

## Seasonality in Other HR services impacts margins

**About the stock:** TeamLease Ltd (TLL) is one of the leading providers of human resource services in the organised segment with ~6% share in flexi staffing.

- Employment services include temporary staffing solutions, IT staffing, regulatory consultancy for labour law compliance and training & skills
- Net debt free and healthy double digit RoCE (> 14%) key positives

**Q1FY23 Results:** Teamlease reported weak numbers on the margin front.

- Revenue ₹ 1,879.4 crore, up by 3.4% QoQ
- EBITDA margin declined by 90 bps QoQ to 1.3%
- Productivity improved to 350

**What should investors do?** Teamlease's share price has grown ~2.8x over the past five years (from ~₹ 1298 in July 2017 to ~₹ 3,595 levels in July 2022).

- We maintain **BUY** rating on the stock

**Target Price and Valuation:** We value Teamlease at ₹ 4240 i.e. 34x P/E on FY24E.

**Key triggers for future price performance:**

- Key beneficiary of under penetrated temporary staffing market (0.5% in 2015 vs. global average of 1.7%) and formalisation (16% in 2018)
- The pandemic has forced enterprises to shift to a variables cost structure, which is leading to increased outsourcing of flexi staffing. Hence, we expect overall revenues to increase at 18.7% CAGR in FY22-24E
- TLL is expected to register healthy margins, mainly led by a reversal of discounts, improving of core to associate ratio, improving specialised staffing margins and higher revenue growth

**Alternate Stock Idea:** Apart from Teamlease, in our IT coverage we like InfoEdge.

- Leadership in recruitment segment and quasi play on Indian start-up like Zomato, PolicyBazaar, Shoekonect, Ustra, Gramophone
- BUY with a target price of ₹ 4,575



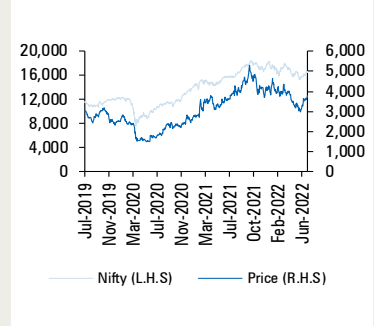
### Particulars

Particular	Amount
Market Cap (₹ Crore)	6,169.1
Total Debt (₹ Crore)	79.5
Cash and Invst (₹ Crore)	343.4
EV (₹ Crore)	5,905.2
52 week H/L	5544 / 2912
Equity capital	17.1
Face value	10.0

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	32.5	32.5	31.5	31.5
FII	37.7	38.2	37.4	37.3
DII	18.0	17.9	21.2	21.1
Public	11.9	11.4	9.9	10.0

### Price Chart



### Recent event & key risks

- 13K associates added in General staffing in Q1
- **Key Risk:** (i) Lower hiring in key sectors (ii) Lower than expected margins

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	5,201	4,881	6,480	16.3	7,813	9,125	18.7
EBITDA	95	99	142	30.9	172	245	31.3
EBITDA Margins (%)	1.8	2.0	2.2		2.2	2.7	
Net Profit	35.0	77.5	38.4		146.4	213.0	
EPS (₹)	20.5	45.3	22.5		85.6	124.6	
P/E (x)	175.7	79.3	159.9		42.0	28.9	
RoCE (%)	15.0	14.2	15.4		17.6	20.8	
RoE (%)	6.5	11.6	(4.7)		17.4	20.4	

