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JM FINANCIAL

What do I do with my degree?

First in our series of reports on the employment scenario in India

Discusses:

-Widening gap between demand (job creation) and supply (of labour)

-Performance of select sectors

-Our hypotheses on structural beneficiaries

JM Financial Institutional Securities Limited

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India Strategy

Jobs I: What do I do with my degree?

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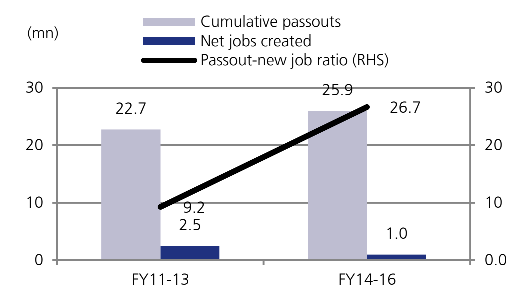
The discourse on jobs has captured popular imagination in recent months. The availability of reliable data on employment in India, on the other hand, has always been sparse but we have culled out data from various government surveys (Labour Bureau, National Sample Surveys), from the Central Bank, the IT industry body and others to arrive at a few conclusions and to hypothesise few, likely scenarios from the analysis. As per our estimates, the ratio of the number of students who earned higher education degrees (undergrad and above) to new jobs created had worsened from 9x for the three year period FY11-13 to 27x for FY14-16. Further, as per the latest employment surveys, the job creation at 0.19mn (excl. banks) over 9MFY17 is running short of the 8.8mn who graduated in FY16. Clearly, the gap between demand (for labour) and its supply could only increase with: a) the traditional legs (public sector, manufacturing, IT/ITeS and BFSI) of job creation waning, b) slow evolution of unconventional sources of employment such as personal and social service and c) rapid supply of qualified labour with an inherent mismatch in scope. We hypothesise three likely scenarios playing out as a result of the rising gap between demand and supply of jobs – a) increased outsourcing in the services sector benefiting flexi-staffing companies, b) increased penetration of credit to SME sector and self-employment due to rising self-employment and easy availability of capital, and c) along with the continued migration from agriculture to other sectors, this could temper inflationary pressures going forward.

- **Widening gap between demand (for labour) and its supply:** Based on the quarterly employment survey and RBI's data on banking employment, a total of **2.5 mn** jobs had been created in nine labour intensive sectors that contribute to over 65% of the GDP in the three year period **FY11-13** while **22.7 mn people earned** higher education degrees in the same period (a ratio of **9 students per new job created**). In the following three year period **FY13-15**, the corresponding numbers stood at **1 mn jobs and 25.9 mn with higher degrees** (a ratio of **27 students per job created**, more than **3x** the previous period). According to the new quarterly employment series, a total of 0.19 mn jobs (excl. banks) were created in the first nine months of FY17 while 8.8 mn students passed out in FY16. The rate of supply of labour has far exceeded that of demand. Especially of concern is that **textiles, IT/BPO and banks**, which have contributed to about **90%** of these new jobs, are exhibiting signs of increasing sluggishness. The misalignment between the education imparted and high growth areas of job creation further complicates the problem.

- **Will growth sustain in private sector jobs?** The private sector had taken over as the primary driver of job creation since 2000 with the **ratio of organised public/private jobs falling from 2.4x in FY01 to 1.6x in FY12**. The number of central government employees (CG) had declined at a compounded annual rate of 2.3%, while private sector jobs reported a CAGR of 3% during this period with finance, insurance and real estate generating employment at the fastest clip (16%). But an increase in labour productivity and decline in private capex are adversely impacting the ability of the private sector to be the primary driver of job creation going forward.

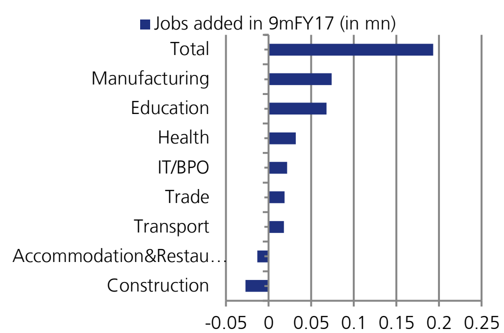
- **Key sector-wise highlights:** a) Rise in **manufacturing** output has outpaced that of the number of jobs created as a result of increased productivity (6.7% CAGR during 1983-2015), b) **textile & apparel** sector has proved to be an exception to the productivity trend—but has to turnaround if India has to regain its global market share, c) **education** stands out as an employer with stable growth and more importantly, a potential to expand (upper secondary PTR of 38 vs China's 16.5 in 2014), d) the decline in the pace of job creation (YoY 12+% in FY12 to 0.7% in FY16) by **banks** is likely to persist, and e) slowdown in the job creation in IT and ITeS has become more pronounced in recent years with the CAGR declining from 8.3% during FY09-14 to 5.7% during FY14-17.

Exhibit A. Slowdown in job creation; pass-out/ job ratio jumps from 9 in FY13 to 27 in FY16



Source: Labour Bureau, JM Financial

Exhibit B. Against 9mn/yearly addition to higher education pass-outs, job addition has been tepid



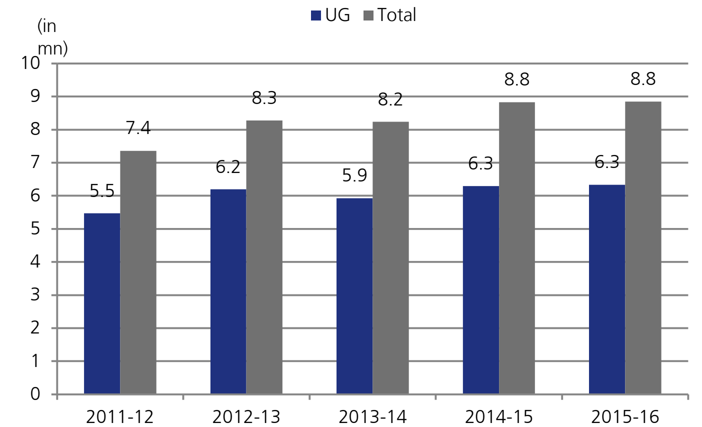
Source: Labour Bureau, JM Financial

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

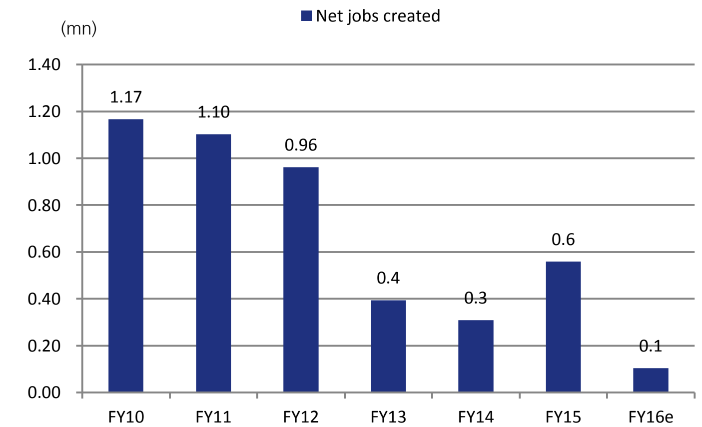
Focus Charts

Exhibit 1.Growing higher eductaion pass-outs: 8.8 mn in FY16 and 4.7% CAGR (FY12-16); resulting in a rising supply of labour



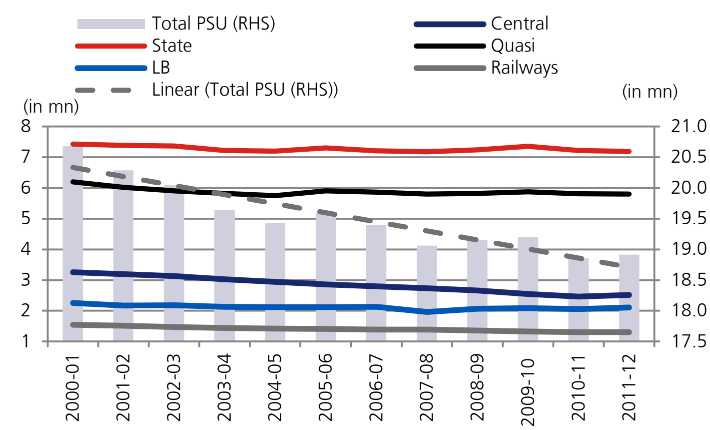
Source: MHRD, JM Financial

Exhibit 2.While jobs created: 1 mn (FY14-16) vs 2.5 mn (FY11-13) across 9 labour-intensive sectors incl. textiles, auto, banks etc



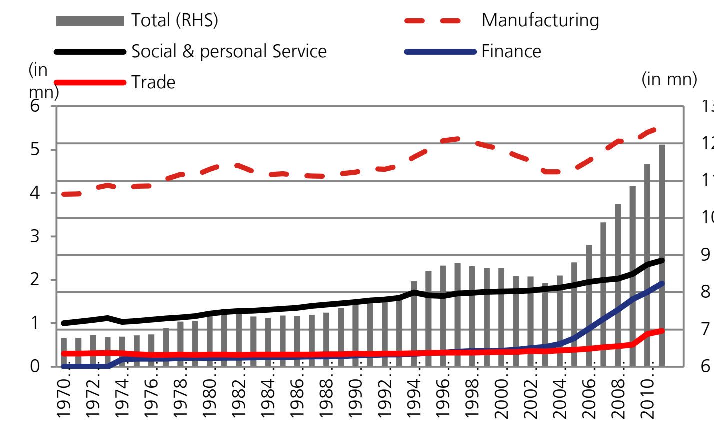
Source: Labour Ministry, RBI, JM Financial

Exhibit 3.Waning traditional legs of job creation; Public sector jobs have declined from 21 mn in FY01 to 19 mn FY12, 0.8% CAGR fall



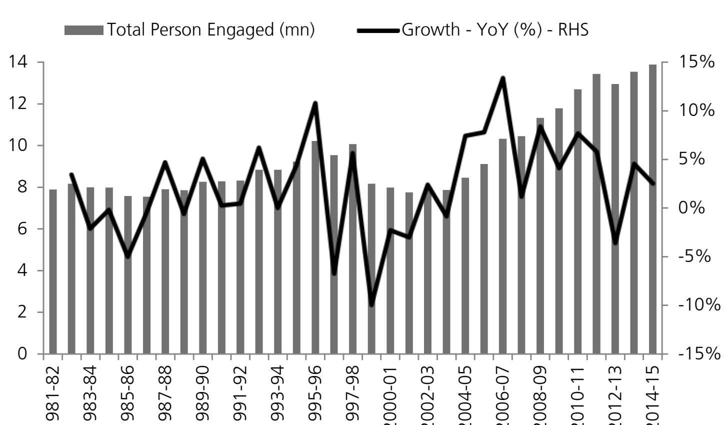
Source: CMIE, JM Financial

Exhibit 4. Private sector had taken over as the primary driver of employment post-2000



Source: CMIE, JM Financial

Exhibit 5.Growth in people engaged in manufacturing – increased at a CAGR of 3.4% during FY09-15 against 6.1% during FY03-09

