10 June 2020

4QFY20 Results Update | Sector: Others

Teamlease

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	29.5 / 0.4
52-Week Range (INR)	3192 / 1421
1, 6, 12 Rel. Per (%)	3/-11/-26
12M Avg Val (INR M)	52

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	52.0	54.6	69.5
EBIT Margin (%)	1.4	1.8	1.9
PAT	0.8	1.2	1.4
EPS (INR)	48.9	67.9	83.0
EPS Gr. (%)	-14.7	38.8	22.3
BV/Sh. (INR)	334.6	402.5	485.5
Ratios			
RoE (%)	15.0	18.4	18.7
RoCE (%)	5.8	16.3	17.3
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	35.2	25.4	20.7
P/BV (x)	5.1	4.3	3.5
EV/EBITDA (x)	31.9	21.4	15.4
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	40.0	40.0	40.8
DII	10.5	9.3	6.2
FII	41.0	43.1	45.2
Others	8.5	7.6	7.8

FII Includes depository receipts

CMP: INR1,728 TP: INR2,600 (+51%) Buy

Strong headroom for margin expansion

Sharp moderation in unemployment provides comfort; Reiterate Buy

- Adjusted for one-offs, TEAM's 4QFY20 results were largely in line with estimates. TEAM's outlook toward a potential recovery from 2QFY21 was encouraging. Sharp moderation in urban unemployment over the previous week (~17% v/s 25% during the lockdown) gives us more confidence on its recovery. We expect the current situation to drive conversion of certain otherwise strictly permanent roles to flexi roles.
- Aggressive cost rationalization measures, full-year consolidation of a higher margin entity (IMSI), and shift in mix toward apprentices provides strong headroom for margin expansion during FY21E (50bp/40bp v/s reported/adjusted EBIT margins in FY20).
- For FY21-22E, we upgrade our EPS estimate by 15% and expect ~31% PAT CAGR. Our DCF-based TP of INR 2,600 implies 32x FY22E EPS. Reiterate **Buy**.

Operationally in line results, adjusted for one-offs

- In 4QFY20, TEAM's revenue/adj. EBIT/adj. PAT grew 14%/-23%/-26% YoY (v/s est. 16%/-19%/-14% YoY). For FY20, revenue / adj. EBIT / adj. PAT grew 17%/-13%/-15% YoY.
- On an organic basis, revenue increased ~13% YoY. Including inorganic contribution from the IMSI, overall revenue growth stood at ~14.3% YoY.
- Across segments, General Staffing grew ~13% YoY and Specialized Staffing reported ~16% YoY (organic) growth. Including contribution from IMSI, Specialized Staffing reported ~34% YoY growth.
- Associate count in General Staffing segment witnessed a drop of ~6k QoQ.
- However, margins in General Staffing and Specialized Staffing segments remained stable, which is encouraging.
- There were one-off items in the reported financials: (a) P&L provision in specialized staffing and other HR services (INR62m), (b) provision write-back from the previous quarters in other HR services (INR45m), (c) MAT credit write-off (INR496m), as the company is moving to the new tax regime, and (d) 80JJAA driven quarterly tax aberrations. Adjusted for these one-offs, reported results were largely in line with our estimates.
- Key operational metrics like RPAPM (INR748 v/s INR751 in 3Q), productivity (264 v/s 266 in 3QFY20) and share of funded clients (14%) remained stable.

Highlights from management commentary

- Management expects ~15-20% headcount reduction in the general staffing segment in 1QFY21. We currently factor in ~5% headcount decline for FY21.
- Stable demand environment is seen in IT and Telecom staffing segments.
- The company expects phased recovery across verticals starting from 2QFY21. Recovery in some verticals like logistics and manufacturing is expected to take longer (over 2HFY21).
- TEAM has reduced its core employee base by ~150. Management hinted at scope for further rationalization of ~300 employees, translating into cost savings of INR10-15m per month.

