

BSE SENSEX
36,395

S&P CNX
10,889

CMP: INR2,794 TP: INR3,400 (+22%)

Buy



Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	47.8 / 0.7
52-Week Range (INR)	3339 / 1990
1, 6, 12 Rel. Per (%)	0/13/20
12M Avg Val (INR M)	96
Free float (%)	59.2

Financials & Valuations(INR b)

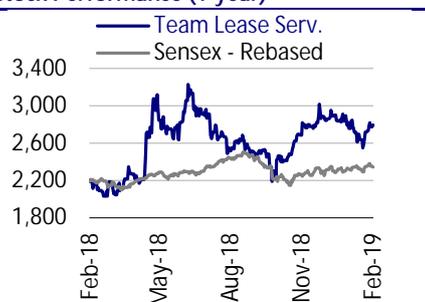
Y/E Mar	2019E	2020E	2021E
Net Sales	45.1	56.1	68.8
EBITDA	1.0	1.5	2.0
PAT	1.0	1.5	2.1
EPS (INR)	61.0	89.9	125.5
Gr. (%)	41.8	47.3	39.7
BV/Sh (INR)	327.0	416.8	542.3
RoE (%)	20.6	24.2	26.2
RoCE (%)	20.9	24.2	26.3
P/E (x)	41.8	28.4	20.3
P/BV (x)	7.8	6.1	4.7

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	40.8	40.8	43.1
DII	5.8	5.7	14.8
FII	44.5	44.2	26.4
Others	8.9	9.3	15.7

FII Includes depository receipts

Stock Performance (1-year)



TeamLease to acquire IT staffing biz of eCentric Solutions

TeamLease Services (TEAM) has announced the acquisition of eCentric Solutions' IT staffing business, which has 880 associates and revenue of INR450m (as of FY18). The company will pay 4.5x PBT (~INR150-180m) or the acquisition through its subsidiary TL Digital by way of slump sale on a going-concern basis. The consideration will be payable in two tranches, on transfer of clients and transition support.

About eCentric Solutions

- eCentric is a Hyderabad-based HR services and IT solutions provider. It has 2,000+ associates.
- Operating since 2014, the IT staffing vertical has over 100 core employees and 880 associates deployed across 20+ clients, with annual turnover of over INR450m.
- eCentric has established itself as an IT staffing business and a tier 1 vendor with top IT clients. Most associates have niche skills and cater to captive clients.

About the transaction

- eCentric will transfer its IT staffing vertical to TL Digital by the way of slump sale on a going-concern basis, at a consideration equivalent to 4.5x of the proportionate PBT (which should work out to ~INR150-180m, depending upon the full fiscal FY19 performance. The consideration is payable in two tranches- 85% on transfer of clients contributing at least 90% of the gross margin and 15% payable post six months of transition support.

Transaction Rationale

- TeamLease's IT staffing business has 2,000+ associates with EBITDA margin of 10-12%. Acquisition of the IT vertical of eCentric will further strengthen its presence in the high-margin IT staffing domain.
- eCentric has a lower associate to core employee ratio (~9) than TEAM (~11). After the acquisition, TEAM will be able to bring in operational efficiency and boost profitability taking PBT margin to ~10% in 18-24 months, from current ~5%.
- The transaction complements TEAM's existing clientele with attractive captive clients and also majority of the associates added come with niche skills.

Valuation view

- We have revised up our revenue estimate by 1% and EBITDA estimate by 3.7% for FY20/21.
- Our EPS estimate has been changed by +2.4%/+2.1% for FY20/21 factoring the transaction consideration.
- We value TEAM using DCF to arrive a TP of INR3,400 (implied target P/E of 3x/27x on FY20/21E EPS). At 29x/20x FY20/21E earnings, valuations are rich, but justified given revenue/EBITDA/EPS CAGR of 24/43/43% over FY18-21. Sustained superiority of the financial performance because of industry trends, business model and operational excellence continues strengthening our long-term view. Buy.

