# TEAMLEASE SERVICES

RESULT UPDATE

nuvama institutional equities

## KEY DATA

| Rating | BUY |
|---|---|
| Sector relative | Outperformer |
| Price (INR) | 1,987 |
| 12 month price target (INR) | 3,000 |
| 52 Week High/Low | 3,700/1,641 |
| Market cap (INR bn/USD bn) | 33/0.4 |
| Free float (%) | 63.3 |
| Avg. daily value traded (INR mn) | 120.2 |

## SHAREHOLDING PATTERN

| | Mar-25 | Dec-24 | Sep-24 |
|---|---|---|---|
| Promoter | 31.61% | 31.61% | 31.61% |
| FII | 11.01% | 21.86% | 24.7% |
| DII | 47.65% | 37.11% | 34.61% |
| Pledge | 0.50% | 0.50% | 0.50% |

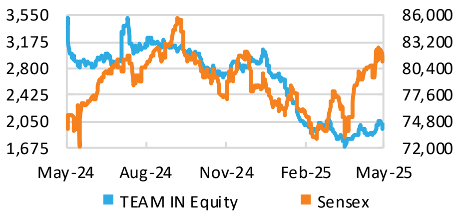
## FINANCIALS (INR mn)

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| Revenue | 93,215 | 111,559 | 130,330 | 156,989 |
| EBITDA | 1,308 | 1,381 | 1,633 | 1,954 |
| Adjusted profit | 1,092 | 1,087 | 1,348 | 1,698 |
| Diluted EPS (INR) | 65.1 | 65.9 | 80.4 | 101.3 |
| EPS growth (%) | (2.4) | 1.2 | 22.0 | 26.0 |
| RoAE (%) | 14.0 | 13.0 | 13.8 | 15.1 |
| P/E (x) | 30.5 | 30.1 | 24.7 | 19.6 |
| EV/EBITDA (x) | 23.0 | 23.2 | 18.5 | 14.4 |
| Dividend yield (%) | 0 | 0 | 0 | 0 |

## CHANGE IN ESTIMATES

| | Revised estimates | | % Revision | |
|---|---|---|---|---|
| Year to March | FY26E | FY27E | FY26E | FY27E |
| Revenue | 130,330 | 156,989 | (3.8) | (4.0) |
| EBITDA | 1,633 | 1,954 | (10.8) | (20.0) |
| Adjusted profit | 1,348 | 1,698 | (16.8) | (22.5) |
| Diluted EPS (INR) | 80.4 | 101.3 | (16.8) | (22.5) |

## PRICE PERFORMANCE




# Regulatory headwind constrains growth

Teamlease (TEAM) reported decent Q4FY25 results. Revenue at INR28.6bn (-2.2% QoQ/+17.5% YoY) slightly undershot our expectation of INR29.3bn. EBITDA margin at 1.7% (+50bp QoQ/+20bp YoY) beat our estimate of 1.4%. PAT at INR349mn is in line with our estimate of INR337mn.

Headwinds in the BFSI sector impacted General Staffing revenue growth. However, we expect growth to rebound Q1FY26E onwards. We are cutting FY26E/27E EPS by 17%/23% as we lower our margin estimates; we are also slashing the target PE to 30x (from 35x) due to a softer growth profile. This along with a rollover to Mar-27E yields a TP of INR3,000 (earlier INR3,950); retain 'BUY'.

## Quick Commerce and Telecom partially offset BFSI impact

Revenue came in at INR28.6bn (-2.2% QoQ/+17.5% YoY), impacted by headcount reduction due to regulatory changes in the BFSI sector. General staffing revenue at INR26.2bn (-4% QoQ/+17% YoY) was impacted due to insourcing in BFSI due to a regulatory mandate while certain pockets of BFSI continued to witness healthy demand traction. Teamlease's headcount decreased by 7.5k in Q4 in general staffing, taking the total billable headcount to ~292k. During the quarter, the BFSI vertical remained under pressure while Quick Commerce, Consumer And Telecom witnessed demand traction. Telecom reported 10% volume growth supported by continued investments from telecom operators in technology upgradation initiatives.