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- Buoyed by this cost savings and other cost rationalization initiatives, management expects EBIT margins to recover to 1.9% in FY21. We are currently building in 1.8% EBIT margin for the year.
- TDS receivable (amounting to ~INR400m) is expected to get released to the company over the next two months, thereby strengthening its cash position.

Valuation and view – Uncertainty declines meaningfully!

- As the economy prepares for a phased re-opening and given that clients have already incurred the bench cost of associates for the previous two months, it is unlikely that TEAM would see a sharp spike in demobilization requests (May-Jul'20).
- The propensity of enterprises to dodge supply-side disruption risk would be another key tailwind – (a) an increase in the pipeline of open positions in some verticals (NBFCs/Cards and Ecommerce), and (b) a rise in sales, logistics, collection agents, and customer service role requirements in a post-lockdown economy, which should drive resilience.
- Additionally, the current situation should also drive the conversion of certain otherwise strictly permanent roles to flexi roles.
- Significant pull-back in urban unemployment rate over the previous week (~17% v/s 25% during lockdown; Source – CMIE) gives us further comfort.
- As the government looks forward to liberalizing and formalizing the labor markets, TEAM should be among the biggest direct beneficiaries.
- We upgrade our EPS estimate for FY21-22E by 15%, given the positive commentary around (a) recovery, and (b) EBIT margin expansion. Our DCF based TP of INR2,600 implies 32x FY22E EPS. Reiterate **Buy**.

Consolidated Quarterly Performance (INR m)

	FY19				FY20				FY19	FY20	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QFY20	(% / bp)
Revenue	10,213	10,907	11,722	11,634	12,512	12,678	13,514	13,303	44,476	52,007	13,495	-1%
YoY Change (%)	19.7%	24.6%	28%	19.0%	22.5%	16%	15%	14.3%	23%	17%	16.0%	
Total income from operations	10,213	10,907	11,722	11,634	12,512	12,678	13,514	13,303	44,476	52,007	13,495	-1%
YoY Change (%)	19.7%	24.6%	27.7%	19.0%	22.5%	16.2%	15.3%	14.3%	22.7%	16.9%	16.0%	-165bQ
Total Expenditure	10,012	10,666	11,477	11,377	12,281	12,433	13,239	13,104	43,531	51,056	13,230	-1%
Reported EBITDA	202	240	245	257	232	245	275	199	945	951	265	-25%
Margins (%)	2.0%	2.2%	2.1%	2.2%	1.9%	1.9%	2.0%	1.5%	2.1%	1.8%	2.0%	-46bQ
Adj. EBITDA	202	240	245	257	232	245	275	261	945	1,013	265	-1%
Margins (%)	2.0%	2.2%	2.1%	2.2%	1.9%	1.9%	2.0%	2.0%	2.1%	1.9%	2.0%	0bQ
Depreciation	27	29	25	25	61	66	76	83	105	286	76	
Reported EBIT	175	211	220	232	171	179	199	116	839	665	189	-38%
Margins (%)	1.7%	1.9%	1.9%	2.0%	1.4%	1.4%	1.5%	0.9%	1.9%	1.3%	1.4%	-52bQ
Adj. EBIT	175	211	220	232	171	179	199	178	839	727	189	-5%
Margins (%)	1.7%	1.9%	1.9%	2.0%	1.4%	1.4%	1.5%	1.3%	1.9%	1.4%	1.4%	-6bQ
Interest	11	14	13	14	28	29	29	37	52	123	29	27%
Other Income	52	40	36	52	35	54	73	147	181	308	70	110%
PBT before EO expense	217	238	243	270	178	204	243	227	968	851	230	-1%
Share of profit from associate	-1	-1	0	-2	-5	-9	-4	-3	-4	-21	-5	0
Reported PBT	216	237	244	268	173	195	238	224	964	830	225	0%
Adj. PBT	216	237	244	268	173	195	238	214	964	820	225	-5%
Tax	-3	-12	-9	8	-15	-6	-16	518	-16	480	0	
Rate (%)	-1%	-5%	-4%	3%	-9%	-3%	-7%	232%	-2%	58%	0%	23160bQ
Reported PAT	218	249	253	260	188	202	255	-294	980	350	225	-231%
YoY Change (%)	33%	43%	37%	23%	-14%	-19%	1%	-213%	33%	-64%	-14%	-19940bQ
Margins (%)	2.1%	2.3%	2.2%	2.2%	1.5%	1.6%	1.9%	-2.2%	2.2%	0.7%	1.7%	-388bQ
Adjusted PAT	218	249	253	260	188	202	255	192	980	836	225	-15%
YoY Change (%)	33%	43%	37%	23%	-14%	-19%	1%	-26%	33%	-15%	-14%	-1264bQ
Margins (%)	2.1%	2.3%	2.2%	2.2%	1.5%	1.6%	1.9%	1.4%	2.2%	1.6%	1.7%	-22bQ