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Exhibit 1: Change in estimates

	Revised			Earlier			Change		
	CY18E	CY19E	CY20E	CY18E	CY19E	CY20E	CY18E	CY19E	CY20E
Revenue (m)	45,117	56,121	68,780	45,117	55,581	68,158	0.0%	1.0%	0.9%
Rev. growth (%)	24.5	24.4	22.6	24.5	23.2	22.6	-1bp	119bp	-5bp
EBITDA (m)	980.2	1452.3	2001.6	980.2	1401.0	1931.0	0.0%	3.7%	3.7%
EBITDA Margin (%)	2.2	2.6	2.9	2.2	2.5	2.8	-3bp	9bp	11bp
PAT (m)	1043.4	1536.6	2146.6	1043.0	1500.0	2102.0	0.0%	2.4%	2.1%
EPS (INR)	61.0	89.8	125.5	61.0	87.7	122.9	0.0%	2.4%	2.1%
EPS Growth (%)	41.7	47.3	39.7	41.9	43.8	40.1	-13bp	350bp	-44bp

Source: Company, MOSL

Valuation view

- n TEAM is a leader in the highly fragmented temporary staffing industry, with a 6% market share. Its extensive geographical reach, presence in multiple industries and functions, scale, ability to fill positions, and sourcing capabilities reflect in its operational prowess, which is a key determinant of success in this industry.
- n Temporary staffing across the globe has gained prominence over the last few years, as companies seek flexibility and better cost management. This segment constitutes 2-4% of the total workforce for developed countries, and averages at 1.6% for the world versus 0.5% in India. A convergence to the global average itself can triple the industry.
- n A further impetus would be provided by formalization, which would be catalyzed by GST implementation, erasing the 15% pricing benefit that unorganized players could give customers by evading the tax net. However, for a full-fledged movement toward organized, reforms in labor laws would be necessary; so the loopholes in statutory payment to employees are also plugged.
- n Growth in the industry and formalization can together ensure sustained >20% growth in the sector (and for TeamLease) over the next decade. For TEAM, the performance would be further driven by profitability improvement, led by [1] operational leverage because of an improvement in the associate/core employee ratio and [2] higher proportion of revenue from IT staffing, training and other HR solutions, which command better margins. We expect cumulative 60bp margin expansion for TEAM over FY19-21.
- n Add to this the benefits of Section 80JJAA of the Income Tax Act, a consequent near-zero tax rate, a revenue CAGR of 24% and EBITDA CAGR of 40% translates into 42% PAT CAGR.
- n TEAM will be a key beneficiary of industry trends and we expect it to demonstrate high-growth trajectory over the next three years. Consequently, prospective improvement in return ratios and cash generation, led by the business model, would be a key driver of value creation for the company.
- n We value TEAM using DCF to arrive a target price of INR3,400 (implied target P/E of 3x/27x on FY20E/21E EPS). We have revised up our FY20 revenue guidance by 1% to accommodate the acquired entity. At 29x/20x FY20/21E earnings, valuations are rich, but justified given revenue/EBITDA/EPS CAGR of 24/43/43% over FY18-21. Sustained superiority of the financial performance because of industry trends, business model and operational excellence continues strengthening our long-term view. **Buy**.

Key triggers

- n GST-related pick-up driving higher growth in general staffing business
- n Significant scaling up of the IT staffing business
- n Continued profitability expansion

Key risks

- n Economic downturn leading to a proportionate and direct impact on business
- n Loss of business or issues with a top client (top-5 contribute 12% of revenue; top-10 contribute 19% of revenue)
- n Inability to have a higher proportion of revenue from other HR services and professional staffing, leading to lower realizations and profitability

Exhibit 2: Fair value of INR3,400/share based on DCF

Discount rate	12.00%
Terminal growth rate	5.00%
PV FCF	14,942
PV of terminal value	39,636
NPV	54,578
Less: Debt	111
Add: Cash and cash equivalents	2,953
Total equity value	57,421
Per share	
PV FCF	874
PV of terminal value	2,318
NPV	3,192
Less: Debt	6
Add: Cash and cash equivalents	173
Total equity value	3,358
NOSH m	17
CMP	2,800
Target price	3,400
Upside (%)	21%

