

TEAMLEASE SERVICES LTD.

Industry Consumer Services
Bloomberg TEAM IN
BSE CODE 539658

High teens headcount additions, margin expansion restricted by one off provision in other HR services

RATING	NEUTRAL
CMP	2558
Price Target	2684
Potential Upside	5%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	3310/1962
Mkt Capital (Rs Cr)	4,374
Free float (%)	57%
Avg. Vol 1M (,000)	13
No. of Shares (Cr)	1.71
Promoters Pledged %	0%

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3QFY19 Results Update

- ❑ TEAMLEASE posted a strong revenue growth of 27.7% YoY to INR 1172 crores (Our expectation of INR 1129 crores) on the back of 26.3% YoY growth in general staffing segment.
- ❑ Specialized Staffing segment also posted a 34.8% YoY growth primarily on account of lower base as Telecom Staffing vertical was acquired & consolidated from November 2017 onwards. Other HR services revenue stood at INR 31crore.
- ❑ TEAMLEASE registered highest growth rate of 16.6% in general staffing associate headcount over the last 7 quarters. NETAP trainees & Specialized Staffing also witnessed 29.9% & 3.5% YoY growth in headcount. Core Employee Staffing Productivity improved to 260 as against 241 in Q2FY19 & 219 in Q3FY18.
- ❑ EBITDA margin expanded by 14bps YoY to 2.09% (our expectation of 2.31%) in 3QFY19 despite lower average markup per associate per month at INR 710 (as against INR 730 QoQ & INR 755 YoY). This was primarily due to improvement in core staffing employee productivity. Delay in collections from Government led to a sharp decline in Other HR services segment margin. Management expects recoveries of the same in Q4FY19 which will lead to reversal of provisions created in Q3FY19.
- ❑ PAT for the quarter stood at INR 25 crores (37.3% YoY growth). TEAMLEASE continues to enjoy nil tax rate on account of Section 80JJAA benefit.

View and Valuation

Going forward, we expect the headcount growth to sustain at 15% levels in general staffing segment, though a decrease in average markup of associates may pose a risk to margin expansion. However, we believe that improvement in core employee staffing productivity will continue to support margin expansion. Also, variability in Telecom Staffing & Other HR services margins will recede once the required scale is achieved. Management is targeting revenues of INR 14,000cr & PAT margins of 3-4% by FY23 on the back of transition from a technology driven staffing solutions company to a technology company on a SaaS model. TEAMLEASE is also looking to enter Hospitality, Healthcare & Engineering services verticals within the Specialized Staffing segment. We largely maintain our estimates & expect revenue, EBITDA & PAT to grow at 21.3%, 34.4% & 31.9% CAGR respectively over FY18-20e. Despite the recent correction in price, we continue to believe that stock is fairly priced. Hence, we maintain our target price of INR 2684 & continue to remain NEUTRAL on the stock.

Key Risks to our rating and target

- ❑ Markups under pressure due to higher competition.
- ❑ Scaling of Telecom Staffing vertical under Specialized staffing segment & Other HR services.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2505	3041	3624	4482	5328
EBITDA	26	37	69	96	124
EBIT	23	31	60	85	113
PAT	25	58	73	99	128
EPS (Rs)	11	23	15	17	20
EPS growth (%)	-28%	132%	28%	34%	30%
ROE (%)	8%	16%	17%	18%	19%
ROCE (%)	7%	8%	13%	16%	17%
BV	182	214	258	316	391
P/B (X)	4.9	4.5	8.6	8.1	6.5
P/E (x)	61.8	28.9	51.7	44.4	34.0

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3Q FY19 Results

Margins below estimates

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	918	977	1,021	1,091	1,172	27.7%	7.5%	3,041	3,624	19.2%
Other Income	4	1	5	4	4	-14%	-9.3%	22	16	-28%
Employee Cost	876	931	968	1,024	1,108	26.6%	8.2%	2,941	3,471	18.0%
Other Expenses	25	23	33	42	39	59.6%	-6.7%	63	84	33.6%
EBITDA	18	23	20	24	25	37.1%	2.0%	37	69	85.7%
EBITDA Margin	1.9%	2.3%	2.0%	2.2%	2.1%	0.1%	-0.1%	1.2%	1.9%	0.7%
Depreciation	2	3	3	3	2	2.8%	-14.7%	6	9	50.0%
Interest	1	1	1	1	1	65.4%	-2.4%	1	2	124.8%
Tax	0	(1)	(0)	(1)	(1)	-287%	28.5%	(6)	(1)	84.8%
MI/ Associates &	(0)	(0)	(0)	(0)	0	265%	159%	-	(0)	
Net Profit	18	21	22	25	25	37.3%	1.3%	58	73	28%