Key Perfor. Indicators

Y/E March	FY19				FY20				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Headcount										
General staffing associates	1,37,735	1,45,145	1,52,693	1,54,095	1,60,614	1,65,029	1,67,216	1,61,365	1,54,095	1,61,365
Apprentices	47,493	48,725	52,525	56,169	57,292	51,341	52,388	50,620	56,169	50,620
Specialised staffing	6,407	6,065	6,117	5,947	6,858	6,549	8,244	8,225	5,947	8,225
Core Employees	**1,726**	**1,704**	**1,708**	**1,687**	**1,818**	**2,005**	**2,150**	**2,128**	**1,687**	**2,128**
Revenue										
General staffing	9,161	9,773	10,617	10,565	11,306	11,392	12,161	11,954	40,115	46,813
Specialised staffing	750	756	792	794	982	1,005	1,046	1,065	3,092	4,098
Other HR Services	303	377	314	275	224	282	306	284	1,269	1,096
Operating Margins										
General staffing	1.6	1.8	2.0	2.3	2.0	1.8	1.6	0.0	1.9	1.9
Specialised staffing	7.2	7.7	6.2	6.0	6.4	6.1	7.4	0.1	6.7	6.6
Other HR Services	7.4	10.1	0.3	5.5	(28.3)	(1.3)	1.9	(0.1)	6.0	(9.2)

Management commentary highlights

- Management expects ~15-20% headcount reduction in the general staffing segment in 1QFY21. We currently factor in ~5% headcount decline for FY21.
- Stable demand environment is seen in IT and Telecom staffing segments.
- The company expects phased recovery across verticals starting from 2QFY21. Recovery in some verticals like logistics and manufacturing is expected to take longer (over 2HFY21).
- TEAM has reduced its core employee base by ~150. Management hinted at scope for further rationalization of ~300 employees, translating into cost savings of INR10-15m per month.
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Operationally in line results; Adjusted for one-offs

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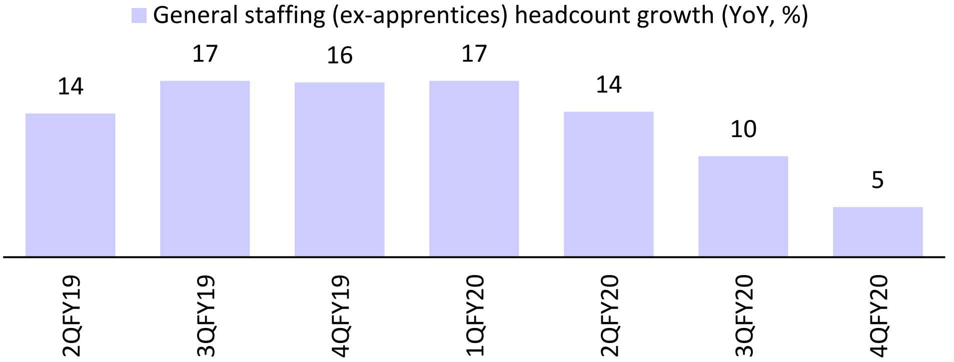
driven quarterly tax aberrations. Adjusted for these one-offs, reported results were largely in line with our estimates.

