

Estimate change



TP change



Rating change


CMP: INR3,766
TP: INR 3,520 (-7%)
Neutral

Margin weakness to temper strong revenue growth

Valuations remain full, retain our Neutral rating

- Revenue rose 3.4% QoQ, led by General staffing (up 4%), while Other HR Services (down 2.7%) and Specialized Staffing (down 1.5%) dipped in 1QFY23. It added ~9k associates, despite a decline of 5k associates in NETAP, indicating a strong demand environment. EBITDA margin (at 1.34%) was a large miss, down 90bp QoQ and 80bp YoY v/s our expectation of a 30bp decline, driven by salary increases, investment in the core team, and the impact from Ind AS 116 due to a change in office premises.
- The management remains positive on its growth outlook as supportive macro and new logo additions boost demand for associates. We expect TEAM to report good revenue growth in all verticals on a continued improvement in General Staffing, a pickup in HR Services, increased demand for manpower, and higher margin replacements in the IT Staffing business.
- EBITDA margin declined on account of multiple factors (core salary hikes, Ind AS 116, seasonality in HR Services, and associated cost inflation) in 1QFY23. While the management expressed its confidence of reaching its FY22 EBITDA margin by 4QFY23, we expect a more gradual increase in margin to 2.1% in 4Q, given the structural margin drag due to TEAM's difficulty in improving PAPM. We expect the company to deliver 1.8%/2% EBITDA margin in FY23/FY24, which will result in a more modest earnings growth, despite a robust demand-led revenue performance. We expect TEAM's earnings growth to be ~26% over FY22-24 and feel it is already priced into the stock price.
- While we remain positive on the medium- to long-term opportunities, as it should gain from the formalization of the labor market, there is near term margin pressure and uncertainty over income tax benefits claimed by TEAM. We feel it is fairly valued and hence maintain our **Neutral** rating.
- We are lowering our FY23/FY24 estimate by -12%/-3% to factor in lower margin. Our TP of INR3,520/share implies 34x FY24E EPS.

Strong revenue growth, big margin miss

- Revenue growth, at 3.4% QoQ and 36.5% YoY, was a little ahead of our estimate of 2.3% QoQ and 35% YoY. Growth was led by General Staffing (up 4% QoQ), while other HR Services (down 2.7% QoQ) and Specialized Staffing (down 1.5%) dipped in 1QFY23.
- The biggest miss was in EBITDA margin (at 1.34% in 1QFY23), down 90bp QoQ and 80bp YoY, v/s our estimate of a 30bp decline. Segmental margin in General Staffing (1.5%) and Specialized Staffing (8.4%) fell 20bp QoQ each, while HR Staffing reported losses (down 3% v/s 8% in 4QFY22) and contributed 20bp to the decline.
- PAT rose 9% YoY (est. 22%) to INR265m, benefitting from higher other income in 1QFY23.

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Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	64.4 / 0.8
52-Week Range (INR)	5544 / 2912
1, 6, 12 Rel. Per (%)	16/-5/-9
12M Avg Val (INR M)	138

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	64.8	83.5	103.5
EBIT Margin (%)	1.6	1.3	1.6
PAT	1.1	1.3	1.8
EPS (INR)	65.1	75.3	103.4
EPS Gr. (%)	25.4	15.8	37.2
BV/Sh. (INR)	412.8	524.1	627.5
Ratios			
RoE (%)	16.3	16.1	18.0
RoCE (%)	12.7	14.3	17.0
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	57.9	50.0	36.4
P/BV (x)	9.1	7.2	6.0
EV/EBITDA (x)	45.2	41.3	28.2
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	31.5	31.5	34.0
DII	21.1	21.2	17.6
FII	37.4	37.5	37.1
Others	9.9	9.8	11.3

FII Includes depository receipts

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Key highlights from the management commentary

- The management remains optimistic about its growth prospects and suggested that there are a lot of open positions that can fuel growth in 2QFY23.
- In 1QFY23, margin was impacted by: 1) higher unallocated expenses of ~80bp as it shifted to a new office and a one-time Ind AS 116 impact of 40bp (sustainable run-rate for unallocated expenses is INR60-70m), 2) higher salary hikes to core employees (12% v/s the normal hike of 7-8%), 3) seasonality in the EdTech business, and 4) the timing gap between recognition and creation of certain provisions.
- The management said it will improve its 4QFY23 exit margin to FY22's exit margin levels.

A key beneficiary of formalization

- Over the medium term, as the Centre and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries.
- Though we are positive on growth (as demand remains strong), we are cautious on near-term uncertainties due to an on-going Income Tax dispute and lower margin.
- We are lowering our FY23/FY24 estimate by -12%/-3% to factor lower margin. Our TP of INR3,520/share implies 34x FY24E EPS.

