

TEAMLEASE SERVICES

Strong growth, but rich valuations

India Equity Research | Business Services



TeamLease Services (TeamLease) sustained growth momentum in Q4FY19 with sales/PAT of 19%/23%. After a sombre FY18, the company got back on track in FY19 with 22k associate additions as well as margin expansion. We believe this momentum would continue into FY20E with sales growth of 18–20%. That said, the stock has rallied 43% over the past one year alone, rendering risk-reward unfavourable given limited upside potential from current levels in our view. While we are raising the DCF-based TP to INR3,425 (from INR2,801) rolling forward the valuation by two quarters, we are downgrading the stock to 'HOLD' given its rich valuation (FY20E PE of 38x).

Growth continues, margin improves

TeamLease's good performance continued in Q4FY19 with an uptick of 19% YoY in sales and 23% YoY in PAT. We observe two positives in FY19. First, the company got back on the growth track – after a sombre FY18 – with addition of 22k employee associates, which is a notable achievement in our view. Second, we estimate pure general staffing EBITDA margin expanded to 1.8% in FY19 (1.6% in FY18); in fact it crossed 2% in Q4FY19.

FY20 outlook: Growth likely to stay the course

Management has guided for FY20 sales growth of 18–20%, which is achievable in our view given the Q4FY19 exit run rate. Given operating leverage gains are likely to accelerate hereon, we expect bottom line to clock 35%-plus growth in FY19. We would keep close tabs on the pricing environment in Indian general staffing given the aggressive strategy adopted by Quess, among others, beginning FY18.

Outlook and valuation: Growth thesis intact, but valuation rich: Downgrade to HOLD

Tracking the strong business growth in FY19, the stock rallied about 43% in the past one year. Even as we raise the TP from INR2,801 to INR3,425 (rolling forward by two quarters with estimates unchanged), we believe that upside potential is limited from current levels. While our stance on general staffing growth in India remains positive, the risk-reward is unfavorable for TeamLease at FY20 PE of 38x in our view. Hence, we are downgrading the stock to 'HOLD'.

Financials

INRmm

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net rev. (INR mn)	11,634	9,775	19.0	11,722	(0.8)	44,476	51,964	59,825
EBITDA (INR mn)	257	227	13.1	245	4.9	944	1,333	1,689
Adj. PAT (INR mn)	260	212	22.7	253	3.0	980	1,393	1,811
Adj. Dil. EPS (INR)	15.2	12.4	22.7	14.8	3.0	57.3	81.5	105.9
Diluted P/E (x)						37.9	29.1	
EV/EBITDA (x)						37.4	28.3	
ROAE (%)						22.9	23.5	

EDELWEISS RATINGS

Absolute Rating **HOLD**

Investment Characteristics Value

MARKET DATA (R: TSLV BO, B: TEAM IN)

CMP	: INR 3,086
Target Price	: INR 3,425
52-week range (INR)	: 3,339 / 1,990
Share in issue (mn)	: 17.1
M cap (INR bn/USD mn)	: 53 / 0
Avg. Daily Vol. BSE/NSE ('000)	: 22.9

SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	40.8	40.8	40.8
MF's, FI's & BKs	5.8	5.8	5.7
FII's	44.2	44.2	43.9
Others	9.2	9.2	9.6
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(6.3)	(1.7)	4.6
3 months	0.4	5.0	4.5
12 months	(11.6)	(3.0)	8.6