## Margin on a recovery path

Specialised Staffing revenue stood at INR1.6bn (+7% QoQ/+8% YoY) with growth largely driven by inorganic acquisitions. GCC now contribute 60% to total Specialized Staffing revenue and 40% in terms of headcount. HR Services' revenue stood at INR0.7bn (+44% QoQ/+77% YoY). EBITDA margin came in at 1.7% (+50bp QoQ/+20bp YoY) due to elevated margin in Other HR Services. EBITDA margin for General Staffing remained flat at 1.1% while Specialised Staffing margin slipped to 7.3% (-30bp QoQ) due to a one-time expense. Other HR Services' margin came in at +20.5% against +0.2% in Q3FY25—the improvement is backed by catch-up of billing in EdTech. Management guided for absolute EBITDA growth of 20–25% in FY26E while indicating that Specialised Staffing margins would remain stable at current level.

General Staffing growth is expected to recover from Q1FY26 as the impact of the BFSI slowdown appears to be largely behind. Specialised Staffing continues to face headwinds from muted IT hiring; however, new GCC additions and stronger engagement with existing clients are partially offsetting the weakness.

## Financials

| Year to March | Q4FY25 | Q4FY24 | % Change | Q3FY25 | % Change |
|---|---|---|---|---|---|
| Net Revenue | 28,579 | 24,320 | 17.5 | 29,213 | (2.2) |
| EBITDA | 475 | 367 | 29.5 | 349 | 36.0 |
| Adjusted Profit | 349 | 275 | 27.0 | 284 | 22.8 |
| Diluted EPS (INR) | 20.9 | 16.4 | 27.2 | 17.0 | 23.0 |

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# Financial Statements

### Income Statement (INR mn)

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| Total operating income | 93,215 | 111,559 | 130,330 | 156,989 |
| Cost of revenues | 89,799 | 106,226 | 124,836 | 150,383 |
| Gross profit | 3,416 | 5,332 | 5,494 | 6,605 |
| Other expenses | 2,108 | 3,952 | 3,861 | 4,651 |
| EBITDA | 1,308 | 1,381 | 1,633 | 1,954 |
| Depreciation | 525 | 537 | 550 | 570 |
| Less: Interest expense | 102 | 148 | 120 | 60 |
| Add: Other income | 462 | 447 | 500 | 520 |
| Profit before tax | 1,142 | 1,143 | 1,463 | 1,844 |
| Prov for tax | 51 | 40 | 117 | 148 |
| Less: Other adjustment | 35 | 2 | 2 | 2 |
| Reported profit | 1,127 | 1,087 | 1,348 | 1,698 |
| Less: Excp.item (net) | (35) | 0 | 0 | 0 |
| Group adjusted profit | 1,092 | 1,087 | 1,348 | 1,698 |
| Diluted shares o/s | 17 | 17 | 17 | 17 |
| Adjusted diluted EPS | 65 | 66 | 80 | 101 |
| DPS (INR) | 0 | 0 | 0 | 0 |
| Tax rate (%) | 4.4 | 3.5 | 8.0 | 8.0 |

### Balance Sheet (INR mn)

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| Share capital | 168 | 168 | 168 | 168 |
| Reserves | 7,813 | 8,901 | 10,247 | 11,944 |
| Shareholders funds | 7,980 | 9,069 | 10,415 | 12,112 |
| Minority interest | 132 | 161 | 161 | 161 |
| Borrowings | 305 | 450 | 450 | 450 |
| Trade payables | 617 | 695 | 812 | 979 |
| Other liabs & prov | 10,254 | 11,008 | 12,748 | 15,219 |
| Total liabilities | 19,289 | 21,383 | 24,586 | 28,920 |
| Net block | 802 | 774 | 374 | (46) |
| Intangible assets | 2,126 | 2,332 | 2,332 | 2,332 |
| Capital WIP | 113 | 337 | 337 | 337 |
| Total fixed assets | 3,041 | 3,442 | 3,042 | 2,622 |
| Non current inv | 30 | 133 | 133 | 133 |
| Cash/cash equivalent | 4,216 | 2,409 | 4,141 | 6,238 |
| Sundry debtors | 4,496 | 4,913 | 5,739 | 6,913 |
| Loans & advances | 0 | 0 | 0 | 0 |
| Other assets | 7,506 | 10,486 | 11,530 | 13,014 |
| Total assets | 19,289 | 21,383 | 24,586 | 28,920 |