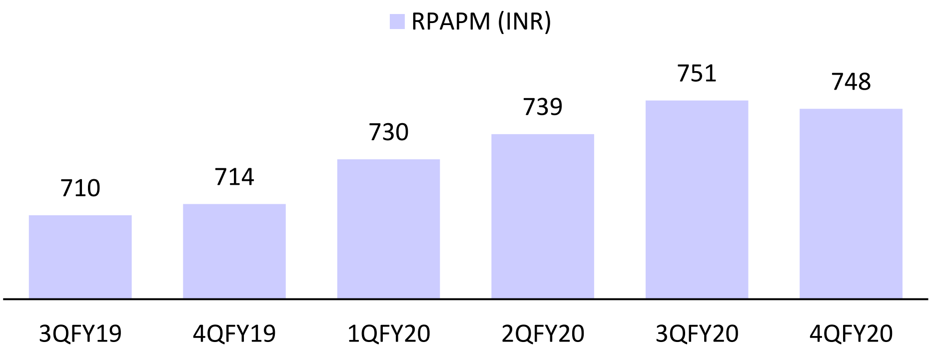
- Key operational metrics like RPAPM (INR748 v/s INR751 in 3Q), productivity (264 v/s 266 in 3QFY20) and share of funded clients (14%) remained stable.

Exhibit 1: Weak growth in general staffing led by softness in Mar'20 due to COVID-19



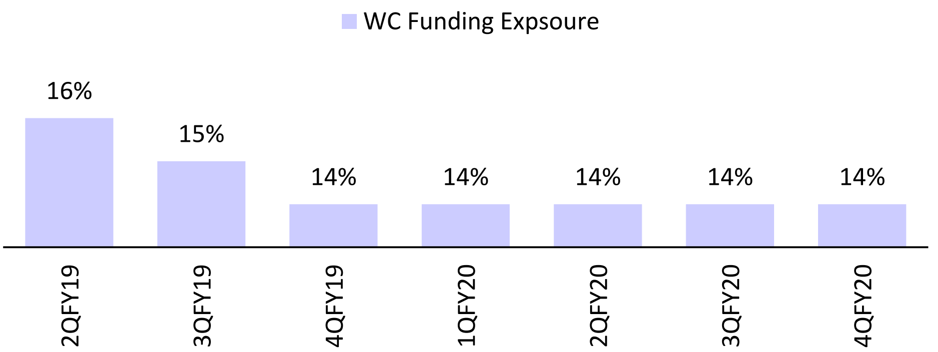
Source: Company, MOFSL

Exhibit 2: Despite the weakness in headcount addition, realizations are largely stable



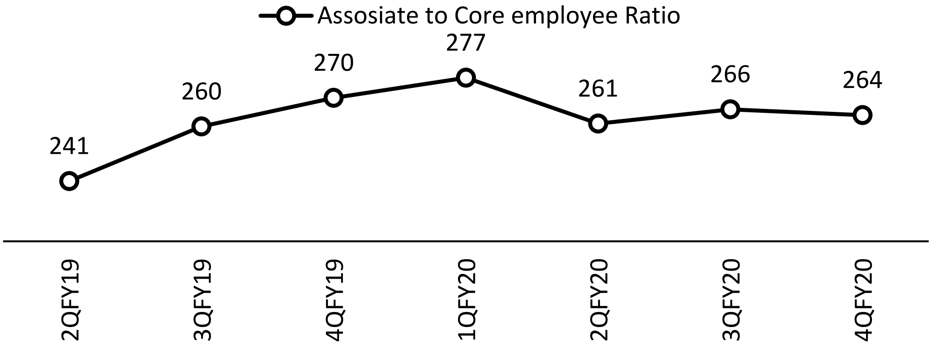
Source: Company, MOFSL

Exhibit 3: Working capital funding exposure of TEAM remains constant at 14%



Source: Company, MOFSL

Exhibit 4: Associate to core ratio remained largely stable



Source: Company, MOFSL

Valuation view

- As the economy prepares for a phased re-opening and given that clients have already incurred the bench cost of associates for the previous two months, it is unlikely that TEAM would see a sharp spike in demobilization requests (May-Jul'20).
- The propensity of enterprises to dodge supply-side disruption risk would be another key tailwind – (a) an increase in the pipeline of open positions in some verticals (NBFCs/Cards and Ecommerce), and (b) a rise in sales, logistics, collection agents, and customer service role requirements in a post-lockdown economy, which should drive resilience.
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Financials and valuations

