

May 23, 2016

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Rating	BUY
Price	Rs940
Target Price	Rs1,170
Implied Upside	24.5%
Sensex	25,230
Nifty	7,731

(Prices as on May 23, 2016)

Trading data

Market Cap. (Rs bn)	16.1
Shares o/s (m)	17.1
3M Avg. Daily value (Rs m)	24.8

Major shareholders

Promoters	45.61%
Foreign	9.40%
Domestic Inst.	10.93%
Public & Other	34.06%

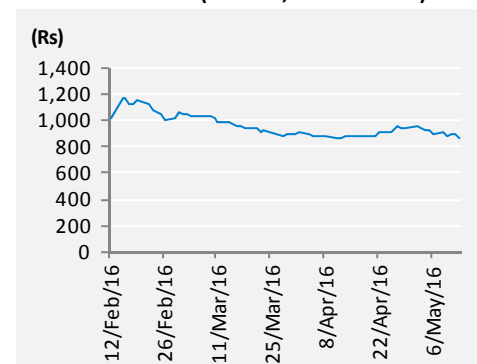
Stock Performance

(%)	1M	6M	12M
Absolute	2.9	NA	NA
Relative	5.2	NA	NA

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	24.9	NA	NA
2018	33.4	NA	NA

Price Performance (RIC: NA, BB: TEAM IN)



Source: Bloomberg

TeamLease (TL) maintained its strong growth with ~25% revenue growth in FY16. However, up-front investments in business resulted in a 20bps YoY drop in EBITDA margins resulting in just 7% YoY EBITDA growth. Increase in tax rate to 34% from ~5% in FY15 resulted in ~16% decline in Net Profit. We believe that the investments lay a solid foundation for healthy revenue growth and margin expansion going forward. Margin expansion will be driven by a) fixed cost leverage in the core staffing business, b) growth in higher margin HR services business which achieved break-even in FY16 and c) foray into vertical HR services. We factor in 20-25bps EBITDA margin improvement in each of FY17E/18E and forecast 25%/50%/52% revenue/EBITDA/EPS CAGR over FY16-18E. Although we have reduced FY17/18 EPS estimates by ~7% driven by the margin miss, we re-iterate TeamLease as BUY with TP of Rs1,170 based on 35x FY18 EPS.

■ **FY16 has been the year of investment:** TL has invested in a) technology, b) leadership and c) employees in FY16. New version of technology platform (ALCS 10 - Associate Life Cycle System - 10) and mobile app 'TL connect' was rolled out. Leadership was augmented with new heads for operations, sales, customer relationship and HR. The core employee strength has been increased in advance and as a result there may not be any additional hiring in FY17. As a consequence, there will be significant fixed cost leverage in FY17/18.

■ **HR services business achieved breakeven:** HR services: a) regulatory compliance, b) recruitment, c) training and d) apprenticeship practice, all of them achieved critical mass and break-even in FY16. These services along with the expected foray into verticals (hospitality and IT) will supplement revenue growth from the core staffing business and also contribute to margin expansion.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	20,071	25,049	31,192	39,077
Growth (%)	31.2	24.8	24.5	25.3
EBITDA (Rs m)	241	258	397	580
PAT (Rs m)	297	248	425	571
EPS (Rs)	19.4	14.5	24.9	33.4
Growth (%)	66.3	(25.1)	71.5	34.3
Net DPS (Rs)	17.0	1.5	2.0	2.5

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	1.2	1.0	1.3	1.5
RoE (%)	22.2	10.2	12.0	14.2
RoCE (%)	19.3	9.5	11.3	13.5
EV / sales (x)	0.7	0.6	0.4	0.3
EV / EBITDA (x)	59.0	54.8	34.5	22.6
PE (x)	48.6	64.8	37.8	28.2
P / BV (x)	9.7	4.8	4.3	3.8
Net dividend yield (%)	1.8	0.2	0.2	0.3

Source: Company Data; PL Research

Conference call takeaways

With the enhanced technology platform company intends to provide additional services such as attendance management/productivity etc to clients which will result in increase in revenue.

Associate headcount increased by over 14,000 in FY16 to ~109k. Average mark-up per associate per month increased by 7% from Rs642 in FY15 to Rs687 in FY16.

