

Cautious outlook for next few quarters...

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

Q2FY23 Results: TeamLease reported decent margin numbers.

- Revenue increased 4% QoQ to ₹ 1,955.1 crore
- EBITDA margin increased ~30 bps QoQ to 1.6%
- Productivity improved 0.6% QoQ to 352

What should investors do? TeamLease's share price has grown ~1.5x over the past five years (from ~₹ 1664 in November 2017 to ~₹ 2491 in November 2022).

- We change our rating on the stock from BUY to HOLD

Target Price and Valuation: We value TeamLease at ₹ 2540 i.e. 26x P/E on FY25E.

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 14.5% CAGR in FY22-25E
- TLL is expected to recover margins albeit gradually, 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 ₹ 5,230



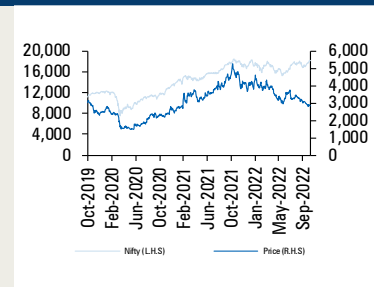
Particulars

Particular	Amount
Market Cap (₹ Crore)	4,274.6
Total Debt (₹ Crore)	79.5
Cash and Invst (₹ Crore)	343.4
EV (₹ Crore)	4,010.7
52 week H/L	4839 / 2331
Equity capital	17.1
Face value	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	32.5	31.5	31.5	31.5
FII	38.2	37.4	37.3	37.1
DII	17.9	21.2	21.1	21.2
Public	11.4	9.9	10.0	10.2

Price Chart



Recent event & key risks

- PAMM remain flat since Q4FY22
- **Key Risk:** (i) Higher than expected revenue (ii) Lower than expected margins

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Key Financial Summary

(₹ Crore)	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	4,881	6,480	16.3	7,813	8,912	9,813	14.8
EBITDA	99	142	30.9	148	178	196	11.3
EBITDA Margins (%)	2.0	2.2		1.9	2.0	2.0	
Net Profit	77.5	38.4		124.6	150.5	166.6	63.0
EPS (₹)	45.3	22.5		72.9	88.0	97.4	
P/E (x)	55.0	110.8		34.2	28.3	25.6	
RoCE (%)	14.2	15.4		15.4	16.0	15.3	
RoE (%)	11.6	(4.7)		15.1	15.6	14.9	