Segment Revenue

Particulars	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
General Staffing & Allied	780	781	817	835	840	883	916	977	1,062
Specialised Staffing	22	23	25	27	59	73	75	76	79
Other HR Services	12	13	12	14	19	22	30	38	31

Robust Revenue Growth in across all three segments

The company reported a healthy revenue growth of 27.7% YoY at INR 1172 crores in 3QFY19. This robust growth was supported by strong revenue growth across all segments. The General Staffing segment which comprises of 91% of total revenue in 3QFY19, accounted for 26.3% YoY growth. Specialized Staffing segment also posted a 34.8% YoY growth primarily on account of lower base as Telecom Staffing vertical was acquired & consolidated from November 2017 onwards. Other HR services revenue stood at INR 31 crore. The other sales & services posted sales of INR 6 cr with a growth of 61.5% YoY. TEAMLEASE registered highest growth rate of 16.6% in general staffing associate headcount over the last 7 quarters. NETAP trainees & Specialized Staffing also witnessed 29.9% & 3.5% YoY growth in headcount.

EBITDA margins expansion led by operational efficiencies

Overall EBITDA margin expanded by 14bps YoY to 2.09% despite lower average markup per associate per month at INR 710 (as against INR 730 QoQ & INR 755 YoY). This was primarily due to improvement in core staffing employee productivity to 260 in Q3FY19 as against 241 in Q2FY19 & 219 in Q3FY18. Delay in collections from Government led to a sharp decline in Other HR services segment margin. Management expects recoveries of the same in Q4FY19 which will lead to reversal of provisions created in Q3FY19..

PAT growth of 37% YoY due to operational improvement & lower tax rate

PAT for the quarter stood at INR 25 cr with 37.3% YoY growth. This is primarily due to lower tax rate & operational improvement. TEAMLEASE continues to enjoy nil tax rates on account of Section 80JJAA benefit.

Concall Highlights

- Revenue contribution from Top 5 & Top 10 clients continues to be stable at around 13% & 19% respectively.
- Telecom Staffing Performance - Revenue of 43.6cr & EBITDA of 0.50cr. IT Staffing Performance - Revenue of 35.5cr & EBITDA of 4cr.
- Schoolguru has turned positive for first time in Q3FY19. Revenue of 3.3cr & EBITDA of 0.75cr.
- Freshersworld performance continues from a revenue perspective and also an integration to the back-end element of the candidates sourcing and the open positions updation and everything else.
- Delay in release of collection from Government lead to decline in Other HR services margin as TEAMLEASE booked provisions for the same. Reversal is expected in Q4FY19 itself.
- Number of open positions stands at 8000+ in general staffing & 2000+ in NETAP trainees on an average.
- Management expects that IT companies to increase the proportion of outsourcing in the total headcount from 1-1.5% to 4-10% in the long run.
- Company follows two structures while approaching a potential client - Funding option (Higher pricing) & non funding option (lower pricing). Management doesn't expect a significant shift in the composition in the near term. For Specialized staffing (IT & Telecom), company follows a rate card system. (CTC + mark up)

Exhibit: Net sales (Rs. Crore) and Sales Growth trend

Growth was mainly due to strong YoY revenue growth in general staffing & lower base in Telecom Staffing vertical

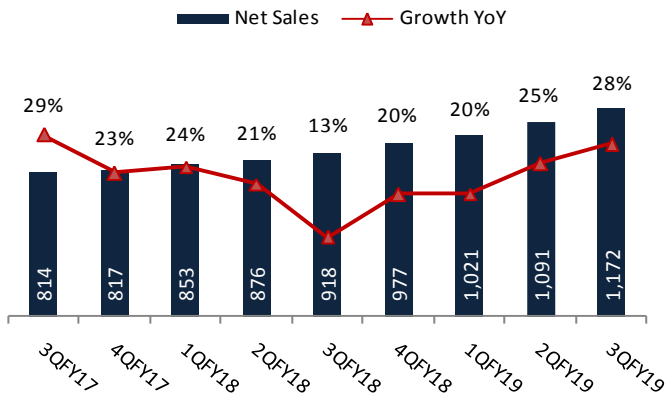


Exhibit: Core Staffing Employee Productivity

Productivity continue to improve YoY as well as QoQ.