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May 28, 2019

Business Services

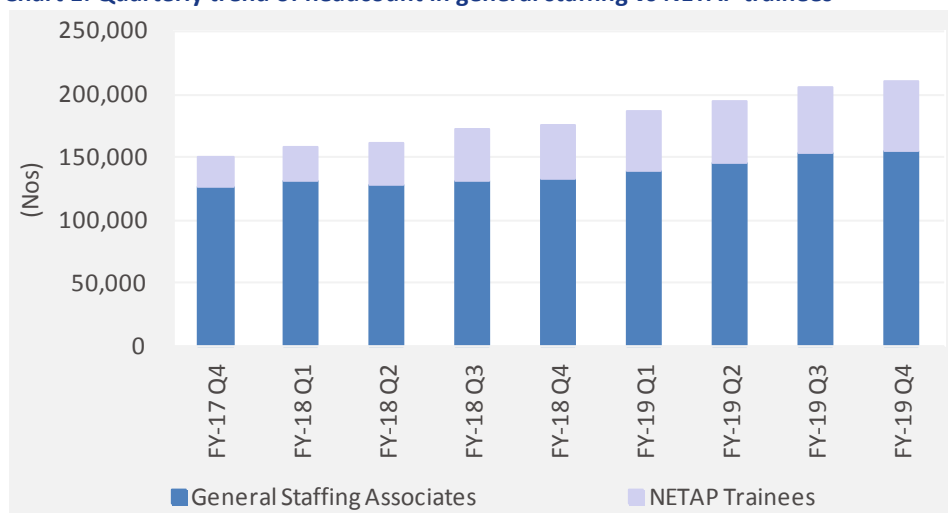
Table 1: Segment wise performance

(INR mn)	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Revenue					
General Staffing and Allied Services	10,565	8,830	19.6	10,617	(0.5)
Specialised Staffing Services*	794	728	9.1	792	0.3
Other HR Services	275	217	26.7	314	(12.4)
Total Income from Operations	11,634	9,775	19.0	11,723	(0.8)
EBITDA					
General Staffing and Allied Services	247	162	52.5	221	11.8
Specialised Staffing Services	49	52	(5.8)	45	8.9
Other HR Services	16	27	(40.7)	3	433.3
Unallocated	(57)	(33)	72.7	(23)	147.8
Total EBITDA	255	208	22.6	246	3.7
EBITDA Margin %					
General Staffing and Allied Services	2.3	1.8		2.1	
Specialised Staffing Services	6.2	7.1		5.7	
Other HR Services	5.8	12.4		1.0	
Consolidated EBITDA Margin	2.2	2.1		2.1	

Source: Company; Edelweiss research

* Specialised Staffing Services includes Evolve which was acquired on November 01, 2017

Chart 1: Quarterly trend of headcount in general staffing vs NETAP trainees



Source: Company; Edelweiss research

Chart 2: General staffing revenue and growth

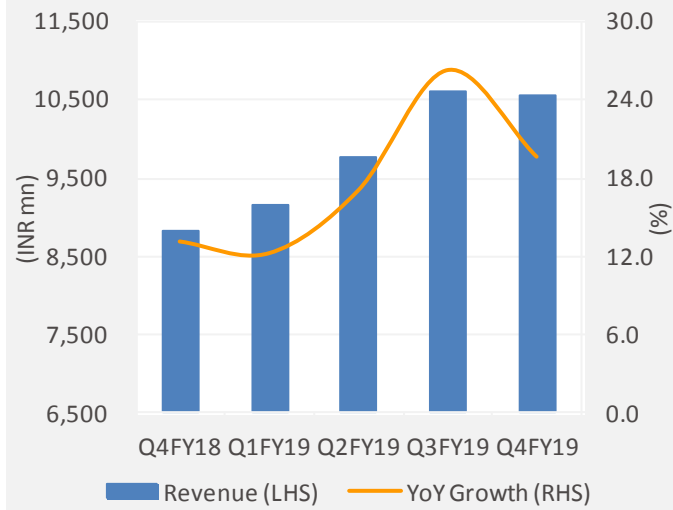
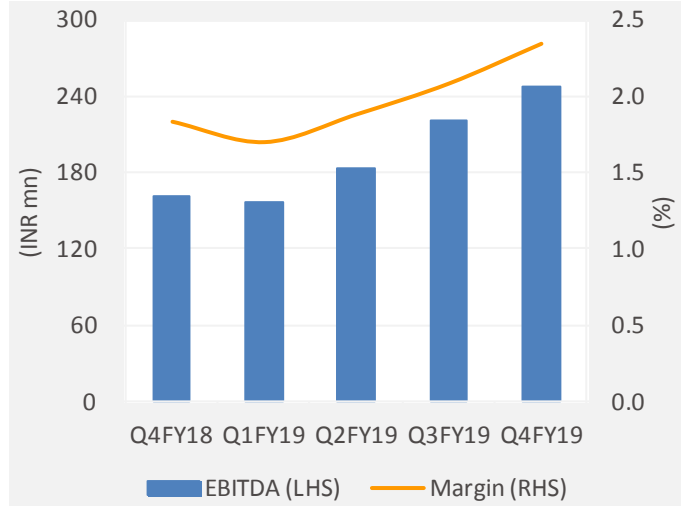