Source: Company, ICICI Direct Research

Key highlights of quarter & conference call highlights

- The company reported 4% QoQ & 28.3% YoY growth in revenues posting revenue of ₹ 1,955.1 crore, aided by general staffing revenues, which were up 4.7% QoQ to ₹ 1,783 crore while both specialised staffing & other HR services revenue declined for a consecutive quarter by 2.5% QoQ to ₹ 140.7 crore and 0.4% QoQ to ₹ 30.9 crore, respectively
- EBITDA margins at the company level improved ~30 bps QoQ to 1.6% aided by margin expansion in all verticals. General staffing margins improved 18 bps QoQ at 1.7% while that of specialised staffing & Other HR services improved 44 bps & ~260 bps QoQ to 9.2% & 3.2%, respectively. Total EBITDA increased 25.2% QoQ to ₹ 31.7 crore
- The company indicated the margins in the quarter improved due to lower other expenses. It will focus on margin improvement by operational efficiency, going forward. The company, however indicated that margins of the company will remain under pressure in H2 and it will focus on the following to improve/sustain margins, going forward:
 - a) **Headcount rationalisation:** The company indicated that it had increased in hiring the last few quarters with market conditions indicating strong growth but now they are giving a cautious outlook for the next few quarters. TLL is now looking at rationalising its core headcount in Q3 and Q4 wherein it is not backfilling its employees who have left voluntarily
 - b) **Realisations:** The company indicated that its realisations have been flat since Q4FY22 at ~₹ 700. The company indicated that it executes annual contract with clients with provision for escalation at the time of renewal. It mentioned that it has given discounts during the pandemic on weak client financials. Now since the pandemic is largely over, TLL is trying to recover lost realisations. However, it is facing a pushback from its clients restricting PAPM expansion
 - c) **Digitisation:** The company indicated that since it is looking to rationalise its own headcount, large focus is on automation of some of the processes to improve productivity
 - d) **Low margin business rationalisation:** The company also indicated that it will continue to rationalise client's profiles with low margins
- The company indicated that a few quarter back, it has witnessed some pent demand in hiring as companies were hiring for growth. However, the demand scenario has changed drastically in the last couple of quarters due to macroeconomic and geopolitical factors like ongoing Russia-Ukraine war, higher interest rates, recessionary scenarios in few countries, as well as dried up funding at the start-ups. The company expects these factors to continue to impact hiring for a few quarters from now. It is giving a cautious outlook in the near to medium term
- **In general staffing,** the management indicated that productivity ratio increased marginally from 350 to 352. The company further indicated that PAPM has remained flat on a QoQ basis, implying that it has remained at levels of Q4FY22. The company's net additions during the quarter remained soft with 4,709 net new associated taking the total headcounts to 212,969. The company indicated that hiring trends are not encouraging across Tech companies, BFSI, telecom and retail sectors
- **In Degree Apprenticeship (DA),** the company indicated it added 28 new logos in the quarter and added 2,745 apprentices taking the total headcount to 79,592. TLL indicated that it does not expect much growth in DA program in H2 as the open positions in the DA program are below expectations due to regulatory hurdles it is currently facing. TLL mentioned that on-boarding of new apprentice is being hit by new regulation of their verification through OTP generation on their mobile as well as on emails where they will have to enter this jointly for on boarding. Another regulatory hurdle was stipend payment for them, which used to take within 72 hours. Now, it is getting much delayed to around three months. The company further indicated that it is witnessing sluggish demand in tech, telecom & IT

- **Specialised staffing:** The company added 14 new logos & will focus on new client acquisitions in H2. TLL indicated that revenue decline in the vertical was due to its strategic decision of discontinuing business with one large client in telecom sector whose margin were below the expectations of the company. The company further indicated that the specialised staffing business was impacted by lower hiring in the IT sector. (impact of 40% drop in IT services business of the company). TLL mentioned that it is trying to mitigate lower IT hiring through non-IT hiring and will focus on utilisation improvement and headcount rationalisation. It expects revenue to remain flattish or decline from Q3 onwards. The company's net headcount declined by 917 to 8,883 during the quarter
- In other HR services, the company indicated that it is witnessing traction in the vertical and will continue to invest in this business as margins are accretive. The company further indicated that HR services business is cyclical and it expects revenues to pick up soon
- The company indicated that it has received a clear judgement in its petition filed for 80JJAA dispute with the Income Tax department and expects the refund from Income Tax department in a few weeks
- The company indicated that it is actively exploring M&A opportunity in specialised staffing, HR tech & Edtech business, which are margin accretive businesses. The company also indicated that ticket size of the acquisition will be in the band of its previous acquired companies

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	1,955	1,919	1,524	28.3	1,879	4.0	General staffing revenue increased 4.7% while specialised staffing declined 2.5% & other HR services by 0.4%
Employee expenses	1,881	1,842	1,458	29.0	1,806	4.1	
Gross Profit	74	77	65	14.2	74	1.1	
Gross margin (%)	4	4.0	4.3	-47 bps	3.9	-11 bps	
Other expenses	43	50	31	37.8	48	-11.5	
EBITDA	32	27	34	-7.3	25	25.2	
EBITDA Margin (%)	1.6	1.4	2.2	-62 bps	1.3	27 bps	Lower other expenses aided margin expansion
Depreciation	10	8	11	-9.4	9	12.2	
EBIT	22	19	23	-6.2	16	32.3	
EBIT Margin (%)	1	1.0	1.5	-41 bps	0.9	24 bps	
Other income	12	6	5	118.9	12	-3.6	
PBT	33	25	28	17.5	29	16.9	PAT was higher due to higher other income
Tax paid	1	1	1		1		
PAT	32	23	-49	-164.1	27	19.2	
Adjusted PAT	32	23	-49	-164.1	24	32.0	

