

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR2,792 TP: INR 3,450 (+24%) BUY

Strong Q3 delivery; margin pickup in FY25 to drive rerating

Improved margin levers offset by one-off impact in 3Q

Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USD\$)	46.8 / 0.6
52-Week Range (INR)	3326 / 2007
1, 6, 12 Rel. Per (%)	-12/11/2
12M Avg Val (INR M)	111

Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	93.9	110.9	132.8
EBIT Margin (%)	0.9	1.3	1.7
Adj. PAT	1.2	1.7	2.5
EPS (INR)	70.0	104.1	150.9
EPS Gr. (%)	7.5	48.7	45.0
BV/Sh. (INR)	548.4	649.8	796.9
Ratios			
RoE (%)	13.3	16.9	20.3
RoCE (%)	11.6	14.7	17.9
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	39.9	26.8	18.5
P/BV (x)	5.1	4.3	3.5
EV/EBITDA (x)	35.8	25.2	16.8
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	31.6	31.6	31.5
DII	35.3	30.4	23.8
FII	26.3	30.5	37.3
Others	6.8	7.7	7.4

FII Includes depository receipts

- TEAM's 3QFY24 revenue growth of 22% YoY was ahead of our estimate. Revenue growth was led by 17% YoY growth in General Staffing (+23% YoY) and Specialized staffing (+12% YoY), while other HR services was up only 10% YoY (down 14% QoQ), due to Edtech revenue deferrals during the quarter. Specialized staffing growth was led by GCCs in 3Q. The company reported an EBITDA margin of 1.5%, ahead of our estimate of 1.4%, primarily due to higher margins in other HR services. Despite improvement in PAPM and better productivity, General Staffing margins moderated 5bp in 3Q due to the one-off impact of bonus disbursements.
- General staffing performance in 3Q exhibited a mixed trend, with better-than-expected growth, but a weaker margin profile (partially due to one-off employee bonuses impacting the revenue base). Moreover, the modest addition of 7.4k associates was attributed the company's focus on higher-margin services.
- While we continue to see robust demand in general staffing, margin improvement will be a gradual process (FY25 general staffing EBITDA margin to be up 15bp YoY). Additionally, the company should start seeing support from the recovery in DA programs, which had previously been a drag until the last quarter.
- Despite the strong growth in TEAM's specialized staffing business during this quarter, we continue to factor in meaningful improvement only by 2QFY25, given the continued weakness in IT services ecosystem. We expect the specialized staffing recovery to be a key support for profitability recovery over the next two years. We expect consolidated revenue CAGR of 19% over FY23-26E for the company.
- On the other hand, margin recovery will be more gradual than initially expected, although we still see it contributing to earnings growth over FY25-FY26E. TEAM has started to rationalize its core headcount and is also trying to cross-sell and up-sell to improve its PAPM. We are building in FY25/FY26 EBITDA margin at 1.7%/2.0%. This should translate to healthy earnings CAGR of 30% over FY23-26E.
- 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 marginally tweak our FY24-FY26 EPS estimates post 3Q results. Our TP of INR 3,450 implies 23x FY26E EPS.

Strong execution; beat on both revenues and margins

- Revenue growth for TEAM stood at 7.6% QoQ/21.8% YoY against our estimates of 17% YoY. Growth was led by General Staffing services, up 22.7% YoY. Specialized staffing was up 12.3% YoY/9.5% QoQ. Other HR services was down 14.0% QoQ due to Edtech revenue deferrals.

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- In 3Q, General staffing saw an addition of 7.4k associates, whereas specialized staffing headcount decreased 775. DA headcount witnessed an increase of 1.0k. The company expects the remaining NEEM trainees to fully attrite by 1QFY25.
- EBITDA margin stood at 1.5% in 3Q against our expectations of 1.4%. General Staffing EBITDA margin stood at 1.2% (Est. 1.3%) and Specialized staffing margin stood at 7.0% (est. 7.2%). Other HR services reported 11.7% margin (est. 6.5%).
- Adj. PAT at INR277m was down 5% YoY, against our estimate of INR287m due to higher interest cost.
- The company reported exceptional income of INR35.1m on account of PF trust reversals. Reported PAT stood at INR312m, up 7% YoY.

