

Demand environment challenging, Board meeting on 3rd Feb to consider buyback

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

Q3FY23 Results: TeamLease reported muted Q3FY23 numbers.

- Revenue increased 2.7% QoQ to ₹ 2,008.3 crore
- EBITDA margin remained flat at 1.6%
- Productivity declined 2.8% QoQ to 342 while PAPM remained flat again

What should investors do? TeamLease's share price has grown ~1.1x over the past five years (from ~₹ 2256 in January 2018 to ~₹ 2412 in January 2022).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value TeamLease at ₹ 2335 i.e. 25x 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 variable cost structure, which is leading to increased outsourcing of flexi staffing. Hence, we expect overall revenues to increase at 12.8% 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 Newgen.

- Established player in the market of enterprise content management (ECM), business process management (BPM) & customer communications management (CCM)
- BUY with a target price of ₹ 460



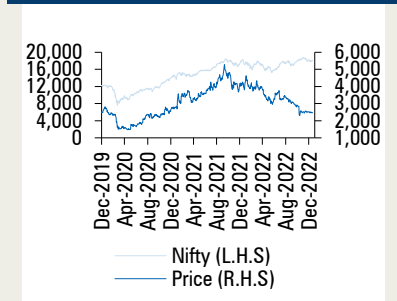
Particulars

Particular	Amount
Market Cap (₹ Crore)	4,139.1
Total Debt (₹ Crore)	79.5
Cash and Invest (₹ Crore)	343.4
EV (₹ Crore)	3,875.2
52 week H/L	4688 / 2236
Equity capital	17.1
Face value	10.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	31.5	31.5	31.5	31.5
FII	37.4	37.3	37.1	37.2
DII	21.2	21.1	21.2	23.8
Public	9.9	10.0	10.2	7.4

Price Chart



Recent event & key risks

- Board meeting on February 3, 2023 for buyback consideration
- **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	7,889	8,581	9,289	12.8
EBITDA	99	142	30.9	150	159	189	9.8
EBITDA Margins (%)	2.0	2.2		1.9	1.9	2.0	
Net Profit	77.5	38.4		125.9	132.5	159.7	60.8
EPS (₹)	45.3	22.5		73.7	77.5	93.4	
P/E (x)	53.2	107.3		32.7	31.1	25.8	
RoCE (%)	14.2	15.4		15.5	14.3	14.9	
RoE (%)	11.6	(4.7)		15.3	14.0	14.5	