## Key highlights of quarter & conference call highlights

- The company reported 3.4% QoQ, 36.5% YoY growth in revenues to ₹ 1,879.4 crore, aided by general staffing revenues, which were up 4% QoQ to ₹ 1,704 crores while specialised staffing revenue declined by 1.5% QoQ to ₹ 144 crore and other HR services declined by 2.7% QoQ to ₹ 31 crore.
- EBITDA margins at the company level was down by ~90 bps QoQ to 1.3%. General staffing margins declined by ~20 bps QoQ at 1.6% while that of specialised staffing was down ~10 bps QoQ to 8.8%. Other HR services reported EBITDA margin of 0.6% for the quarter from 13.2% in Q4. Total EBITDA declined by 38.3 QoQ to ₹ 25.3 crore
- The company indicated the margin was impacted by: i) salary hike of core team with high increment in the band of 12-13% amid high competition to retain talent, ii) salary increase of associates & trainees, iii) seasonal drop in Other HR services business & iv) provision of IND AS 116 increasing the un-allocable expenses to ₹ 14 crore (normal range ₹ 6-7 crore) due to ₹3.5 crore one time impact of termination of lease agreement with one of its offices in Bengaluru, ~₹1 crore on some provisions and rest is expenses related to EPFO migration related expenses. The company indicated that they expect margins to pick from Q2 onwards, however guided for similar margins in FY23 like that of FY22.
- **In general staffing**, the management indicated that it has added 125 logos during the quarter. The productivity ratio increased marginally from 346 to 350. The company indicated that PAPM has remained in the similar levels of Q4FY22. The company added 13,610 net new associated taking the total headcounts over 2 lakhs for first time. The total headcount is now 208,260. The company indicated that it is witnessing slowdown & delayed decision making in manufacturing sector, new age tech companies due to funding freeze & layoffs. It however indicated that it is witnessing increase in open positions & demand coming back from Q2 onwards
- **In Degree Apprenticeship (DA)**, the company indicated that it started the DA program after its success in staffing. It created the program in line with the UGC. The program has 4 industry led Business Units (BU) & the company indicated that it will add 2 more BU as demand increases. The company added 31 new logos in the quarter. The headcount decreased by 4,263 due to absorption of the trainees by a large client. The company indicated this for dip in revenue is in line with the company consciously choosing to focus on higher margin & degree focused program
- **Specialised staffing**: The company added 15 new logos in the quarter a mix of IT & non IT companies in sectors like IT, Engineering, Healthcare, Pharma & Logistics. The company indicated that it is witnessing deferment in hiring. However, it believes that the tech talent requirement boosted post covid is multiyear requirement & the demand will go from Q2 onwards. The specialised staffing headcount increased by 330 to total 9,800 during the quarter
- The company indicated that it is awaiting the hearing on its petition filed for 80JJAA dispute with the Income Tax department. The company indicated that median salary of general staffing employees is around ₹18,000 per month while 70-80% are still below ₹20,000 per month.
- The company indicated that it actively discussing 2 M&A opportunity of a specialized staffing & HR Tech Solutions company. The company indicated that it has cash balance of ₹ 216 crore & it will utilize some of it for the acquisitions
- The company indicated the demand scenario is expected to pick up from mid Q2 onwards. It indicated that it expecting traction as the festive season approaches in Retail sector. It also indicated that demand for IT talent is an ongoing process & it will pick up as it is witnessing open position from its clients. The company also believes the addition of new logos will boost its revenue growth in the upcoming quarters

**Exhibit 1: Variance Analysis**

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1,879.4	1,873	1,377	36.5	1,817	3.4	General staffing revenue increased by 4% while Specialized staffing decline by 1.5% & Hr services by 2.7%
Employee expenses	1,805.8	1,785	1,313	37.5	1,728	4.5	
Gross Profit	73.6	88	63	15.9	90	-17.9	
Gross margin (%)	3.9	4.7	4.6	-70 bps	4.9	-102 bps	
Other expenses	48.3	49	34	42.2	49	-0.6	
EBITDA	25.3	39	30	-14.3	41	-38.3	
EBITDA Margin (%)	1.3	2.1	2.1	-80 bps	2.3	-91 bps	Salaries of core staff increased by about 12-13 while that of associates also increased which along with seasonality of Other HR services impacted margins
Depreciation	9.0	11	9	-2.8	11	-15.1	
EBIT	16.3	28	20	-19.5	30	-46.4	
EBIT Margin (%)	0.9	1.5	1.5	-60 bps	1.7	-81 bps	
Other income	12.3	3	5	168.6	5	163.2	High other income is due to reversal of certain provisions
PBT	28.6	31	25	15.1	35	-18.6	
Tax paid	1.4	2	0		3		
PAT	26.5	29	27	-1.5	32	-16.1	
Adjusted PAT	26.5	29	27	-1.5	29	-8.7	