### Important Ratios (%)

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| EBITDA margin (%) | 1.4 | 1.2 | 1.3 | 1.2 |
| EBIT margin (%) | 0.8 | 0.8 | 0.8 | 0.9 |
| Net profit margin (%) | 1.2 | 1.0 | 1.0 | 1.1 |
| Revenue growth (% YoY) | 18.4 | 19.7 | 16.8 | 20.5 |
| EBITDA growth (% YoY) | 7.0 | 5.6 | 18.3 | 19.7 |
| PBT growth (% YoY) | (2.7) | 0.1 | 28.0 | 26.1 |
| Adj. profit growth (%) | (4.3) | 1.2 | 22.0 | 26.0 |
| Asset Turnover (X) | 8.9 | 10.0 | 10.4 | 10.9 |

### Free Cash Flow (INR mn)

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| Reported profit | 1,127 | 1,105 | 1,348 | 1,698 |
| Add: Depreciation | 525 | 537 | 550 | 570 |
| Interest (net of tax) | 69 | 99 | 80 | 40 |
| Others | (793) | (485) | (462) | (502) |
| Changes in WC | 251 | (210) | (14) | (20) |
| Operating cash flow | 1,178 | 1,046 | 1,502 | 1,787 |
| Less: Capex | (72) | (310) | (150) | (150) |
| Free cash flow | 1,106 | 736 | 1,352 | 1,637 |

### Assumptions (%)

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| GDP (YoY %) | 6.0 | 6.0 | 6.0 | 6.0 |
| Repo rate (%) | 4.0 | 4.0 | 4.0 | 4.0 |
| USD/INR (average) | 72.0 | 72.0 | 72.0 | 72.0 |
| Staff. headcount (%) | 11.0 | 10.0 | 10.0 | 10.0 |
| Staffing growth (%) | 11.5 | 10.5 | 10.0 | 10.0 |
| Staffing margin (%) | 1.6 | 1.6 | 1.5 | 1.5 |
| Capex (INR mn) | (72) | (310) | (150) | (150) |
| Net borrowings (INR mn) | (3,911) | (1,960) | (3,691) | (5,788) |
| Cash conversion days | 14.1 | 13.1 | 12.7 | 12.5 |

### Key Ratios

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| RoE (%) | 14.0 | 13.0 | 13.8 | 15.1 |
| RoCE (%) | 14.8 | 14.3 | 15.3 | 16.0 |
| Receivable days | 16 | 15 | 15 | 15 |
| Payable days | 2 | 2 | 2 | 2 |
| Cash conversion cycle | 14 | 13 | 13 | 13 |
| Working cap (% sales) | (1.1) | 1.1 | 1.1 | 1.2 |
| Gross debt/equity (x) | 0 | 0 | 0 | 0 |
| Net debt/equity (x) | (0.5) | (0.2) | (0.3) | (0.5) |
| Interest coverage (x) | 7.7 | 5.7 | 9.0 | 23.1 |

### Valuation Metrics

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| Diluted P/E (x) | 30.5 | 30.1 | 24.7 | 19.6 |
| Price/BV (x) | 4.2 | 3.7 | 3.2 | 2.7 |
| EV/EBITDA (x) | 23.0 | 23.2 | 18.5 | 14.4 |
| Dividend yield (%) | 0 | 0 | 0 | 0 |