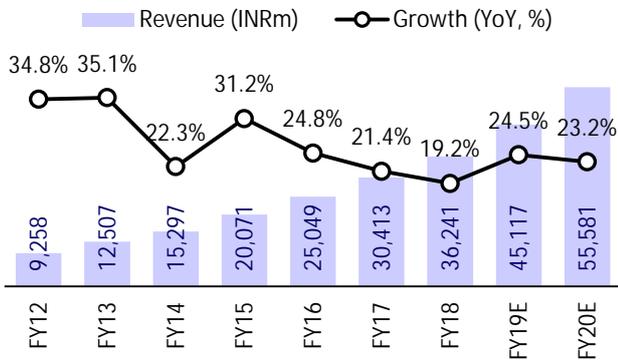
Source: MOSL

Exhibit 3: We assume 12% WACC and 5% terminal growth rate

WACC/g	Sensitivity analysis				
	3.0%	4.0%	5.0%	6.0%	7.0%
10%	3,800	4,300	4,900	5,900	7,600
11%	3,200	3,600	4,000	4,600	5,500
12%	2,800	3,000	3,400	3,800	4,300
13%	2,500	2,700	2,900	3,200	3,600
14%	2,200	2,300	2,500	2,700	3,000

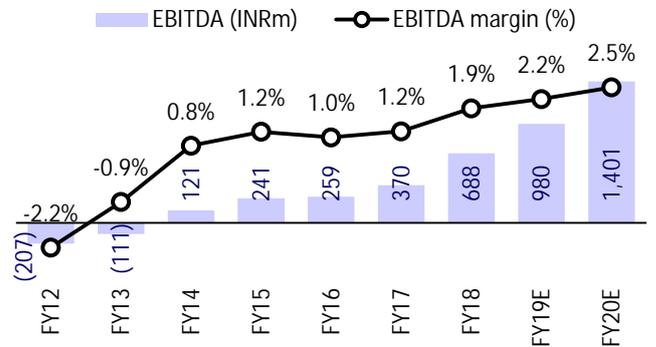
Story in charts

Exhibit 4: Revenue growth momentum to remain intact



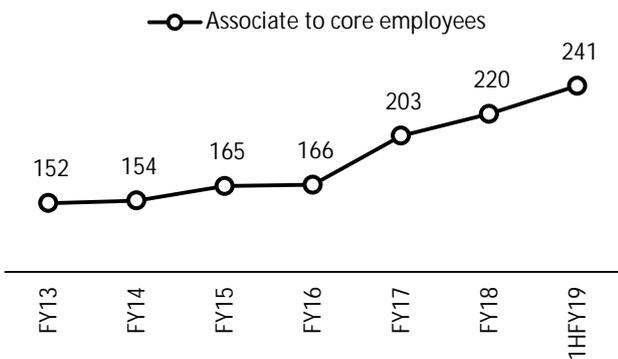
Source: Company, MOSL

Exhibit 5: Margin expansion to be aided by scale and business mix change



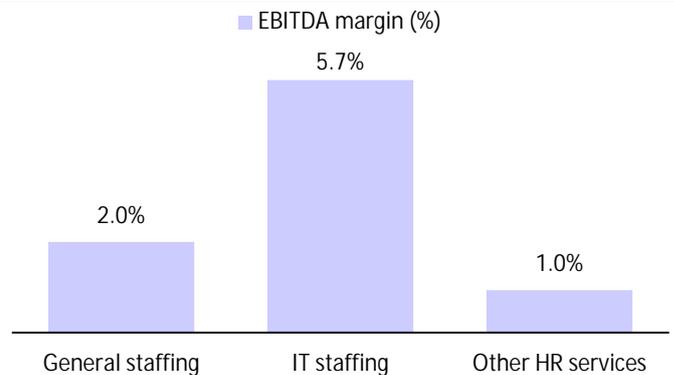
Source: Company, MOSL

Exhibit 6: Scale has resulted in higher efficiency



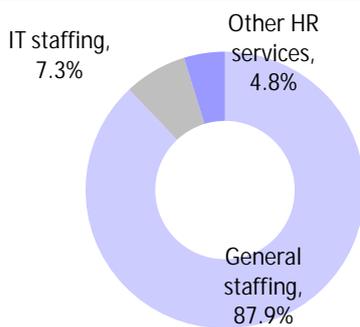
Source: Company, MOSL

Exhibit 7: Steep margin dip seen in Other HR services



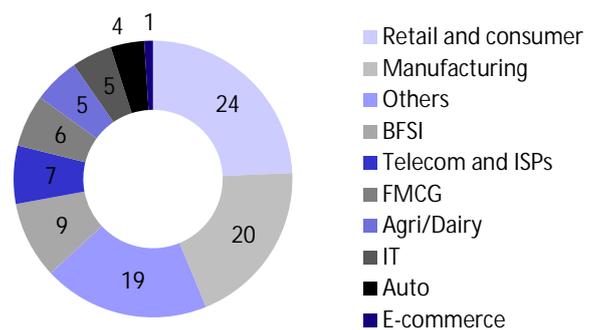
Source: Company, MOSL

Exhibit 8: Portfolio currently dominated by general staffing



Source: Company, MOSL

Exhibit 9: Well-diversified staffing portfolio (FY17)



Source: Company, MOSL

Financials and valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	15,297	20,071	25,049	30,413	36,241	45,117	56,121	68,780
Change (%)	22.3	31.2	24.8	21.4	19.2	24.5	24.4	22.6
Total Expenditure	15,175	19,829	24,790	30,043	35,553	44,137	54,669	66,778
% of Sales	99.2	98.8	99.0	98.8	98.1	97.8	97.4	97.1
EBITDA	121	241	259	370	688	980	1,452	2,002
Margin (%)	0.8	1.2	1.0	1.2	1.9	2.2	2.6	2.9
Depreciation	19	27	30	61	92	98	132	150
EBIT	102	214	229	309	596	882	1,320	1,851
Int. and Finance Charges	2	2	5	11	25	40	20	20
Other Income	79	114	154	216	157	178	236	315