Key highlights of quarter & conference call highlights

- The company reported muted growth of 2.7% QoQ & 14% YoY to ₹ 2,008.3 crore. General staffing grew 3.1% QoQ to ₹ 1,838.4 crore; specialised staffing reported flat revenues compared to Q2 and other HR services revenue declined 6.1% QoQ
- EBITDA margins at the company level remained flat at 1.6% (down 5bps QoQ) while at vertical level specialised staffing margins declined ~280 bps QoQ to 6.4%. The margins of general staffing were relatively flat at ~1.6% while other HR services also declined by ~200 bps QoQ to 2.4%. Overall EBITDA of the company remained flat at ₹ 32 crore
- **In general staffing**, the company indicated that it witnessed a very weak festive season compared to earlier years leading to addition of just 2031 net new associates in the quarter taking the total associates to 215,000. The company indicated that weakness in festive demand was largely across verticals. The company mentioned that certain verticals like BFSI & consumer reported muted growth & flat growth was observed in e-commerce & telecom verticals while volumes were lower in the emerging verticals of Fintech & Edtech. The company indicated that it had added associates in October & December but the elevated attrition in December and end of festive season led to muted additions. TLL mentioned that the productivity ratio declined 2.8% QoQ & 11.6% YoY to 342 and PAPM continues to remain flat during the quarter
- **In Degree Apprenticeship (DA)**, the company mentioned that the NEEM scheme under the Ministry of Education run by AICTE was cancelled by the government with effect from December 2022. TLL indicated that it had expected the scheme to be renewed in December 2022 with changed guidelines as its provisions were misused by certain vendors but the government cancelled the said program. The company indicated that this had created an uncertainty on the overall ~200,000 apprenticeship across the country that are enrolled in the program. TLL indicated that it has filed for stay order against the cancellation notification
- The company indicated that it has let go of ~19,000-20,000 apprentices in December 2022 as the organisations in which they were enrolled have cancelled their apprenticeship due to cancellation of program by the government and further 26,000 are at risk. The company further indicated that it is working to mitigate these at-risk candidates by transferring them to either the company's DA program or the organisations quota's where they are already enrolled. TLL indicated that as the program was cancelled at the end of the quarter the impact of the same on margins & revenues will be reflected from Q4FY23 onwards. From a whole year basis, the company indicated that the cancellation of NEEM's program will impact revenues by ₹ 22 crore and EBITDA by ₹ 10-11 crore. The company also mentioned that any additions henceforth will be under the company's DA program as per discussion with the clients
- The company indicated that it has added 20 new logos in the quarter bringing the YTD logo additions to ~70. However, TLL indicated that the overall volumes of open positions across most sectors is showing a month-on-month decline, which implies a weak outlook for Q4. The company's DA's declined by 20,592 during the quarter mainly due to cancellation of NEEM program bringing the total to 59,000
- **In specialised staffing**, the company indicated that the quarter was impacted by furloughs & lower billing days in IT sector. TLL also indicated that hiring in the IT sector has not recovered and its clients in the IT sector have stopped/paused hiring with the focus to improve utilisation. The company also indicated that due to headwinds of uncertain macros, high inflation & high interest rates the clients are cautious and delaying their hiring plans, which is impacting the company's business here. The company, however, indicated that Q4 performance of specialised staffing will be better as the impact of furloughs will subside but it expects flattish growth for FY23. The company indicated that it added 14 new clients in Q3 taking the total clients added in YTD to 43. The company further mentioned that the clients added

are a healthy mix of tech & non tech for balanced portfolio. The company added 217 net new employees taking the total headcount to 9,100

- In other HR services the company indicated that revenues were impacted by a delay in billing, which impacted the revenue by ~₹ 3 crore whereas the cost was upfronted in Q3. The company, however, indicated that the billing for the same would be done in Q4 now and hence its EBITDA margin guidance for 7-8% for FY23 remains intact
- The company indicated that net core employees declined by 28 to 800 during the quarter as per the cost rationalisation plan of the company. TLL further indicated that it will continue with its rationalisation plans to mitigate the pressure on margins & further additions would be done only when the demand outlook recovers
- The company indicated that the I-T assessment is completed up to FY21 & it expects a refund under 80JJA in sometime. TLL also indicated that it is expecting a refund of ~₹ 80 crore from the Income Tax department for the IT assessment of FY19 & FY20. The company also indicated that it has evaluated various shareholder payout options on this amount to be received (₹21 crore received) including dividend but most likely will go with the buyback for which board of director meeting is scheduled on 3rd Feb 2023. TLL also indicated that M&A pool for it has been reduced so far. Hence, it is not looking for any M&A activity as of now and decided to return the money to the shareholders

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	2,008	1,989	1,762	14.0	1,955	2.7	General staffing revenue increased 3.1% while other HR services declined by 6.1%; specialized staffing revenue was flat QoQ
Employee expenses	1,933	1,921	1,681	15.0	1,881	2.8	
Gross Profit	76	68	81	-6.5	74	1.7	
Gross margin (%)	4	3	4.6	-82 bps	3.8	-4 bps	
Other expenses	44	40	43	1.8	43	3.0	
EBITDA	32	28	38	-16.1	32	-0.1	
EBITDA Margin (%)	1.6	1.4	2.1	-56 bps	1.6	-5 bps	EBITDA margin of specialized staffing declined by 320 bps QoQ & other HR services declined 270 bps QoQ; General staffing margins were flat qoq
Depreciation	11	10	10	15.5	10	11.9	
EBIT	20	18	28	-27.1	22	-5.8	
EBIT Margin (%)	1	1	1.6	-57 bps	1.1	-9 bps	
Other income	10	12	5	95.5	12	-15.7	
PBT	30	30	33	-8.2	33	-9.3	
Tax paid	0	0	2		1		
PAT	29	28	30	-4.0	32	-8.2	
Adjusted PAT	29	28	30	-4.0	32	-8.2	