Income Statement (INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	**20,071**	**25,049**	**30,419**	**36,241**	**44,476**	**52,007**	**54,615**	**69,464**
Change (%)	31.2	24.8	21.4	19.1	22.7	16.9	5.0	27.2
Employee Benefit Expense	19,445	24,391	29,377	34,712	41,971	49,365	51,339	65,270
Other Expense	385	400	599	841	1,560	1,691	1,988	2,527
Total Expenditure	**19,830**	**24,791**	**29,976**	**35,553**	**43,531**	**51,056**	**53,327**	**67,797**
% of Sales	98.8	99.0	98.5	98.1	97.9	98.2	97.6	97.6
EBITDA	**240**	**258**	**443**	**688**	**945**	**951**	**1,288**	**1,667**
Margin (%)	1.2	1.0	1.5	1.9	2.1	1.8	2.4	2.4
Depreciation	27	30	43	92	105	286	288	348
EBIT	**213**	**228**	**400**	**596**	**839**	**665**	**1,000**	**1,319**
Int. and Finance Charges	1	4	11	25	52	123	120	120
Other Income	114	154	224	154	177	288	280	220
PBT bef. EO Exp.	**326**	**378**	**613**	**725**	**964**	**830**	**1,160**	**1,419**
EO Items	0	0	0	0	0	0	0	0
PBT	**326**	**378**	**613**	**725**	**964**	**830**	**1,160**	**1,419**
Total Tax	18	130	-50	-9	-16	480	0	0
Tax Rate (%)	5.5	34.4	-8.2	-1.3	-1.7	57.8	0.0	0.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	**308**	**248**	**663**	**735**	**980**	**350**	**1,160**	**1,419**
Adjusted PAT	**308**	**248**	**663**	**735**	**980**	**836**	**1,160**	**1,419**
Change (%)	73.2	-19.4	167.5	10.7	33.4	-14.7	38.8	22.3
Margin (%)	1.5	1.0	2.2	2.0	2.2	1.6	2.1	2.0

Balance Sheet (INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	5	171	171	171	171	171	171	171
Total Reserves	1,480	2,945	3,640	4,246	5,220	5,550	6,710	8,129
Net Worth	**1,485**	**3,116**	**3,811**	**4,417**	**5,391**	**5,721**	**6,881**	**8,300**
Total Loans	228	526	435	559	767	1,854	1,280	1,342
Capital Employed	**1,713**	**3,642**	**4,247**	**4,976**	**6,158**	**7,575**	**8,161**	**9,642**
Net Fixed Assets	**95**	**111**	**1,029**	**1,378**	**1,578**	**2,360**	**1,361**	**1,361**
Total Investments	**0**	**0**	**103**	**593**	**414**	**253**	**253**	**253**
Curr. Assets, Loans&Adv.	**3,354**	**5,629**	**5,641**	**6,491**	**8,251**	**9,795**	**12,153**	**15,164**
Inventory	2	2	2	0	0	0	3	4
Account Receivables	805	1,205	1,872	2,235	2,643	2,959	3,441	3,997
Cash and Bank Balance	1,147	2,590	1,593	1,424	1,230	970	3,183	5,163
Loans and Advances	1,400	1,832	2,174	2,832	4,377	5,866	5,526	6,001
Curr. Liability & Prov.	**1,792**	**2,144**	**2,677**	**3,885**	**4,737**	**4,977**	**5,751**	**7,280**
Other Current Liabilities	1,702	2,051	2,525	3,661	4,347	4,490	5,517	7,017
Provisions	90	93	152	224	391	487	234	263
Net Current Assets	**1,562**	**3,485**	**2,964**	**2,606**	**3,513**	**4,818**	**6,403**	**7,884**
Deferred Tax assets	56	45	149	399	653	144	144	144
Appl. of Funds	**1,713**	**3,642**	**4,247**	**4,976**	**6,158**	**7,575**	**8,161**	**9,642**