Source: Company, ICICI Direct Research

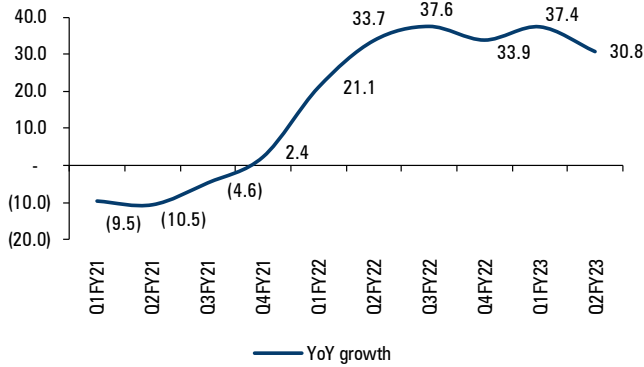
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	7,813	7,813	0.0	9,125	8,912	-2.3	9,813	Both revenue and margins realigned as per near term cautious outlook given by the management
EBITDA	172	148	-13.6	245	178	-27.4	196	
EBITDA Margin (%)	2.2	1.9	-30 bps	2.7	2.0	-69 bps	2.0	
PAT	146	125	-14.9	213	151	-29.3	167	
EPS (₹)	85.6	72.9	-14.9	124.6	88.0	-29.3	97.4	