Key highlights from the management commentary

- The IT service sector continued to experience reduced hiring over the past several quarters, further intensified by the impact of furloughs in 3Q. This decline is partially offset by the uptick in hiring for GCCs and Product companies. Notably, 66% of the net revenue in 3Q is contributed by GCCs.
- In 3Q, hiring was primarily driven by the Manufacturing vertical, with some early signs of ramp-up observed in the BFSI sector. However, the management maintains cautious optimism for at least the next two quarters in BFSI.
- In the EdTech sector, the management expects a 30% YoY growth with an EBITDA margin ranging from 8-10%. For HR Tech, it expects a growth of 20%, and it might breakeven with marginal productivity in FY25. Overall, it expects another quarter of growth, partly aided by GCC and a healthy deal pipeline for other businesses.
- Generalized staffing EBITDA margin was adversely impacted by the transition mandates of low margin telecom staff. Additionally, the company disbursed a one-time bonus in 3Q, which had a bottom-line impact of INR10m.

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 19% earnings CAGR over FY24-26, which should drive a significant re-rating in the stock. We reiterate our BUY rating on the stock with a TP of INR3,450, implying 23x FY26E EPS.

Consolidated quarterly performance

(INR m)

	FY23				FY24				FY23	FY24E	FY24 3QE	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenue	18,794	19,551	20,083	20,273	21,716	22,726	24,454	24,976	78,700	93,872	23,517	4%
YoY Change (%)	37%	28%	14%	12%	16%	16%	22%	23%	21%	19%	17%	
Total Expenditure	18,541	19,234	19,767	19,936	21,453	22,409	24,093	24,589	77,477	92,543	23,188	4%
Reported EBITDA	253	317	316	337	263	318	361	387	1,223	1,329	329	10%
Margins (%)	1.3%	1.6%	1.6%	1.7%	1.2%	1.4%	1.5%	1.6%	1.6%	1.4%	1.4%	7bp
Reported EBIT	163	216	203	209	138	188	225	277	791	829	219	3%
Margins (%)	0.9%	1.1%	1.0%	1.0%	0.6%	0.8%	0.9%	1.1%	1.0%	0.9%	0.9%	-1bp
Interest	7	12	17	21	21	25	31	20	57	96	20	54%
Other Income	123	118	100	99	140	130	100	120	439	491	100	0%
PBT before EO expense	279	322	286	287	258	294	294	377	1,174	1,223	299	-2%
Extra-Ord expense	0	0	0	23	0	0	-35	0	23	-35	0	
Reported PBT	279	322	286	264	258	294	329	377	1,150	1,258	299	10%
Tax	14	5	-4	20	1	18	18	15	35	51	12	
Rate (%)	5%	2%	-1%	8%	0%	6%	6%	4%	3%	4%	4%	153bp
Adjusted PAT	265	316	290	244	258	276	275	362	1,115	1,171	287	-4%
YoY Change (%)	-1%	-164%	-4%	-23%	-3%	-13%	-5%	49%	183%	5%	-1%	-426bp
Margins (%)	1.4%	1.6%	1.4%	1.2%	1.2%	1.2%	1.1%	1.4%	1.4%	1.2%	1.2%	-10bp
Reported PAT	265	316	290	267	258	276	310	362	1,139	1,206	287	8%
YoY Change (%)	9%	23%	-4%	-14%	-3%	-13%	7%	36%	2%	6%	-1%	783bp
Margins (%)	1.4%	1.6%	1.4%	1.3%	1.2%	1.2%	1.3%	1.4%	1.4%	1.3%	1.2%	5bp