Consolidated quarterly performance

	FY22				FY23				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY22	FY23	FY23E	Var. (%/bp)
Revenue	13,768	15,236	17,621	18,174	18,794	19,806	21,850	23,081	64,798	95,012	18,587	1%
Change (YoY %)	21%	34.9%	38%	36%	37%	30%	24%	27%	33%	47%	35.0%	
Total Expenditure	13,473	14,894	17,244	17,764	18,541	19,479	21,435	22,596	63,375	82,051	18,224	2%
Reported EBITDA	295	342	377	410	253	327	415	485	1,424	12,961	362	-30%
Margin (%)	2.1%	2.2%	2.1%	2.3%	1.3%	1.7%	1.9%	2.1%	2.2%	13.6%	2.0%	-60bp
Reported EBIT	203	230	279	304	163	237	325	395	1,016	12,556	262	-38%
Margin (%)	1.5%	1.5%	1.6%	1.7%	0.9%	1.2%	1.5%	1.7%	1.6%	13.2%	1.4%	-54bp
Interest	8	14	10	8	7	10	10	10	40	37	10	-32%
Other Income	46	54	51	47	123	50	50	50	197	273	60	104%
PBT before EO expense	240	270	319	343	279	277	365	435	1,173	12,791	312	-11%
Extra-Ord. expense	-26	750	0	-6	0	0	0	0	718	0	0	
Reported PBT	266	-480	319	350	279	277	365	435	456	12,791	312	-11%
Tax	-3	14	17	33	14	14	18	22	61	67	16	
Rate (%)	-1%	-3%	5%	10%	5%	5%	5%	5%	13%	1%	5%	-12bp
Reported PAT	269	-493	302	316	265	263	347	413	395	12,724	297	-11%
Change (YoY %)	57%	-365%	31%	61%	-1%	-153%	15%	31%	-50%	3125%	10%	-1174bp
Margin (%)	2.0%	-3.2%	1.7%	1.7%	1.4%	1.3%	1.6%	1.8%	0.6%	13.4%	1.6%	-19bp
Adjusted PAT	243	257	302	310	265	263	347	413	1,112	1,288	297	-11%
Change (YoY %)	42%	19%	31%	15%	9%	2%	15%	33%	25%	16%	22%	-1298bp
Margin (%)	1.8%	1.7%	1.7%	1.7%	1.4%	1.3%	1.6%	1.8%	1.7%	1.4%	1.6%	-19bp

Key performance indicators

Y/E March	FY22				FY23	FY22
	1Q	2Q	3Q	4Q	1Q	
Headcount						
General Staffing associates	1,60,014	1,74,075	1,89,560	1,94,650	2,08,260	1,94,650
Apprentices	58,142	68,448	74,800	81,110	76,847	81,110
Specialized Staffing	7,817	8,713	9,140	9,470	9,800	9,470
Revenue						
General Staffing	12,397	13,637	15,960	16,389	17,039	58,383
Specialized Staffing	1,143	1,342	1,359	1,466	1,444	5,309
Other HR Services	228	257	302	319	311	1,105
Operating Margin						
General Staffing	1.9	1.6	1.7	1.7	1.5	1.7
Specialized Staffing	8.5	8.7	8.1	8.6	8.4	8.5
Other HR Services	(7.4)	0.5	4.1	8.2	(3.1)	2.1



Key highlights from the management commentary

1Q performance and demand outlook

- TEAM added ~9,000 employees with good revenue growth in 1QFY23.
- The management remains optimistic about its growth prospects and suggested that there are a lot of open positions that can fuel growth in 2QFY23.
- There was some tightening in Manufacturing in 1QFY23.
- TEAM added 125 new logos in 1QFY23.

General Staffing

- There were many layoffs in 1QFY23, with the slowdown impacting FinTechs, e-commerce, and new-age Tech companies.
- Discussions with customers suggest that the companies will continue ramping up Contract Staffing. Customers were prompt in filling positions.
- Margin was affected due to wage hikes, without a corresponding increase in PAPM.
- TEAM added ~13,000 associates in General Staffing in 1QFY23.
- Festive demand will accrue at the end of 2Q and early 3QFY23. Retail demand from rural India will come into play. Companies have planned for headcount positions, which will accrue from the second-half of 2QFY23.

