134	-196	-226	-174
Free Cash Flow	769	-236	-61	2,930	-195	1,067	501	1,047
(Pur.)/Sale of Investments	-202	105	-431	-743	-807	-1,134	0	0
Others	-10	26	115	723	305	99	330	280
CF from Investments	-235	18	-473	-123	-636	-1,232	103	106
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	831	1,327
Opening Balance	247	671	504	127	2,593	1,516	1,495	2,325
Closing Balance	671	504	127	2,593	1,765	1,495	2,325	3,652

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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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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