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20
YEARS

Initiating Coverage TeamLease Services

01 December-2020





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Staffing Services	Rs 2500	Buy in the band of Rs 2300-2310 and add on dips to Rs 2085-2095	Rs 2522	Rs 2774	2 quarters

HDFC Scrip Code	TEASEREQNR
BSE Code	539658
NSE Code	TEAMLEASE
Bloomberg Code	TEAM: IN
CMP Nov 27, 2020	2500
Equity Capital (Rs cr)	17.1
Face Value (Rs)	10
Equity Share O/S (cr)	1.71
Market Cap (Rs cr)	4247
Book Value (Rs)	335
Avg. 52 Wk Volumes	39288
52 Week High	2908
52 Week Low	1422

Share holding Pattern % (Sep, 2020)	
Promoters	40
Institutions	54.3
Non Institutions	5.7
Total	100.0

Fundamental Research Analyst

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Our Take

TeamLease Services is a prominent leader in the staffing industry, with a market share of 6%, it is a provider of human resources services to various industries. It offers staffing, payroll processing, recruitment, compliance and training services. A gradual movement from unorganised to organised staffing companies in India is expected to bode well for organised staffing players like TeamLease. TeamLease being a focused player in general staffing with 90% revenue contribution to total revenues in FY20, would be a key beneficiary of this shift. Moreover, the company's revenue growth is an organic story with large part of revenue growing organically. Teamlease has ~40% exposure to high impacted verticals like Infra, Manufacturing, Auto and Retail. The exposure to less impacted verticals like BFSI, Agri, Chemicals, Essential Retail, Pharma, Hospitality and Telecom is at ~60%. Specialised staffing continued to improve its profitability due to cost optimization and business mix. In H1 FY21, cash conversion ratio improved significantly on account of efficient working capital and tax refunds. As on Sep-2020, the company had total headcount of 1.96 lakhs which included 1.46 lakhs in general staffing division and 43,000 NETAP (National Employability Through Apprenticeship Program) trainees. TeamLease has 3500+ active clients across various industries. Company will continue to focus on the large general staffing opportunity and does not intend to get into facility management or security services.

We expect strong recovery H2 FY21, as demand recovers. Margin expansion will happen led by growth, improved productivity, cost-cutting and better revenue mix. Factors such as (1) Formalisation of jobs, (2) Vendor consolidation, (3) Focus on collect & pay (4) Cost-cutting by Enterprises, and (4) Client diversification will benefit market leaders like Teamlease. The company shifted to the new tax regime and will continue to avail the 80JJA tax benefit. The cash generation will improve in FY21, as the company will not have to pay MAT and will also receive the income tax refund in the current fiscal. Management targets to achieve operating margin of 3-3.5% by FY23 from c.2-2.5%.

View & Valuation

General staffing business of TeamLease continues to grow over the past few years. It is at the cusp of witnessing higher growth on account of changing industry dynamics and higher penetration of flexi-staffing in India. The company's acquisitions have enabled it to foray into new verticals which have better margins compared to general staffing segment. The company enjoys ~90% renewal rate with their existing clients.

However, TeamLease has been affected due to a slowdown in H1FY21. The NETAP (National Employability through Apprenticeship Program) business saw a decline in the first half owing to Covid related uncertainty. There is scope for margin expansion through productivity benefits and a better business mix. TeamLease's ability to grow ~15-20% organically, focus on driving productivity through automation, lower funding exposure, domestic focus, and high management pedigree leads to premium valuations vs. peers. With its leadership position in general staffing, we believe TeamLease is set to reap the benefits through structural changes in industry dynamics. Strong management team, healthy growth outlook and better working capital and return ratios are some of the positives for the company. TeamLease's high market share will continue to be a huge success driver. Its strong brand, large pool of employees, high level of compliance and financial muscle provide a good base for profitable growth over the next few years. TeamLease is one of the strong plays in the India's staffing sector, but at 34.6x FY22E earnings, we see limited upside potential from current levels. Hence, we recommend buy on dips to Rs 2300-2310 (32.0x FY22E EPS) band and add further on dips Rs 2085-2095 (29.0x FY22E EPS) band for base case target of Rs 2522(35.0x FY22E earnings) and bull case target of Rs 2774 (38.5x FY22E earnings) over the next two quarters.

