

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR2,500 TP: INR 3,150 (+26%) BUY

In line performance; growth to remain strong

Valuations remain attractive; reiterate BUY

- TEAM's 2QFY24 revenue growth of 16% was in line with our estimate. Revenue growth was led by 17% YoY growth in general staffing. Specialized staffing continued to be affected due to weak IT services demand. It reported 1.4% EBITDA margin (in line). PAPM started to see initial signs of improvement.
- The performance in general staffing was encouraging, as TEAM added 14.2k associates to its workforce and increased the core staff marginally, leading to better productivity. We expect demand to stay robust in general staffing. Moreover, while the company faced headwinds due to cancellation of NEEM, a pickup in NPAS and WILP helped TEAM to largely mitigate the headcount lost in NEEM. Though realizations for NPAS and WILP (INR 550 PAPM) are lower than NEEM (INR 1,100), incremental headcount in DA should aid to 2HFY24 growth.
- TEAM's specialized staffing business grew 3.3% QoQ and 2.6% YoY. We see increased likelihood of headcount pressure to bottom out in the near term, due to a reduction in headcount for IT Services. The management has guided for continued weakness for specialized staffing in FY24. After a good 1H, on the back of good pipeline and festive demand, general staffing should register healthy growth in 2HFY24. Other HR services grew 27% sequentially, on the back of seasonality. Overall, we expect 18.5%/19.8% 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. We expect a gradual margin recovery over FY23-25 and estimate FY24/FY25 EBITDA margin at 1.5%/1.8%. This should translate to healthy earnings growth of ~29% over FY23-25.
- We remain positive on the medium- to long-term opportunities, owing to gains from the formalization of the labor market and reiterate our BUY rating on the stock.
- We largely maintain our FY24/FY25 EPS estimates on in-line performance. Our TP of INR 3,150 implies 28x FY25E EPS.

In-line 2QFY24 performance

- Revenue growth for TEAM at 4.7% QoQ/16.2% YoY was in line with our estimates. Growth was led by Staffing services, up 4.4% QoQ. Specialized staffing was up 3.3% QoQ. Other HR services grew 26.5% QoQ on seasonality.
- General staffing associate addition (net) was strong at 14.2k. Specialized staffing headcount was largely flat QoQ. Degree Apprenticeship – Headcount dropped by 500 as the impact of discontinuation of NEEM was largely offset by NPAS and WILP. Productivity improved to 361 in 2QFY24 from 355 in 1QFY24.

Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	41.9 / 0.5
52-Week Range (INR)	2961 / 2007
1, 6, 12 Rel. Per (%)	-4/15/-19
12M Avg Val (INR M)	92

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	78.7	93.3	111.8
EBIT Margin (%)	1.0	1.0	1.4
Adj. PAT	1.1	1.3	1.9
EPS (INR)	65.1	77.7	112.4
EPS Gr. (%)	189.8	19.3	44.8
BV/Sh. (INR)	479.9	556.7	668.4
Ratios			
RoE (%)	14.9	14.8	18.2
RoCE (%)	12.5	12.7	15.8
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	38.5	32.3	22.3
P/BV (x)	5.2	4.5	3.8
EV/EBITDA (x)	35.6	30.2	20.4
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	31.6	31.6	31.5
DII	30.4	27.8	21.2
FII	30.5	32.9	37.2
Others	7.5	7.7	10.1

FII Includes depository receipts

- EBITDA margin (1.4% in 2Q) was in line with our expectations. General Staffing EBITDA margin was at 1.27% (in line) and Specialized staffing margin was at 6.6% (est. 7%). Other HR services reported 9.85% margin (est. 6.5%).
- Adj. PAT at INR276m was down 13% YoY and in line with our estimates.