Specialized Staffing

- TEAM saw a delay in hiring in the early part of 1QFY23.
- Margin was affected due to an increased wage bill and increase in tech investments.
- TEAM added 15 new logos in Specialized Staffing in 1QFY23.
- The demand in IT remains robust as it is in a super-cycle.
- In Telecom, it is replacing non-Tech mandates with Tech mandates, which will drive better margin going forward.

NETAP

- NETAP is four industry-led business: Auto, BFSI, Technology, and Consumer, Retail, and e-commerce.

- The dip in headcount was led by a large absorption by a client and slowdown in three business verticals.
- The management expects the slowdown to be temporary and should recover going forward.
- It added 31 new logos in 1QFY23.
- The management's focus will remain on scaling the business, building compelling products, rapid digital adoption, and to expand the supply network.
- TEAM is trying to create a degree program, which will improve realizations by INR200-300 (from INR550-560 at present).

Margin outlook

- In 1QFY23, margin was impacted by: 1) higher unallocated expenses of ~80bp as it shifted to a new office and a one-time Ind AS 116 impact of 40bp (sustainable run-rate for unallocated expenses is INR60-70m), 2) higher salary hikes to core employees (12% v/s the normal hike of 7-8%), 3) seasonality in the EdTech business, and 4) the timing gap between recognition and creation of certain provisions.
- The management said it will improve its 4QFY23 exit margin to FY22's exit margin levels.

Other

- It is looking for inorganic growth opportunities in HR Tech and has an active M&A pipeline.
- PF migration is expected to be completed by the end of Sep'22.
- On the 80JJAA matter, TEAM is still awaiting a response from the court.

A key beneficiary of formalization

- Over the medium term, as the Centre and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries.
- Though we are positive on growth (as demand remains strong), we are cautious on near-term uncertainties due to an on-going Income Tax dispute and lower margin.
- We are lowering our FY23/FY24 estimate by -12%/-3% to factor lower margin. Our TP of INR3,520/share implies 34x FY24E EPS.

Exhibit 1: Revisions to our estimates

	Revised estimates		Earlier estimates		Change (%/bp)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue (INR m)	83,531	1,03,472	84,095	1,04,162	-0.7%	-0.7%
Revenue growth (%)	28.9%	23.9%	29.8%	23.9%	-90bps	0bps
EBITDA (INR m)	1,480	2,101	1,784	2,211	-17.0%	-5.0%
EBITDA margin (%)	1.8%	2.0%	2.1%	2.1%	-30bps	-10bps
EBIT (INR m)	1,120	1,701	1,384	1,771	-19.1%	-4.0%
EBIT margin (%)	1.3%	1.6%	1.6%	1.7%	-30bps	-10bps
EPS (INR)	75.3	103.4	85.9	106.9	-12.3%	-3.3%

Source: MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	30,419	36,241	44,476	52,007	48,815	64,798	83,531	1,03,472
Change (%)	21.4	19.1	22.7	16.9	-6.1	32.7	28.9	23.9
Employee Benefit Expense	29,377	34,712	41,971	49,365	46,870	61,807	79,915	98,733
Other Expense	599	841	1,560	1,691	960	1,567	2,136	2,639
Total Expenditure	29,976	35,553	43,531	51,056	47,830	63,375	82,051	1,01,372
As a percentage of Sales	98.5	98.1	97.9	98.2	98.0	97.8	98.2	98.0
EBITDA	443	688	945	951	985	1,424	1,480	2,101
Margin (%)	1.5	1.9	2.1	1.8	2.0	2.2	1.8	2.0
Depreciation	43	92	105	286	337	408	360	400
EBIT	400	596	839	665	648	1,016	1,120	1,701
Int. and Finance Charges	11	25	52	123	69	40	37	40
Other Income	224	154	177	288	336	197	273	200
PBT bef. EO Exp.	613	725	964	830	915	1,173	1,355	1,861
EO Items	0	0	0	0	-30	-750	0	0
PBT	613	725	964	830	885	423	1,355	1,861
Total Tax	-50	-9	-16	480	101	61	67	93
Tax Rate (%)	-8.2	-1.3	-1.7	57.8	11.4	14.4	5.0	5.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	663	735	980	350	785	362	1,288	1,768
Adjusted PAT	663	735	980	836	887	1,112	1,288	1,768
Change (%)	167.5	10.7	33.4	-14.7	6.1	25.4	15.8	37.2
Margin (%)	2.2	2.0	2.2	1.6	1.8	1.7	1.5	1.7

Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	171	171	171	171	171	171	171	171
Total Reserves	3,640	4,246	5,220	5,550	6,389	6,887	8,790	10,557
Net Worth	3,811	4,417	5,391	5,721	6,560	7,058	8,961	10,728
Total Loans	435	559	767	1,854	1,070	1,702	729	812
Capital Employed	4,247	4,976	6,158	7,575	7,630	8,760	9,690	11,540
Net Fixed Assets	1,029	1,378	1,578	2,360	2,499	2,512	2,345	2,175
Total Investments	103	593	414	253	700	533	1,374	1,374
Curr. Assets, Loans, and Adv.	5,641	6,491	8,251	9,795	9,860	12,332	14,693	18,766
Account Receivables	1,872	2,235	2,643	2,959	2,777	3,697	4,806	5,953
Cash and Bank Balance	247	671	504	126	2,593	1,765	4,019	6,010
Loans and Advances	3,520	3,585	5,103	6,710	4,490	6,870	5,864	6,798
Curr. Liability and Prov.	2,677	3,885	4,737	4,977	5,478	6,644	8,771	10,825
Other Current Liabilities	2,525	3,661	4,347	4,490	4,962	6,010	8,438	10,452
Provisions	152	224	391	487	516	634	334	373
Net Current Assets	2,964	2,606	3,513	4,818	4,382	5,688	5,921	7,941
Deferred Tax assets	149	399	653	144	50	26	50	50
Appl. of Funds	4,247	4,976	6,158	7,575	7,630	8,760	9,690	11,540

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	38.8	43.0	57.3	48.9	51.9	65.1	75.3	103.4
Cash EPS	41.3	48.3	63.5	65.6	71.6	88.9	96.4	126.8
BV/Share	222.9	258.3	315.3	334.6	383.7	412.8	524.1	627.5
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 ratio	97.0	87.6	65.7	77.0	72.6	57.9	50.0	36.4
Cash P/E ratio	91.2	77.9	59.3	57.4	52.6	42.4	39.1	29.7
P/BV ratio	16.9	14.6	11.9	11.3	9.8	9.1	7.2	6.0
EV/Sales ratio	2.1	1.8	1.5	1.3	1.3	1.0	0.7	0.6
EV/EBITDA ratio	145.8	93.4	68.4	69.5	63.8	45.2	41.3	28.2
FCF per share	18.3	45.0	-13.8	-3.5	171.4	-11.4	148.8	107.1
Return Ratios (%)								
RoE	19.2	17.9	20.0	15.0	14.4	16.3	16.1	18.0
RoCE	17.1	16.5	18.6	5.8	11.5	12.7	14.3	17.0
RoIC	12.3	15.9	19.1	4.5	10.0	16.1	19.8	38.2
Working Capital Ratios								
Asset Turnover (x)	7.2	7.3	7.2	6.9	6.4	7.4	8.6	9.0
Debtor (Days)	22	23	22	21	21	21	21	21
Leverage Ratio (x)								
Current Ratio	2.1	1.7	1.7	2.0	1.8	1.9	1.7	1.7
Interest Coverage Ratio	36.5	24.2	16.1	5.4	9.4	25.6	30.4	42.5
Net Debt/Equity ratio	0.0	-0.2	0.0	0.3	-0.3	-0.1	-0.5	-0.6

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)								
OP/(Loss) before Tax	613	728	968	851	885	456	1,355	1,861
Depreciation	43	92	105	286	337	408	360	400
Interest and Finance Charges	-114	-28	-49	122	-93	608	-236	-160
Direct Taxes Paid	-191	-655	-862	-855	1,378	-593	-67	-93
(Inc.)/Dec. in WC	-19	656	-285	-307	525	-939	1,324	53
CF from Operations	332	792	-124	97	3,033	-61	2,736	2,061
Others	0	0	0	0	0	0	0	0
CF from Operations incl. EO	332	792	-124	97	3,033	-61	2,736	2,061
(Inc.)/Dec. in FA	-18	-23	-113	-157	-103	-134	-193	-230
Free Cash Flow	314	769	-236	-61	2,930	-195	2,543	1,831
(Pur.)/Sale of Investments	-202	-202	105	-431	-743	-807	0	0
Others	51	-10	26	115	723	305	236	160
CF from Investments	-169	-235	18	-473	-123	-636	43	-70
Issue of Shares	-2	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	-399	-109	-12	117	-378	-100	-277	0
Interest Paid	-11	-25	-49	-118	-66	-31	0	0
CF from Fin. Activity	-412	-133	-61	-1	-444	-131	-277	0
Inc./Dec. in Cash	-249	424	-167	-377	2,467	-828	2,503	1,991
Opening Balance	496	247	671	504	127	2,593	1,516	4,019
Closing Balance	247	671	504	127	2,593	1,765	4,019	6,010

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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