Financial Summary

Particulars (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY19	FY20	FY21E	FY22E
Total Revenues	11291	12678	-10.9	11364	-0.6	44476	52007	47432	58111
EBITDA	230	245	-6.1	246	-6.5	944	951	1048	1480
Depreciation	83	241	-65.6	232	-64.3	105	286	303	351
Other Income	115	54	113.0	41	180.5	181	308	274	230
Interest Cost	19	29	-34.5	26	-26.9	52	123	95	110
Tax	24	-6	-500.0	5	380.0	-16	-16	47	0
APAT	186	202	-7.9	171	8.8	980	350	865	1232
EPS (Rs)						57.3	49.5	48.8	72.0
RoE (%)						20.0	15.2	13.6	17.1
P/E (x)						43.4	50.3	51.0	34.6
EV/EBITDA (x)						42.2	42.5	38.8	27.0

(Source: Company, HDFC sec)

Q2 FY21 result highlights

- TeamLease reported -11%/-6%/-8% yoy growth in revenues/EBITDA/PAT for the quarter. General staffing business recorded 10% yoy decline at Rs 1020cr. Specialised staffing was down 2% to Rs 99cr. Realizations in general staffing remained stable despite markup pressure in the industry.
- After a sharp decline in June-August, September marked MoM uptick in general staffing headcount. With demand green shoots visible since October, management is confident of achieving pre-covid-19 headcount by March-21.
- Labor law reforms would not have an immediate impact on business revenues, but over the longer term, the company would be a beneficiary of the same.
- TeamLease is winding down the government training business with FY21 revenues expected to be Rs 20cr vs. Rs 55cr in FY20. Permanent hiring as well as government business revenues declined as the company is not taking any new mandates for these businesses.
- Management targets to achieve operating margin of 3-3.5% by FY23.
- The company has adopted a new tax regime that has led to one-time non-cash charge to P&L. However, this migration to new tax regime will benefit the company. It has to no longer pay MAT and will get the benefit of 80JJA. This will lead to zero taxation and no cash outflow for the company.
- Cash flow continues to be a key focus area for the company. In addition to the tax refund received in Q2, TeamLease has received another tranche of refund in Q3FY21.
- Recently, the company said that its promoter entities have sold 1.71 lakh equity shares (1% stake) in the open market.



General staffing

It is the largest business segment both in terms of associate headcount as well as revenue contribution. The segment comprises a general staffing business and a training programme called National Employability through Apprenticeship Programme (NETAP). General staffing business has been the core contributor to revenues and formed ~90% of total revenues in FY20. Associate headcount (including NETAP) has tripled to 2.1 lakhs in FY14-20. TeamLease has invested in developing software applications (Associate Lifecycle System, etc.), which led to productivity improvement for the company (associate to core employee ratio improved from 220 in FY18 to 264 in FY20). The topline of general staffing grew at 17% CAGR to Rs 4681 crore over FY16-20. NETAP is a public private partnership of the Ministry of Skill Development & Entrepreneurship, TeamLease Skills University, CII and NSDC under the National Employability Enhancement Mission of the Ministry of HRD (AICTE). Via this programme, the company has more than 40,000 trainees in Q2FY21. We estimate general staffing revenues to register 6% CAGR over FY20-22E.

Specialised staffing

With its core expertise in staffing, TeamLease expanded its addressable market by entering specialised staffing by way of select acquisitions. TeamLease acquired three companies viz. Asap Info Systems, Nichepro Technologies and Keystone Business Solutions. IT staffing is company's largest specialised vertical. Various organizations across sectors are increasingly opting for flexi staff owing to their flexibility and deep expertise in niche technologies. IT staffing recorded Rs 218cr revenues and Rs 19cr EBITDA for FY20.

With these acquisitions, IT and telecom staffing verticals were added to the portfolio wherein it entered IT staffing in FY17 and telecom in FY18. With currently around 7000 associates in the segment, this segment contributed 9% to overall topline in H1FY21. Compared to general staffing, this segment is a high margin business thereby supporting overall margins, going ahead.