Key highlights from the management commentary

- In general staffing, TEAM saw good growth in 2QFY24, driven by the expansion of large accounts. Consumer and BFSI registered strong growth in 2QFY24. The Telecom, BFSI, and FMCG sectors are poised for strong growth ahead. Additionally, the manufacturing sector presents a substantial opportunity, particularly with the PLI scheme. TEAM has observed initial positive signs from its up-selling initiatives, with the PAPM increasing by 2%. The PAPM for the staffing business amounted to INR 684.
- Specialized staffing continues to face challenges as IT Services companies reduce hiring and concentrate on improving utilization levels. Demand has decreased significantly, down by 60% from the usual levels. However, TEAM is witnessing signs of improvement in demand from GCCs. TEAM sees good opportunity in GCCs, especially since large GCCs are still in the process of expansion.
- Discontinuation of the NEEM program was largely offset by pickup in NPAS and WILP. There are around 9k associates under NEEM, which will be released by 4QFY24. The realization for NPAS and WILP (~INR 550 PAPM) is lower than NEEM (INR 1,100).

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 29% earnings CAGR over FY23-25E, which should drive a significant re-rating in the stock. We reiterate our BUY rating on the stock with a TP of INR3,150, implying 28x FY25E EPS.

Consolidated quarterly performance

(INR m)

	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%/bp)
Revenue	18,794	19,551	20,083	20,273	21,716	22,726	24,019	24,834	78,700	93,295	22,679	0%
Change (YoY %)	37%	28%	14%	12%	16%	16%	20%	23%	21%	19%	16%	
Total Expenditure	18,541	19,234	19,767	19,936	21,453	22,409	23,635	24,387	77,477	91,883	22,361	0%
Reported EBITDA	253	317	316	337	263	318	384	447	1,223	1,412	318	0%
Margin (%)	1.3%	1.6%	1.6%	1.7%	1.2%	1.4%	1.6%	1.8%	1.6%	1.5%	1.4%	0bp
Reported EBIT	163	216	203	209	138	188	274	337	791	938	218	-13%
Margin (%)	0.9%	1.1%	1.0%	1.0%	0.6%	0.8%	1.1%	1.4%	1.0%	1.0%	1.0%	-13bp
Interest	7	12	17	21	21	25	20	20	57	85	20	24%
Other Income	123	118	100	99	140	130	120	120	439	510	90	44%
PBT before EO expense	279	322	286	287	258	294	374	437	1,174	1,363	288	2%
Extra-Ord. expense	0	0	0	23	0	0	0	0	23	0	0	
Reported PBT	279	322	286	264	258	294	374	437	1,150	1,363	288	2%
Tax	14	5	-4	20	1	18	15	17	35	51	12	
Rate (%)	5%	2%	-1%	8%	0%	6%	4%	4%	3%	4%	4%	196bp
Reported PAT	265	316	290	244	258	276	359	420	1,115	1,313	276	0%
Change (YoY %)	-1%	-164%	-4%	-23%	-3%	-13%	24%	72%	183%	18%	-13%	3bp
Margin (%)	1.4%	1.6%	1.4%	1.2%	1.2%	1.2%	1.5%	1.7%	1.4%	1.4%	1.2%	0bp
Adjusted PAT	265	316	290	267	258	276	359	420	1,139	1,313	276	0%
Change (YoY %)	9%	23%	-4%	-14%	-3%	-13%	24%	57%	2%	15%	-13%	3bp
Margin (%)	1.4%	1.6%	1.4%	1.3%	1.2%	1.2%	1.5%	1.7%	1.4%	1.4%	1.2%	0bp

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Headcount										
General Staffing associates	2,08,260	2,12,969	2,15,000	2,23,500	2,36,900	2,51,150			2,23,500	
Apprentices	76,847	79,592	59,000	50,350	42,600	42,100			50,350	
Specialized Staffing	9,800	8,883	9,100	8,600	8,320	8,375			8,600	
Revenue										
General Staffing	17,039	17,834	18,384	18,536	20,024	20,910	22,208	22,985	71,794	86,128
Specialized Staffing	1,444	1,407	1,408	1,399	1,398	1,443	1,433	1,455	5,658	5,729
Other HR Services	311	309	291	337	294	373	377	394	1,248	1,438
Operating Margin										
General Staffing	1.5	1.6	1.6	1.4	1.2	1.2			1.5	
Specialized Staffing	8.4	8.7	6.2	5.9	6.2	6.2			7.3	
Other HR Services	(3.1)	1.3	(1.6)	8.2	(8.9)	3.8			1.4	