Source: Company, ICICI Direct Research

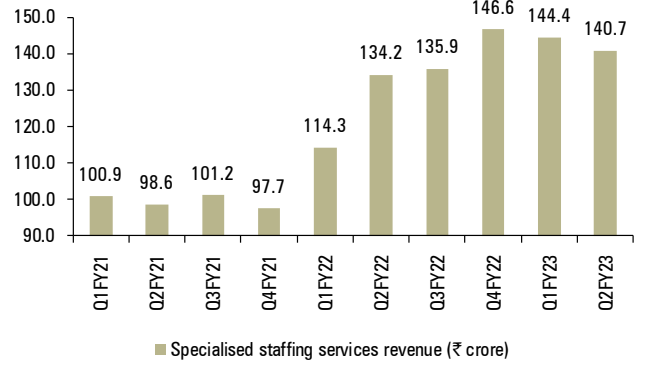
Key Metrics

Exhibit 3: General staffing revenue grows 30.8% YoY



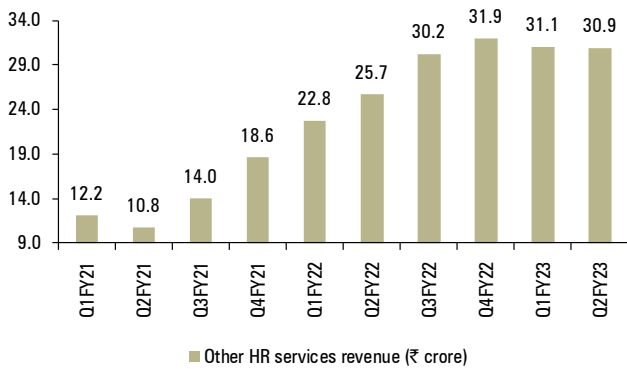
Source: Company, ICICI Direct Research

Exhibit 4: Slower IT hiring impacting growth



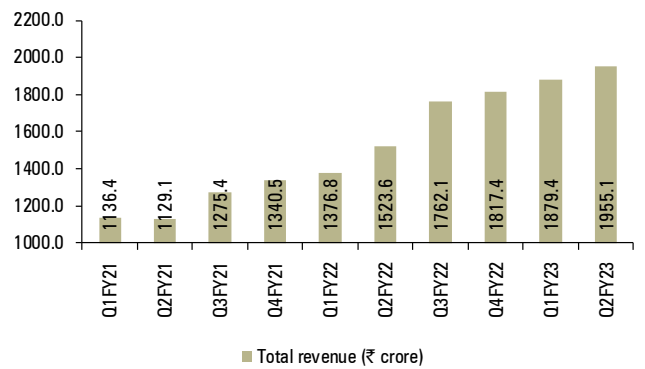
Source: Company, ICICI Direct Research

Exhibit 5: Other HR services is lumpy in nature



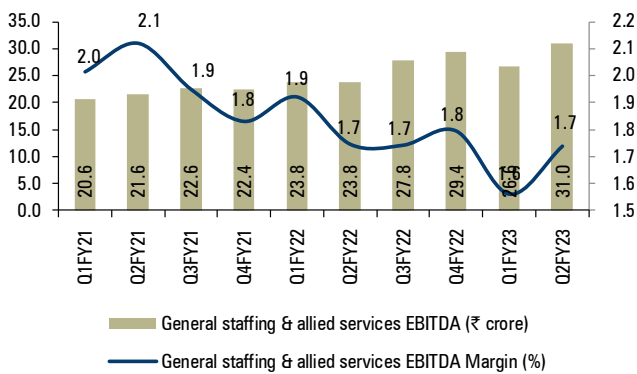
Source: Company, ICICI Direct Research

Exhibit 6: Total revenue trend



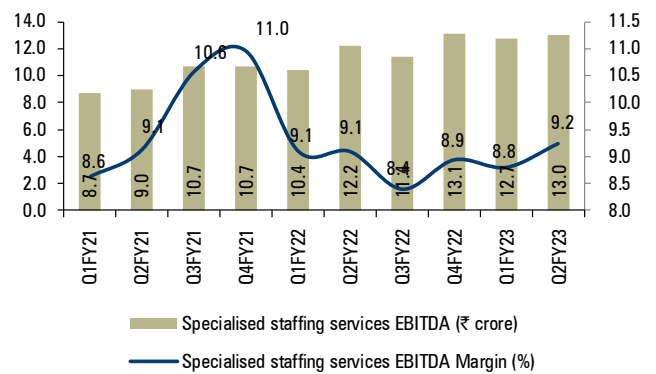
Source: Company, ICICI Direct Research

Exhibit 7: General staffing EBITDA & EBITDA margin



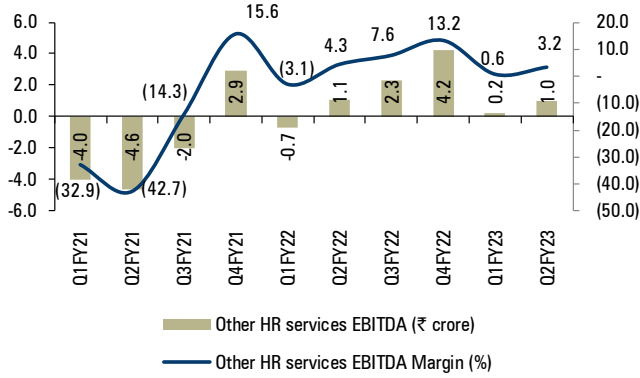
Source: Company, ICICI Direct Research

Exhibit 8: Specialised staffing EBITDA & EBITDA margin



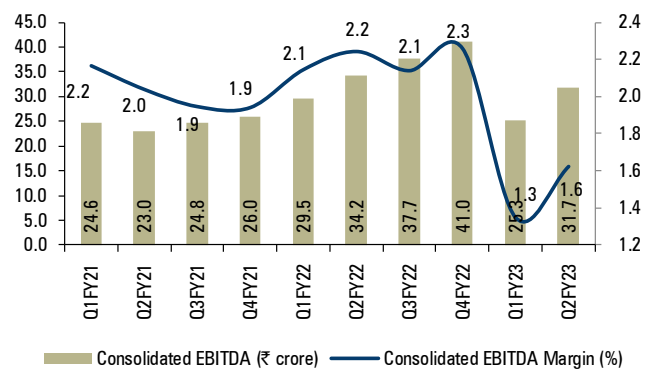
Source: Company, ICICI Direct Research

Exhibit 9: Other HR services EBITDA & EBITDA margin



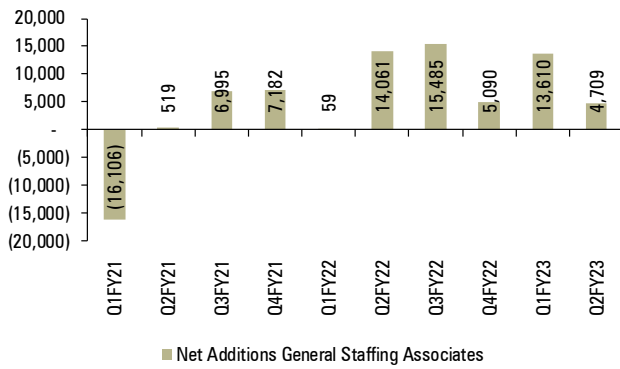
Source: Company, ICICI Direct Research