Revenue Mix (%)

Segment	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
General Staffing	95.4	91.5	90.3	89.7	89.6	90.6	90.8	90.4	89.9	90	89.9	90.1	90.4
Specialised Staffing	3.1	6.4	7.4	7.3	7	6.8	6.8	7.8	8	7.7	8	8.9	8.8
HR Services	1.6	2.1	2.2	3	3.5	2.7	2.4	1.8	2.2	2.3	2.1	1.1	0.8



Headcount Breakup (#)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Associate Count						
General Staffing	160614	165029	167216	161365	145259	145778
NETAP Trainees	57292	51341	52388	50620	35888	42927
Specialised Staffing	6858	6549	8244	8225	7461	7228
Total	224764	222919	227848	220210	188608	195933
Core Count						
Staffing Core Employees	788	829	826	804	639	628
Total Core Employees	1818	2005	2150	2022	1544	1519

Recent Acquisitions

TeamLease and Schoolguru Eduserve ('Schoolguru'), an online learning company that works with 18 Universities, announced the signing of a definitive agreement under which TeamLease acquired ~40% stake in Schoolguru in Nov-2017. In Sep-2020, the company announced further 36.2% stake in Schoolguru. Thus, TeamLease holds 76.4% stake in the company as on Sep-2020.

In Jun-2020, TeamLease announced the acquisition of last tranche of 24% in E-hire (Fresher's World). With that the company holds 100% stake in Fresher's World. The purchase price implied an enterprise value (EV) of Rs.18cr pre-money and Rs.20cr post-money. The primary infusion of capital into the business is intended to enhance the product features and back end technology of freshersworld.com. Fresher's world directly complements various service offerings of TeamLease including general staffing, IT staffing, apprentice staffing (NETAP), permanent recruitment, online assessment and training.

TeamLease announced the acquisition of 72.7% stake in IMSI in Nov-2019. IMSI had over 1800 associates deployed on 50+ projects pan India with revenues of Rs.48cr and PBT of Rs.7.2cr in FY19. Company did not mention the total acquisition sum for a 100% stake but said it was for a cash consideration equivalent to 6.5 times the acquired company's profit before tax for the year ended March plus the net worth as on Nov-2019.



In Feb-2020, TeamLease said that it has acquired additional 21.2% stake in IMSI, after that TeamLease stake in IMSI stood at 93.9%. Acquisition of IMSI strengthens its specialized staffing cluster and accelerates its margin expansion strategy. Company expects to drive operational synergies by integrating with other specialized staffing businesses. IMSI is a specialized staffing company which supports projects requiring experienced and skilled IT resources as companies race to develop enterprise applications and migrate to cloud, mobile and internet based applications.

Near Term Triggers

Company believes Indian corporates are now increasingly opening up to the idea of temporary hires (concept is prevalent in western economies). In fact, some of its clients are replacing their trimmed permanent staff with temporary hires. The staffing industry is likely to consolidate towards larger vendors who not only can survive events like Covid-19 but also provide value-added services. TeamLease is well-placed to benefit from these trends due to its strong positioning (2nd largest player in India).

With about 83% of the total workforce in India working in the informal sector, labour reforms are expected to have a profound impact on the flexi-staffing industry. India has one of the largest staffing markets globally and due to policy reforms around 11 million jobs shall be formalised by 2021. Along with that, introduction of GST and demonetisation have also significantly contributed to the overall flexi-staff size.

Growth of E-commerce

In terms of flexi adoption, E-commerce is one of the highest growing segments creating high demand for workers in customer service centers, and delivery stations, particularly during festivals and sale period. One of the key factors driving the growth of the industry is the seasonality of e-commerce business. Andhra Pradesh, Gujarat, Rajasthan and Madhya Pradesh are some emerging states experiencing the growth in e-commerce businesses.

