MOTILAL OSWAL FINANCIAL SERVICES

29 January 2025
3QFY25 Results Update | Sector: Staffing

TeamLease

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	41.9 / 0.5
52-Week Range (INR)	3700 / 2459
1, 6, 12 Rel. Per (%)	-11/-21/-22
12M Avg Val (INR M)	138

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	111.0	129.9	153.5
EBIT Margin (%)	0.7	1.3	1.3
Adj. PAT	1.1	2.0	2.3
EPS (INR)	66.6	118.8	136.5
EPS Gr. (%)	2.8	78.4	14.9
BV/Sh. (INR)	539.1	655.5	789.1
Ratios			
RoE (%)	12.7	19.5	18.5
RoCE (%)	11.4	16.6	16.2
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	37.5	21.0	18.3
P/BV (x)	4.6	3.8	3.2
EV/EBITDA (x)	30.8	19.1	15.9
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	31.6	31.6	31.6
DII	37.1	34.6	35.3
FII	21.9	24.8	26.3
Others	9.4	9.0	6.8

FII Includes depository receipts

CMP: INR2,498 TP: INR3,200 (+28%) Buy

A mixed-bag quarter

Outlook for 4Q soft amid hiring in BFSI and IT

- TeamLease (TEAM)'s 3QFY25 revenue growth of 19% was in line with our estimate of +17% YoY. Revenue growth was fueled by 19% QoQ growth in the HR business. General staffing was up 4% QoQ, while specialized staffing was 3%. EBITDA margin of 1.2% was below our expectation of 1.4%. Adj. PAT of INR280m (vs. est. INR385m) declined 9% YoY, hurt by higher interest expenses and lower-than-expected other income. The company's revenue grew 20% in 9MFY25, while EBITDA/PAT declined 4%/10% vs. 9MFY24. We expect revenue/EBITDA/PAT to grow 15%/24%/38% YoY in 4QFY25. **We reiterate our BUY rating with a TP of INR3,200.**

Our view: BFSI could weigh on General Staffing's performance

- General Staffing's 3QFY25 performance was muted, affected by seasonal factors and hiring challenges in BFSI due to tightened MFI lending norms and KYC regulations. BFSI, which constitutes ~22% of the company's headcount and revenue, experienced flat or backfill hiring, leading to a marginal decline in headcount. Despite this, the company is focused on sustaining PAPM levels through value-based selling, targeting high-margin clients, and maintaining absolute profitability.
- While IT hiring is specialized staffing remain cautious, early signs of recovery in cost optimization and digital transformation are visible. Demand from GCCs, particularly in BFSI, healthcare, and manufacturing, remains strong. The company continues to fine-tune its approach by exiting low-margin contracts, which should aid margin improvement going forward. We believe HR services might face lumpiness owing to delays in admission cycles; however, with integration efforts underway for TSR Darashaw and Crystal HR, the segment is expected to stabilize.
- Overall, while near-term pressures persist, the company's focus on high-margin clients and operational efficiencies should drive gradual margin recovery. We estimate EBITDA margins to improve to 1.2%/1.6%/1.6% in FY25/FY26/FY27, translating into an earnings CAGR of 28% over FY24-27E.

Valuation and revisions to our estimates

- We remain positive on the medium- to long-term opportunities owing to gains from the formalization of the labor market. We cut our FY25 estimates by ~12%, reflecting a mixed 3Q performance and expected softness in General Staffing due to subdued BFSI hiring (~22% of revenue). However, we maintain our FY26/FY27 estimates. **We cut our target multiple to 25x (from 27x earlier) owing to the short-term uncertainty. We reiterate our BUY rating with a TP of INR3,200.**

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Revenue in line but miss on margins; 132 new logos secured

- TEAM's revenue growth of 4% QoQ/19% YoY was largely in line with our estimate of +17% YoY.
- Growth was led by HR services revenue, which was up 19% QoQ; general staffing was up 4% QoQ, while specialized staffing stood at 3%.
- EBITDA margin of 1.2% was below our expectation of 1.4%.
- General staffing associate addition (net) stood at 1.3k (~1% QoQ). Specialized Staffing's headcount was up by 30 owing to headwinds in the IT industry, which continue to impact the growth in specialized staffing.
- DA headcount was up by ~1.9k (4.3% QoQ), led by automobiles and ITES.
- TEAM secured 132 new logos during the quarter.
- Adj. PAT at INR280m (vs. est. INR385m) declined 9% YoY, hurt by higher interest expenses and lower-than-expected other income.