Chart 3: General staffing EBITDA and margin



Source: Company; Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net revenues	11,634	9,775	19.0	11,722	(0.8)	44,476	51,964	59,825
Employee Exp + other COGS	10,961	9,314	17.7	11,083	(1.1)	41,972	48,116	55,391
Gross profit	673	461	45.9	639	5.2	2,504	3,848	4,434
Other expenses	415	233	77.9	394	5.4	1,560	2,515	2,746
Total expenditure	11,377	9,547	19.2	11,477	(0.9)	43,532	50,631	58,136
EBITDA	257	227	13.1	245	4.9	944	1,333	1,689
Depreciation	25	28	(10.5)	25	0.3	105	103	107
EBIT	232	200	16.4	220	5.5	839	1,230	1,582
Interest	14	11	28.9	13	7.0	52	53	54
Other income	52	12	340.0	36	43.4	181	221	283
Profit before tax	270	200	34.8	243	11.0	968	1,398	1,811
Provision for taxes	8	(15)	(152.6)	(9)	(187.8)	(16)	6	-
Minority interest								
Associate profit share	(2)	(3)	NA		NA	(4)		
Reported net profit	260	212	22.7	253	3.0	980	1,393	1,811
Adjusted Profit	260	212	22.7	253	3.0	980	1,393	1,811
Diluted shares (mn)	17	17		17		17	17	17
Adjusted Diluted EPS	15.2	12.4	22.7	14.8	3.0	57.3	81.5	105.9
Diluted P/E (x)	-	-		-		53.8	37.9	29.1
EV/EBITDA (x)	-	-		-		54.5	37.4	28.3
ROAE (%)	-	-		-		20.0	22.9	23.5
As % of net revenues	-	-		-		-	-	1
Raw material	94.2	95.3		94.5		94.4	92.6	92.6
Employee cost	5.8	4.7		5.5		5.6	7.4	7.4
Other expenses	3.6	2.4		3.4		3.5	4.8	4.6
EBITDA	2.2	2.3		2.1		2.1	2.6	2.8
Reported net profit	2.2	2.2		2.2		2.2	2.7	3.0

Company Description

TeamLease, established in 2002, is one of India's leading human resources service companies in the organised segment. A Fortune India 500 company listed on NSE and BSE markets, TeamLease is present in eight locations, with 2,500 plus clients and 1,900 employees across the country. It is a one-stop-provider of human resources services to various industries and diverse functional roles, offering staffing, payroll processing, recruitment, compliance and training services. The company set in motion its larger mission of 'Putting India to Work' by focusing on its vision of 3 Es—Employment, Employability and Education. The company, in partnership with the Government of Gujarat, has set up TeamLease Skills University (TLSU), India's first vocational university, at Vadodara. In FY15, it rolled out National Employability Through Apprenticeship Program to provide on-the job training to apprentices. The company, currently, has over 200,000 associates/trainees spread across India and has till date given employment to 1.6mn plus with an aim to hire millions more.

Investment Theme

In a sector where scale begets scale, we expect TeamLease's high market share of ~6% to continue to be a huge success driver. Its strong brand, large pool of employees, high level of compliance and financial muscle are envisaged to lead to profitable growth over the next five years. TeamLease's story will play out in a high growth-conducive backdrop—flexi-staffing sector estimated to catapult 3x to ~USD30bn by FY25. Moreover, the sector's penetration in India at mere 0.5% is one of the lowest globally and entails huge upside potential given the large and growing employable workforce.

We perceive two key margin triggers for TeamLease over FY18-20: i) rising percentage based pricing trend will ensure EBITDA/employee CAGR of ~5% going forward (from ~2%); and ii) specialised staffing segment will contribute ~35% to group EBITDA by FY20E (EBITDA/employee in specialised staffing is ~10x general staffing). Thus, we estimate consolidated EBITDA margin to perk up from 1.3% in FY17 to 2.8% in FY20.

Key Risks

We expect the flexi-staffing sector's headcount to grow at at least 11-12% p.a. TeamLease, as a dominant player, should be able to post atleast this level of growth and this is our base case headcount assumption. Any shortfall in this will be downside a risk to our estimates and target price.

Inability of the company to consistently improve margin will be a downside risk to our investment thesis.

Higher-than-expected competitive pressure leading to lower headcount growth or loss of market share is a downside risk.