GST – shift from unorganised to organised helps players like TeamLease

The rollout of the Goods and Services Tax (GST) has led to a structural shift towards organised players and create a level playing field between unorganised and organised players. Prior to GST implementation, clients were getting tax credits for payment made to unorganised flexi staffing players irrespective of whether the unorganised players were actually making statutory employee payments or not. Hence, unorganised players were offering flexi staffing services at cheaper rates compared to organised players Post GST, the client



would be able to claim input tax credit only when taxes and statutory payments are made by flexi staffing players due to the bill matching mechanism in GST era. Hence, we believe unorganised players would have to comply with statutory requirements to survive in the industry. These changes would narrow the pricing difference between unorganised and organised companies, thereby benefiting organised listed players like TeamLease, Qess Corp and SIS.

Long Term Triggers

Flexi-staffing offers an interesting proposition for both employees as well as employers. While employees have the option to work as and when they feel like, companies have an option to recruit 'on a need' basis, rather than on a permanent basis. Also, companies can hire extra employees according to their requirement and employees also gain much needed experience and training within short periods. Recruitment and replacement also becomes easier with temporary staffing solutions.

The demand for emerging technology such as Artificial Intelligence, Machine Learning and Big Data is quite high in the IT industry. Based on project requirements, companies can hire flexi-staffing staff to meet varied requirements. A flexi-workforce also allows a company to retain its competitive edge. E-commerce companies also prefer flexi-staff to meet their seasonal requirements.

Labour reforms are likely to aid the staffing sector and bolster growth. Labour reforms like the New Wage Code and the National Floor Minimum Wages are expected to be introduced in the short term and it is expected to favour people bound by contractual employment terms [like abolishing The Contract Labour (Regulation & Abolition) Act, 1970]. It will also increase the adoption of flexi-staffing. Although, many companies are now apprehensive about the flexi-staffing culture, new laws and labour reforms are likely to make the process transparent and simple.

IT Flexi Staffing Industry

With more companies reducing their bench strength, removing people who are not working on ongoing projects, the Indian IT industry is renewing its push towards flexi staffing. The sector's flexi workforce is expected to grow to 720,000 by 2021 from half a million in 2018, registering an increase of 44%. This is largely driven by increasing demand for digital technology skills, a waning bench and cost-efficiency mandates. Growth in flexi workforce is helping to deliver projects faster and is also shifting the trend beyond legacy businesses, thereby prompting automation across ranks and employee operation levels.



People with skills in artificial intelligence, machine learning and other emerging skills want to be a part of the gig economy and companies are also seeking faster deployment for certain niche skills. Enterprises today have realised that the future of work will be much more technology driven. Flexi staffing is becoming a way of life for many as more organisations, both in technology and non-technology sectors, see a fast-paced shift. Demand for niche skills is rising as the challenge to find the right talent becomes quite difficult. Given the changing industry dynamics, businesses that adopt subcontract and flexi hiring models will be at an advantage.

Skill and Talent gap in India

India's workforce is estimated to reach 550 million by 2022, up from 473 million in 2018. Less than 5% of total workforce in the country has received formal skilled training. The skill gap plays a vital role in rendering large section of population unemployable, leading to the rising unemployment in the country. Lack of formal vocational training, coupled with huge rural population, creates larger unseen problems for the Indian economy. While the requirement for job ready workforce is constantly increasing in India, the country is facing challenges in terms of finding quality talent and skill matching the requirement. Besides this, attracting talent and its engagement and retention is also becoming a task for the companies. This provides huge opportunities in the staffing industry, which helps to address skill and talent issue for the economy as a whole.

One of the major challenges for effective implementation of vocational training programmes is lack of awareness around the numerous government initiatives focused on enhancing skill development. In the rural areas, people are not aware of benefits that vocational training can have on an individual. Of the total youth population in India, large part of them are not aware of the government's skill development initiatives. TeamLease is very well positioned to fill this gap with its staffing business as well its NETAP program which is a PPP with the ministry of HRD aimed at providing the necessary skills to the youth.

Key Risks

The Covid-19 crisis continues to affect staffing associate demand as well as pricing in the industry. With a highly fragmented industry, price competition becomes intense, making it difficult for organised players to see an up-tick in pricing. Moreover, TeamLease operates on wafer thin margins on account of a higher proportion of general staffing business, which enjoys lower margin.



Any provisions due to delay/inability in recovery of Rs 174cr of investment (maturities between FY21 and FY27) made by the company's PF trust in DHFL and IL&FS.