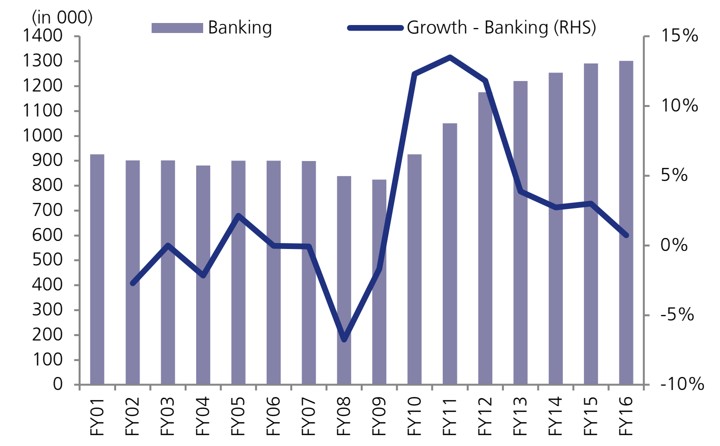


Source: ASI, JM Financial

Exhibit 6.Increase in manufacturing productivity has suppressed job creation – CAGR of 6.7% YoY (1983-2015)

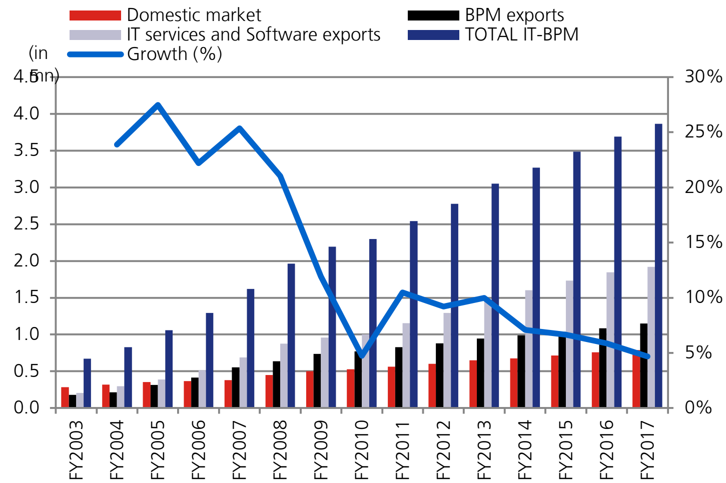
Source: ASI, JM Financial

Exhibit 7.Banking employment YoY growth has slowed from 12+% in FY12 to 0.7% in FY16



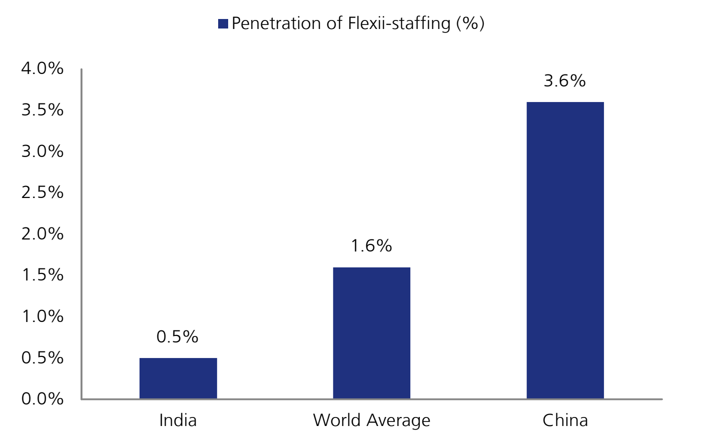
Source: RBI, JM Financial

Exhibit 8.IT and ITeS employment has witnessed a similar slowdown



Source: NASSCOM, JM Financial

Exhibit 9. Increased formalization, easing lanour laws, outsourcing in services and under-penetration to drive flexi-staffing in India



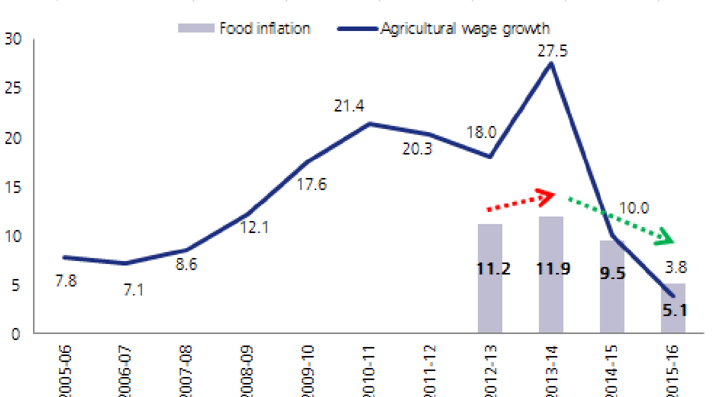
Source: Indian Staffing Federation, JM Financial

Exhibit 10.Increased interest in entrepreneurship and self-employment to benefit SME-lending and credit-led consumption

State	% of country's LF	% of country's unemployed	% contribution to net disbursements in FY17
Uttar Pradesh	13.6%	20.2%	6.8%
Maharashtra	10.1%	4.3%	8.5%
West Bengal	8.0%	7.9%	18.3%
Tamil Nadu	7.4%	6.0%	5.3%
Bihar	7.2%	8.6%	10.2%
Total	**46.3%**	**47.0%**	**49.1%**

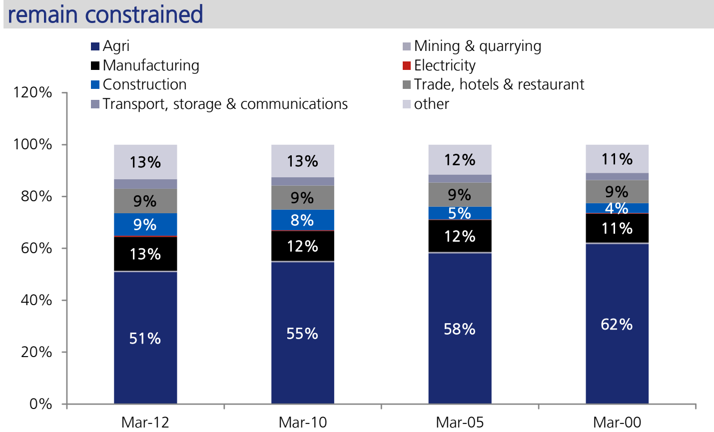
Source: Mudra, JM Financial

Exhibit 11.Lower agricultural wage growth has shown up as cooling food inflation in the recent years



Source: JM Financial, * data for inflation before FY13 is not comparable.

Exhibit 12. Migration from agriculture to continue but opportunities remain constrained



Source: NSSO, JM Financial

India's decade of opportunities

India's median age at present is 27 years against the global average of 30 years and 37 years for China

India's status of being home to a young population is well-established. The United Nations Organization reckons India will remain below the global median age for a good part of the next three decades and considerably lower than that of other major economies. The vibrant and young population is widely expected to be the cornerstone of India's growth story. However, what is interesting to note is that India has had this benefit earlier as well.

In this report, we analyse various aspects of the jobs market to understand how well-placed India is to fully utilize its demographic dividend.

Exhibit 13. Median age projection

Median age (years)	1950	1980	2015	2030	2050	2100
World	24	23	30	33	36	42
China	24	22	37	43	50	51
Germany	35	36	46	49	51	51
India	21	20	27	31	37	47
UK	35	34	40	42	43	47
USA	30	30	38	40	42	45

Source: UN World Population Prospects 2015, JM Financial

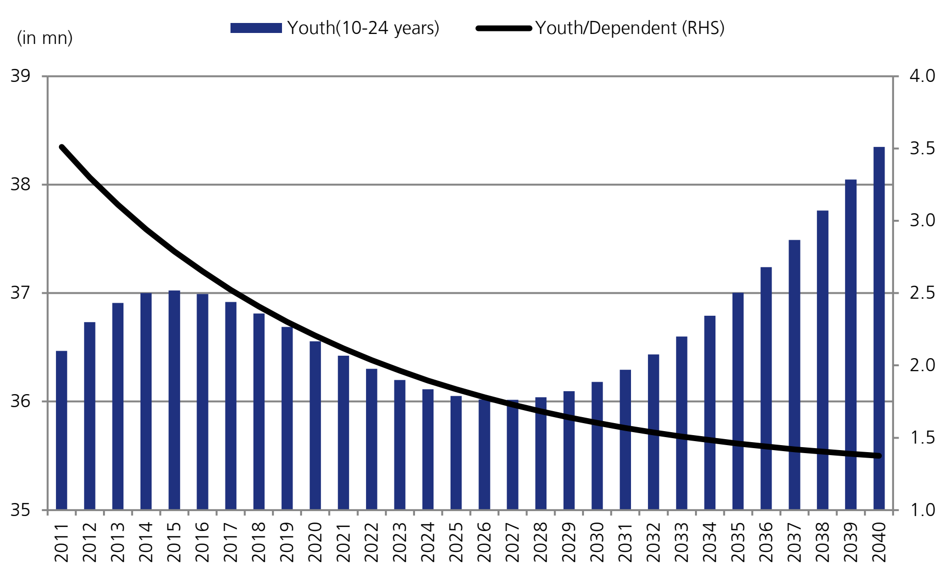
Rapid decline in youth/dependent ratio going ahead

India's youth (10-24 years)/dependent (60+) ratio to fall from 3.5 in 2001 to 1.4in 2040

A simple forecast of the Indian population based on current birth and segment-wise mortality rate provides interesting insights.

- The youth population (in the age group of 10-24 years) is all set to bottom out and rise at a CAGR of 0.5% during 2027-40.
- On the other hand, the dependent population above the age of 60 years is expected to rise steadily at a faster CAGR of 2.3% during the same period.
- Consequently, the youth/dependent ratio will fall from 3.51 in 2001 to 1.37 in 2040, exerting enormous stress on the social support system. **With advances in healthcare and birth control, the ratio could surprise on the downside.**

Exhibit 14. India's inflection point of growth?



Source: India Census 2011, JM Financial

Supply of labour - Addition of 9mn higher education pass-outs every year

Steady increase in the supply of labour

Firstly, we break down the supply side of the employment equation. The focus on education and skills development is likely to expand the available talent pool further. For instance, the revenue expenditure on education, as a percentage of GDP, has risen from 3.3% in FY06 to 4.1% in FY14. The number of colleges in India has grown at 3.9% annually during FY11-16. The gross enrolment ratio (GER) in standards IX-XII and higher education has improved from 33.3% and 8.1% in FY02 to 65.3% and 24.3% in FY15, respectively.

All these factors contribute to a booming labour force. For India to sustain its growth engine, the creation of jobs and absorption of qualified individuals in the system are of paramount importance.