Apprenticeship practice appears most promising with more than 100 clients on board and company expects exponential growth in this business. During FY16, the average realization per apprentice per month stood at Rs450 for TeamLease.

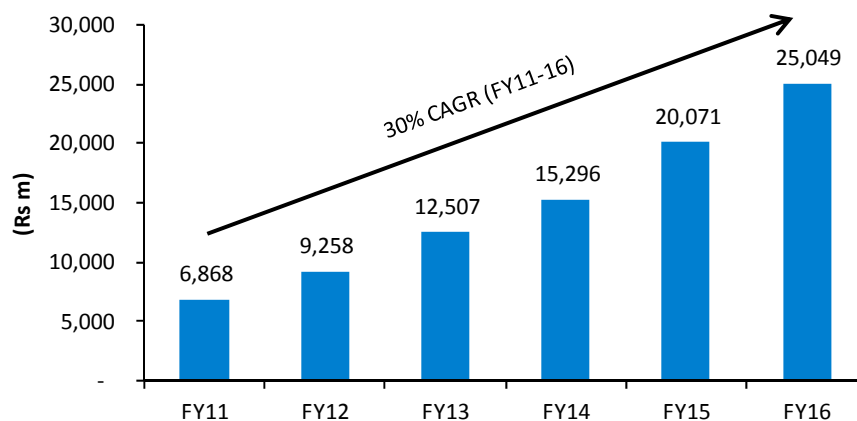
Total number of clients increased from 1,200 in FY15 to 1,400 in FY16.

Top 5 and Top 10 clients contribute 13%/7% of revenues respectively.

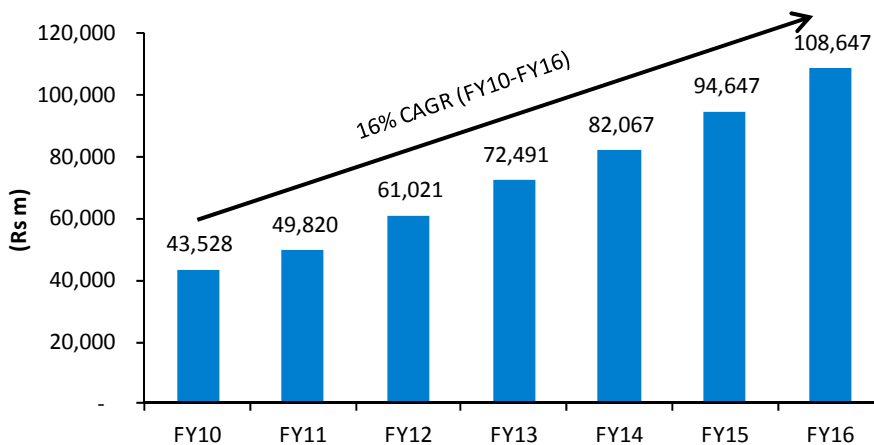
Exhibit 1: Quarterly P&L Snapshot

Particulars	Q4FY16	Q3FY16	QoQ gr.	Q4FY15	YoY gr.
Revenues	6,642	6,311	5.2%	5,294	25.5%
Employee expense	6,452	6,147	5.0%	5,131	25.7%
Gross profit	190	164	16.2%	162	17.4%
<i>Gross profit Margins</i>	<i>2.9%</i>	<i>2.6%</i>	<i>27bps</i>	<i>3.1%</i>	<i>(20) bps</i>
Other expenses	106	102	4.6%	79	35.2%
EBITDA	84	62	35.4%	83	0.6%
<i>EBITDA Margins</i>	<i>1.3%</i>	<i>1.0%</i>	<i>28bps</i>	<i>1.6%</i>	<i>(31) bps</i>
Depreciation	10	11	-4.3%	5	108.7%
EBIT	74	51	43.7%	78	-6.2%
<i>EBIT Margins</i>	<i>1.1%</i>	<i>0.8%</i>	<i>30bps</i>	<i>1.5%</i>	<i>(37) bps</i>
Other income	66	25	169.7%	36	83.5%
Finance costs	1.3	0.9		0.4	
PBT	139	75	85.1%	114	21.4%
Tax expense	(47)	(26)	80.0%	(46)	2.2%
Net Profit	91	49	87.9%	68	34.4%