Any unreasonable acquisition or a failure to efficiently manage any acquired business can lead to downside risks.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.3	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
General Flexi-staffing sales (INR mn)	33,569	37,658	43,213	49,426
Other sales (INR mn)	2,672	4,656	5,523	6,533
Gross margins (%)	4.2	5.6	5.8	6.1
Opex (%)	2.3	3.3	3.2	3.1
Capex (INR mn)	(400)	(180)	(190)	(190)
Net borrowings (INR mn)	(1,675)	(2,705)	(4,297)	(6,382)
Debtor days	23	23	23	23
Inventory days	-	-	-	1
Payable days	37	35	35	35
Cash conversion cycle	(14)	(13)	(13)	(12)

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	36,241	44,476	51,964	59,825
Gross profit	1,529	2,504	3,848	4,434
Employee costs	34,712	41,972	48,116	55,391
Other Expenses	841	1,560	2,515	2,746
Operating expenses	841	1,560	2,515	2,746
Total operating expenses	35,553	43,532	50,631	58,136
EBITDA	688	944	1,333	1,689
Depreciation	92	105	103	107
EBIT	596	839	1,230	1,582
Less: Interest Expense	25	52	53	54
Add: Other income	156.34	180.62	220.75	282.55
Profit Before Tax	728	968	1,398	1,811
Less: Provision for Tax	(9)	(16)	6	-
Associate profit share	(3)	(4)	-	-
Reported Profit	735	980	1,393	1,811
Adjusted Profit	735	980	1,393	1,811
Shares o /s (mn)	17	17	17	17
Adjusted Basic EPS	43.0	57.3	81.5	105.9
Diluted shares o/s (mn)	17	17	17	17
Adjusted Diluted EPS	43.0	57.3	81.5	105.9
Adjusted Cash EPS	47.9	61.0	87.5	112.2

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	4.2	5.6	7.4	7.4
Operating expenses	2.3	3.5	4.8	4.6
Interest Expense	0.1	0.1	0.1	0.1
EBITDA margins	1.9	2.1	2.6	2.8
EBIT margins	1.6	1.9	2.4	2.6
Net Profit margins	2.0	2.2	2.7	3.0

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	19.2	22.7	16.8	15.1
EBITDA	85.7	37.3	41.2	26.7
Adjusted Profit	27.6	33.5	42.1	30.0
EPS	27.6	33.5	42.1	30.0

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	171	171	171	171	
Reserves & Surplus	4,246	5,220	6,613	8,424	
Shareholders' funds	4,417	5,391	6,784	8,595	
Short term borrowings	73	106	106	106	
Total Borrowings	73	106	106	106	
Long Term Liabilities	486	661	772	889	
Def. Tax Liability (net)	(399)	(653)	(653)	(653)	
Sources of funds	4,576	5,505	7,009	8,936	
Gross Block	260	404	594	784	
Net Block	54	93	180	263	
Intangible Assets	1,323	1,485	1,485	1,485	
Total net fixed assets	1,378	1,578	1,665	1,748	
Non current investments	270	254	254	254	
Cash and Equivalents	1,747	1,390	2,980	5,006	
Sundry Debtors	2,235	2,643	3,089	3,556	
Loans & Advances	527	676	790	909	
Other Current Assets	2,304	3,701	3,701	3,701	
Current Assets (ex cash)	5,066	7,020	7,579	8,166	
Trade payable	176	280	327	376	
Other Current Liab	3,709	4,458	5,142	5,861	
Total Current Liab	3,885	4,737	5,469	6,238	
Net Curr Assets-ex cash	1,181	2,283	2,110	1,928	
Uses of funds	4,576	5,505	7,009	8,936	
BVPS (INR)	258.3	315.3	396.8	502.7	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	735	980	1,393	1,811	
Add: Depreciation	92	105	103	107	
Interest (Net of Tax)	17	35	35	36	
Others	606	(774)	365	332	
Less: Changes in WC	656	(307)	284	298	
Operating cash flow	792	654	1,612	1,987	
Less: Capex	23	305	190	190	
Free Cash Flow	769	349	1,422	1,797	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow	792	654	1,612	1,987	
Financing cash flow	(133)	(19)	(53)	(54)	
Investing cash flow	(235)	(301)	31	93	
Net cash Flow	424	334	1,590	2,026	
Capex	(23)	(305)	(190)	(190)	

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)	18.2	20.0	22.9	23.5	
ROACE (%)	18.4	20.4	23.4	23.9	
Inventory Days	-	-	-	1	
ROA	17.4	19.4	22.3	22.7	
Debtors Days	23	22	22	22	
Payable Days	37	36	36	36	
Cash Conversion Cycle	(14)	(14)	(14)	(13)	
Current Ratio	1.8	1.8	1.9	2.1	
Debt/EBITDA (x)	0.1	0.1	0.1	0.1	
Adjusted Debt/Equity	-	-	-	-	
Net Debt/Equity	(0.4)	(0.2)	(0.4)	(0.6)	
Interest Coverage Ratio	24.2	16.1	23.3	29.6	
Debt / Cap employed (%)	1.6	1.9	1.5	1.2	