Number of colleges has increased at 3.9% annually in India during FY11-15

GER (enrolment as a percentage of the eligible official population) improved for higher education from 8.1% in FY02 to 24.3% in FY15; for Class (IX-XII) it improved from 33.3% in FY02 to 65.3% in FY15

Exhibit 15.International Comparison on PTR -2014

Countries	Pupil Teacher Ratio		
	Primary (I-V)	Lower Secondary (VI-VIII)	Upper Secondary (IX-XII)
Brazil	21.2	18.5	15.7
China	16.2	12.6	16.5
India	25	17	38.0
UK	17.4	15.3	16.2
USA	14.5	14.8	14.8

Source: MHRD, JM Financial

Exhibit 16. International Comparison on GER -2014

Countries	Gross Enrolment Ratio			
	Primary (I-V)	Lower Secondary (VI-VIII)	Upper Secondary (IX-XII)	Tertiary
India	101.4	89.3	62.5	23.0
China	103.9	100.4	88.8	39.4
Russia	98.6	98.7	105.1	78.7
South Africa	99.7	94.9	93.1	19.7
UK	108.2	112.7	138.2	56.5
USA	99.5	101.9	93.2	86.7

Source: MHRD, JM Financial

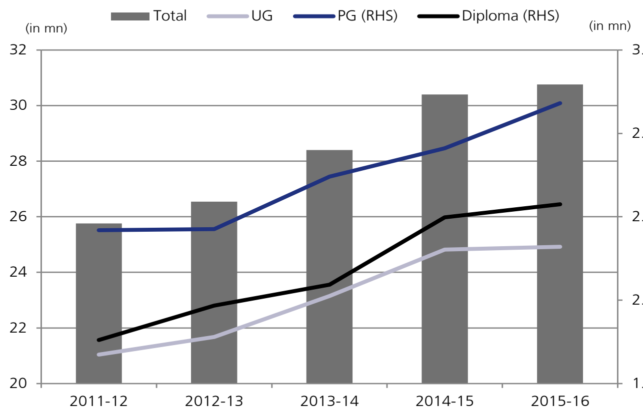
Higher education pass-outs increase at CAGR of 4.7% (FY12-16)

The number of students who enrol in higher education through the regular mode has steadily risen from 25.8mn in FY12 to 30.8mn in FY16—a CAGR of 4.5%. Similarly, the number of students passing out with degrees has grown at 4.7% from 7.4mn in FY12 to 8.8mn in FY16, out of which under-graduates constitute 6.3mn.

The government's impetus, coupled with increasing demand, has led to an exponential rise in the number of educational institutes and the people passing out at every level of qualification. This has directly translated into higher labour participation in each sub-segment, since the willingness to be engaged in some economic activity has also gone up. Yet, India trails its global peers in educational reach (exhibits 15 and 16), which offers immense scope for improvement. There is a very high probability that this rapid growth in the rate of labour supply will rise further.

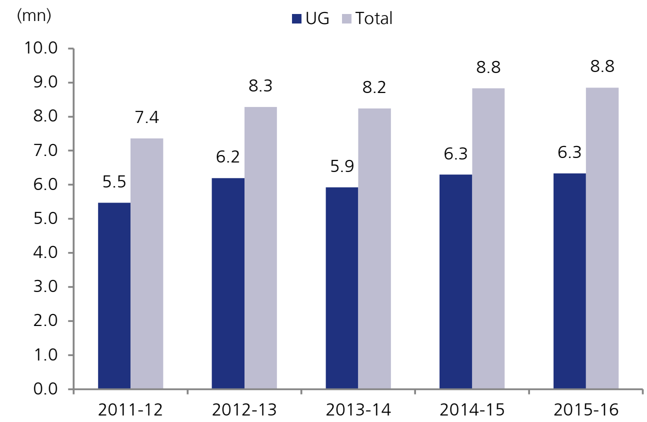
Number of students enrolling in regular college is up from 26mn in FY12 to 31mn in FY16; degree holders up from 7.4mn to 8.8mn in the same period

Exhibit 17. Higher education enrolment trend: ~ 31mn (25mn in under-graduate degrees) enrolled in regular courses during FY16



Source: AISHE, JM Financial, Note: UG: Under graduation, PG: Post graduation

Exhibit 18. Pass-out in higher education – At 9mn/year, pass-out ratio remains in the range of 28-30% of enrolment

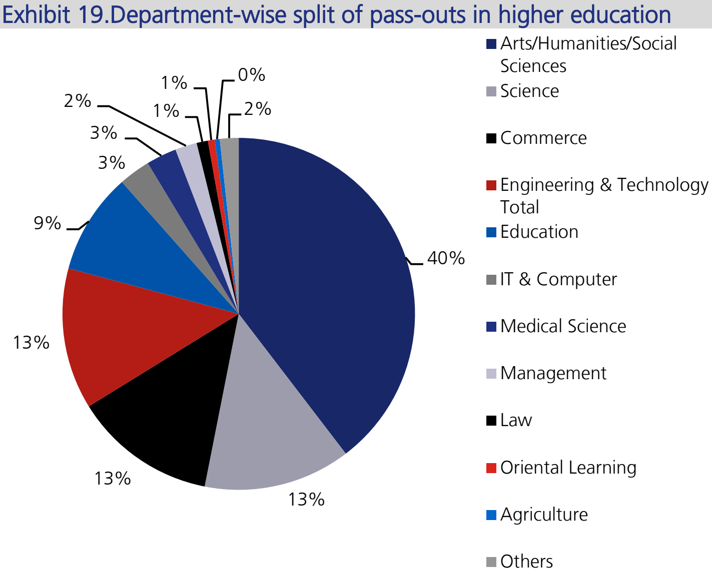


Source: AISHE, JM Financial, Note: UG: Under graduation

53% of higher education pass-outs from Arts/Science streams where job prospects remain limited

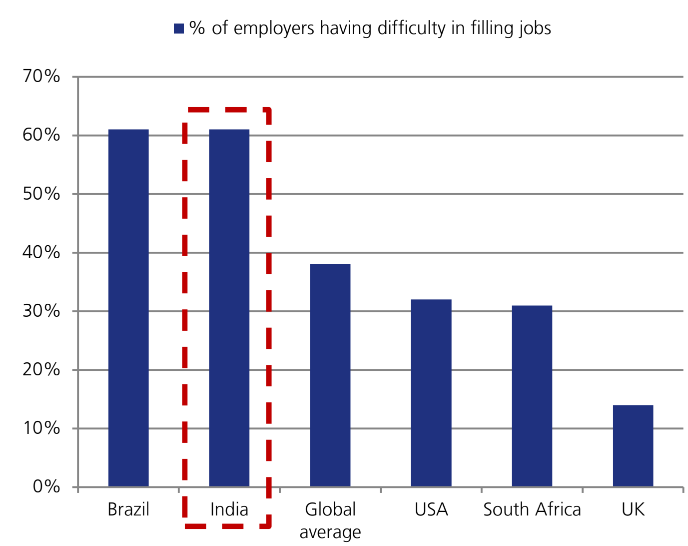
Over 53% of the undergraduates passing-out belonged to either the arts or science discipline in FY15. **India suffers from concentrated employment in a few sectors, which raises the time taken for de-skilling and re-skilling, leading to frictional unemployment.** The problem brewing here is on two counts: a) the growth rate of the number of qualified individuals entering the system and subsequently the increase in the labour force, as we will discuss, far exceeds the rate of job creation, and b) the skills being imparted through formal education are not aligned with the activities of best employment opportunities. The latter made evident with 61% employers in India (nearly twice as that of the USA) claiming to face difficulty in filling jobs in the manpower survey, 2015.

Exhibit 19.Department-wise split of pass-outs in higher education



Source: MHRD, JM Financial

Exhibit 20. Suitability: a key concern for employers



Source: 2015 Manpower talent shortage survey, JM Financial

As per the latest estimates, India has over 920mn people over the age of 15 years, out of which 49.3% constitute the labour force (LF).

India has 920mn people over the age of 15, wherein 49.3% constitute the labour force

Furthermore, the concentrated nature of education and employment in India does not restrict itself just to the undergraduate discipline and geographies. Employment opportunities within the country are also significantly dependent on certain sectors that form the majority of the workforce.

Employment trends:

Agriculture remains the largest overall employer

Agriculture still employs 46% of total labour force

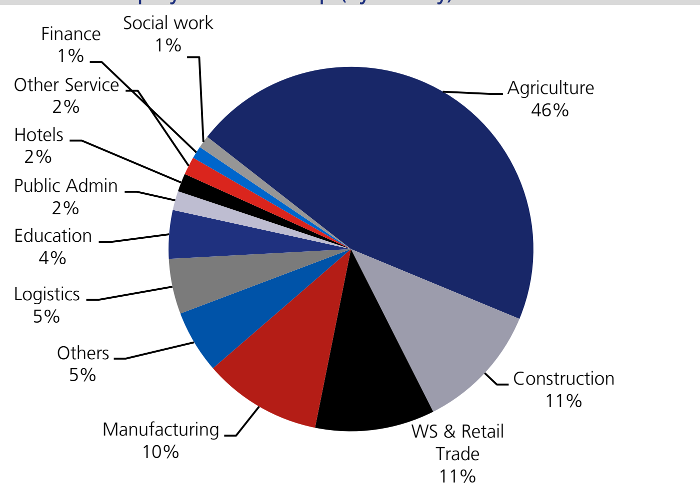
India is still in the process of devising reliable methods to maintain records of people engaged in different economic activities. Since majority of the population is employed in the unorganised sector, it is imperative to utilise the best available data in collective analysis.

Agri. (46%), trade and hospitality (16%) lead the working population share in the country

As per latest estimates of the labour ministry, about 434mn people over the age of 15 years are engaged in one activity or the other. The key sectors where the labour force is employed are

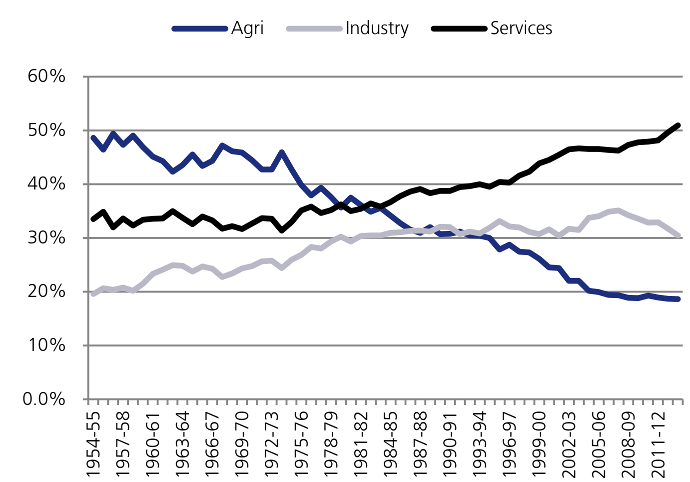
- Agriculture continues to engage the highest proportion of this working population (45.7%) in the country,
- Trade and hospitality (15.5%).
- Social and personal services (11.6%), which encompass a wide variety of activities—including professional, scientific & technical, administrative & support, public administration & defence, education (4.3%), human health and social work, arts, entertainment & recreation and other service activities
- Construction (11.3%)
- Manufacturing (10.5%)

Exhibit 21.Employment break-up (by activity) – Total 434mn



Source: Labour bureau 2015-16, JM Financial

Exhibit 22. Contribution to GDP



Source: CMIE, JM Financial

We highlight the concentrated nature of employment with the top-four activities (excluding social and personal services) **engaging 83% of the working population, which also constitutes the majority of the organised sector**. It is interesting to note the relative insignificant contribution of activities related to IT/ITeS and BFSI, which garner considerable attention in mainstream coverage, to actual employment. Even though, agriculture continues to remain the largest employer, with declining contribution to the country's output its share of employment has declined quite rapidly from nearly 60% in FY00 to 46% in FY16. The excess supply of labour in other activities caused by this displacement of labour out of agriculture could exert downward pressure on wage growth.