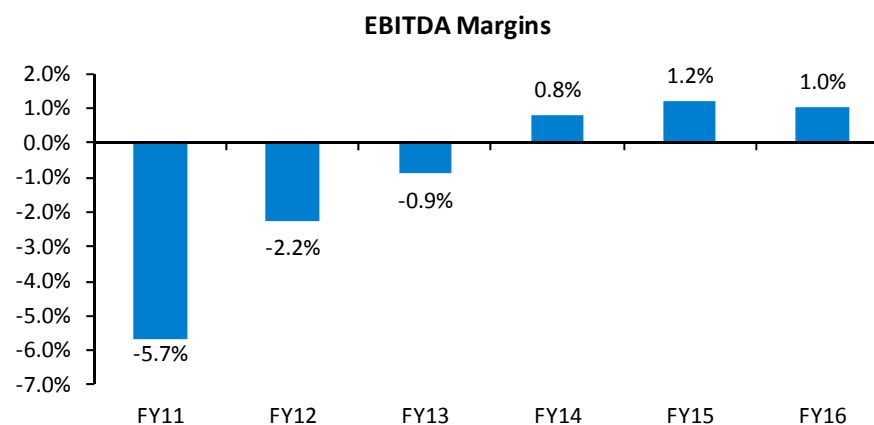
Source: Company Data, PL Research

Exhibit 2: Revenue growth at 30% CAGR (FY11-FY16)


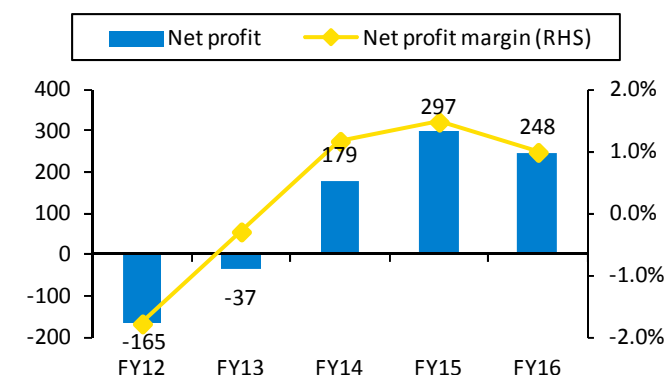
Source: Company Data, PL Research

Exhibit 3: Associate growth at healthy 16% CAGR (FY10-FY16)


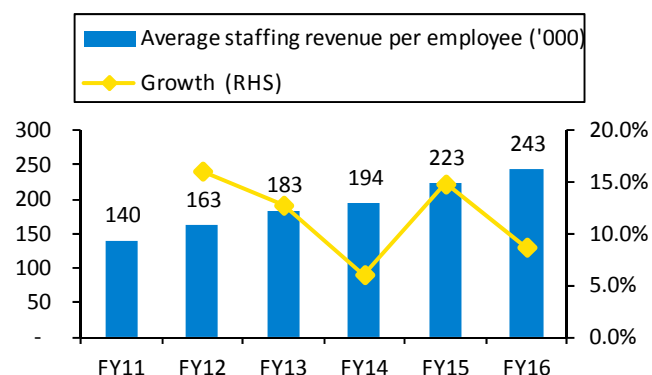
Source: Company Data, PL Research

Exhibit 4: Investments in business result in margin decline in FY16


Source: Company Data, PL Research

Exhibit 5: Net profit and net profit margins


Source: Company Data, PL Research

Exhibit 6: Revenue & growth in staffing revenue per employee


Source: Company Data, PL Research

Exhibit 7: Annual P&L Snapshot (Rs m)