Key highlights from the management commentary

- The third quarter is traditionally a festive period, providing a one-time increase in billing.
- The BFSI sector remains stable, although tightened norms around lending in MFI and KYC processes impacted growth in 3Q. The planned absorption of associates in the BFSI sector is underway, impacting net additions in 3Q and 4Q of FY25. Normalization is expected post-4QFY25.
- Large listed credit card companies reported experiencing a slowdown, resulting in flat or backfill positions in this vertical. The company anticipates a marginal decline in headcount in 4Q, although productivity is expected to hold steady.
- In specialized staffing, the company has returned to headcount growth after several quarters, believing it has now bottomed out.
- IT services remain cautious in the near term, though early signs of improvement are emerging in cost optimization and digital transformation. GCCs are a strong growth driver, particularly in BFSI, healthcare, and manufacturing, with an increased focus on technology and specialized roles in non-tech industries.
- In HR services, profitability was impacted due to further delays in the admission cycle and downstream payment delays. Lumpiness in the HR business may occur in 4Q due to delays in admission fees.

Valuation and view

- As both the central and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries in the medium term.
- Healthy growth and expected margin recovery should help TEAM deliver a CAGR of 18%/28% in revenue/earnings over FY24-27. **We cut our target multiple to 25x (from 27x earlier) owing to the short-term uncertainty. We reiterate our BUY rating with a TP of INR3,200.**

Consolidated Quarterly Performance (INR m)

	FY24				FY25				FY24	FY25E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY25	(%/bp)
Revenue	**21,716**	**22,726**	**24,454**	**24,320**	**25,799**	**27,968**	**29,213**	**28,002**	**93,215**	**1,10,981**	**28,577**	**2%**
YoY Change (%)	16%	16%	22%	20%	19%	23%	19%	15%	18%	19%	17%	
Total Expenditure	21,453	22,409	24,093	23,953	25,576	27,634	28,864	27,548	91,907	1,09,621	28,170	2%
Reported EBITDA	**263**	**318**	**361**	**367**	**223**	**335**	**349**	**454**	**1,308**	**1,360**	**406**	**-14%**
Margins (%)	1.2%	1.4%	1.5%	1.5%	0.9%	1.2%	1.2%	1.6%	1.4%	1.2%	1.4%	-23bp
Reported EBIT	**138**	**188**	**225**	**231**	**91**	**196**	**216**	**324**	**783**	**827**	**271**	**-20%**
Margins (%)	0.6%	0.8%	0.9%	0.9%	0.4%	0.7%	0.7%	1.2%	0.8%	0.7%	0.9%	-21bp
Interest	21	25	31	26	30	44	32	32	102	138	20	62%
Other Income	140	130	100	90	141	107	102	100	461	450	150	-32%
PBT before EO expense	**258**	**294**	**294**	**295**	**202**	**259**	**286**	**392**	**1,141**	**1,139**	**401**	**-29%**
Extra-Ord expense	0	0	-35	0	0	0	0	0	-35	0	0	
Reported PBT	**258**	**294**	**329**	**295**	**202**	**259**	**286**	**392**	**1,176**	**1,139**	**401**	**-29%**
Tax	1	18	18	14	8	11	2	14	51	34	16	
Rate (%)	0%	6%	6%	5%	4%	4%	1%	3%	4%	3%	4%	-343bp
Adjusted PAT	**258**	**276**	**275**	**274**	**194**	**249**	**284**	**378**	**1,082**	**1,105**	**385**	**-26%**
YoY Change (%)	-3%	-13%	-5%	12%	-25%	-10%	3%	38%	-3%	2%	40%	-3675bp
Margins (%)	1.2%	1.2%	1.1%	1.1%	0.8%	0.9%	1.0%	1.4%	1.2%	1.0%	1.3%	-38bp
Reported PAT	**258**	**276**	**310**	**274**	**194**	**249**	**284**	**378**	**1,118**	**1,105**	**385**	**-26%**
YoY Change (%)	-3%	-13%	7%	3%	-25%	-10%	-8%	38%	-2%	-1%	24%	-3258bp
Margins (%)	1.2%	1.2%	1.3%	1.1%	0.8%	0.9%	1.0%	1.4%	1.2%	1.0%	1.3%	-38bp