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Headcount										
General Staffing associates	2,08,260	2,12,969	2,15,000	2,23,500	2,36,900	2,51,150	2,58,500		2,23,500	
Apprentices	76,847	79,592	59,000	50,350	42,600	42,100	43,150		50,350	
Specialized Staffing	9,800	8,883	9,100	8,600	8,320	8,375	7,600		8,600	
Revenue										
General Staffing	17,039	17,834	18,384	18,536	20,024	20,910	22,553	23,041	71,794	86,528
Specialized Staffing	1,444	1,407	1,408	1,399	1,398	1,443	1,580	1,567	5,658	5,988
Other HR Services	311	309	291	337	294	373	320	368	1,248	1,356
Operating Margin										
General Staffing	1.5	1.6	1.6	1.4	1.2	1.2	1.2		1.7	
Specialized Staffing	8.4	8.7	6.2	5.9	6.2	6.2	6.4		8.5	
Other HR Services	(3.1)	1.3	(1.6)	8.2	(8.9)	3.8	3.8		2.1	



Key highlights from the management commentary

Demand and Growth Outlook

- The IT service sector continued to experience reduced hiring over the past several quarters, further intensified by the impact of furloughs in 3Q. This decline is partially offset by the uptick in hiring for GCCs and Product companies. Notably, 66% of the net revenue in 3Q is contributed by GCCs.
- The deceleration in net headcount addition (up 2.5% QoQ) was attributed to (1) the strategic emphasis on high-margin business, and (2) a general slowdown in hiring for IT service vendors.
- In 3Q, hiring was primarily driven by the Manufacturing vertical, with some early signs of ramp-up observed in the BFSI sector. However, the management maintains cautious optimism for at least the next two quarters in BFSI. Positive trends are also noted in the consumer and telecom sectors, indicating a potential increase in hiring in the upcoming quarters. The growth in BFSI was largely impacted at the end of the quarter.
- The management believes the two aspects that are expected to drive the future growth are (1) resumption of specialized staffing demand for IT service

providers (2) and addressing issues related to attrition and productivity for large enterprises through cross-selling and up-selling initiatives.

- Within IT services, the leakage in terms of employee attrition is quite high with muted hiring activities. However, this leakage is partially offset by continued hiring on the GCC front. The management also indicated that there is not much difference on the pricing front for GCC vs IT service providers; however, the bill rates are higher for GCC, leading to higher realization.
- The management anticipates a monthly attrition of 100k NEEM employees and foresees the majority of NEEM exits by 1QFY25. Meanwhile, the non-NEEM pipeline remains healthy. As the number of NEEM employees decreases, the company sees an improved opportunity to involve Apprenticeship and achieve higher realizations.
- In the EdTech sector, the management expects a 30% YoY growth with an EBITDA margin ranging from 8-10%. For HR Tech, it expects a growth of 20%, and it might breakeven with marginal productivity in FY25. Overall, it expects another quarter of growth, partly aided by GCC and a healthy deal pipeline for other businesses.

Margin Outlook

- The company anticipates a margin for specialized staffing within the range of 6.5%-6.7%. The margin is expected to return to the earlier band (8-9%) once demand resumes for the IT service lines. It is also evaluating margin aspects before acquiring and executing on any incremental deals.
- Generalized staffing EBITDA margin was adversely impacted by the transition mandates of low margin telecom staff. Additionally, the company disbursed a one-time bonus in 3Q, which had a bottom-line impact of INR 10m.
- Even in 4Q, the management expects a positive shift in margins, driven by operating leverage emerging from the HR Tech and EduTech segments.
- Margin improvement was partly driven by higher PAPM (but lower volume) for the mid and lower client buckets; large enterprise clients have lower PAPM, but higher volume. Similar dynamics are expected to continue and should balance the margin equation 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 19% earnings CAGR over FY24-26E, which should drive a significant re-rating in the stock. We reiterate our BUY rating on the stock with a TP of INR3,450, implying 23x FY26E EPS.