The staffing industry is a play on employment, which has a correlation with the economic conditions of any country. Any economic downturn in the country could impact the demand for staffing services as many companies reduce their use of temporary employees.

Inability of the company to consistently improve margin would hinder growth in profitability.

Any unreasonable acquisition or a failure to efficiently manage any acquired business may remain risks.

Talent attraction and retention

People are the most important asset of the company, and talent is hard to come by in a competitive market. Failure to attract, develop, and retain the right people or even make payments to associate in time could have negative impact on the company's operations.

Data protection laws and regulations

New and complicated laws may expose company to higher risk of non-compliance, resulting in possible claims, fines, business suspension, and reputational damage.

Tax and Labour Law Compliance

Complex and changing tax, labour and social security regulations can result in a lack of clarity and errors in wages, increased need for social security and payroll tax compliance, leading to disputes, claims, and fines, as well as increased operational costs. The company is also exposed to risk of arbitration on purchase consideration of its acquisition as well as Service Tax/GST compliance on input tax credit.

Company Background

TeamLease is a leading human resource service company with over 190,000 associates/trainees in 6,600+ locations. The company has 8 offices and over 3500 clients across the country for its services in Staffing, Outsourcing and Human Capital. TeamLease pursues its mission of 'Putting India to Work' by focusing on the 3 E's of Employment, Employability and Education. The Company in partnership with the Government of Gujarat, set up TeamLease Skills University (TLSU), India's first vocational university, at Vadodara through which NETAP (National Employability through Apprenticeship Program) provides on-the-job training. The Company has cumulatively provided employment to over 1.6 million people in the last 15 years and aims to hire millions more in the coming years.

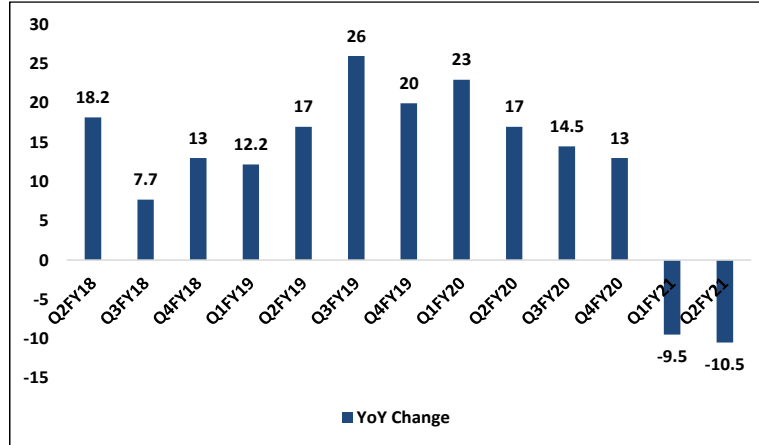
In Feb-2016, TeamLease came out with an IPO with an issue size worth Rs 424cr (Rs 850 per share). This included a fresh issue (Rs 150 crore) and an offer for sale of around Rs 270 crore from private equity investors including Gaja Capital and India Advantage Fund and shares by promoters. The fund raised in IPO was utilised up to Dec-2017 implying its disciplined approach in capital allocation.

Peer Comparison

Company	CMP	Mcap (Rs cr)	Revenues * (Rs cr)	Operating Profit* (Rs cr)	APAT* (Rs cr)	RoE* (%)	RoCE* (%)	P/E* (x)	EV/EBITDA * (x)	P/B* (x)
TeamLease	2500	4247	5201	95	85	15.2	14.3	50.3	42.5	7.4
Qess Corp	501	7404	10992	658	261	10.4	12.8	27.3	11.2	2.5
SIS	446	6554	8485	520	226	17	18	29.5	13.3	4.7