Source: Company, ICICI Direct Research

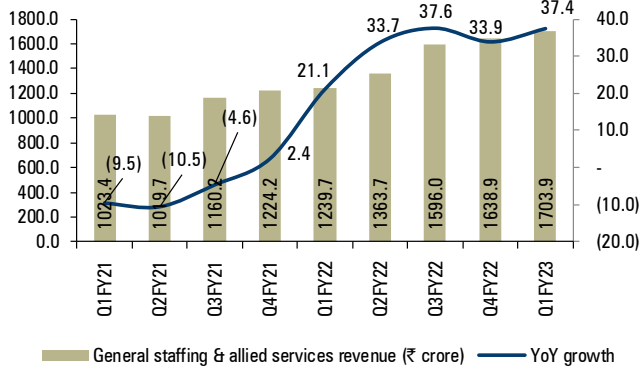
**Exhibit 2: Change in estimates**

	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	7,561	7,813	3.3	8,844	9,125	3.2	based on Q1FY23 performance
EBITDA	189	172	-9.1	247	245	-0.5	
EBITDA Margin (%)	2.5	2.2	-30 bps	2.8	2.7	-10 bps	Margins trim as per management guidance
PAT	162	146	-9.9	214	213	-0.7	
EPS (₹)	95.0	85.6	-9.9	125.4	124.6	-0.7	