Exhibit 1: Revisions to our estimates

	Revised estimates			Earlier estimates			Change (%/bp)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (INR m)	93,872	1,10,943	1,32,790	92,083	1,08,593	1,29,961	1.9%	2.2%	2.2%
Revenue growth (%)	19.3%	18.2%	19.7%	17.0%	17.9%	19.7%	230bps	30bps	0bps
EBITDA (INR m)	1,329	1,847	2,659	1,320	1,953	2,663	0.6%	-5.5%	-0.1%
EBITDA margin (%)	1.42%	1.66%	2.00%	1.43%	1.80%	2.05%	-2bps	-13bps	-5bps
EBIT (INR m)	829	1,407	2,219	846	1,513	2,223	-2.0%	-7.1%	-0.2%
EBIT margin (%)	0.9%	1.3%	1.7%	0.9%	1.4%	1.7%	0bps	-10bps	0bps
EPS (INR)	70.0	104.1	150.9	71.3	108.2	148.3	-1.8%	-3.8%	1.8%

Source: MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	44,476	52,007	48,815	64,798	78,700	93,872	1,10,943	1,32,790
Change (%)	22.7	16.9	-6.1	32.7	21.5	19.3	18.2	19.7
Employee Benefit Expense	41,971	49,365	46,870	61,807	75,698	90,570	1,06,650	1,27,213
Other Expense	1,560	1,691	960	1,567	1,779	1,973	2,447	2,918
Total Expenditure	43,531	51,056	47,830	63,375	77,477	92,543	1,09,097	1,30,131
As a percentage of Sales	97.9	98.2	98.0	97.8	98.4	98.6	98.3	98.0
EBITDA	945	951	985	1,424	1,223	1,329	1,847	2,659
Margin (%)	2.1	1.8	2.0	2.2	1.6	1.4	1.7	2.0
Depreciation	105	286	337	408	432	500	440	440
EBIT	839	665	648	1,016	791	829	1,407	2,219
Int. and Finance Charges	52	123	69	40	57	96	80	80
Other Income	177	288	336	197	439	491	480	480
PBT bef. EO Exp.	964	830	915	1,173	1,174	1,223	1,807	2,619
EO Items	0	0	-30	-750	-23	35	0	0
PBT	964	830	885	423	1,150	1,258	1,807	2,619
Total Tax	-16	480	101	61	35	51	72	105
Tax Rate (%)	-1.7	57.8	11.4	14.4	3.0	4.1	4.0	4.0
Minority Interest	0	0	0	0	0	-1	0	0
Reported PAT	980	350	785	362	1,115	1,206	1,734	2,514
Adjusted PAT	980	836	887	1,112	1,139	1,171	1,734	2,514
Change (%)	33.4	-14.7	6.1	25.4	2.4	2.8	48.2	45.0
Margin (%)	2.2	1.6	1.8	1.7	1.4	1.2	1.6	1.9

Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	171	171	171	171	171	171	171	171
Total Reserves	5,220	5,550	6,389	6,887	8,034	9,204	10,939	13,453
Net Worth	5,391	5,721	6,560	7,058	8,205	9,375	11,110	13,624
Total Loans	767	1,854	1,070	1,702	2,100	2,100	2,100	2,100
Capital Employed	6,158	7,575	7,630	8,760	10,305	11,476	13,210	15,724
Net Fixed Assets	1,578	2,360	2,499	2,512	2,432	2,159	1,893	1,572
Total Investments	414	253	700	533	1,939	1,939	1,939	1,939
Curr. Assets, Loans, and Adv.	8,251	9,795	9,860	12,332	13,239	14,683	16,683	19,518
Account Receivables	2,643	2,959	2,777	3,697	3,803	4,528	5,401	6,383
Cash and Bank Balance	504	126	2,593	1,765	1,495	2,213	3,340	5,193
Loans and Advances	5,103	6,710	4,490	6,870	7,942	7,942	7,942	7,942
Curr. Liability and Prov.	4,737	4,977	5,478	6,644	7,373	7,373	7,373	7,373
Other Current Liabilities	4,347	4,490	4,962	6,010	6,632	6,632	6,632	6,632
Provisions	391	487	516	634	741	741	741	741
Net Current Assets	3,513	4,818	4,382	5,688	5,867	7,311	9,311	12,146
Deferred Tax assets	653	144	50	26	68	68	68	68
Appl. of Funds	6,158	7,575	7,630	8,760	10,305	11,476	13,210	15,724