Y/e March	FY15	FY16	FY17E	FY18E
Revenues	20,071	25,049	31,192	39,077
YoY growth	31.2%	24.8%	24.5%	25.3%
EBITDA	241	258	397	580
YoY growth	99.7%	7.2%	53.8%	46.4%
EBITDA Margins	1.2%	1.0%	1.3%	1.5%
Depreciation	27	30	36	44
EBIT	213	228	361	536
YoY growth	111%	7%	58%	49%
EBIT Margins	1.1%	0.9%	1.2%	1.4%
Other income	113	150	288	335
PBT	326	378	648	871
YoY growth	83%	16%	71%	34%
Tax expense	18	130	223	300
Net Profit	308	248	425	571
YoY growth	73%	-19%	71%	34%
EPS (Rs)	19	14	25	33
YoY growth	67.1%	-25.3%	71.5%	34.3%

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2015	2016	2017E	2018E
Net Revenue	20,071	25,049	31,192	39,077
Software Dev. Exp.	19,445	24,345	30,283	37,908
Gross Profit	626	705	908	1,169
Employee Cost	—	—	—	—
Other Expenses	385	447	512	588
EBITDA	241	258	397	580
Depr. & Amortization	27	30	36	44
Net Interest	1	4	—	—
Other Income	114	154	288	335
Profit before Tax	326	378	648	871
Total Tax	18	130	223	300
Profit after Tax	308	248	425	571
Ex-Od items / Min. Int.	11	—	—	—
Adj. PAT	297	248	425	571
Avg. Shares O/S (m)	15.3	17.1	17.1	17.1
EPS (Rs.)	19.4	14.5	24.9	33.4

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	343	352	515	684
C/F from Investing	(244)	(100)	(40)	(40)
C/F from Financing	(10)	1,474	(34)	(43)
Inc. / Dec. in Cash	90	1,726	441	601
Opening Cash	129	219	1,945	2,386
Closing Cash	219	1,945	2,386	2,987
FCFF	548	210	475	644
FCFE	548	210	475	644

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	1,485	3,356	3,747	4,275
Total Debt	—	—	—	—
Other Liabilities	228	228	228	228
Total Liabilities	1,713	3,584	3,975	4,503
Net Fixed Assets	95	165	169	165
Goodwill	—	—	—	—
Investments	929	1,035	1,035	1,035
Net Current Assets	31	1,725	2,112	2,644
Cash & Equivalents	218	1,945	2,386	2,987
Other Current Assets	1,604	2,025	2,521	3,158
Current Liabilities	1,792	2,244	2,794	3,501
Other Assets	659	659	659	659
Total Assets	1,713	3,584	3,975	4,503

Key Financial Metrics

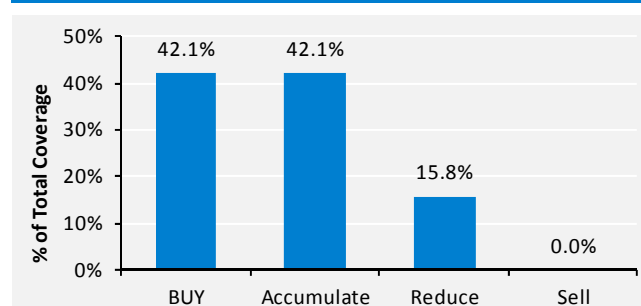
Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	31.2	24.8	24.5	25.3
EBITDA (%)	99.7	7.2	53.8	46.4
PAT (%)	66.3	(16.5)	71.5	34.3
EPS (%)	66.3	(25.1)	71.5	34.3
Profitability				
EBITDA Margin (%)	1.2	1.0	1.3	1.5
PAT Margin (%)	1.5	1.0	1.4	1.5
RoCE (%)	19.3	9.5	11.3	13.5
RoE (%)	22.2	10.2	12.0	14.2
Balance Sheet				
Net Debt : Equity	(0.1)	(0.6)	(0.6)	(0.7)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	48.6	64.8	37.8	28.2
P / B (x)	9.7	4.8	4.3	3.8
EV / EBITDA (x)	59.0	54.8	34.5	22.6
EV / Sales (x)	0.7	0.6	0.4	0.3
Earnings Quality				
Eff. Tax Rate	5.5	34.4	34.4	34.4
Other Inc / PBT	35.0	40.8	44.4	38.4
Eff. Depr. Rate (%)	9.9	8.0	8.7	9.7
FCFE / PAT	184.6	84.7	111.7	112.8

Source: Company Data, PL Research.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
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Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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