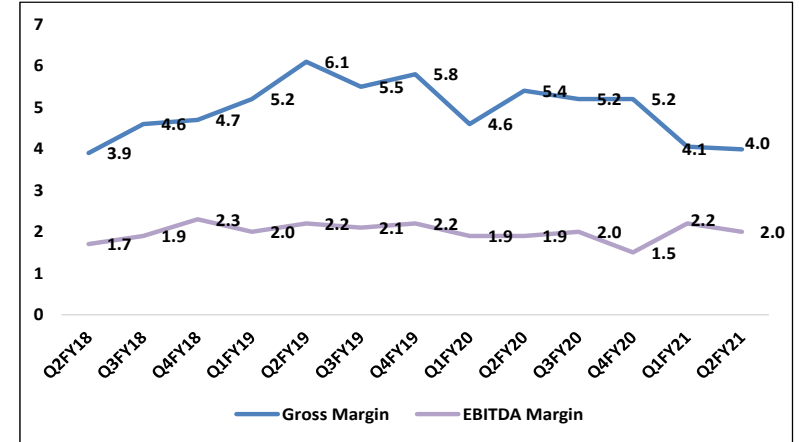
Source: Company, HDFC sec Research, *FY20 numbers

General Staffing Revenues



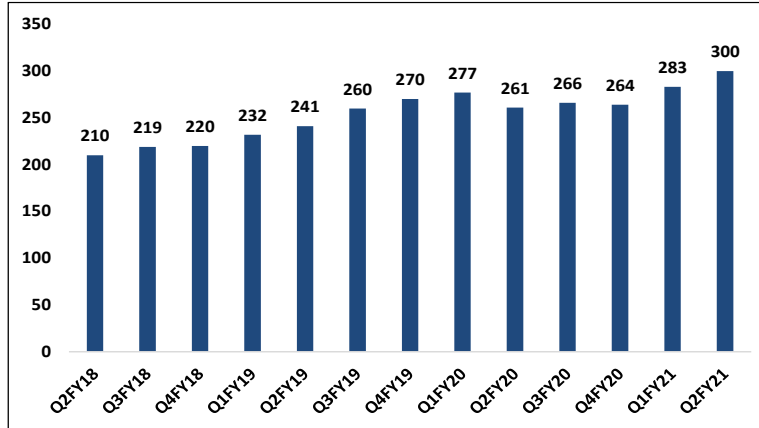
Source: Company, HDFC sec Research

Margin Trajectory (%)



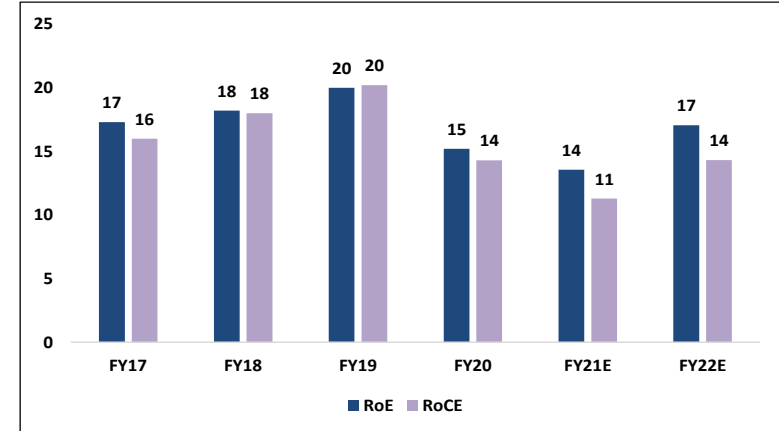
Source: Company, HDFC sec Research

Associate to Core Ratio (Productivity)



Source: Company, HDFC sec Research

Strong Return Ratios (%)



Source: Company, HDFC sec Research

Income Statement (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E
Net Revenues	44,476	52,007	47,432	58,111
Growth (%)	22.7	16.9	-8.8	22.5
Employee benefits	41,972	49,365	45,427	54,950
Other expenses	1,560	1,692	957	1,681
EBITDA	944	951	1,048	1,480
EBITDA Margin (%)	2.1	1.8	2.2	2.5
EBITDA Growth (%)	37.3	0.7	10.3	41.1
Depreciation	105	286	303	351
EBIT	839	665	745	1,129
EBIT Margin %	1.9	1.3	1.6	1.9
Other Income	181	308	274	230
Interest	52	123	95	110
PBT	968	851	924	1,249
Tax Expenses	-16	-16	47	0
RPAT	980	350	865	1,232
EO (Loss) / Profit	-	-496	30	-
APAT	980	846	835	1,232
APAT Growth (%)	33.5	-13.7	-1.2	47.5
Adjusted EPS (Rs)	57.3	49.5	48.8	72
EPS Growth (%)	33.5	-13.7	-1.3	47.5