*Source: Company and Nuvama estimates*

### Valuation Drivers

| Year to March | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| EPS growth (%) | (2.4) | 1.2 | 22.0 | 26.0 |
| RoE (%) | 14.0 | 13.0 | 13.8 | 15.1 |
| EBITDA growth (%) | 7.0 | 5.6 | 18.3 | 19.7 |
| Payout ratio (%) | 0 | 0 | 0 | 0 |

## Q4FY25 earnings call highlights

- Insourcing impact was ~7.5k headcount, and this led to an EBITDA loss of INR150–200mn, which got absorbed in Q4FY25.
- In general staffing in the BFSI segment, certain roles such as credit cards grew 11% YoY, while in few other roles demand remains healthy.
- In IT, hiring demand remains cautious and slower; however, there were signs of improvement in certain high-tech roles.
- Covered the seasonality in HR shortfall from Q3 to Q4 and remain dedicated to making investments on this side of the business.
- Quick Commerce growth remained healthy due to ramp-up in dark store expansion into various Tier II/III cities.
- In QC, it only caters to dark stores job roles. Overall exposure towards e-commerce is 10%. Attrition for dark store role is 7–10% and for gig workers it is 30–40%.
- Telecom sector grew 10% in terms of volume as telecom operator remains focused on their technology upgradation.
- In GCCs, working with BOT model (Build, Operate and Transfer), thereby helping small clients and few MNCs.
- BFSI contribution stands at ~25%, e-commerce at ~10%, consumer vertical at ~35% and manufacturing at ~25%.
- Margins improved due to a changing mix from higher-margin contracts. The variable mark-up model established two years ago led to improvement in margins.
- Q4FY25 PAPM stood at INR665 (down INR5 QoQ/down INR14 YoY). Renegotiation of contracts with clients to switch to variable mark-up model would led to improvement of PAPM.
- In DA, added 2.5k headcount factoring in the NEEM reduction during the year.
- In General Staffing, have around 30k open positions.
- Have partnered with over 75 GCCs. Growth in GCCs has partially offset the slowdown in overall IT hiring.
- 25% exposure is towards BFSI and due to changes in regulations, EBITDA and PAPM got impacted.

### Management guidance

- Management expects the worst is already behind in terms of regulatory changes in BFSI.
- Q4FY25 has been a period of consolidation rather than acceleration and all set to capture future growth.
- Moving forward, absolute EBITDA would grow 20–25% in FY26E.
- Specialised segment margins stood at 7.3% in FY25. Management expects these margins to be sustainable going forward.