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	57.4	20.5	47.1	22.5	65.1	70.0	104.1	150.9
Cash EPS	63.5	65.6	71.6	88.9	91.9	97.7	127.2	172.8
BV/Share	315.3	334.6	383.7	412.8	479.9	548.4	649.8	796.9
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 ratio	48.7	136.4	59.3	124.3	42.9	39.9	26.8	18.5
Cash P/E ratio	44.0	42.6	39.0	31.4	30.4	28.6	22.0	16.2
P/BV ratio	8.9	8.3	7.3	6.8	5.8	5.1	4.3	3.5
EV/Sales ratio	1.1	1.0	0.9	0.7	0.6	0.5	0.4	0.3
EV/EBITDA ratio	50.8	52.0	46.9	33.5	39.5	35.8	25.2	16.8
FCF per share	-13.8	-3.5	171.4	-11.4	62.4	19.0	42.5	85.0
Return Ratios (%)								
RoE	20.0	15.0	14.4	16.3	14.9	13.3	16.9	20.3
RoCE	18.6	5.8	11.5	12.7	12.5	11.6	14.7	17.9
RoIC	19.1	4.5	10.0	16.1	11.5	11.2	17.7	25.8
Working Capital Ratios								
Asset Turnover (x)	7.2	6.9	6.4	7.4	7.6	8.2	8.4	8.4
Debtor (Days)	22	21	21	21	18	18	18	18
Leverage Ratio (x)								
Current Ratio	1.7	2.0	1.8	1.9	1.8	2.0	2.3	2.6
Interest Coverage Ratio	16.1	5.4	9.4	25.6	13.9	8.6	17.6	27.7
Net Debt/Equity ratio	0.0	0.3	-0.3	-0.1	-0.2	-0.2	-0.3	-0.4

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
(INR m)								
OP/(Loss) before Tax	968	851	885	456	1,150	1,222	1,807	2,619
Depreciation	105	286	337	408	432	500	440	440
Interest and Finance Charges	-49	122	-93	608	-246	-394	-400	-400
Direct Taxes Paid	-862	-855	1,378	-593	-761	-51	-72	-105
(Inc.)/Dec. in WC	-285	-307	525	-939	687	-725	-873	-982
CF from Operations	-124	97	3,033	-61	1,262	551	901	1,572
Others	0	0	0	0	0	0	0	0
CF from Operations incl. EO	-124	97	3,033	-61	1,262	551	901	1,572
(Inc.)/Dec. in FA	-113	-157	-103	-134	-196	-226	-174	-119
Free Cash Flow	-236	-61	2,930	-195	1,067	324	727	1,453
(Pur.)/Sale of Investments	105	-431	-743	-807	-1,134	0	0	0
Others	26	115	723	305	99	394	400	400
CF from Investments	18	-473	-123	-636	-1,232	168	226	281
Issue of Shares	0	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	-12	117	-378	-100	-177	0	0	0
Interest Paid	-49	-118	-66	-31	125	0	0	0
CF from Fin. Activity	-61	-1	-444	-131	-53	0	0	0
Inc./Dec. in Cash	-167	-377	2,467	-828	-22	719	1,127	1,853
Opening Balance	671	504	127	2,593	1,516	1,495	2,213	3,340
Closing Balance	504	127	2,593	1,765	1,495	2,213	3,340	5,193

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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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