Key Performance Indicators

Y/E March	FY24				FY25			FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	
Headcount								
General staffing associates	2,36,900	2,51,150	2,58,500	2,67,000	2,82,450	2,98,300	2,99,600	2,67,000
Apprentices	42,600	42,100	43,150	44,800	42,350	45,270	47,200	44,800
Specialised staffing	8,320	8,375	7,600	7,230	6,900	6,670	6,700	7,230
Revenue								
General staffing	20,024	20,910	22,553	22,419	24,139	26,094	27,207	85,906
Specialised staffing	1,398	1,443	1,580	1,465	1,446	1,425	1,472	5,886
Other HR Services	294	373	320	436	214	450	533	1,423
Operating Margins								
General staffing	1.2	1.2	1.2	1.2	0.9	0.9	1.0	1.5
Specialised staffing	6.2	6.2	6.4	6.6	6.0	7.5	7.4	7.3
Other HR Services	(8.9)	3.8	3.8	6.0	(44.8)	(1.8)	(2.9)	1.4

CONFERENCE CALL

Key highlights from the management commentary

Demand and growth outlook

- The third quarter is traditionally a festive period, providing a one-time increase in billing.
- The BFSI sector remains stable, although tightened norms around lending in MFI and KYC processes impacted growth in 3Q and 4Q.
- The retail, consumer, and e-commerce segments experienced moderation due to an earlier-than-usual scale-back.
- The manufacturing and telecom sectors saw low single-digit growth. Sales efforts brought in 34 new clients, with 80% of contracts based on variable markup agreements.
- The Employment-Linked Incentive scheme, announced in a previous budget, has yet to be formalized.
- If labor code changes are announced in the budget, they may improve revenues. However, from a relative margin perspective, they could be detrimental since contracts follow a fixed-price model.
- **General staffing:** The planned absorption of associates in the BFSI sector is underway, impacting net additions in Q3 and Q4 of FY25. Normalization is expected post-Q4.
- EBITDA for Staffing & Allied Services grew by 6% QoQ, driven by FTE productivity and contributions from value-added services.
- Growth remained muted due to seasonality and hiring challenges in BFSI.
- BFSI accounts for ~22% of the company's headcount and revenue.
- Retail, quick commerce and FMCG sectors are expected to grow between 4Q and 1QFY26.
- Large listed credit card companies reported experiencing a slowdown, resulting in flat or backfill positions in this vertical. The company anticipates a marginal decline in headcount in Q4, although productivity is expected to hold steady.
- The company aims to maintain current PAPM levels. Value-based selling strategies are expected to help sustain these levels despite wage hikes, with a continued focus on absolute profitability.
- Manufacturing contributes around 10-12% to the business, with PAPM expected to remain at INR800.
- The company will continue prioritizing high-margin clients, driven by a resilient hiring team.
- **Specialized Staffing:** The company has returned to headcount growth after several quarters, believing it has now bottomed out.
- Investments are being made in IKIGAI, providing a presence in Singapore and the Middle East. No contribution is expected in FY25, but a meaningful contribution is anticipated in FY26 and beyond.
- IT services remain cautious in the near term, though early signs of improvement are emerging in cost optimization and digital transformation.
- GCCs are a strong growth driver, particularly in BFSI, healthcare, and manufacturing, with increased focus on tech and specialized roles in non-tech industries.
- The company had to relinquish two mandates due to low-margin contracts.

- **HR Services** led the growth with a 19% QoQ rise.
- Profitability was impacted due to further delays in the admission cycle and downstream payment delays.
- The integration of TSR Darashaw (into managed payroll services) and Crystal HR (SAP platform for HR records) is ongoing, with a focus on this for the next 12-15 months.
- The company anticipates achieving 6-7% margins for the HR business and expects the segment to be positive on a full-year basis.
- Lumpiness in the HR business may occur in Q4 due to delays in admission fees.

Margin outlook

- EBITDA grew by 4%, driven largely by efficiencies in employment clusters.
- Productivity improvements in FTE and operational excellence have supported the margins.
- The company anticipates achieving 6-7% margins for the HR business and expects the segment to be positive on a full-year basis.
- If labor code changes are announced in the budget, they may improve top-line revenue. However, from a relative margin perspective, they could be detrimental since contracts follow a fixed-price model.