### Exhibit 1: Financial snapshot (INR mn)

| Year to March | Q4FY25 | Q4FY24 | YoY % | Q3FY25 | QoQ % | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 28,579 | 24,320 | 17.5 | 29,213 | (2.2) | 93,215 | 1,11,559 | 1,30,330 | 1,56,989 |
| Employee Exp + other COGS | 26,960 | 23,267 | 15.9 | 27,803 | (3.0) | 89,799 | 1,06,226 | 1,24,836 | 1,50,383 |
| Others | 1,145 | 687 | 66.8 | 1,060 | 8.0 | 2,108 | 3,952 | 3,861 | 4,651 |
| EBITDA | 475 | 367 | 29.5 | 349 | 36.0 | 1,308 | 1,381 | 1,633 | 1,954 |
| Depreciation | 134 | 136 | (1.4) | 133 | 0.3 | 525 | 537 | 550 | 570 |
| EBIT | 341 | 231 | 47.7 | 216 | 58.1 | 783 | 844 | 1,083 | 1,384 |
| Interest | 42 | 26 | 59.2 | 32 | 28.7 | 102 | 148 | 120 | 60 |
| Other income | 97 | 91 | 7.0 | 102 | (4.8) | 462 | 447 | 500 | 520 |
| Add: Exceptional items | 0 | 0 | NA | 0 | NA | 35 | 0 | 0 | 0 |
| Profit Before Tax | 397 | 296 | 34.2 | 286 | 38.9 | 1,177 | 1,143 | 1,463 | 1,844 |
| Less: Provision for Tax | 20 | 14 | 37.1 | 2 | 931.6 | 51 | 40 | 117 | 148 |
| Less: Minority Interest | 30 | 7 | NA | -1 | NA | 5 | 17 | 0 | 0 |
| Add: Share of profit from associates | 2 | 0 | NA | 0 | NA | 0 | 2 | 2 | 2 |
| Reported Profit | 349 | 275 | 27.0 | 284 | 22.8 | 1,122 | 1,087 | 1,348 | 1,698 |
| Adjusted Profit | 349 | 275 | 27.0 | 284 | 22.8 | 1,086 | 1,087 | 1,348 | 1,698 |
| No. of Diluted shares outstanding (mn) | 17 | 17 | | 17 | | 17 | 17 | 17 | 17 |
| Adjusted Diluted EPS | 20.8 | 16.1 | 29.5 | 16.6 | 25.1 | 64.8 | 64.8 | 80.4 | 101.3 |
| | | | | | | | | | |
| | | | | | | | | | |
| **As % of net revenues** | | | | | | | | | |
| Employee Exp + other COGS | 94.3 | 95.7 | | 95.2 | | 96.3 | 95.2 | 95.8 | 95.8 |
| Other expenses | 4.0 | 2.8 | | 3.6 | | 2.3 | 3.5 | 3.0 | 3.0 |
| EBITDA Margin | 1.7 | 1.5 | | 1.2 | | 1.4 | 1.2 | 1.3 | 1.2 |
| Net profit | 1.2 | 1.1 | | 1.0 | | 1.2 | 1.0 | 1.0 | 1.1 |

*Source: Company, Nuvama Research*

## Company Description

TeamLease, established in 2002, is one of India's leading human resources service companies in the organised segment. A Fortune India 500 company listed on NSE and BSE markets, TeamLease is present in 7500 + locations across 28 states, with 3,500 plus clients. It is a one-stop-provider of human resources services to various industries and diverse functional roles, offering staffing, payroll processing, recruitment, compliance and training services. The company set in motion its larger mission of 'Putting India to Work' by focusing on its vision of 3 Es—Employment, Employability and Education. The company, in partnership with the Government of Gujarat, has set up TeamLease Skills University (TLSU), India's first vocational university, at Vadodara. In FY15, it rolled out National Employability Through Apprenticeship Program to provide on-the job training to apprentices.

## Investment Theme

In a sector where scale begets scale, we expect TeamLease's high market share to continue to be a huge success driver. Its strong brand, large pool of employees, high level of compliance and financial muscle are envisaged to lead to profitable growth over the next five years. TeamLease's story will play out in a high growth-conducive backdrop—flexi staffing sector estimated to catapult 3x to by FY30. Moreover, the sector's penetration in India at mere 0.5% is one of the lowest globally and entails huge upside potential given the large and growing employable workforce. We are confident of the Indian General Staffing growth story and TeamLease's competitive advantages. Given the positive momentum in operational performance and recent cool-off in valuations led by price correction, we continue to maintain our 'BUY' rating on TeamLease.

## Key Risks

We expect the flexi-staffing sector's headcount to grow at least 11-12% p.a. TeamLease, as a dominant player, should be able to post at least this level of growth and this is our base case headcount assumption. Any shortfall in this will be downside a risk to our estimates and target price. Inability of the company to consistently improve margin will be a downside risk to our investment thesis. Higher than-expected competitive pressure leading to lower headcount growth or loss of market share is a downside risk. Any unreasonable acquisition or a failure to efficiently manage any acquired business can lead to downside risks.