Exhibit 10: Consolidated EBITDA & EBITDA margin



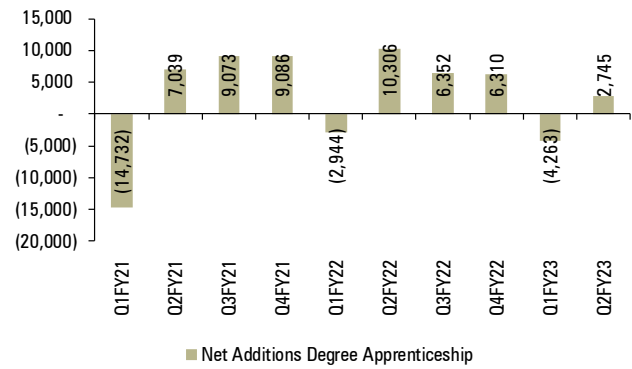
Source: Company, ICICI Direct Research

Exhibit 11: General staffing net additions



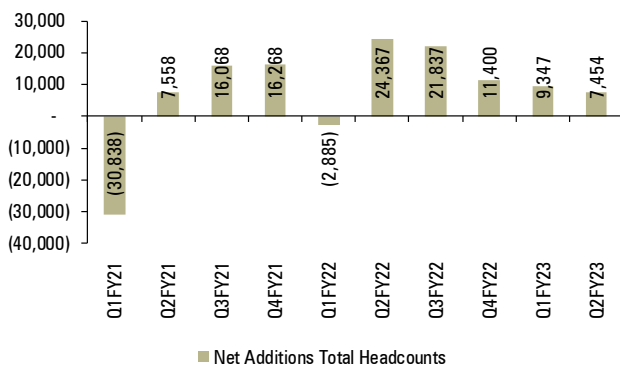
Source: Company, ICICI Direct Research

Exhibit 12: Degree apprenticeship net additions



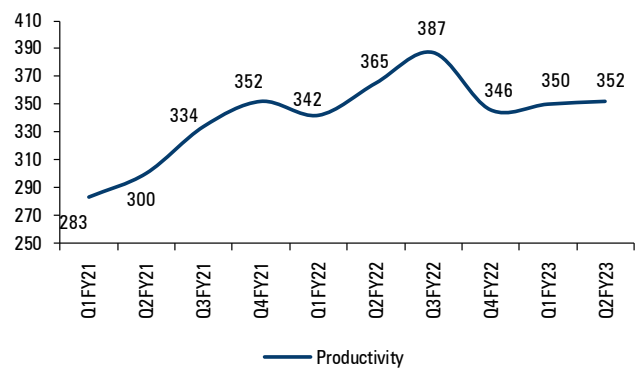
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Revenue from operations	6,479.8	7,812.9	8,912.2	9,733.5
Growth (%)	32.7	20.6	14.1	9.2
Other Income	19.7	23.9	25.7	27.8
Total Revenue	6,499.5	7,836.8	8,937.9	9,761.3
Employee benefits expense	6,180.7	7,508.2	8,555.7	9,344.1
Other Expenses	156.7	156.3	178.2	194.7
Total Operating Expenditure	6,337.5	7,664.5	8,734.0	9,538.8
EBITDA	142.4	148.4	178.2	194.7
Growth (%)	44.5	4.3	20.1	9.2
Interest	4.0	4.0	4.0	4.0
Depreciation	40.8	33.3	37.0	41.1
PBT	117.3	135.1	163.0	177.4
Tax	6.1	9.5	11.4	12.4
PAT	38.4	124.6	150.5	164.0
Growth (%)	(50.4)	224.3	20.8	9.0
Diluted EPS	22.5	72.9	88.0	95.9
Growth (%)	(50.4)	224.3	20.8	9.0