PBT	178	326	378	514	729	1,021	1,537	2,147
Total Tax	0	18	130	-61	-10	-24	0	0
Tax Rate (%)	0.0	5.5	34.4	-11.8	-1.4	-2.4	0.0	0.0
Minority Interest	0	0	0	0	-3	-1	0	0
Reported PAT	178	308	248	575	736	1,043	1,537	2,147
Adjusted PAT	178	308	248	575	736	1,043	1,537	2,147
Change (%)	-581.9	72.6	-19.4	131.8	28.0	41.8	47.3	39.7
Margin (%)	1.2	1.5	1.0	1.9	2.0	2.3	2.7	3.1

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	5	5	171	171	171	171	171	171
Total Reserves	1,183	1,483	2,945	3,640	4,376	5,420	6,956	9,103
Net Worth	1,188	1,488	3,116	3,811	4,547	5,591	7,127	9,274
Total Loans	9	0	194	11	161	111	61	11
Deferred Tax Liabilities	0	-57	-45	-149	-149	-149	-149	-149
Capital Employed	1,197	1,431	3,264	3,673	4,559	5,552	7,039	9,136
Gross Block	276	221	309	349	499	534	719	819
Less: Accum. Deprn.	199	222	252	302	393	491	623	773
Net Fixed Assets	77	-1	57	47	106	43	96	45
Goodwill on Consolidation	30	54	54	982	982	982	1,067	1,067
Capital WIP	0	42	0	0	0	0	0	0
Total Investments	0	0	0	103	103	103	103	103
Curr. Assets, Loans&Adv.	2,326	2,974	5,629	5,641	7,095	8,973	11,433	14,903
Inventory	3	2	2	2	2	2	2	2
Account Receivables	595	813	1,205	1,872	2,250	3,009	3,744	4,620
Cash and Bank Balance	847	1,147	2,590	1,593	2,230	2,953	3,943	5,662
Loans and Advances	881	1,012	1,832	2,174	2,613	3,009	3,744	4,620
Curr. Liability & Prov.	1,236	1,638	2,476	3,101	3,727	4,549	5,660	6,983
Account Payables	72	69	88	105	126	154	191	236
Other Current Liabilities	976	1,303	2,013	2,469	2,967	3,621	4,506	5,559
Provisions	188	266	375	528	634	774	963	1,188
Net Current Assets	1,090	1,336	3,153	2,540	3,368	4,424	5,773	7,920
Appl. of Funds	1,197	1,431	3,264	3,673	4,559	5,553	7,039	9,136