Source: Company, ICICI Direct Research

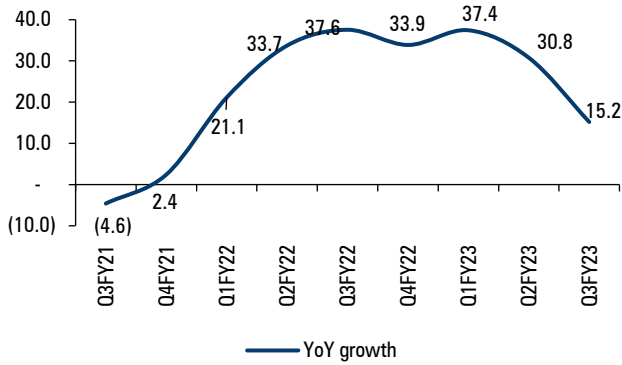
Exhibit 2: Change in estimates

	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
(₹ Crore)										
Revenue	7,813	7,889	1.0	8,912	8,581	-3.7	9,813	9,289	-5.3	Re-aligned numbers on muted outlook
EBITDA	148	150	1.0	178	159	-10.9	196	189	-3.8	High margin businesses showing lumpy trend
EBITDA Margin (%)	1.9	1.9	0 bps	2.0	1.9	-15 bps	2.0	2.0	3 bps	
PAT	125	126	1.1	151	132	-12.0	167	160	-4.4	
EPS (₹)	72.9	73.7	1.1	88.0	77.5	-12.0	97.4	93.4	-4.4	