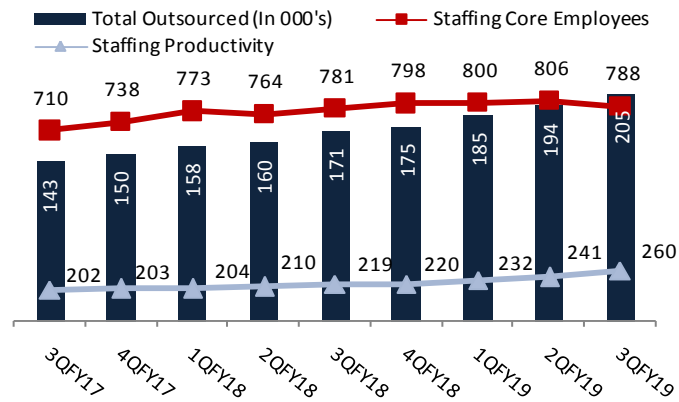


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Operating leverage benefit helped to improve margins by 14bps YoY to 2.09%

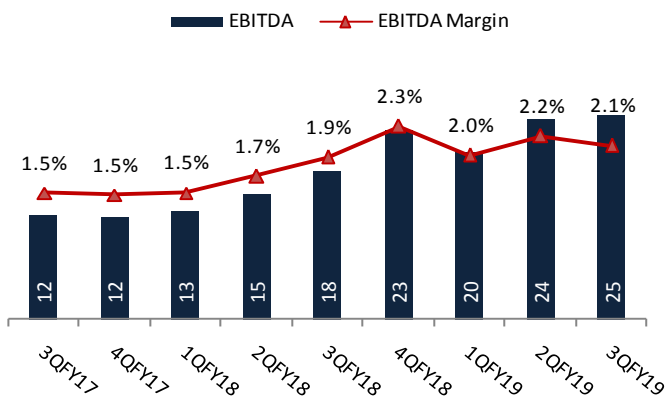


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin improved YoY on account of operational efficiency & lower tax rate

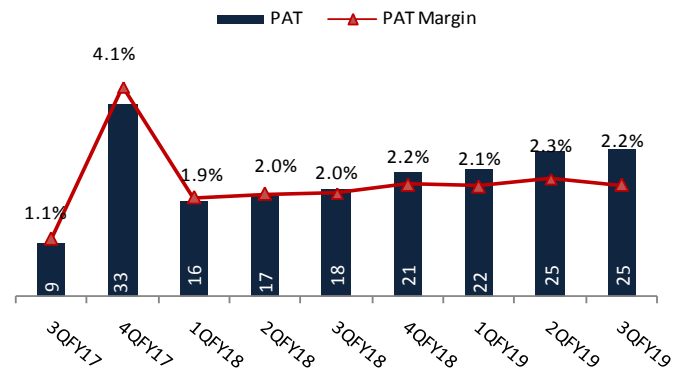


Exhibit: Headcount (in 00's)

Highest growth rate of 16.6% in general staffing headcount growth over the last 7 quarters

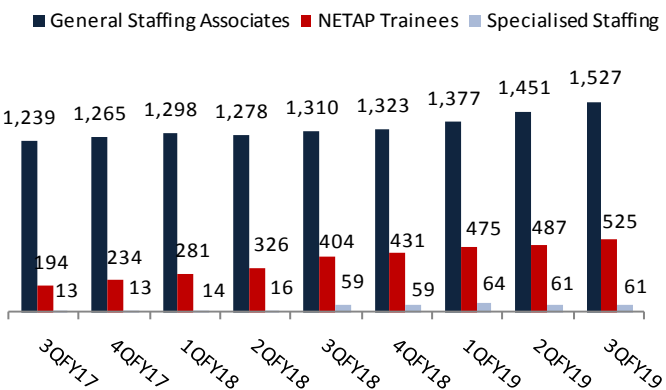
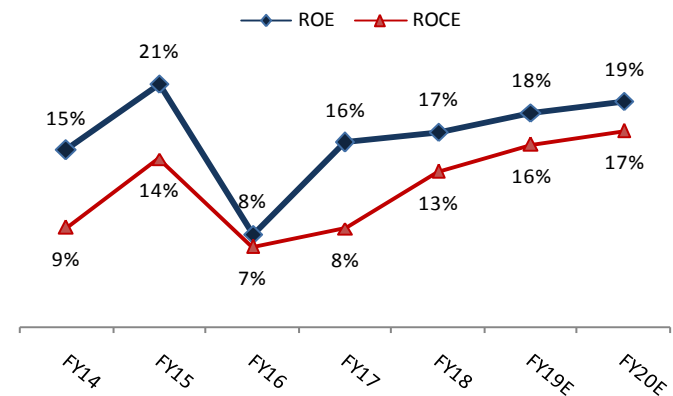