Source: Company, ICICI Direct Research

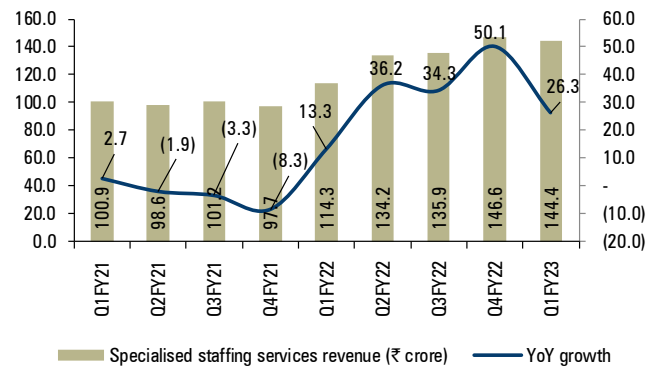
## Key Metrics

**Exhibit 3: General Staffing Revenue with YoY growth**



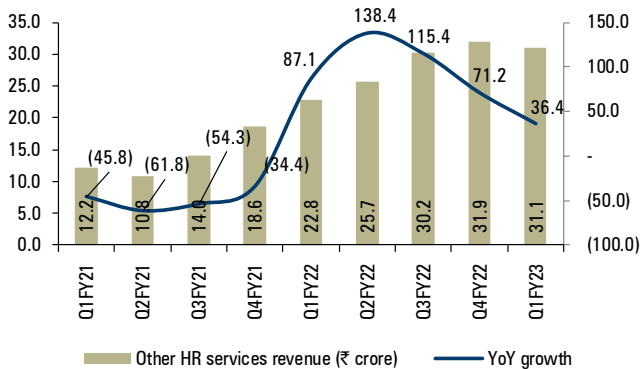
Source: Company, ICICI Direct Research

**Exhibit 4: Specialised staffing revenue with YoY growth**



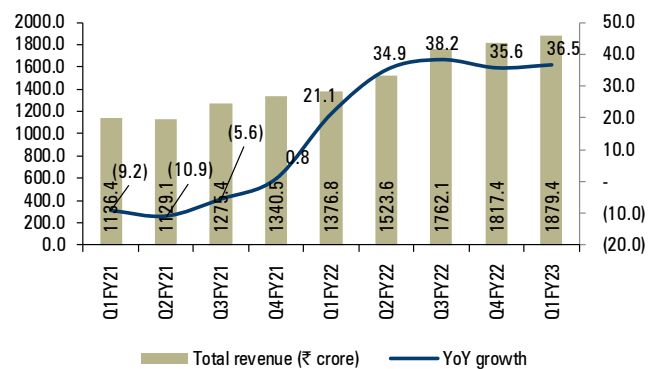
Source: Company, ICICI Direct Research

**Exhibit 5: Other HR services revenue with YoY growth**



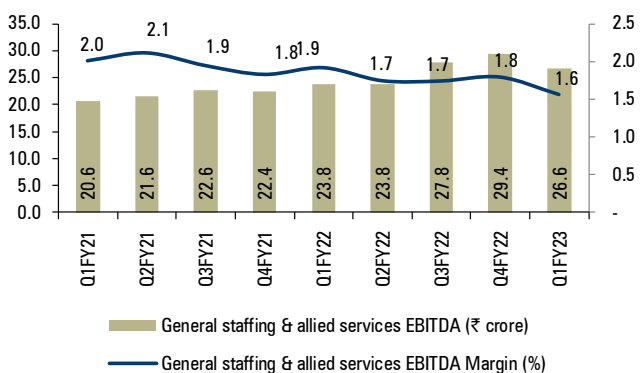
Source: Company, ICICI Direct Research

**Exhibit 6: Total revenue with YoY growth**



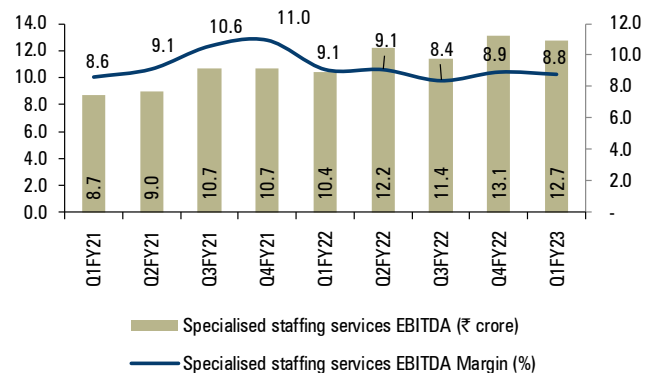
Source: Company, ICICI Direct Research

**Exhibit 7: General staffing EBITDA & EBITDA margin**



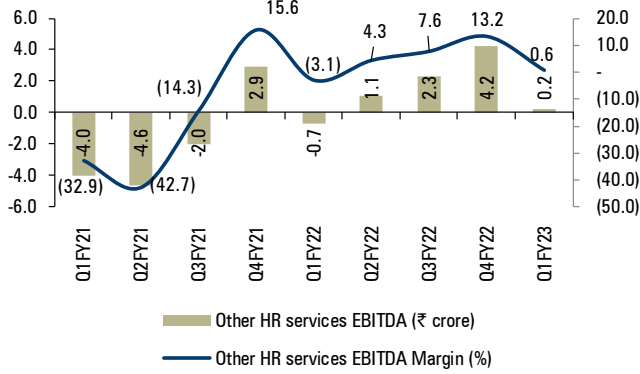
Source: Company, ICICI Direct Research

**Exhibit 8: Specialised staffing EBITDA & EBITDA margin**



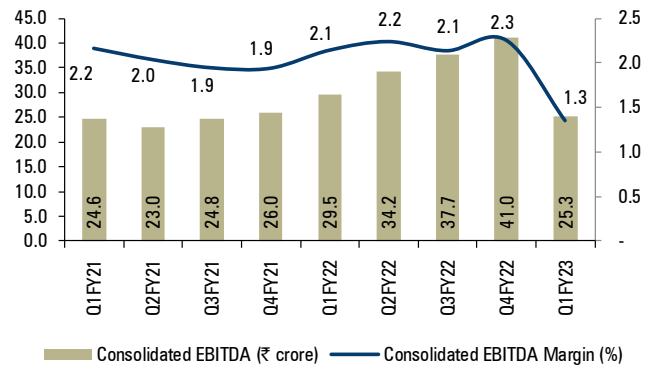
Source: Company, ICICI Direct Research

Exhibit 9: Other HR services EBITDA & EBITDA margin



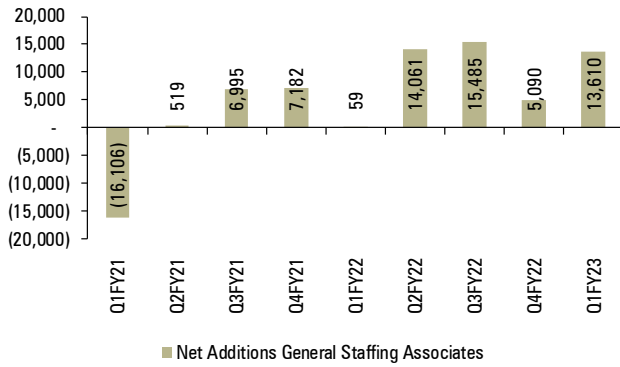
Source: Company, ICICI Direct Research

Exhibit 10: Consolidated EBITDA & EBITDA margin



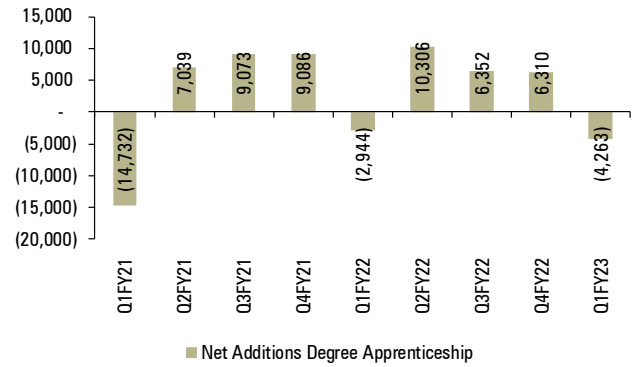