Organised sector employment in India: Increased at a CAGR of 0.5% between 1991-2012

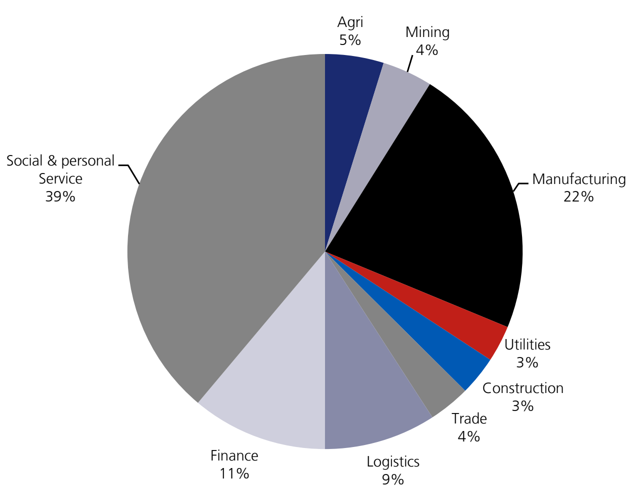
As of 2012, **nearly 30mn people were working under the ambit of organised employment** (source: CMIE) Community, social and personal service leads the way in terms of activities that employ the highest number of people in the public and private sectors combined. It is followed by manufacturing, finance & real estate and logistics. The risk of concentration is once again in play with these top-four sectors, contributing to over 81% of the organised employment. Quite expectedly, the share of each activity has undergone changes over the years, reflecting the structural shift that has occurred.

During 2012, 30mn people worked in the organised sector—four sectors accounted for 81% of the employment; overall organised employment went up at a CAGR of 0.5% in 1991-2012

The move towards urban centres, globalisation, rising education levels and better representation of women in the workplace have all meant that services have gained at the expense of traditional forms of employment. The above shift has also fuelled the rise of private players and on a whole, one of the reasons of private sectors overhauling its public counterpart to be the leading engine of employment generation within the country.

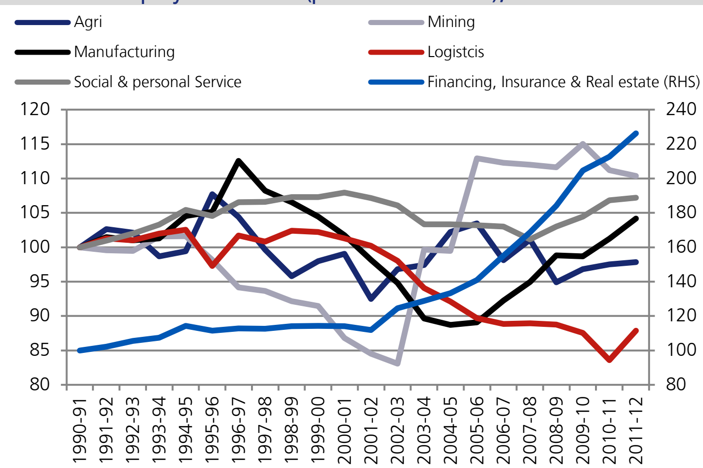
Post-liberalisation, the combination of financial and realty sector employment has seen a phenomenal CAGR of 4% during FY1991-2012, **against that of the overall employment in the organised space, which grew at a CAGR of 0.5%.** This is followed by trade with a CAGR of 3.9%, while the next best activity of mining is at a far lower 0.5%.

Exhibit 23. Organised employment break-up (activity-wise)



Source: CMIE, JM Financial

Exhibit 24. Employment trend (post-liberalisation), Indexed to 1991



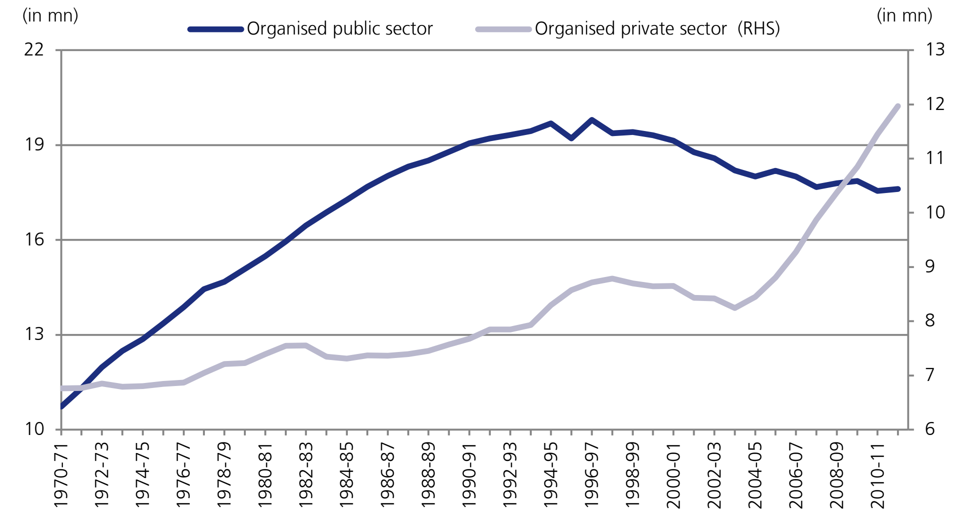
Source: CMIE, JM Financial

'Privatisation' of employment creation: Private/public sector job growth CAGR of 3%/-0.8% over FY01-12

The number of people employed in the public sector went up steadily at a CAGR of 2% in the 25-year period from 1970 to 1995, a phase during which the private sector witnessed a lower CAGR of 0.9%. **The trend has reversed post-2000 when the 11-year CAGR of employed person in the public and private sectors has been -0.8% and 3%, respectively.**

Ratio of people employed in organised public/private sector dropped from 2.4 in FY01 to 1.6 in FY12

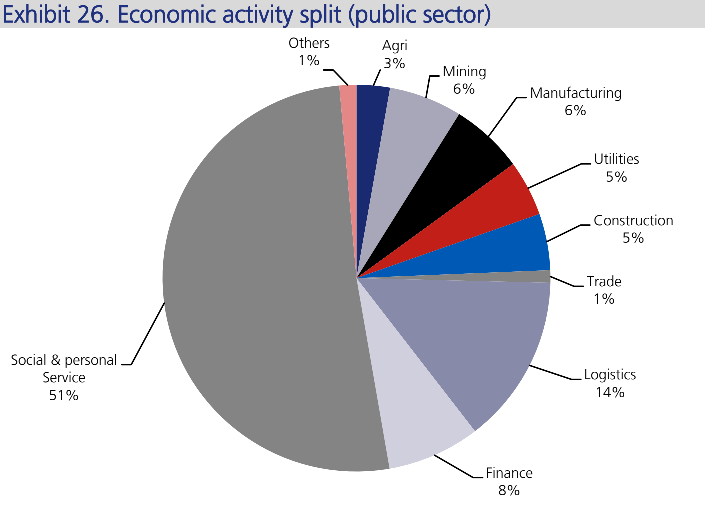
Exhibit 25.Shrinking public-private divide



Source: CMIE, JM Financial

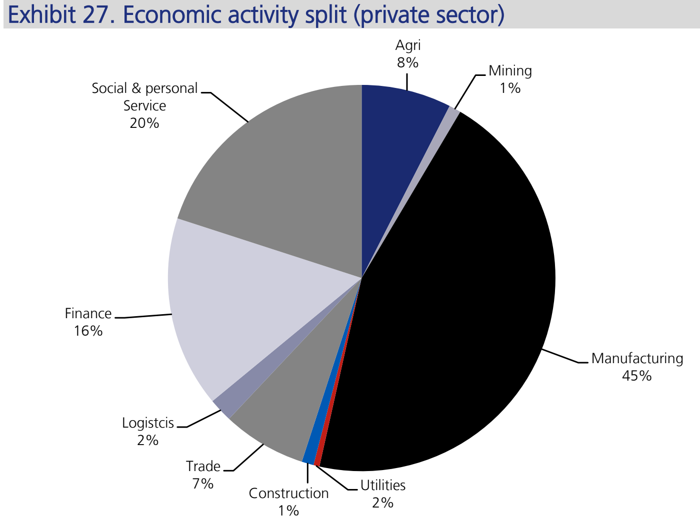
At the end of FY12, it was estimated that over 17.6mn people are employed in the organised public sector, while nearly 12mn people work in the private sector. The ratio of people employed in the organised public to private sector has dropped from 2.39 in 2000-01 to 1.58 in 2011-12, indicating the superior rate of job creation by the private sector. In terms of contribution, the collective service of community, social & personal (51%), logistics (14%) and financing, insurance & real estate (8%) lead the way in the public sector, while manufacturing (45%), collective services (20%) and fin, insurance & real estate (16%) are the major contributors of organised private jobs.

Exhibit 26. Economic activity split (public sector)



Source: CMIE, JM Financial, Note: Social & Personal services relates to the services sector

Exhibit 27. Economic activity split (private sector)



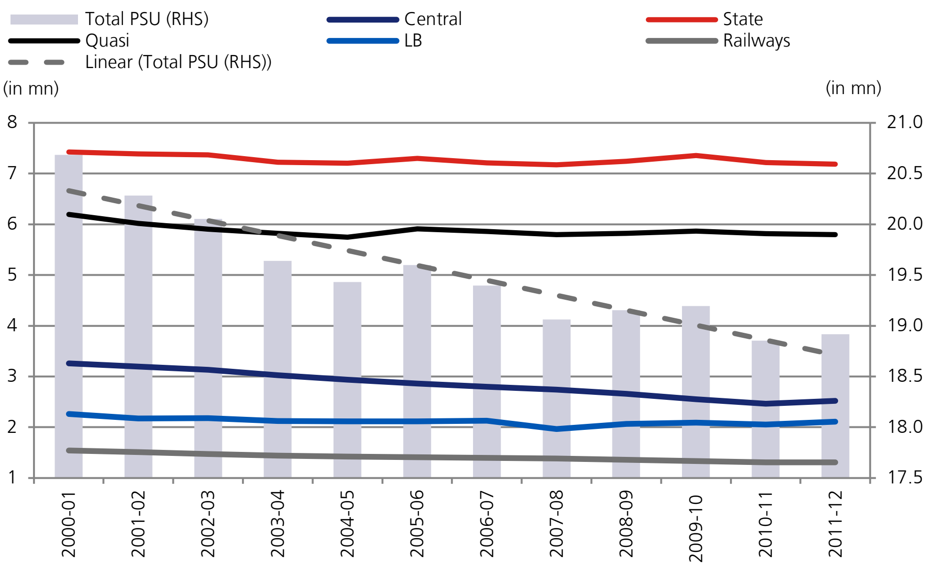
Source: CMIE, JM Financial

Organised public sector: Services accounts for 51% of the jobs

Public jobs declined at an annual rate of 0.8% during FY01-12

While opportunities in the private sector have clearly seen a steep rise, employment in central government and railways has tapered with an annual decline of 2.3% and 1.5% respectively during FY01-12. With improved efficiency and push for automation, the trend is unlikely to reverse in the railways. The implementation of the seventh pay commission is likely to limit the government's leeway at both the central and state level, thereby limiting the possibility of an upsurge in public sector employment.