Key highlights from the management commentary

General Staffing

- TEAM saw good growth in 2QFY24, driven by the expansion of large accounts.
- The consumer and BFSI segments registered strong growth in 2QFY24.
- The Headcount addition was strong at 14.2k (the highest in the last seven quarters) and added 33 new logos during the quarter.
- The hiring for Tier2 and Tier 3 cities increased 20% YoY.
- TEAM saw clients returning and there is increased push for compliance, which is positive for TEAM.
- The Telecom, BFSI, and FMCG sectors are poised for strong growth ahead. Additionally, the manufacturing sector presents a substantial opportunity, particularly with the PLI scheme.
- The pipeline for 3QFY24 remains strong and management remains confident of maintaining healthy growth ahead.
- TEAM is seeing some initial positive signs from up-selling initiatives with PAPM up 2%. The PAPM for staffing business was at INR 684.

Specialized Staffing

- Specialized staffing continues to face challenges as IT Services companies reduce hiring and concentrate on improving utilization levels.
- Demand has decreased significantly, down by 60% from the usual levels. However, TEAM is witnessing signs of improvement in demand from GCCs.
- TEAM sees good opportunity in GCCs, especially since large GCCs are still in the process of expansion.
- It added 10 new logos during the quarter out of which 6 were large GCCs
- Amid the current environment, companies remain cautious on hiring and the situation is not expected to improve for the rest of the year.

Degree apprenticeship

- The headcount dropped marginally in 2QFY24 as the impact from the discontinuation of the NEEM program was largely offset by pickup in NPAS and WILP. There are around 9k associates under NEEM, which will be released by 4QFY24.
- The realization for NPAS and WILP (~INR 550 PAPM) is lower than NEEM (INR 1,100).
- Expect positive headcount growth for the coming quarters as it has a healthy number of open mandates for NPAS and WILP.

Margin

- In specialized staffing, the company continues to focus on optimizing costs and improving productivity.
- The management remains confident of improving absolute EBITDA by 5-6% sequentially 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 the 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 29% earnings CAGR over FY23-25E, which should drive a significant re-rating in the stock. We reiterate our BUY rating on the stock with a TP of INR3,150, implying 28x FY25E EPS.

Exhibit 1: Revisions to our estimates

	Revised estimates		Earlier estimates		Change (%/bp)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue (INR m)	93,295	1,11,790	93,085	1,11,410	0.2%	0.3%
Revenue growth (%)	18.5%	19.8%	18.3%	19.7%	30bps	10bps
EBITDA (INR m)	1,412	2,029	1,433	2,021	-1.5%	0.4%
EBITDA margin (%)	1.51%	1.81%	1.54%	1.81%	-3bps	0bps
EBIT (INR m)	938	1,589	1,008	1,621	-7.0%	-2.0%
EBIT margin (%)	1.0%	1.4%	1.1%	1.5%	-10bps	0bps
EPS (INR)	77.7	112.4	78.0	110.0	-0.5%	2.2%