Valuation and view:

- As both the central and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries in the medium term.
- Healthy growth and expected margin recovery should help TEAM deliver a CAGR of 18%/28% in revenue/earnings over FY24-27E. **We cut our target multiple to 25x (from 27x earlier) owing to the short-term uncertainty. We reiterate our BUY rating with a TP of INR3,200.**

Exhibit 1: Summary of our revised estimates

	Revised			Earlier			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR m)	1,10,981	1,29,857	1,53,495	1,10,569	1,30,202	1,53,601	0.4%	-0.3%	-0.1%
Rev. growth (%)	19.1%	17.0%	18.2%	18.6%	17.8%	18.0%	40bps	-70bps	20bps
EBITDA (INR mn)	1,360	2,124	2,445	1,438	2,172	2,479	-5.4%	-2.2%	-1.4%
EBITDA margin (%)	1.23%	1.64%	1.59%	1.30%	1.67%	1.61%	-7bps	-3bps	-2bps
EBIT (INR mn)	827	1,684	2,005	898	1,732	2,039	-7.9%	-2.8%	-1.7%
EBIT margin (%)	0.7%	1.3%	1.3%	0.8%	1.3%	1.3%	-10bps	0bps	0bps
EPS (INR)	66.6	118.8	136.5	76.3	124.6	143.1	-12.6%	-4.6%	-4.6%

Source: MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Total Income from Operations	**52,007**	**48,815**	**64,798**	**78,700**	**93,215**	**1,10,981**	**1,29,857**	**1,53,495**
Change (%)	16.9	-6.1	32.7	21.5	18.4	19.1	17.0	18.2
Employee Benefit Expense	49,365	46,870	61,807	75,698	89,799	1,05,672	1,23,041	1,45,501
Other Expense	1,691	960	1,567	1,779	2,108	3,949	4,692	5,549
Total Expenditure	**51,056**	**47,830**	**63,375**	**77,477**	**91,907**	**1,09,621**	**1,27,733**	**1,51,050**
As a percentage of Sales	98.2	98.0	97.8	98.4	98.6	98.8	98.4	98.4
EBITDA	**951**	**985**	**1,424**	**1,223**	**1,308**	**1,360**	**2,124**	**2,445**
Margin (%)	1.8	2.0	2.2	1.6	1.4	1.2	1.6	1.6
Depreciation	286	337	408	432	525	533	440	440
EBIT	**665**	**648**	**1,016**	**791**	**783**	**827**	**1,684**	**2,005**
Int. and Finance Charges	123	69	40	57	102	138	80	80
Other Income	288	336	197	439	461	450	480	480
PBT bef. EO Exp.	**830**	**915**	**1,173**	**1,174**	**1,141**	**1,139**	**2,084**	**2,405**
EO Items	0	-30	-750	-23	35	0	0	0
PBT	**830**	**885**	**423**	**1,150**	**1,176**	**1,139**	**2,084**	**2,405**
Total Tax	480	101	61	35	51	34	95	120
Tax Rate (%)	57.8	11.4	14.4	3.0	4.3	3.0	4.6	5.0
Minority Interest	0	0	0	0	-8	0	0	0
Reported PAT	**350**	**785**	**362**	**1,115**	**1,118**	**1,105**	**1,989**	**2,285**
Adjusted PAT	**836**	**887**	**1,112**	**1,139**	**1,082**	**1,105**	**1,989**	**2,285**
Change (%)	-14.7	6.1	25.4	2.4	-4.9	2.0	80.1	14.9
Margin (%)	1.6	1.8	1.7	1.4	1.2	1.0	1.5	1.5