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover	8.6	8.8	8.3	7.5	
Fixed Asset Turnover	29.6	30.1	32.1	35.1	
Equity Turnover	9.0	9.1	8.5	7.8	

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)	43.0	57.3	81.5	105.9	
Y-o-Y growth (%)	27.6	33.5	42.1	30.0	
Adjusted Cash EPS (INR)	47.9	61.0	87.5	112.2	
Diluted P/E (x)	71.8	53.8	37.9	29.1	
P/B (x)	11.9	9.8	7.8	6.1	
EV / Sales (x)	1.4	1.2	1.0	0.8	
EV / EBITDA (x)	74.3	54.5	37.4	28.3	

Additional Data

Directors Data

Manish Mahendra Sabharwal	Executive Chairman	Ashok Kumar Nedurumalli	Managing Director and CEO
Latika Pradhan	Non-Executive Independent Director	Narayan Ramachandran	Non-Executive Independent Director
V. Raghunathan	Non-Executive Independent Director	Latika Prakash Pradhan	Director

Auditors - S.R.Batliboi & Associates LLP

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
Goldman Sachs Group	11.5	JPMorgan Chase & Co	5.4
Indus Capital Partners	5.0	Franklin Resources	4.7
T Rowe Price Group	4.4	Indus India Fund Mauritius	3.5
FID Fund Mauritius	3.3	Emerging Markets Management	2.3
ICICI Prudential Life Insurance	2.2	ABSL Asset Management	2.1

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
13 Feb 2019	GOLDMAN SACHS ASSET MANAGEMENT A/C GS FDS SICAV GS GLOBAL EMERGING MARKETS EQUITY PORTFOLIO	SELL	90531	2898.20
20 Aug 2018	GAJA CAPITAL INDIA FUND I	SELL	106245	2645.00
20 Aug 2018	FRANKLIN TEMPLETON INVESTMENT FUNDS	BUY	482400	2645.00
20 Aug 2018	KUWAIT INVESTMENT AUTHORITY	BUY	94800	2645.00
20 Aug 2018	GPE (INDIA) LTD	SELL	455108	2645.01

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Business Services

Qess Corp Ltd, Security and Intelligence Services India Ltd, TeamLease Services Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
23-May-19	Qess Corp	Growth gets a quality boost; Result Update	657	Buy
06-May-19	SIS India	Ends the year with a bang; Result Update	943	Buy
01-Feb-19	SIS India	Pieces falling in place; Result Update	772	Buy

Distribution of Ratings / Market Cap

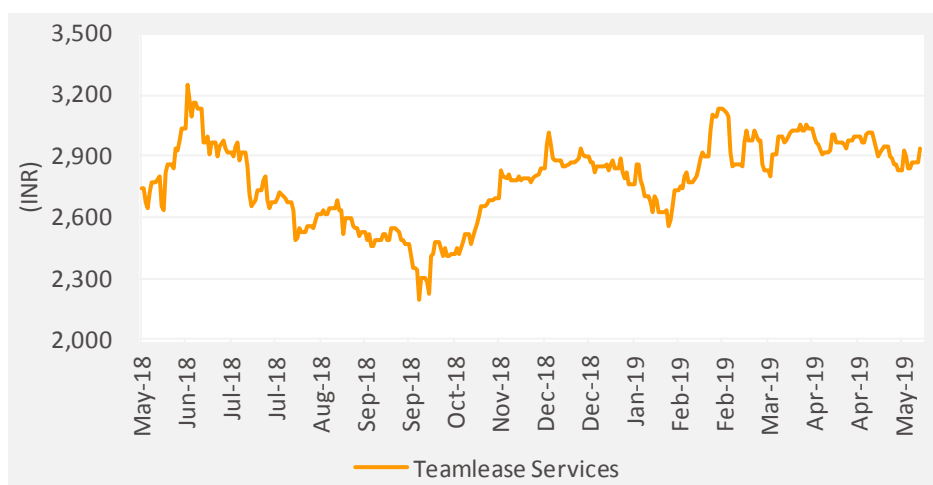
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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