Exhibit: Return Ratios

Return ratios to improve going ahead as the profitability improves



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital ²	1	1	17	17	17	17	17
Reserves	118	148	294	349	425	523	652
Networth	118	149	312	366	442	540	669
Debt	1	-	19	1	7	7	7
Other Non Current Liab	19	23	33	42	49	54	54
Total Capital Employed	138	172	364	410	498	601	730
Net Fixed Assets (incl CWIP)	8	7	9	23	25	31	37
Non Current Investments	0	0	0	-	27	20	21
Other Non Current Assets	42	68	98	236	348	427	505
Non Current Assets	51	76	107	259	400	479	563
Inventory	0	0	0	-	-	-	-
Debtors	59	81	120	173	223	245	291
Cash & Bank	85	115	259	160	142	130	177
Other Current Assets	48	41	92	85	120	144	164
Current Assets	192	237	472	418	486	519	633
Creditors	7	7	-	10	18	17	20
Provisions	6	9	9	14	22	22	22
Other Current Liabilities	92	125	205	244	348	359	427
Curr Liabilities	105	141	214	268	388	398	469
Net Current Assets	87	96	258	150	98	120	163
Total Assets	243	313	579	678	886	998	1,195

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,530	2,007	2,505	3,041	3,624	4,482	5,328
Change (%)		31.2%	24.8%	21.4%	19.2%	23.7%	18.9%
Other Income	8	11	15	22	16	17	19
EBITDA	12	24	26	37	69	96	124
Change (%)		99.7%	7.2%	43.7%	85.7%	39.2%	29.9%
Margin (%)	0.8%	1.2%	1.0%	1.2%	1.9%	2.1%	2.3%
Depr & Amor.	2	3	3	6	9	11	12
EBIT	10	21	23	31	60	85	113
Finance Costs	0	0	0	1	2	5	5
EBT	18	33	38	52	73	97	126
Tax	-	2	13	(6)	(1)	(2)	(2)
Minority Int & P/L share of Ass./JVs	-	-	-	-	(0)	(0)	0
Reported PAT	18	31	25	58	73	99	128
Change (%)		73.3%	-19.4%	132.1%	27.6%	34.2%	30.3%
Margin(%)	1.2%	1.5%	1.0%	1.9%	2.0%	2.2%	2.4%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	15.1%	20.7%	8.0%	15.7%	16.6%	18.3%	19.2%
ROCE	8.5%	14.3%	6.9%	8.4%	13.3%	15.6%	16.7%
Asset Turnover	6.3	6.4	4.3	4.5	4.1	4.5	4.5
Debtor Days	14	13	15	18	20	20	20
Inv Days	0	0	0	0	-	-	-
Payable Days	2	1	1	1	1	1	1
Int Coverage	44	154	58	28	24	17	21
P/E	77	45	62	29	52	44	34
Price / Book Value	11.6	9.2	4.9	4.5	8.6	8.1	6.5
EV/EBITDA	107.1	52.3	50.1	40.3	52.4	43.8	33.4

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	18	33	38	52	73	97	126
(inc)/Dec in Working Capital	6	4	(15)	6	66	(54)	(13)
Non Cash Op Exp	7	6	3	17	13	11	12
Int Paid (+)	0	0	0	1	2	5	5
Tax Paid	(8)	2	(26)	(25)	(65)	(47)	(60)
others	(7)	(10)	(10)	(15)	(10)	(17)	(19)
CF from Op. Activities	16	34	(10)	36	79	(5)	51
(inc)/Dec in FA & CWIP	(3)	(4)	(5)	(2)	(2)	(17)	(17)
Free Cashflow	14	31	(15)	34	77	(21)	34
(Pur)/Sale of Inv	(38)	(19)	(119)	(21)	(20)	(3)	-
others	5.3	(2.0)	5.2	4.7	(1.0)	17.2	18.9
CF from Inv. Activities	(35)	(24)	(119)	(19)	(24)	(3)	2
inc/(dec) in NW	-	-	138	(0)	0	-	-
inc/(dec) in Debt	(11)	(1)	19	(22)	(11)	-	-
Int. Paid	(0)	(0)	(0)	(1)	(2)	(5)	(5)
Div Paid (inc tax)	-	-	-	-	-	-	-
others	-	-	-	-	-	-	-
CF from Fin. Activities	(11)	(1)	157	(23)	(13)	(5)	(5)
Inc(Dec) in Cash	(30)	9	28	(6)	42	(13)	48
Add: Opening Balance	43	13	22	30	24	67	54
Closing Balance	13	22	50	24	67	54	102

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