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)								
EPS	10.4	18.0	14.5	33.6	43.0	61.0	89.9	125.5
Cash EPS	11.5	19.6	16.3	37.2	48.4	66.7	97.6	134.3
BV/Share	69.5	87.0	182.2	222.9	265.9	327.0	416.8	542.3
Valuation (x)								
P/E		141.9	176.0	75.9	59.3	41.8	28.4	20.3
Cash P/E		130.4	157.0	68.6	52.7	38.2	26.2	19.0
P/BV		29.3	14.0	11.5	9.6	7.8	6.1	4.7
EV/Sales		2.1	1.6	1.4	1.1	0.9	0.7	0.6
EV/EBITDA		176.1	159.1	113.6	60.4	41.6	27.4	19.0
FCF per share	8.0	17.9	-8.9	18.4	20.7	37.1	53.1	86.2
Return Ratios (%)								
RoE	16.2	23.0	10.8	16.6	17.6	20.6	24.2	26.2
RoCE	15.5	23.1	10.5	16.5	17.9	20.9	24.2	26.3
RoIC	29.1	68.5	32.8	26.1	28.8	38.2	48.1	58.2
Working Capital Ratios								
Asset Turnover (x)	12.8	14.0	7.7	8.3	7.9	8.1	8.0	7.5
Debtor (Days)	14	15	18	22	23	24	24	25
Creditor (Days)	2	1	1	1	1	1	1	1
Leverage Ratio (x)								
Net Debt/Equity	-0.7	-0.8	-0.8	-0.4	-0.5	-0.5	-0.6	-0.6

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	179	326	378	613	726	1,019	1,537	2,147
Depreciation	19	27	30	43	92	98	132	150
Interest & Finance Charges	-69	-97	-95	-157	25	40	20	20
Direct Taxes Paid	-78	17	-265	-191	10	24	0	0
(Inc)/Dec in WC	58	38	-150	-19	-191	-333	-359	-427
CF from Operations	108	311	-102	289	661	849	1,329	1,890
Others	55	32	-3	43	-157	-178	-236	-315
CF from Operating incl EO	164	343	-105	332	505	670	1,093	1,574
(Inc)/Dec in FA	-26	-37	-47	-18	-150	-35	-185	-100
Free Cash Flow	137	306	-152	314	355	635	908	1,474
(Pur)/Sale of Investments	2	3	2	-85	0	0	0	0
Others	43	0	23	-814	157	178	151	315
CF from Investments	19	-34	-22	-917	7	143	-34	215
Issue of Shares	0	0	1,500	0	0	0	0	0
Inc/(Dec) in Debt	-113	-8	0	0	150	-50	-50	-50
Interest Paid	-2	-1	-4	-11	-25	-40	-20	-20
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	73	-401	0	0	0	0
CF from Fin. Activity	-115	-10	1,569	-412	125	-90	-70	-70
Inc/Dec of Cash	67	300	1,443	-997	637	724	989	1,720
Opening Balance	780	847	1,147	2,590	1,593	2,230	2,953	3,943
Closing Balance	847	1,147	2,590	1,593	2,230	2,953	3,943	5,662

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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