Balance Sheet (Consolidated)

Year to March (Rs mn)	FY19	FY20	FY21E	FY22E
Share Capital	171	171	171	171
Reserves	5,220	5,550	6,427	7,676
Total Shareholders' Funds	5,391	5,721	6,598	7,847
Minority Interest	-	-	30	30
Short Term Debt	106	762	762	762
Total Debt	106	762	762	762
Net Deferred Taxes	-653	-144	-144	-144
Long Term Provisions & Others	661	1,244	1,210	1,395
TOTAL SOURCES OF FUNDS	5,505	7,583	8,456	9,890
APPLICATION OF FUNDS				
Net Block	261	998	922	891
CWIP	60	114	114	114
Goodwill	1,257	1,648	1,797	1,797
Investments	254	253	253	253
LT Loans & Advances & Others	2,824	3,721	3,700	4,155
Total Non-current Assets	4,655	6,734	6,787	7,210
Debtors	2,643	2,959	2,989	3,184
Other Current Assets	1,553	1,745	1,664	1,911
Cash & Equivalents	1,390	970	1,675	2,653
Total Current Assets	5,587	5,674	6,328	7,748
Creditors	280	378	390	478
Other Current Liabilities & Provns	4,458	4,447	4,269	4,591
Total Current Liabilities	4,737	4,825	4,659	5,068
Net Current Assets	849	849	1,669	2,679
TOTAL APPLICATION OF FUNDS	5,505	7,583	8,456	9,890

Cash Flow Statement

(Rs mn)	FY19	FY20	FY21E	FY22E
Reported PBT	968	851	924	1249
Non-operating & EO Items	-101	0	-274	-230
Interest Expenses	52	123	95	110
Depreciation	105	286	303	351
Working Capital Change	-402	-307	-129	-302
Tax Paid	-862	-855	47	0
OPERATING CASH FLOW (a)	-240	97	966	1178
Capex	-204	-1047	-376	-320
Free Cash Flow (FCF)	-445	-950	590	858
Investments	46	181	0	0
Non-operating Income	26	122	274	230
INVESTING CASH FLOW (b)	-132	-744	-102	-90
Debt Issuance/(Repaid)	-12	117	0	0
Interest Expenses	-49	-118	-95	-110
FCFE	-506	-951	495	748
Share Capital Issuance	0	0	0	0
Dividend	0	0	0	0
FINANCING CASH FLOW (c)	-61	-1	-95	-110
NET CASH FLOW (a+b+c)	-434	-648	769	978
EO Items, Others	77	227	-64	0
Closing Cash & Equivalents	1390	970	1675	2653

Key Ratios

	FY19	FY20	FY21E	FY22E
PROFITABILITY (%)				
GPM	5.6	5.1	4.2	5.4
EBITDA Margin	2.1	1.8	2.2	2.5
APAT Margin	2.2	1.6	1.8	2.1
RoE	20	15.2	13.6	17.1
RoIC (or Core RoCE)	19.5	9.7	8.6	12.4
RoCE	20.2	14.3	11.3	14.3
EFFICIENCY				
Tax Rate (%)	-1.7	-1.9	5	0
Debtors (days)	22	21	23	20
Payables (days)	2	3	3	3
Net D/E (x)	-0.2	0	-0.1	-0.2
Interest Coverage (x)	16.1	5.4	7.8	10.3
PER SHARE DATA (Rs)				
EPS	57.3	49.5	48.8	72
CEPS	63.5	66.2	68.4	92.6
Dividend	0	0	0	0
Book Value	315.3	334.6	385.9	459
VALUATION				
P/E (x)	43.4	50.3	51	34.6
P/BV (x)	7.9	7.4	6.4	5.4
EV/EBITDA (x)	42.2	42.5	38.8	27
EV/Revenues (x)	0.9	0.8	0.8	0.7

Source: Company, HDFC sec Research

TeamLease Services Ltd.



One Year Price Chart





Disclosure:

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