Exhibit 28.Public sector employment trend



Source: CMIE, JM Financial

In terms of activities, manufacturing, construction and logistics have seen the sharpest drop with an annual decline of 2.6%, 2.4% and 1.8% respectively during FY01-12. The positive growth in mining (1.9%) and wholesale/retail trade (1.1%) has marginally offset the overall decline.

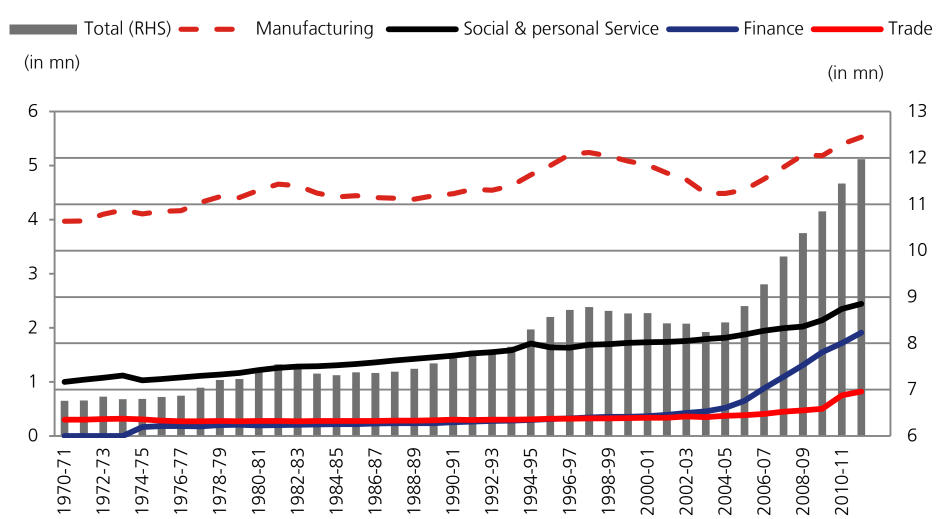
Organised private sector: Manufacturing accounts for 46% of the jobs

Manufacturing (46%) employs the highest number of people under the organised private sector. The rate of employment generation has clearly picked up post-liberalisation, but as we will discuss in subsequent sections, it has not kept pace with the value added by the manufacturing sector.

Manufacturing (46%) accounts for the largest share of employees in organised public sector

The wide gamut of community, social and personal services (16%) occupies the second spot. The recent emergence of the financing, insurance and real estate (16%) places it in third place. Since 2000, employment in this sector has seen a phenomenal CAGR of 16.1%. Having said that, the question under consideration would be the longevity of the above growth in the coming quarters, and quarterly surveys point to weak job additions (next section).

Exhibit 29.Private sector employment trend



Source: CMIE, JM Financial

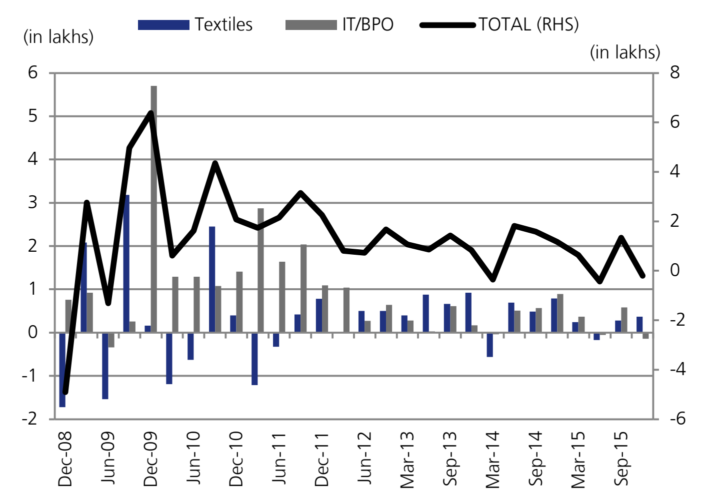
Recent job additions have been tepid

During CY13-15, 0.98mn jobs were created with textiles (0.5mn) and IT/BPO (0.38mn) leading the job creation

Since official data on latest trends is sparse, we have looked at multiple sources such as the labour ministry's annual and quarterly employment survey, RBI for banks, NASSCOM for IT/BPO and ASI for manufacturing etc to construct the overall picture. Until now, the private sector had masked some of the job creation concerns India would have had to face in the organised space. However, there are signs that problems in providing opportunities for a livelihood is beginning to crop up. **In addition to the combined rate being slower than the rate of supply of qualified individuals, we are also witnessing a slowdown in the generation of private jobs.** The Labour Ministry's Quick Employment Survey (QES) has indicated a clear slowdown in the rate of job creation in eight labour-intensive sectors.

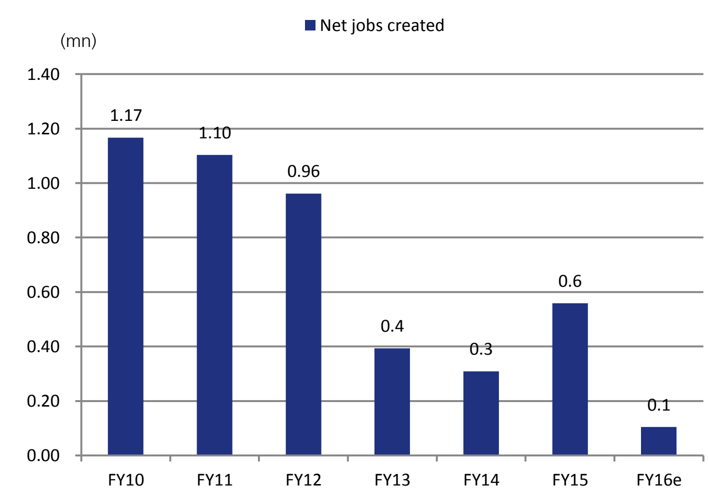
Since the beginning of CY2013 (till CY15), a total of just 0.98mn jobs had been created in eight core sectors with textiles (0.5mn) and IT/BPO (0.38mn) leading the way. The highs of post-Great Financial Crisis job creation have been followed by a deceleration in the addition of new jobs most-notably in the two above-mentioned sectors. Other sub-segments of manufacturing also exhibit similar trends. Including banking jobs, a total of 1 mn jobs have been created in the three years FY13-16 against 2.5 mn during FY11-13. It is important to note that these 9 sectors contribute to over 65% of India's GDP. According to the revised quarterly employment survey, the trend seems to worsen with only 0.19 mn jobs being added in 9mFY17 by eight key sectors. The government's ambitious election manifesto promise of creating 250mn jobs over the next 10 years seems even more challenging, given the recent trends.

Exhibit 30.Quarterly job creation across 8 key sectors - IT and textiles, which had led job creation post-GFC, are slowing down



Source: QES, JM Financial

Exhibit 31. Incl. banks, the net jobs created stood at 1 mn (FY13-16) vs 2.5 mn (FY11-13)



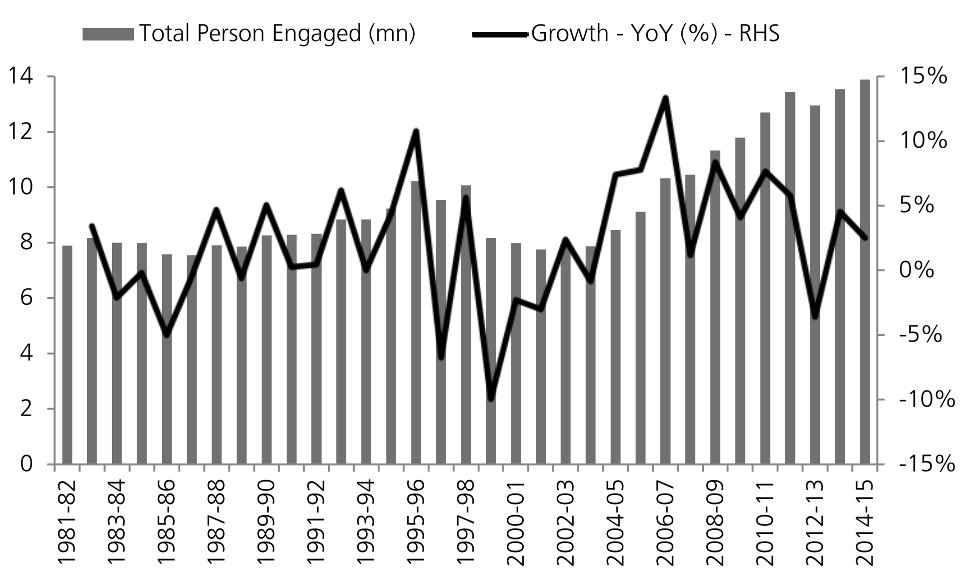
Source: QES, RBI, JM Financial

Sector-wise analysis of job creation

(A) Manufacturing – Steady increase in productivity reduces employment generation

Manufacturing engaged nearly 14mn people in one form or the other in FY15. **The number has risen from about 8mn in FY01 at a CAGR of 4%. However, if we dive a level deeper, it is pretty evident that the rate of growth has been declining over the last decade.**

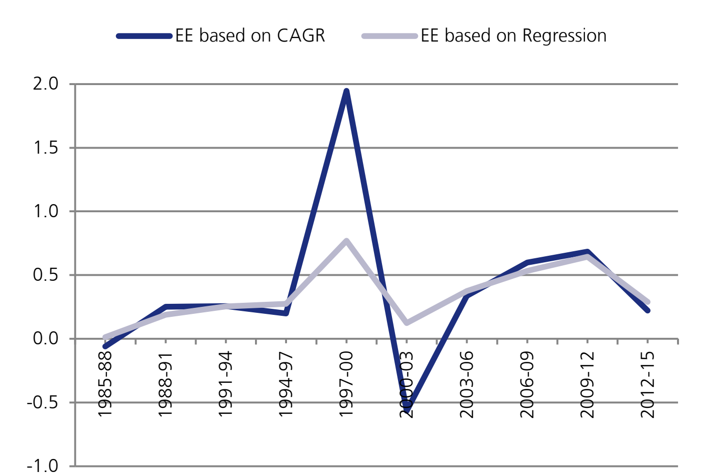
Exhibit 32. Growth in people engaged in manufacturing – increased at a CAGR of 3.4% during FY09-15 against 6.1% during FY03-09