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
₹ crore				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit before Tax	117.3	135.1	163.0	177.4
Add: Depreciation	40.8	33.3	37.0	41.1
(Inc)/dec in Current Assets	(184.7)	(81.3)	(121.1)	(98.1)
Inc/(dec) in CL and Provisions	88.9	185.2	116.4	87.0
Taxes paid	(59.3)	(9.5)	(11.4)	(12.4)
CF from operating activities	(6.1)	262.7	183.9	195.0
(Inc)/dec in Investments	(65.4)	23.9	25.7	27.8
(Inc)/dec in Fixed Assets	(23.1)	(15.6)	(17.8)	(19.5)
Others				
CF from investing activities	(88.5)	8.2	7.9	8.4
Inc/(dec) in loan funds	(10.0)	-	-	-
Dividend paid & dividend tax	-	(7.5)	(9.0)	(9.8)
Others	(3.1)	(4.0)	(4.0)	(4.0)
CF from financing activities	(13.1)	(11.4)	(13.0)	(13.8)
Net Cash flow	(107.7)	259.5	178.7	189.5
Opening Cash	259.1	151.4	410.9	589.6
Closing Cash	151.4	410.9	589.6	779.2

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
₹ crore				
(₹ Crore)	FY22	FY23E	FY24E	FY24E
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	688.7	805.8	947.3	1,101.5
Total Shareholders funds	705.8	822.9	964.4	1,118.6
Long term borrowings	-	-	-	-
Short term borrowings	27.7	27.7	27.7	27.7
Bank overdraft	51.8	51.8	51.8	51.8
Total Debt	79.5	79.5	79.5	79.5
Other long term liabilities	120.7	164.0	187.1	204.3
Long term provisions	-	-	-	-
Liabilities Total	906	1,066	1,231	1,402
Fixed Assets	280.0	241.4	222.2	200.6
Tangible	40.1	34.4	26.9	17.0
Intangible+ Goodwill	222.0	189.2	177.5	165.8
Non-current Investments	3.0	3.0	3.0	3.0
Deferred tax asset	2.6	21.7	24.7	27.0
Long terms loans and advances	50.2	92.5	105.6	115.3
Other non-current assets	266.2	253.9	267.9	278.3
Inventories	-	-	-	-
Trade receivables	369.7	444.6	507.1	553.9
Current Investments	166.8	166.8	166.8	166.8
Cash	176.5	410.9	589.6	779.2
Short term loans and advances	-	9.0	10.3	11.2
Other current assets	275.6	253.1	288.7	315.3
Total Current Assets	988.6	1,284.4	1,562.5	1,826.3
Trade Payable	41.9	56.8	64.8	70.8
Other current liabilities	644.3	820.4	935.8	1,022.0
Short term provisions	-	-	-	-
Total Current Liabilities	686.2	877.2	1,000.6	1,092.8
Net Current Assets	302.4	407.2	561.9	733.5
Assets Total	906	1,066	1,231	1,402

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
₹ crore				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	22.5	72.9	88.0	97.4
Cash EPS	(53.4)	92.3	109.7	121.5
BV	(475.7)	481.3	564.1	655.7
DPS	0.9	3.1	3.7	4.1
Cash Per Share	(119.0)	240.4	344.9	457.8
Operating Ratios (%)				
EBIT Margin	1.6	1.5	1.6	1.6
PBT Margin	1.8	1.7	1.8	1.8
PAT Margin	(0.5)	1.6	1.7	1.7
Debtor days	21	21	21	21
Creditor days	2	3	3	3
Return Ratios (%)				
RoE	(4.7)	15.1	15.6	14.9
RoCE	15.4	15.4	16.0	15.3
RoIC	23.1	41.4	58.4	75.2
Valuation Ratios (x)				
P/E	110.8	34.2	28.3	25.6
EV / EBITDA	28.2	25.4	20.2	17.3
EV / Net Sales	0.6	0.5	0.4	0.3
Market Cap / Sales	0.7	0.5	0.5	0.4
Price to Book Value	(5.2)	5.2	4.4	3.8
Solvency Ratios				
Debt / EBITDA	0.6	0.5	0.4	0.4
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.2	1.0	1.0	1.0
Quick Ratio	1.2	1.0	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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