Source: Company, ICICI Direct Research

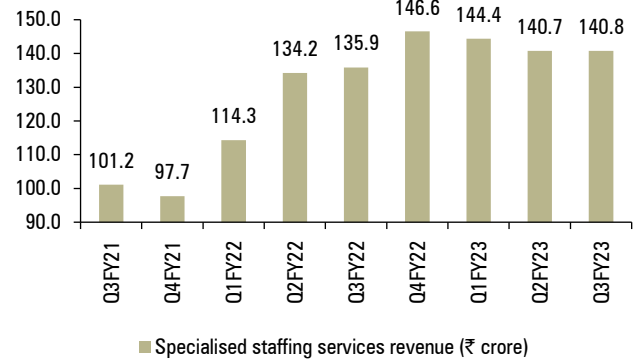
Key Metrics

Exhibit 3: General staffing revenue impacted by weak festive



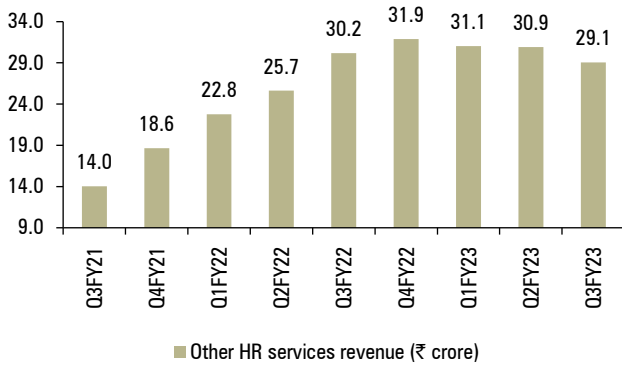
Source: Company, ICICI Direct Research

Exhibit 4: IT furloughs lead to flattish Q3



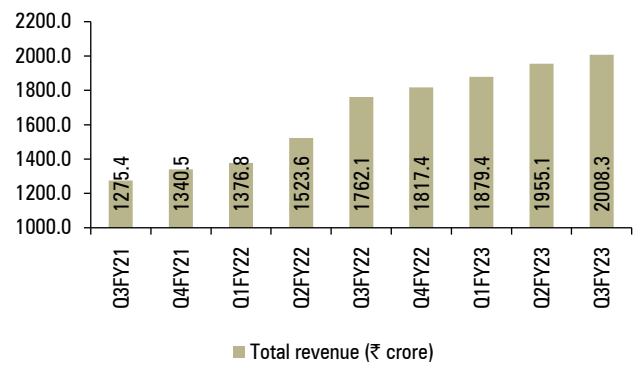
Source: Company, ICICI Direct Research

Exhibit 5: Other HR services billing deferral impacts Q3



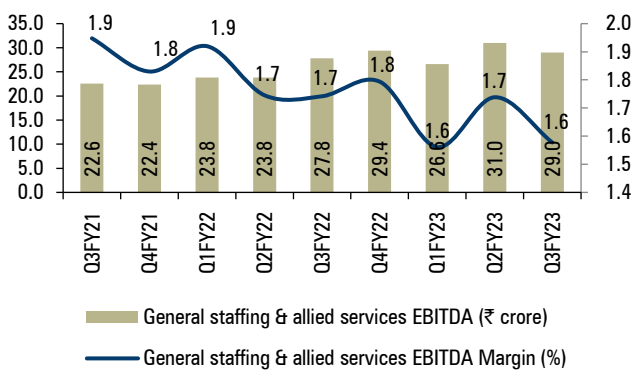
Source: Company, ICICI Direct Research

Exhibit 6: Total revenue grows 2.7% QoQ in Q3



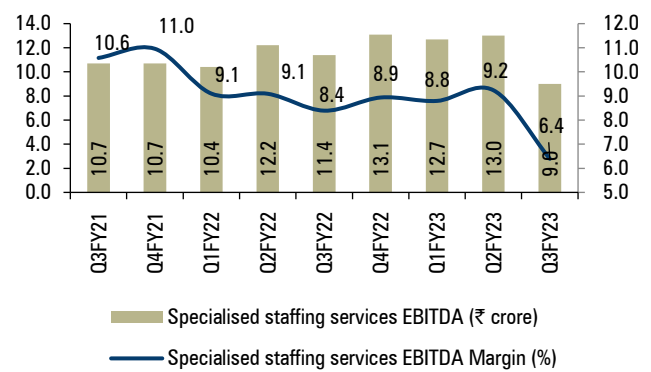
Source: Company, ICICI Direct Research

Exhibit 7: General staffing margins declining



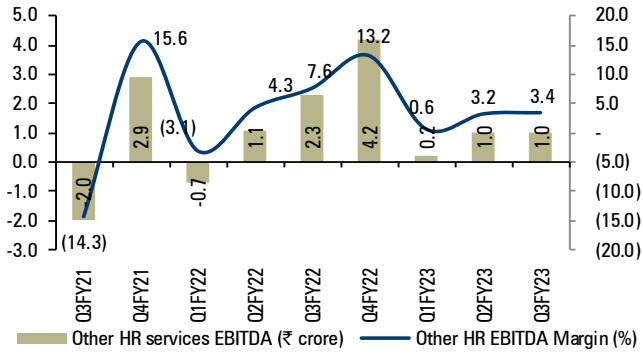
Source: Company, ICICI Direct Research

Exhibit 8: Specialised staffing down due to furlough



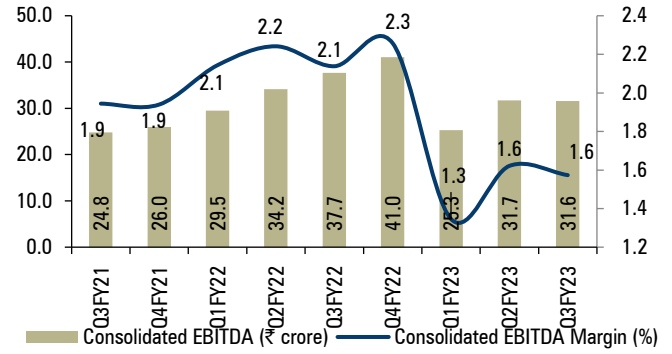
Source: Company, ICICI Direct Research

Exhibit 9: Other HR services EBITDA & EBITDA margin



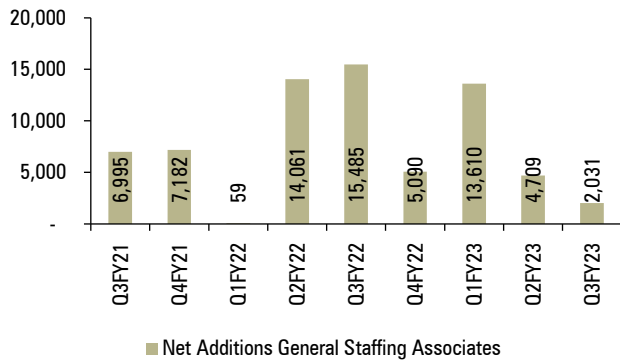
Source: Company, ICICI Direct Research

Exhibit 10: Consolidated EBITDA & margin flat



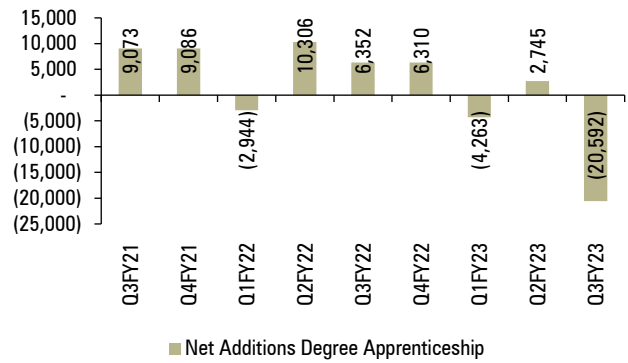
Source: Company, ICICI Direct Research

Exhibit 11: General staffing net additions muted in Q3



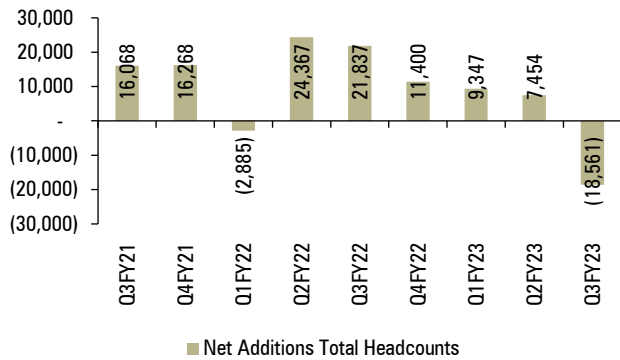
Source: Company, ICICI Direct Research

Exhibit 12: DA declined due to NEEM cancellation



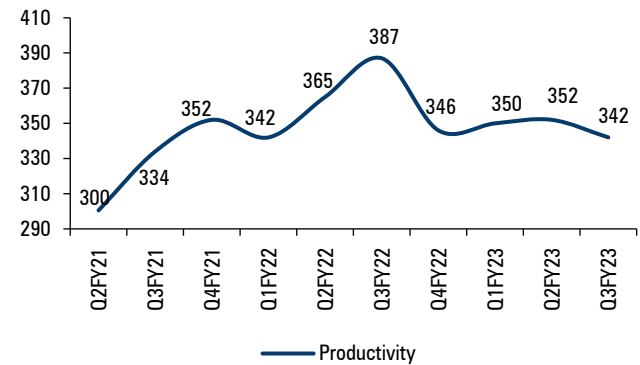
Source: Company, ICICI Direct Research

Exhibit 13: Total net additions



Source: Company, ICICI Direct Research

Exhibit 14: Productivity declines 2.8% QoQ



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	7,888.9	8,581.3	9,288.6
Growth (%)	32.7	21.7	8.8	8.2
Other Income	19.7	23.9	25.7	28.1
Total Revenue	6,499.5	7,912.8	8,607.0	9,316.7
Employee benefits expense	6,180.7	7,581.3	8,246.7	8,917.1
Other Expenses	156.7	157.8	175.9	183.0
Total Operating Expenditure	6,337.5	7,739.0	8,422.6	9,100.1
EBITDA	142.4	149.9	158.8	188.6
Growth (%)	44.5	5.3	5.9	18.8
Interest	4.0	4.0	4.0	4.0
Depreciation	40.8	33.3	36.9	40.8
PBT	117.3	136.5	143.6	171.9
Tax	6.1	9.6	10.1	11.2
PAT	38.4	125.9	132.5	159.7
Exceptional item	(71.8)	-	-	-
Material restatement adjustm	-	-	-	-
Deferred tax adjustments	-	-	-	-
PAT after exceptional items	(33.4)	125.9	132.5	159.7
Growth (%)	(50.4)	227.7	5.2	20.5
Diluted EPS	22.5	73.7	77.5	93.4
Growth (%)	(50.4)	227.7	5.2	20.5