Source: ASI, JM Financial

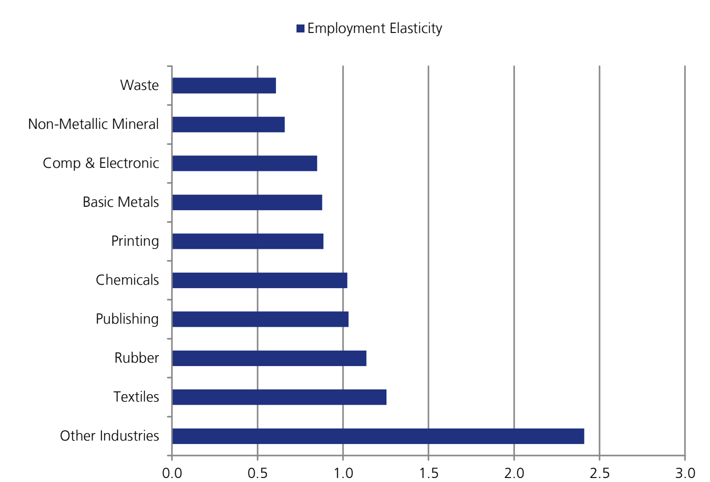
Employment elasticity in the manufacturing sector provides an understanding of the creation of jobs aided by the growth in gross value added. The elasticity computed by utilising the three-year growth in employment and value creation has been nearly flat over the past three decades, rising from 0 to 0.3. The two approaches: a) based on CAGR, and b) regression yield similar results. **Quite evidently, the rate of creation of new jobs in the manufacturing sector has been far lower than the actual value added.**

Exhibit 33. Employment elasticity (EE) trend in manufacturing



Source: ASI, JM Financial

Exhibit 34. Manufacturing sub-segments with highest EE



Source: ASI, JM Financial

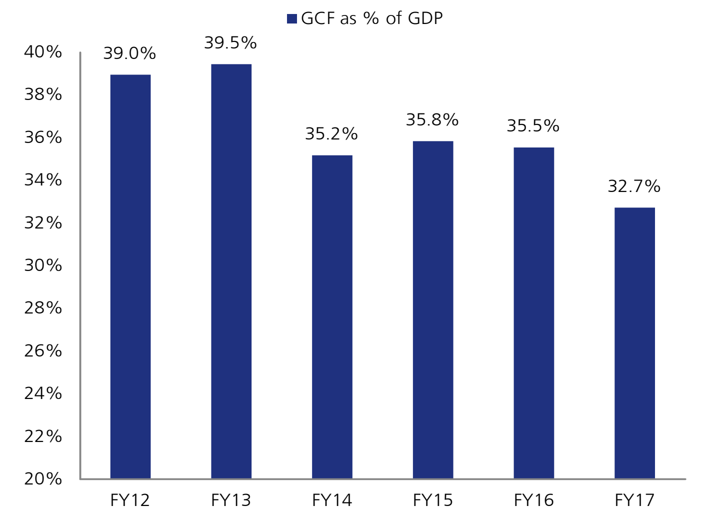
One of the reasons for the slow growth in elasticity could be the rapid increase in productivity in a traditionally low-productive country such as India. The technological advancements, which have followed globalisation, have led to a steep rise in productivity of the manufacturing sector. It has meant that the increase in value created has not directly translated into more number of jobs.

A weak private capex environment during the past few years is reflected in the declining share of GCF, as a percentage of GDP (exhibit below). A combination of lower capex and rising productivity has held back job growth during the past few years.

Exhibit 35. Increase in manufacturing productivity has suppressed job creation – CAGR of 6.7% YoY (1983-2015)

Source: ASI ,JM Financial

Exhibit 36. Gross capital formation, as % of GDP, has declined over past few years, reflecting weak capital expenditure



Source: CMIE, Note: Based on constant rates

We also witnessed examples of increased automation even in smaller towns/rural India which have impacted job growth.

Box 1: Increased automation reduces job growth opportunity even in rural India

We visited an agriculture sorting mill at Ratlam District (Madhya Pradesh) with 0.3mn population and a highly agriculture-dependent economy. The mill sorts agricultural crops such as pulses and wheat (rice during Kharif season) and segregates grains according to purity/colour/damages. The cleaned produce fetches a higher price compared to unprocessed produce. For example, unprocessed wheat sells at INR 15-16/kg, while processed ones sell for INR 17-18/kg.

Automation is reducing job growth opportunity even in semi-urban/rural India

The SME entrepreneur had set up three mills 10 years ago with an investment of INR 10-20mn/each and employed 10-12 people in each of the three mills. Last year (2016), he set up another plant, establishing an optical segregating machine from 'Sortex' with an investment of INR 20mn. The throughput of this mill is almost double of the previous machine, but he now needs only two employees (1/6th of previous) for the increased volume of throughput.

Exhibit 37.A crop separation mill

Source: JM Financial

Exhibit 38.New digital device for sorting produce

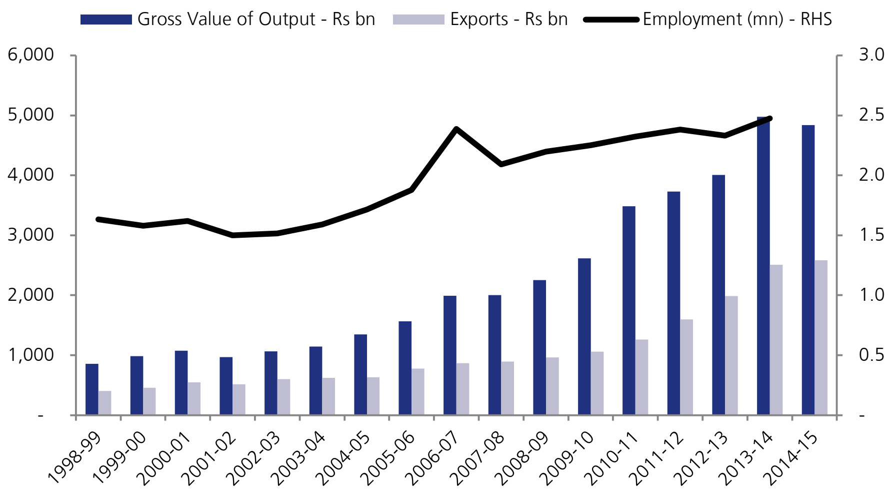
Source: JM Financial

(B) Textiles & Apparels – High employment generation capability, need to upgrade skills to improve global competitiveness

The textile and apparel (T&A) industry contributes c.10% to India's manufacturing production, 5% to the country's GDP and accounts for 14-15% of the export earnings. During the past decade, T&A industry has seen increase in exports at c.15% CAGR and employment (formal) has also increased at a fairly healthy pace of 4.5% CAGR.

In terms of global share however, Indian exports at USD39bn (FY17) amounted to c.5%, much behind the leading exporter China (34-35% share).

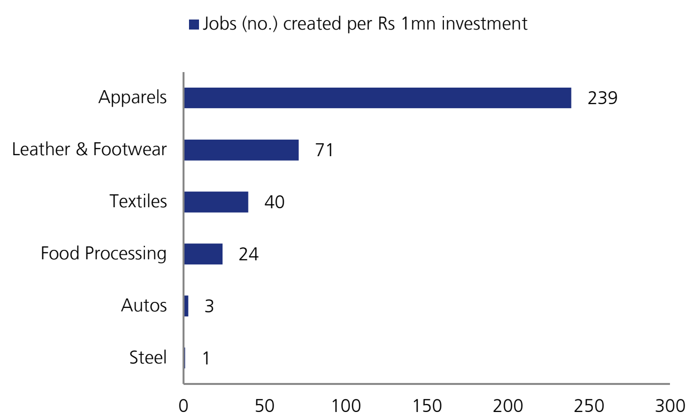
Exhibit 39. Textile and apparel sector – Employment increase of 4.5% CAGR over the last ten years



Source: CMIE, JM Financial

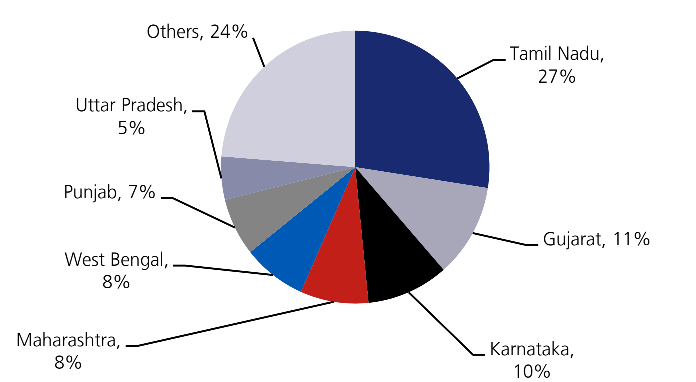
Labour Intensity of Textile & apparel industry one of the highest: Overall, T&A industry forms one of the largest sources of employment generator in the country, given the high amount of jobs created per incremental investment (exhibit below).

Exhibit 40. Job creation vs. investment – Apparels leads in terms of job creation per incremental investment



Source: Economic Survey 2016-17, JM Financial

Exhibit 41. Distribution of employees by states; Top 5 states account for 65% of work-force; Tamill Nadu alone accounts for 27%



Source: NSDC, JM Financial

Given the labour intensity of the sector and India's vantage position on account of the availability of raw material, the Government has been providing policy support for the sector by through multiple plans/schemes, some of which are -

- Amended Technology Up gradation Fund Scheme (TUFS) provides capital subsidy on investments,
- Skill development schemes,
- Integrated textile parks development etc.

The Government also provides benefit such as interest subvention scheme of 3% on all Rupee-denominated pre- and post-shipment credit, enhanced duty drawback capping, 2% export benefit on all exports to notified countries, etc.

Low increase in productivity levels, particularly in apparels needs to be addressed

Under-penetration of technology in textiles has led to loss of competitiveness for India

T&A industry has high elasticity of employment **(1.25)** which is due to the lower penetration of technology/automation. The productivity growth, especially on the apparel side, has been low at a CAGR of 2.5% during FY1999-2014 (vs. average of c.7% for manufacturing sector). The low productivity improvement has been also highlighted by the textile ministry in its vision 2024-25—**"the investment in improving the skills and productivity of the workforce has been a weakness".**

The under-penetration of technology has come at the loss of competitiveness. **While China has been conceding its market share of textile and apparel exports due to its own rising labour costs**, Bangladesh and Vietnam have proved to be faster in capturing it than India. This is reflected in the market-share of various countries in apparel imports to USA (exhibit 42).