Source: Company, ICICI Direct Research

Exhibit 11: General staffing Net additions



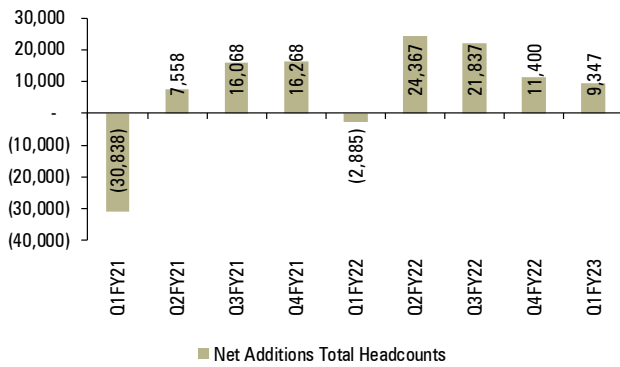
Source: Company, ICICI Direct Research

Exhibit 12: Degree apprenticeship Net additions



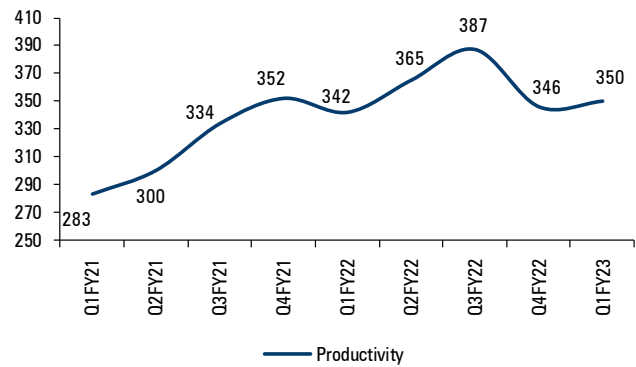
Source: Company, ICICI Direct Research

Exhibit 13: Total Net additions



Source: Company, ICICI Direct Research

Exhibit 14: Productivity trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Revenue from operations</b>	<b>4,881.5</b>	<b>6,479.8</b>	<b>7,812.9</b>	<b>9,125.1</b>
Growth (%)	(6.1)	32.7	20.6	16.8
Other Income	34.7	19.7	23.9	25.7
Total Revenue	4,916.2	6,499.5	7,836.8	9,150.7
Employee benefits expense	4,687.0	6,180.7	7,484.8	8,714.4
Other Expenses	96.0	156.7	156.3	165.2
Total Operating Expenditure	4,783.0	6,337.5	7,641.1	8,879.6
<b>EBITDA</b>	<b>98.5</b>	<b>142.4</b>	<b>171.9</b>	<b>245.5</b>
Growth (%)	3.6	44.5	20.7	42.8
Interest	6.9	4.0	4.0	4.0
Depreciation	33.7	40.8	33.3	37.1
PBT	92.6	117.3	158.5	230.1
Tax	10.1	6.1	11.1	16.1
<b>PAT</b>	<b>77.5</b>	<b>38.4</b>	<b>146.4</b>	<b>213.0</b>
Growth (%)	121.6	(50.4)	281.0	45.5
Diluted EPS	45.3	22.5	85.6	124.6
Growth (%)	121.6	(50.4)	281.0	45.5