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit before Tax	117.3	136.5	143.6	171.9
Add: Depreciation	40.8	33.3	36.9	40.8
(Inc)/dec in Current Assets	(184.7)	(88.2)	(84.3)	(88.1)
Inc/(dec) in CL and Provisions	88.9	193.2	73.3	74.9
Taxes paid	(59.3)	(9.6)	(10.1)	(11.2)
CF from operating activities	(6.1)	265.3	159.4	188.3
(Inc)/dec in Investments	(65.4)	23.9	25.7	28.1
(Inc)/dec in Fixed Assets	(23.1)	(15.8)	(17.2)	(18.6)
Others	-	-	-	-
CF from investing activities	(88.5)	8.1	8.5	9.5
Inc/(dec) in loan funds	(10.0)	-	-	-
Dividend paid & dividend tax	-	(7.6)	(7.9)	(9.6)
Others	(3.1)	(4.0)	(4.0)	(4.0)
CF from financing activities	(13.1)	(11.5)	(11.9)	(13.5)
Net Cash flow	(107.7)	261.8	156.0	184.3
Exchange difference	-	-	-	-
Opening Cash	259.1	151.4	413.2	569.2
Closing Cash	151.4	413.2	569.2	753.5

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	688.7	807.1	931.6	1,081.7
Total Shareholders funds	705.8	824.2	948.7	1,098.8
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	165.6	180.2	195.0
Long term provisions	-	-	-	-
Liabilities Total	906	1,069	1,208	1,373
Fixed Assets	280.0	241.5	221.8	199.5
Tangible	40.1	34.5	26.5	16.0
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	21.9	23.8	25.8
Long terms loans and advances	50.2	93.4	101.6	110.0
Other non-current assets	266.2	254.9	263.7	272.7
Inventories	-	-	-	-
Trade receivables	369.7	448.9	488.3	528.6
Current Investments	166.8	166.8	166.8	166.8
Cash	176.5	413.2	569.2	753.5
Short term loans and advances	-	9.1	9.9	10.7
Other current assets	275.6	255.5	278.0	300.9
Total Current Assets	988.6	1,293.6	1,512.2	1,760.5
Trade Payable	41.9	57.4	62.4	67.6
Other current liabilities	644.3	828.3	901.0	975.3
Short term provisions	-	-	-	-
Total Current Liabilities	686.2	885.7	963.4	1,042.9
Net Current Assets	302.4	407.8	548.8	717.6
Assets Total	906	1,069	1,208	1,373

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	22.5	73.7	77.5	93.4
Cash EPS	(53.4)	93.1	99.1	117.3
BV	(475.7)	482.1	554.9	642.7
DPS	0.9	3.1	3.3	3.9
Cash Per Share	(119.0)	241.7	333.0	440.8
Operating Ratios (%)				
EBIT Margin	1.6	1.5	1.4	1.6
PBT Margin	1.8	1.7	1.7	1.9
PAT Margin	(0.5)	1.6	1.5	1.7
Debtor days	21	21	21	21
Creditor days	2	3	3	3
Return Ratios (%)				
RoE	(4.7)	15.3	14.0	14.5
RoCE	15.4	15.5	14.3	14.9
RoC	23.1	42.1	49.5	69.3
Valuation Ratios (x)				
P/E	107.3	32.7	31.1	25.8
EV / EBITDA	27.2	24.3	21.9	17.5
EV / Net Sales	0.6	0.5	0.4	0.4
Market Cap / Sales	0.6	0.5	0.5	0.4
Price to Book Value	(5.1)	5.0	4.3	3.8
Solvency Ratios				
Debt / EBITDA	0.6	0.5	0.5	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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