Exhibit 42. Share of apparel imports (USA) from key countries

(USD mn)	FY13	FY14	FY15	FY16	Change over FY13-16
India	4.0%	4.0%	4.2%	4.3%	0.3%
Bangladesh	5.8%	6.2%	5.9%	6.3%	0.5%
China	37.8%	37.3%	36.4%	35.9%	-2.0%
Vietnam	9.2%	10.2%	11.3%	12.4%	3.2%
Indonesia	6.4%	6.2%	5.9%	5.8%	-0.6%

Source: Ministry of Commerce, US Government, JM Financial

Ambitious Government plan for growth of employment from T&A:

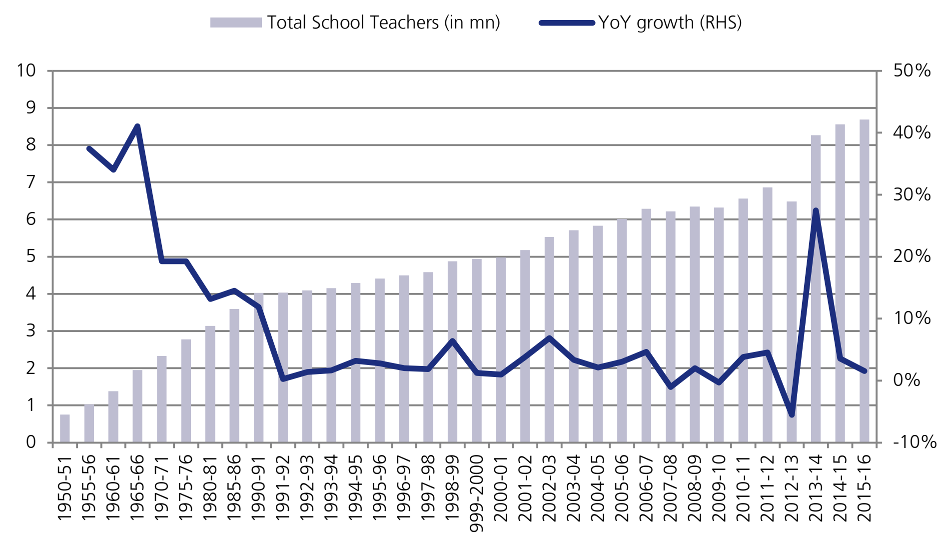
Driven by weakness in demand across key regions (China, EU), the total T&A exports from India amounted to USD39bn in FY17, down by 3% YoY and much lower than earlier Government estimates of USD48bn. Given, the current global macro-economic environment, Government has now set a target of achieving USD45bn in exports during FY18, up by 17% YoY.

Earlier in June 2016, the Government had come out with ambitious plans for growth and employment generation for the T&A sector. The policy targets to generate over 10mn jobs in the textile and apparel industry attract investments of about INR 740bn and increase exports by USD 30bn over the next three years. **However, achieving and sustaining such targets would entail structural measures and near perfect execution and would need to be closely watched.**

(C) Education – Stable employment generator

With over 10mn teachers employed at various levels, education is an important source of employment in India. **Even in terms of growth, it has been fairly stable at a CAGR of 3.6% over FY2000-16.** Given the government's focus on education, signified by a INR60bn hike in the allocation for education in the 2017-18 union budget, this is one sector that looks set to at least sustain its growth, if not better it.

Exhibit 43. Total school teachers and growth



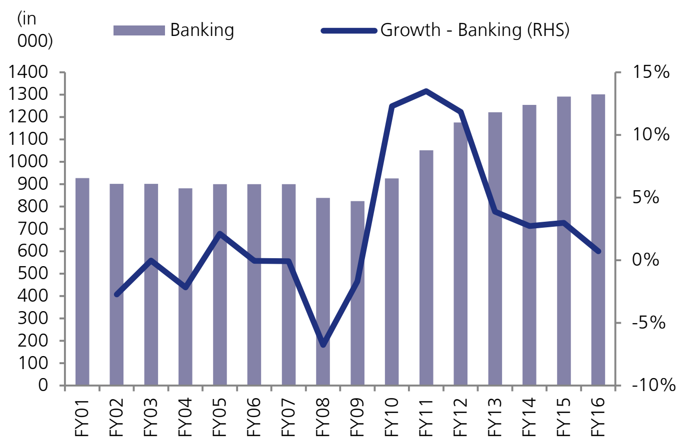
Source: MHRD, JM Financial

Despite the progress that has been made, India still lags global peers in education standards. India's pupil-to-teacher ratio (PTR) of 25 is much higher than that of even other emerging markets (exhibit 15). The gross enrolment ratio (GER) falls drastically at every higher level of education (exhibit 16). At the upper secondary level, India's GER is only 62.5% compared to China's 89% and the US's 93%. The scope for improvement provides a big opportunity for creating jobs, which the government is tapping into. The public expenditure on education, as a percentage of GDP, has seen an upward revision to 4.13% in 2013-14.

(D) Banking and Financial Services – Employment generation tapering

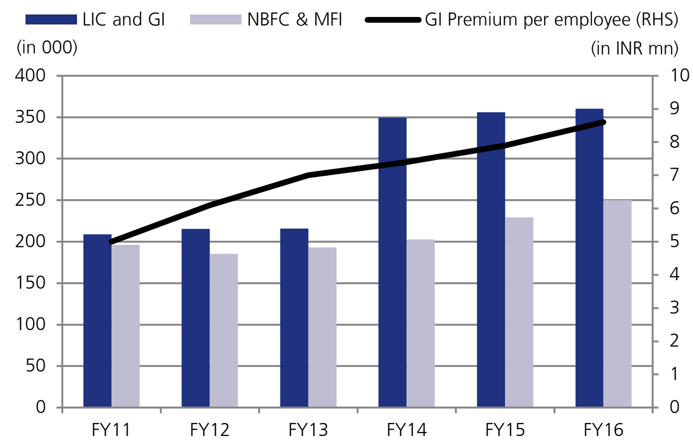
Banks as employers have received an uplift since the emergence of private banks in India, which employs one in every fourth person working in the industry. From employing just over 0.9mn in FY01 to employing close to 1.3mn in FY15 (source: RBI), the growth is even more remarkable in that most of it occurred during a phase, when banks were undergoing turmoil globally. Since FY12, YoY growth of new jobs has **dipped noticeably from 12%+ to around 0.7% in FY16**. It has corresponded with the Indian banking sector battling asset quality concerns and increased competitive pressure.

Exhibit 44. Banking employment growth has slowed from FY13



Source: RBI, JM Financial

Exhibit 45. Insurance, NBFC and MFI employment

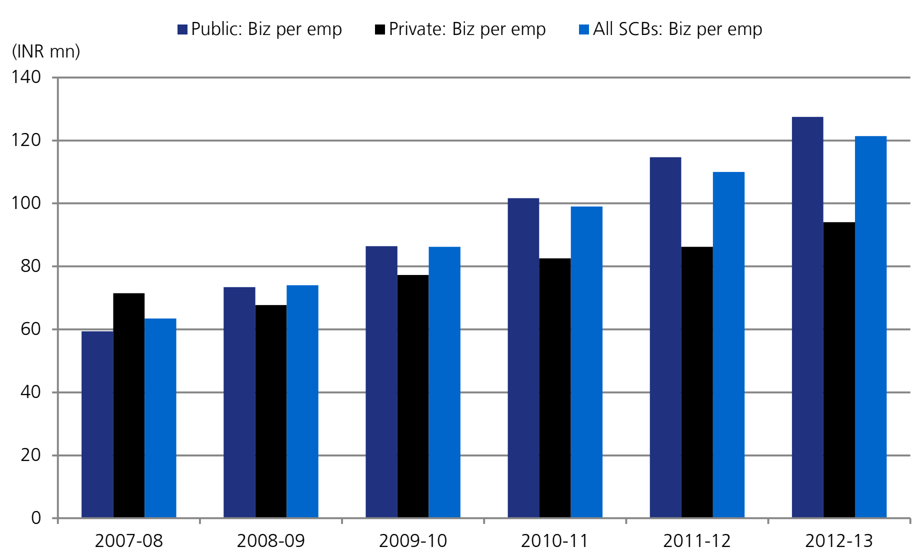


Source: GI Council, LIC, MFI, Bharat Microfinance, JM Financial, *representative list for NBFCs

It is apparent that technology will play a major role in the next wave of growth in banking. Hence, it is not surprising that banks are increasingly focusing on the extensive utilization of systems. Our interaction with engineering campuses around the country revealed that banks and financial institutions are competing with technological companies in hiring students for technical roles to develop and maintain digital systems. The possibility of reaching more customers through digital banking opens the door for unprecedented productivity gains.

In the five years preceding the slowdown in employment generation, business per employee (exhibit 40) for all SCBs had risen from INR 63.45 million in FY08 to INR 121.33 million in FY13. Public Banks led the way with a 16.5% CAGR growth during this period. As in manufacturing, productivity gains seem to have had an effect on job creation. We anticipate a further reduction in the pace of hiring for banks once the foundation for technology-driven growth is laid.

Exhibit 46. Business and profit per employee (bank group-wise)



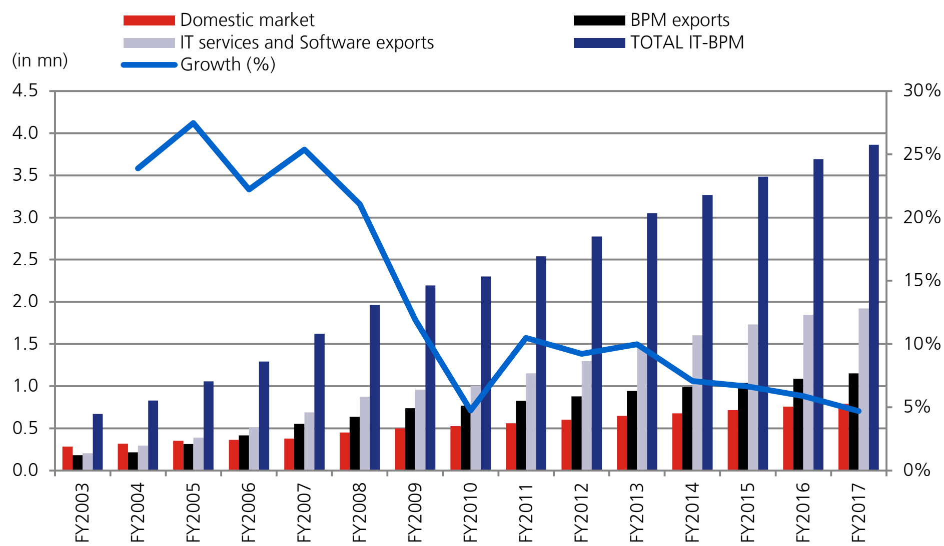
Source: RBI, JM Financial

(E) Information technology (IT) and IT-enabled services: Automating the delivery

The Indian IT-BPM sector has long symbolised India's status as a supplier of abundant skilled labour. With an estimated 3.86mn employed in the sector, it forms a significant component of private jobs in India. It is important to note that e-commerce is analysed as a separate segment outside the IT and BPM markets.

The five years preceding the Great Financial Crisis (GFC), saw IT/ITeS employment increase at an CAGR of 24%, grabbing much attention. However, the subsequent slowdown in the US and Eurozone has considerably affected the pace of hiring. The eight years since 2009 have witnessed a CAGR of 7.3% in the number of people employed in the industry. The slowdown has become more pronounced in recent years with the CAGR declining from 8.3% during FY09-14 to 5.7% during FY14-17. This trend is in line with the findings of the QES discussed earlier.

Exhibit 47. IT and ITeS employment



Source: NASSCOM, JM Financial

Employee growth in the IT-BPO sector has been slowing down since the past few years

Indian IT companies have been compelled to explore innovations in their delivery models to remain competitive (on pricing) with minimal impact on project margins, as clients' IT spends continue to be opportunistic and there is a constant drive to fund new technology investments through cost savings on maintenance of legacy technology platforms.