Balance Sheet								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Equity Share Capital	171	171	171	171	168	168	168	168
Total Reserves	5,550	6,389	6,887	8,034	7,945	9,049	11,038	13,323
Net Worth	**5,721**	**6,560**	**7,058**	**8,205**	**8,113**	**9,217**	**11,206**	**13,491**
Total Loans	1,854	1,070	1,702	2,100	2,221	2,221	2,221	2,221
Capital Employed	**7,575**	**7,630**	**8,760**	**10,305**	**10,334**	**11,439**	**13,427**	**15,713**
Net Fixed Assets	**2,360**	**2,499**	**2,512**	**2,432**	**2,350**	**1,986**	**1,662**	**1,281**
Total Investments	**253**	**700**	**533**	**1,939**	**30**	**30**	**30**	**30**
Curr. Assets, Loans, and Adv.	**9,795**	**9,860**	**12,332**	**13,239**	**16,909**	**18,377**	**20,690**	**23,356**
Account Receivables	2,959	2,777	3,697	3,803	4,496	5,363	6,385	7,471
Cash and Bank Balance	126	2,593	1,765	1,495	1,679	2,280	3,571	5,150
Loans and Advances	6,710	4,490	6,870	7,942	10,734	10,734	10,734	10,734
Curr. Liability and Prov.	**4,977**	**5,478**	**6,644**	**7,373**	**9,035**	**9,035**	**9,035**	**9,035**
Other Current Liabilities	4,490	4,962	6,010	6,632	8,206	8,206	8,206	8,206
Provisions	487	516	634	741	829	829	829	829
Net Current Assets	**4,818**	**4,382**	**5,688**	**5,867**	**7,874**	**9,343**	**11,656**	**14,321**
Deferred Tax assets	144	50	26	68	80	80	80	80
Appl. of Funds	**7,575**	**7,630**	**8,760**	**10,305**	**10,334**	**11,439**	**13,427**	**15,713**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Basic (INR)								
EPS	**20.5**	**47.1**	**22.5**	**65.1**	**64.8**	**66.6**	**118.8**	**136.5**
Cash EPS	65.6	71.6	88.9	91.9	94.0	95.8	142.1	159.4
BV/Share	334.6	383.7	412.8	479.9	474.5	539.1	655.5	789.1
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E ratio	122.0	53.0	111.2	38.4	38.6	37.5	21.0	18.3
Cash P/E ratio	38.1	34.9	28.1	27.2	26.6	26.1	17.6	15.7
P/BV ratio	7.5	6.5	6.1	5.2	5.3	4.6	3.8	3.2
EV/Sales ratio	0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.3
EV/EBITDA ratio	46.7	41.8	30.0	35.4	32.4	30.8	19.1	15.9
FCF per share	-3.5	171.4	-11.4	62.4	58.0	17.3	53.1	70.3
Return Ratios (%)								
RoE	15.0	14.4	16.3	14.9	13.3	12.7	19.5	18.5
RoCE	5.8	11.5	12.7	12.5	11.5	11.4	16.6	16.2
RoIC	4.5	10.0	16.1	11.5	9.7	9.0	17.0	18.7
Working Capital Ratios								
Asset Turnover (x)	6.9	6.4	7.4	7.6	9.0	9.7	9.7	9.8
Debtor (Days)	21	21	21	18	18	18	18	18
Leverage Ratio (x)								
Current Ratio	2.0	1.8	1.9	1.8	1.9	2.0	2.3	2.6
Interest Coverage Ratio	5.4	9.4	25.6	13.9	7.6	6.0	21.0	25.1
Net Debt/Equity ratio	0.3	-0.3	-0.1	-0.2	0.1	0.0	-0.1	-0.2

Cash Flow Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
OP/(Loss) before Tax	851	885	456	1,150	1,177	1,139	2,084	2,405
Depreciation	286	337	408	432	525	533	440	440
Interest and Finance Charges	122	-93	608	-246	-287	-312	-400	-400
Direct Taxes Paid	-855	1,378	-593	-761	-488	-34	-95	-120
(Inc.)/Dec. in WC	-307	525	-939	687	251	-867	-1,022	-1,086
CF from Operations	**97**	**3,033**	**-61**	**1,262**	**1,178**	**459**	**1,007**	**1,239**
Others	0	0	0	0	0	0	0	0
CF from Operations incl. EO	**97**	**3,033**	**-61**	**1,262**	**1,178**	**459**	**1,007**	**1,239**
(Inc.)/Dec. in FA	-157	-103	-134	-196	-205	-169	-116	-60
Free Cash Flow	**-61**	**2,930**	**-195**	**1,067**	**973**	**290**	**891**	**1,179**
(Pur.)/Sale of Investments	-431	-743	-807	-1,134	391	0	0	0
Others	115	723	305	99	335	312	400	400
CF from Investments	**-473**	**-123**	**-636**	**-1,232**	**520**	**142**	**284**	**340**
Issue of Shares	0	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	117	-378	-100	-177	-213	0	0	0
Interest Paid	-118	-66	-31	125	-1,301	0	0	0
CF from Fin. Activity	**-1**	**-444**	**-131**	**-53**	**-1,514**	**0**	**0**	**0**
Inc./Dec. in Cash	**-377**	**2,467**	**-828**	**-22**	**185**	**601**	**1,291**	**1,579**
Opening Balance	504	127	2,593	1,516	1,495	1,679	2,280	3,571
Closing Balance	**127**	**2,593**	**1,765**	**1,495**	**1,679**	**2,281**	**3,571**	**5,150**

NOTES

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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