# Additional Data

### Management

| | |
|---|---|
| CEO & MD | Ashok Kumar Nedurumalli |
| CFO | Ramani Dathi |
| Non-Exe/Non-Independent Director | Rituparna Chakraborty |
| Executive Director | Manish Sabharwal |
| Auditor | S.R. BATLIBOI & ASSOCIATES LLP |

### Holdings – Top 10*

| | % Holding | | % Holding |
|---|---|---|---|
| HR Offshoring V | 23.80 | SBI Funds Manag | 4.70 |
| NED CON LLP | 7.02 | UTI AMC | 3.98 |
| Franklin Resour | 7.02 | Mirae Asset Fin | 3.82 |
| ICICI Pru AMC | 6.94 | Tata AMC | 3.23 |
| Nippon Life Ind | 6.43 | Blackrock Inc | 2.73 |

**Latest public data*

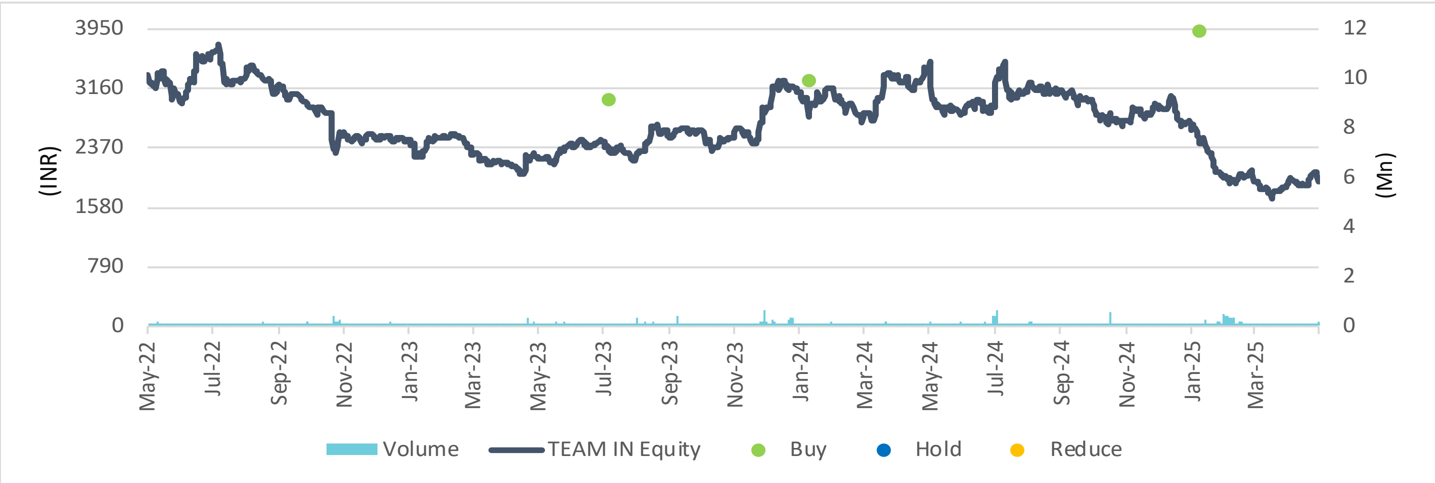
### Recent Company Research

| Date | Title | Price | Reco |
|---|---|---|---|
| 29-Jan-25 | Quarter broadly in-line; BFSI headwind; *Result Update* | 2681 | Buy |
| 06-Nov-24 | TeamLease Services (TEAM IN, INR 2,847, ; *Result Update* | 2846 | Buy |
| 31-Jul-24 | Growth strong; margin dips; *Result Update* | 3523 | Buy |

### Recent Sector Research

| Date | Name of Co./Sector | Title |
|---|---|---|
| 20-May-25 | Quess Corp | Growth hurt by NBFC headwind; *Result Update* |
| 01-May-25 | SIS India | Focus remains on margin expansion; *Result Update* |
| 30-Jan-25 | Quess Corp | Margins under pressure; BFSI headwind; *Result Update* |

### Rating and Daily Volume Interpretation




*Source: Bloomberg, Nuvama research*

### Rating Rationale & Distribution: Nuvama Research

| Rating | Expected absolute returns over 12 months | Rating Distribution |
|---|---|---|
| Buy | 15% | 204 |
| Hold | <15% and >-5% | 63 |
| Reduce | <-5% | 34 |

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