Automation initiatives to gather pace across IT services companies

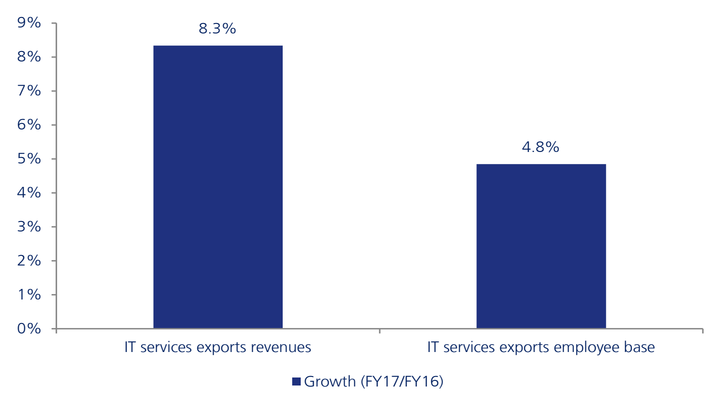
Currently, the automation initiatives across companies are centred primarily in services such as infrastructure management, maintenance and BPO with relatively higher degree of predictability (of problem) and repeatability (of solutions/tasks). These initiatives cover could be broadly classified under two categories, as follows:

- **Artificial-intelligence (AI)**-based platforms and software tools that aggregate data across processes and legacy systems into a self-learning knowledge base and then automate repetitive business/IT work-flows. Examples of such platforms include Nia (Infosys), Ignio (TCS) and Holmes (Wipro).
- **Robotic process automation (RPA)** tools that are software programmes (or 'bots') applied on rule-based processes for processing a transaction in terms of manipulating data, triggering responses and communicating with other digital systems, without human interventions. (exhibit 49)

Examples of some of the specific initiatives across major Indian IT companies are as below:

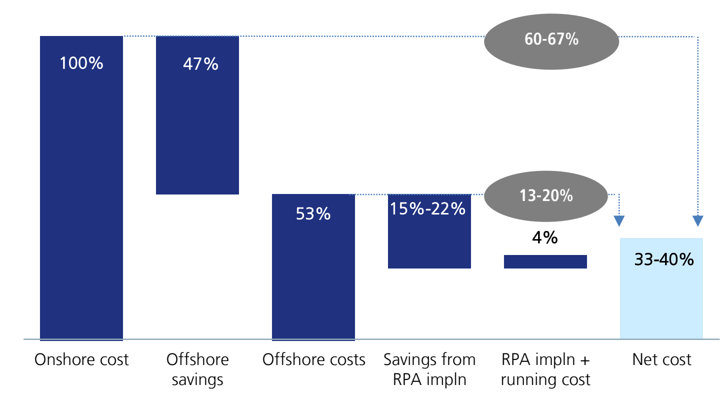
- **Infosys (INFO IN; BUY)** has developed Nia, an AI platform that builds on its earlier platform (Mana). It has also build the Infosys Automation Platform (IAP), a set of tools to automate work done in services like infrastructure management and maintenance, verification and other relatively repetitive areas. As of 4QFY17, Infosys had 150+ engagements across 50+ clients for Mana and indicated the revenues from Mana have been doubling every quarter since the launch in Apr'16.
- **Wipro (WPRO IN; BUY)** has an AI platform called HOLMES and a delivery framework called ServiceNXT that uses automation to optimise services delivery. Wipro had deployed 1,800 instances of HOLMES bots across 140 customer engagements across application, BPO and infrastructure management services in FY17. It estimates a 4,500+ headcount were released through automation over FY17.
- **HCL Technologies (HCLT IN; HOLD)** has formed strategic alliances with robotic process automation technology firms such as Blue Prism. It has also developed its own AI platform called DRYiCE consisting of 40+ interconnected modules that can automate a large number of standard and non-standard tasks across infrastructure, applications, business processes and engineering services.

Exhibit 48. Employee growth vs. revenue growth – FY17/FY16



Source: Nasscom

Exhibit 49. Cost savings from RPA – an illustration



Source: Nasscom, Note: RPA: Robotic Process Automation

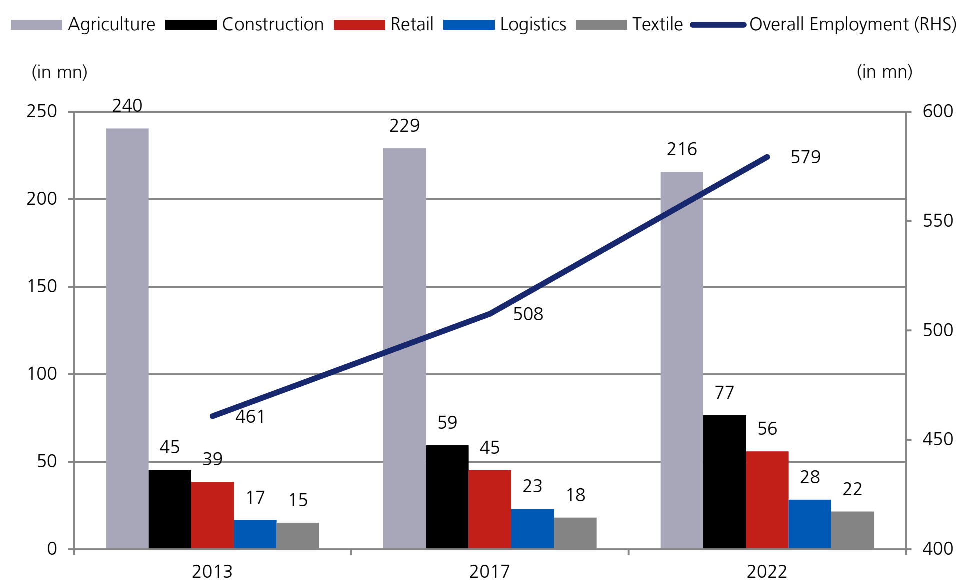
NSDC employment growth forecast – 2.7% CAGR over FY17-22, highly optimistic

The National Skills Development Corporation (NSDC), a public-private partnership under the Ministry of Skill Development & Entrepreneurship, **had estimated India's working population across 24 activities to reach 508mn by FY17 (2.4% CAGR growth from FY13),** even though **the number of employed people works out to be just 434mn in FY16,** as per the Ministry of Labour.

More significantly, NSDC forecasts demand for employment **to report a CAGR of up to 2.7% over FY17-22, led by new-age sectors such as media, beauty, furniture, healthcare and leather, albeit from a lower base**. Employment in agriculture is expected to witness a contraction of 1.2% annually based on estimated production and productivity. With the exception of agriculture, sectors which have traditionally employed a sizable proportion of the working population are expected to grow faster than the overall growth rate. As a result, the contribution of construction to overall employment will rise from 9.9% in FY13 to 13.2% in FY22, while that of retail will rise from 8.4% to 9.7%, respectively.

NSDC forecasts a very optimistic growth rate of 2.7% YoY in employment during FY17-22

Exhibit 50. NSDC's forecast on job creation – Ambitious forecast of 2.7% YoY growth in overall employment over FY17-22

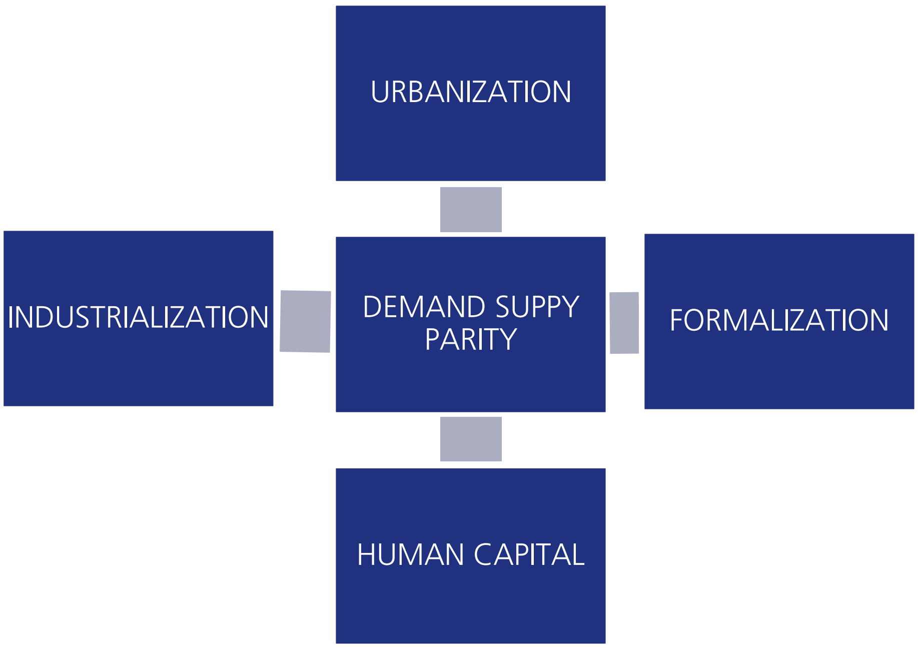


Source: NSDC, JM Financial

The way forward

As illustrated, the problem of unemployment arises due to multiple factors, which are often inter-linked. Trying to address specific issues individually may not yield the best results. It requires a comprehensive action plan that can bring about structural changes. Through our discussions with industry experts, we have tried to formulate a framework of actionable solutions that could help address the structural issues causing the demand-supply mismatch. We categorise the solutions under four broad themes: **i)** urbanisation, **ii)** industrialisation, **iii)** formalisation, and **iv)** human capital.

Exhibit 51. The "Jobs" Framework



Source: Industry, JM Financial

At the core of this demand-supply mismatch is the clustering of resources at different levels. The concentration of jobs in select geographic locations, economic activities and functions continue to hinder progress. **A bulk of the labour force is educated in a narrow spectrum of streams, limiting the extent of immediate employment in other activities.** The resulting difference between expected and available talent pool leads to employability issues and a drop in the country's growth potential.

Urbanisation

The availability of infrastructure and access to capital ensures that employment opportunities in sectors outside agriculture are concentrated in cities and major urban centres. People have had to head to these centres to establish careers and earn a better income. The congestion that has resulted from this rush to the cities has exaggerated the demand-supply mismatch, while many are unwilling to shift, unless there is a sufficient reimbursement of cost, thereby gradually falling out of the labour force.

The most obvious solution to this problem is the creation of more cities to match global peers. For instance, the ratio of number of people living in urban areas in China and India is estimated to be 7:1 underlining the stark difference between the two economies. The stance must change from **'taking people toward jobs' to that of 'taking jobs to people'**. While the creation of smart cities is a step in that direction, its implementation must account for this fundamental economic issue that is looming large.

On a holistic basis, job generation should be made a part of the administrative responsibility at each of the 640 odd districts of the country. Unless job opportunities at the local level are utilised fully, we would be staring at a piece-meal solution and are likely to continue grappling with it for a long period of time.

Industrialisation

As discussed earlier, automation and productivity gains have led to a slow growth in job creation in manufacturing. Yet, India can still scale new heights in industrialisation. By focusing on select sectors **such as textiles, which have the potential to create employment, it is possible to establish global leadership**. Technological progress has to be embraced to increase scale and competitiveness and initiatives such as "Make in India" needs to `be pursued in earnest.

Formalisation

About 30% of India's working population is temporarily staffed, as per industry experts. Globally, this proportion lies between 3% and 10%. India is clearly an outlier because of the complex labour laws. Employers prefer to hire employees on a temporary basis to ride business cycles, reduce paperwork and avoid any litigation. With a market size of about 130mn, recruitment and staffing solution providers are bound to benefit immensely as formalisation increases over the next few years. