

Company Update
Consumer Services
TeamLease Services Ltd.
BUY

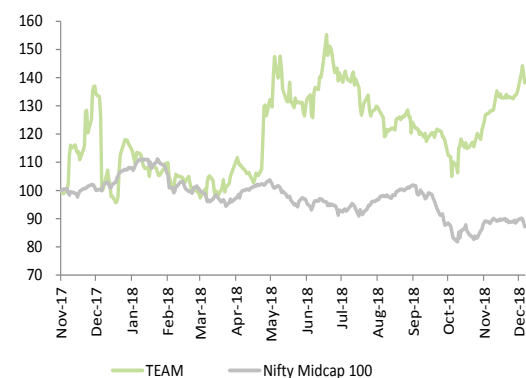
CMP (Rs)	2,800
Target Price (Rs)	3,244
Potential Upside	15.9%
Sensex	35,065
Nifty	10,533

Key Stock data

BSE Code	539658
NSE Code	TEAMLEASE
Bloomberg	TEAM:IN
Shares o/s, Cr (FV 10)	1.71
Market Cap (Rs Cr)	4,804
3M Avg Volume	41,452
52 week H/L	3,310/1,962

Shareholding Pattern

(%)	Mar-18	Jun-18	Sep-18
Promoter	42.3	40.8	40.8
FII	33.61	40.3	42.2
DII	5.94	4.93	7.4
Others	17.69	13.6	9.3

1 Year relative price performance


Research Analyst

 Rohit Khatri, MBA
 rohit.khatri@religare.com

Star performer

TeamLease Services Ltd. (TEAM) is the largest player in the organized staffing industry with a market share of ~6%. It has presence in all 29 states with a network of partnerships delivering in over 6,000 locations with 2,250+ clients and 1,700+ core employees. Over the years, the company has transformed itself into one stop service provider of human resources services to various industries and diverse functional roles offering staffing, payroll processing, recruitment, compliance and training services.

Investment Rationale

- **Market leader well placed to benefit from an underpenetrated market:** TEAM enjoys leadership position in the highly fragmented flexi-staff industry commanding a market share of ~6%. It is well placed to benefit from increased penetration of flexi-staff in India which is currently at 0.5% as against a world average of 1.7%. Further, the shift from unorganized to organized players post implementation of GST is likely to benefit players like TEAM, as it narrows the price differences. Additionally, TEAM's acquisitions to foray into new verticals and its value added services are likely to aid growth for the company. Hence, we expect TEAM's robust headcount growth to continue and thereby expect revenues to grow at CAGR of 20.7% over FY18-21E.
- **Strong financial performance to continue:** TEAM's robust business growth has reflected in its financials wherein the company has delivered a stellar CAGR of 24.1%/54.6%/42.6% over FY14-18. Despite operating in a traditionally low margin flexi-staffing business, TEAM has been able to improve margins significantly by 110bps over FY14-18 backed by improvement in staffing productivity. Further, its entry into high margin IT staffing business has also aided margin improvement. We expect TEAM's margin improvement to continue over FY18-21E through increase in realizations, increase in productivity and digitization.

Outlook & Valuation

TEAM is at the cusp of witnessing higher growth due to changing industry dynamics and higher penetration of flexi-staffing in India. TEAM's acquisitions have enabled it to foray into new verticals and the company is also looking for new acquisition targets in order to broaden their horizon. Post a soft FY18, the headcount growth for the company has been strong in H1FY19 and we expect the momentum to continue given strong pipeline and increased traction in specialized staffing business. Further, the margins are also expected to improve for TEAM on account of higher realizations and its constant efforts to improve productivity. Going forward, we expect TEAM's strong performance to continue given strong industry trends, its stellar past record of 20%+ growth, diversified portfolio (26.7% business from top 10 clients), wide pool of candidates (10 million), debt free balance sheet and healthy return ratios. We roll our estimates to FY21E and expect TEAM's Revenue/EBITDA/PAT to grow at CAGR of 20.7%/32.3%/33.1% over FY18-21E. Hence, we recommend a Buy on the stock with a target price of Rs. 3,244.

Financial Summary - consolidated

Particulars, Rs cr	FY18	FY19E	FY20E	FY21E
Net revenue	3,624.1	4,421.4	5,394.1	6,365.1
EBITDA	68.8	97.3	132.2	159.1
EBITDAM (%)	1.9	2.2	2.4	2.5
APAT	73.5	100.5	140.2	173.3
APATM (%)	2.0	2.3	2.6	2.7
EPS (Rs)	43.0	58.8	82.0	101.4
PE (x)	66.9	48.9	35.1	28.4
RoE (%)	17.9	20.4	22.9	22.5

Source : Company; RBL Research

P&L Account - consolidated

Particulars (cr)	FY18	FY19E	FY20E	FY21E
Net sales	3,624.1	4,421.4	5,394.1	6,365.1
Expenditure				
Employee cost	3,471.2	4,182.7	5,100.1	6,015.0
Other expenses	84.1	141.5	161.8	191.0
Total expenditure	3,555.3	4,324.1	5,262.0	6,205.9
EBITDA	68.8	97.3	132.2	159.1
EBITDAM (%)	1.9	2.2	2.4	2.5
Other income	15.6	18.8	24.0	30.7
Depreciation	9.2	11.1	11.7	12.2
PBIT	75.3	104.9	144.5	177.6
Interest expenses	2.5	4.3	4.3	4.3
PBT	72.8	100.6	140.2	173.3
Tax	(0.9)	-	-	-
Share of (loss)/ profit from	(0.3)	(0.1)	-	-
Reported profit	73.5	100.5	140.2	173.3
PATM (%)	2.0	2.3	2.6	2.7

Source : Company; RBL Research

Balance sheet - consolidated

Particulars (cr)	FY18	FY19E	FY20E	FY21E
Share Capital	17.1	17.1	17.1	17.1
Reserves & Surplus	424.6	525.1	665.3	838.7
Total Shareholder's Fund	441.7	542.2	682.4	855.8
Non-Current Liabilities				
Long term borrowings	-	-	-	-
Other long term liabilities	4.9	4.9	4.9	4.9
Long term provision	43.7	43.7	43.7	43.7
Current Liabilities				
Short term borrowings	7.3	12.3	17.3	22.3
Trade payables	17.6	21.5	26.2	30.9
Short term provisions	22.4	42.4	62.4	62.4
Other current liabilities	348.5	425.1	518.7	612.0
Total liabilities	886.1	1,092.1	1,355.6	1,632.0
Fixed Assets	5.4	7.4	9.4	10.4
Intangible assets	132.3	147.3	162.3	172.3
Non current investment	27.0	37.0	67.0	97.0
Other non-current assets	2.0	2.0	2.0	2.0
Long term loans and advances	93.2	113.2	153.2	193.2
Deferred Tax Assets	139.8	139.8	139.8	139.8
Current Assets				
Current investments	32.3	32.3	32.3	32.3
Inventories	0.2	0.2	0.2	0.2
Trade receivables	223.5	273.5	323.5	373.5
Cash & Cash equivalents	142.3	232.0	334.8	456.7
Short term loans and advances	1.4	1.7	2.1	2.5
Other current assets	86.6	105.7	129.0	152.2
Total assets	886.1	1,092.1	1,355.6	1,632.0

Source : Company; RBL Research

Cash Flow statement - consolidated

Particulars (cr)	FY18	FY19E	FY20E	FY21E
Reported PBT	72.8	100.6	140.2	173.3
Depreciation	9.2	11.1	11.7	12.2
Tax paid	0.9	-	-	-
Working capital Change	70.4	36.2	49.6	29.5
Other operating items	-	-	-	-
Operating Cash Flow (a)	153.3	147.9	201.5	215.1
Capex	-44.0	-28.1	-28.7	-23.2
Free Cash Flow	109.3	119.8	172.8	191.8
Investments	5.5	-30.0	-70.0	-70.0
Investing Cash Flow (b)	-38.5	-58.1	-98.7	-93.2
Debt Issuance/ (Repaid)	-	-	-	-
Dividend Paid	-	-	-	-
Share Capital Issuance, QIP proceeds	-12.9	-	-	-
Others	-119.1	-0.1	-	-
Financing Cash Flow (c)	-132.0	-0.1	-	-
Net Cash Flow (a + b + c)	-17.1	89.7	102.8	121.8
Closing Cash	142.3	232.0	334.8	456.7

Source : Company; RBL Research

Key Financial ratios - consolidated

Particulars (cr)	FY18	FY19E	FY20E	FY21E
Per Share Ratios				
EPS Rs	43.0	58.8	82.0	101.4
CEPS Rs	48.3	65.3	88.8	108.5
Book value per share Rs	258.3	317.1	399.2	500.5
Profitability Ratios				
EBITDA Margin (%)	1.9	2.2	2.4	2.5
PBT Margin (%)	2.0	2.3	2.6	2.7
Net Profit Margin (%)	2.0	2.3	2.6	2.7
RoCE (%)	16.5	19.4	21.9	21.7
RoE (%)	17.9	20.4	22.9	22.5
Efficiency				
Debtors Velocity (Days)	22.5	22.6	21.9	21.4
Debt-Equity Ratio (x)	-	-	-	-
Valuation Ratios				
P/E (x)	66.9	48.9	35.1	28.4
P/B (x)	11.1	9.1	7.2	5.7
EV/EBIDTA (x)	69.4	48.1	34.7	28.0

Source : Company; RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I/ we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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