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	93,295	1,11,790
Change (%)	19.1	22.7	16.9	-6.1	32.7	21.5	18.5	19.8
Employee Benefit Expense	34,712	41,971	49,365	46,870	61,807	75,698	90,016	1,07,508
Other Expense	841	1,560	1,691	960	1,567	1,779	1,867	2,253
Total Expenditure	35,553	43,531	51,056	47,830	63,375	77,477	91,883	1,09,761
As a percentage of Sales	98.1	97.9	98.2	98.0	97.8	98.4	98.5	98.2
EBITDA	688	945	951	985	1,424	1,223	1,412	2,029
Margin (%)	1.9	2.1	1.8	2.0	2.2	1.6	1.5	1.8
Depreciation	92	105	286	337	408	432	474	440
EBIT	596	839	665	648	1,016	791	938	1,589
Int. and Finance Charges	25	52	123	69	40	57	85	80
Other Income	154	177	288	336	197	439	510	480
PBT bef. EO Exp.	725	964	830	915	1,173	1,174	1,363	1,989
EO Items	0	0	0	-30	-750	-23	0	0
PBT	725	964	830	885	423	1,150	1,363	1,989
Total Tax	-9	-16	480	101	61	35	51	80
Tax Rate (%)	-1.3	-1.7	57.8	11.4	14.4	3.0	3.7	4.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	735	980	350	785	362	1,115	1,313	1,909
Adjusted PAT	735	980	836	887	1,112	1,139	1,313	1,909
Change (%)	10.7	33.4	-14.7	6.1	25.4	2.4	15.3	45.5
Margin (%)	2.0	2.2	1.6	1.8	1.7	1.4	1.4	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	9,346	11,256
Net Worth	4,417	5,391	5,721	6,560	7,058	8,205	9,517	11,427
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	11,618	13,527
Net Fixed Assets	1,378	1,578	2,360	2,499	2,512	2,432	2,185	1,919
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	14,799	16,975
Account Receivables	2,235	2,643	2,959	2,777	3,697	3,803	4,528	5,368
Cash and Bank Balance	671	504	126	2,593	1,765	1,495	2,329	3,665
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	7,427	9,602
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	11,618	13,527

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	77.7	112.4
Cash EPS	48.3	63.5	65.6	71.6	88.9	91.9	104.5	137.4
BV/Share	258.3	315.3	334.6	383.7	412.8	479.9	556.7	668.4
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	58.5	43.7	122.5	53.3	111.6	38.5	32.3	22.3
Cash P/E ratio	51.9	39.5	38.2	35.0	28.2	27.3	24.0	18.3
P/BV ratio	9.7	8.0	7.5	6.5	6.1	5.2	4.5	3.8
EV/Sales ratio	1.2	1.0	0.9	0.8	0.7	0.6	0.5	0.4
EV/EBITDA ratio	62.2	45.7	46.9	42.0	30.1	35.6	30.2	20.4
FCF per share	45.0	-13.8	-3.5	171.4	-11.4	62.4	24.0	54.7
Return Ratios (%)								
RoE	17.9	20.0	15.0	14.4	16.3	14.9	14.8	18.2
RoCE	16.5	18.6	5.8	11.5	12.7	12.5	12.7	15.8
RoIC	15.9	19.1	4.5	10.0	16.1	11.5	12.7	20.0
Working Capital Ratios								
Asset Turnover (x)	7.3	7.2	6.9	6.4	7.4	7.6	8.0	8.3
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	11.0	19.9
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	1,363	1,989
Depreciation	92	105	286	337	408	432	474	440
Interest and Finance Charges	-28	-49	122	-93	608	-246	-425	-400
Direct Taxes Paid	-655	-862	-855	1,378	-593	-761	-51	-80
(Inc.)/Dec. in WC	656	-285	-307	525	-939	687	-725	-840
CF from Operations	792	-124	97	3,033	-61	1,262	636	1,110
Others	0	0	0	0	0	0	0	0
CF from Operations incl. EO	792	-124	97	3,033	-61	1,262	636	1,110
(Inc.)/Dec. in FA	-23	-113	-157	-103	-134	-196	-226	-174
Free Cash Flow	769	-236	-61	2,930	-195	1,067	410	936
(Pur.)/Sale of Investments	-202	105	-431	-743	-807	-1,134	0	0
Others	-10	26	115	723	305	99	425	400
CF from Investments	-235	18	-473	-123	-636	-1,232	199	226
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	835	1,336
Opening Balance	247	671	504	127	2,593	1,516	1,495	2,329
Closing Balance	671	504	127	2,593	1,765	1,495	2,329	3,665

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NOTES

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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