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit before Tax	92.6	117.3	158.5	230.1
Add: Depreciation	33.7	40.8	33.3	37.1
(Inc)/dec in Current Assets	(54.8)	(184.7)	(81.3)	(140.4)
Inc/(dec) in CL and Provisions	99.0	88.9	185.2	139.0
Taxes paid	137.8	(59.3)	(11.1)	(16.1)
<b>CF from operating activities</b>	<b>303.3</b>	<b>(6.1)</b>	<b>284.5</b>	<b>249.7</b>
(Inc)/dec in Investments	12.6	(65.4)	23.9	25.7
(Inc)/dec in Fixed Assets	(24.8)	(23.1)	(15.6)	(18.3)
Others				
<b>CF from investing activities</b>	<b>(12.3)</b>	<b>(88.5)</b>	<b>8.2</b>	<b>7.4</b>
Inc/(dec) in loan funds	(37.8)	(10.0)	-	-
Dividend paid & dividend tax	-	-	(8.8)	(12.8)
Others	(6.6)	(3.1)	(4.0)	(4.0)
<b>CF from financing activities</b>	<b>(44.4)</b>	<b>(13.1)</b>	<b>(12.8)</b>	<b>(16.7)</b>
Net Cash flow	246.7	(107.7)	280.0	240.4
Opening Cash	12.4	259.1	151.4	431.4
<b>Closing Cash</b>	<b>259.1</b>	<b>151.4</b>	<b>431.4</b>	<b>671.8</b>

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	632.5	688.7	826.3	1,026.5
Total Shareholders funds	649.6	705.8	843.4	1,043.6
Long term borrowings	-	-	-	-
Short term borrowings	-	27.7	27.7	27.7
Bank overdraft	51.8	51.8	51.8	51.8
Total Debt	51.8	79.5	79.5	79.5
Other long term liabilities	102.5	120.7	164.0	191.6
Long term provisions	-	-	-	-
<b>Liabilities Total</b>	<b>827</b>	<b>906</b>	<b>1,087</b>	<b>1,315</b>
Fixed Assets	271.6	280.0	241.4	222.5
Tangible	43.5	40.1	34.4	27.2
Intangible+ Goodwill	216.7	222.0	189.2	177.5
Non-current Investments	25.3	3.0	3.0	3.0
Deferred tax asset	13.5	2.6	21.7	25.3
Long terms loans and advances	57.8	50.2	92.5	108.1
Other non-current assets	306.4	266.2	253.9	270.6
Inventories	-	-	-	-
Trade receivables	277.8	369.7	444.6	519.2
Current Investments	-	166.8	166.8	166.8
Cash	259.1	176.5	431.4	671.8
Short term loans and advances	5.6	-	9.0	10.5
Other current assets	158.1	275.6	253.1	295.6
Total Current Assets	700.6	988.6	1,304.9	1,663.9
Trade Payable	35.5	41.9	56.8	66.4
Other current liabilities	512.6	644.3	820.4	958.1
Short term provisions	-	-	-	-
Total Current Liabilities	548.1	686.2	877.2	1,024.5
Net Current Assets	152.6	302.4	427.7	639.4
<b>Assets Total</b>	<b>827</b>	<b>906</b>	<b>1,087</b>	<b>1,315</b>

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	45.3	22.5	85.6	124.6
Cash EPS	66.7	(53.4)	105.1	146.3
BV	389.6	(475.7)	493.3	610.4
DPS	-	0.9	3.6	5.2
Cash Per Share	155.4	(119.0)	252.3	392.9
<b>Operating Ratios (%)</b>				
EBIT Margin	1.3	1.6	1.8	2.3
PBT Margin	1.9	1.8	2.0	2.5
PAT Margin	1.5	(0.5)	1.9	2.3
Debtor days	21	21	21	21
Creditor days	3	2	3	3
<b>Return Ratios (%)</b>				
RoE	11.6	(4.7)	17.4	20.4
RoCE	14.2	15.4	17.6	20.8
RoIC	13.9	23.1	49.9	87.3
<b>Valuation Ratios (x)</b>				
P/E	79.3	159.9	42.0	28.9
EV / EBITDA	60.5	41.5	32.9	22.0
EV / Net Sales	1.2	0.9	0.7	0.6
Market Cap / Sales	1.3	1.0	0.8	0.7
Price to Book Value	9.2	(7.6)	7.3	5.9
<b>Solvency Ratios</b>				
Debt / EBITDA	0.5	0.6	0.5	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.3	1.2	1.0	1.0
Quick Ratio	1.3	1.2	1.0	1.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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