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	**18.0**	**14.5**	**38.8**	**43.0**	**57.3**	**48.9**	**67.9**	**83.0**
Cash EPS	19.6	16.3	41.3	48.3	63.5	65.6	84.7	103.4
BV/Share	86.9	182.2	222.9	258.3	315.3	334.6	402.5	485.5
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	95.6	118.7	44.4	40.1	30.0	35.2	25.4	20.7
Cash P/E	87.9	105.9	41.7	35.6	27.1	26.2	20.3	16.7
P/BV	19.8	9.4	7.7	6.7	5.5	5.1	4.3	3.5
EV/Sales	1.4	1.1	0.9	0.8	0.7	0.6	0.5	0.4
EV/EBITDA	118.6	106.2	63.8	41.5	30.7	31.9	21.4	15.4
FCF per share	17.8	-8.9	18.3	69.5	11.5	-25.0	91.5	136.1
Return Ratios (%)								
RoE	23.0	10.8	19.2	17.9	20.0	15.0	18.4	18.7
RoCE	20.0	9.4	17.1	16.5	18.6	5.8	16.3	17.3
RoIC	36.5	18.5	24.0	21.9	22.8	5.2	18.1	29.5
Working Capital Ratios								
Asset Turnover (x)	11.7	6.9	7.2	7.3	7.2	6.9	6.7	7.2
Debtor (Days)	15	18	22	23	22	21	23	21
Leverage Ratio (x)								
Current Ratio	1.9	2.6	2.1	1.7	1.7	2.0	2.1	2.1
Interest Cover Ratio	153.5	58.1	36.5	24.2	16.1	5.4	8.3	11.0
Net Debt/Equity	-0.6	-0.7	-0.3	-0.3	-0.2	0.1	-0.3	-0.5

Cash Flow Statement **(INR m)**

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	316	378	613	725	964	830	1,160	1,419
Depreciation	27	30	43	92	105	286	288	348
Interest & Finance Charges	-65	-99	-114	132	128	186	180	120
Direct Taxes Paid	17	-265	-191	9	16	-480	0	0
(Inc)/Dec in WC	48	-150	-19	252	-927	-1,134	54	561
CF from Operations	**343**	**-105**	**332**	**1,210**	**287**	**-313**	**1,682**	**2,448**
Others	0	0	0	0	0	0	0	0
CF from Operating incl EO	**343**	**-105**	**332**	**1,210**	**287**	**-313**	**1,682**	**2,448**
(Inc)/Dec in FA	-38	-47	-18	-22	-91	-115	-118	-122
Free Cash Flow	**305**	**-152**	**314**	**1,188**	**196**	**-428**	**1,564**	**2,326**
(Pur)/Sale of Investments	-186	-1,192	-202	0	0	0	0	0
Others	-20	52	51	0	0	0	0	0
CF from Investments	**-244**	**-1,187**	**-169**	**-22**	**-91**	**-115**	**-118**	**-122**
Issue of Shares	0	1,380	-2	0	0	0	0	0
Inc/(Dec) in Debt	-8	194	-399	62	33	656	0	0
Interest Paid	-1	-4	-11	0	0	0	0	0
CF from Fin. Activity	**-10**	**1,569**	**-412**	**62**	**33**	**656**	**0**	**0**
Inc/Dec of Cash	**89**	**277**	**-249**	**1,250**	**230**	**229**	**1,564**	**2,326**
Opening Balance	129	218	496	1,593	1,424	1,230	970	3,183
Closing Balance	**218**	**496**	**247**	**2,843**	**1,654**	**1,459**	**2,534**	**5,509**

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

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