

Teamlease Services

Strong rebound

Teamlease registered strong recovery in growth (+13% QoQ), while the margin performance was below expectation. A sharp recovery in core staffing (+13.8% QoQ, 91% of revenue) was led by recovery in hiring activity in stressed verticals (Manufacturing and Infra) and strong festive demand (Consumer Durables and BFS). The core staffing headcount jumped 8.5% QoQ, led by core/NETAP additions (+4.8/21.1% QoQ) and have reached pre-COVID levels. Core Staffing margin contracted 17bps QoQ to 1.9% (estimate of 2.0%) due to a high proportion of fixed mark-up associates (festive demand), but will improve with growth and improving productivity. The specialised staffing growth was muted (+2.6% QoQ) but margin improved to 10.6% (+145bps QoQ).

Growth will be driven by factors such as (1) recovery in demand in verticals like Auto, e-commerce, BFS and Consumer Durables, (2) vendor consolidation, (3) formalisation of jobs, and (4) change in labour laws. There is scope for margin expansion through productivity benefits, restructuring of HR services and improving business mix. Cash generation also improved due to tax refunds and lower DSO days. We increase our multiple to 33x (30x earlier) to factor in growth recovery in core business and increase EPS by +3.1/2.6% for FY22/23E. Our target price of Rs 3,170 is based on 33x Dec-22E EPS (5Y average P/E of ~35x). The stock is trading at a P/E of 37.6/27.3x FY22/23E. Maintain BUY.

- 3QFY21 highlights:** Revenue stood at Rs 12.75bn, up 13.0% QoQ, vs. our estimate of Rs 12.67bn. Core/Specialised/HR services revenue was up 13.8/2.6/30.3% QoQ. The mark-up was flat Rs 718 and the associate to core ratio increased to 334 (+11.3% QoQ). EBITDA margin for core staffing/IT Staffing/Evolve/IMSI stood at 1.9/14.1/3.9/15.8% and HR services reported loss. Net cash stands at Rs 1.4bn.

Quarterly Financial summary

| YE March (Rs bn) | 3Q FY21 | 3Q FY20 | YoY (%) | 2Q FY21 | QoQ (%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------|---------|---------|---------|---------|---------|-------|-------|-------|-------|-------|
| Net Revenue | 12.75 | 13.51 | -5.6 | 11.29 | 13.0 | 44.48 | 52.01 | 48.76 | 60.63 | 74.44 |
| EBITDA | 0.25 | 0.27 | -9.8 | 0.23 | 7.9 | 0.94 | 0.95 | 1.00 | 1.37 | 1.85 |
| APAT | 0.23 | 0.26 | -10.7 | 0.22 | 7.0 | 0.98 | 0.85 | 0.86 | 1.28 | 1.76 |
| Diluted EPS (Rs) | 13.5 | 15.1 | -10.7 | 12.6 | 7.0 | 57.3 | 49.5 | 50.1 | 75.0 | 103.2 |
| P/E (x) | | | | | | 49.2 | 57.0 | 56.3 | 37.6 | 27.3 |
| EV / EBITDA (x) | | | | | | 49.7 | 50.5 | 47.1 | 33.8 | 24.4 |
| RoE (%) | | | | | | 20.0 | 15.2 | 13.9 | 17.8 | 20.2 |

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

| YE March (Rs Bn) | FY21E Old | FY21E Revised | Change % | FY22E Old | FY22E Revised | Change % | FY23E Old | FY23E Revised | Change % |
|-------------------|-----------|---------------|----------|-----------|---------------|----------|-----------|---------------|----------|
| Revenue | 48.58 | 48.76 | 0.4 | 60.00 | 60.63 | 1.0 | 73.37 | 74.44 | 1.5 |
| EBITDA | 1.07 | 1.00 | -6.6 | 1.48 | 1.37 | -7.5 | 1.96 | 1.85 | -5.5 |
| EBITDA margin (%) | 2.2 | 2.0 | -15bps | 2.5 | 2.3 | -21bps | 2.7 | 2.5 | -18bps |
| APAT | 0.80 | 0.86 | 7.2 | 1.24 | 1.28 | 3.1 | 1.72 | 1.76 | 2.6 |
| EPS (Rs) | 46.7 | 50.1 | 7.2 | 72.7 | 75.0 | 3.1 | 100.5 | 103.2 | 2.6 |

Source: Company, HSIE Research

BUY

| | |
|-------------------------|----------|
| CMP (as on 28 Jan 2021) | Rs 2,819 |
| Target Price | Rs 3,170 |
| NIFTY | 13,818 |

| KEY CHANGES | OLD | NEW |
|--------------|----------|----------|
| Rating | BUY | BUY |
| Price Target | Rs 2,810 | Rs 3,170 |
| EPS % | FY21E | FY22E |
| | +7.2 | +3.1 |

KEY STOCK DATA

| | |
|-----------------------------|----------------|
| Bloomberg code | TEAM IN |
| No. of Shares (mn) | 17 |
| MCap (Rs bn) / (\$ mn) | 48/660 |
| 6m avg traded value (Rs mn) | 77 |
| 52 Week high / low | Rs 2,899/1,415 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|------|------|-------|
| Absolute (%) | 23.8 | 52.5 | 8.5 |
| Relative (%) | 6.4 | 30.8 | (5.9) |

SHAREHOLDING PATTERN (%)

| | Sep-20 | Dec-20 |
|-----------------|--------|--------|
| Promoters | 40.02 | 34.01 |
| FIs & Local MFs | 13.64 | 12.55 |
| FPIs | 37.36 | 38.26 |
| Public & Others | 8.98 | 15.18 |
| Pledged Shares | 0.49 | 0.49 |

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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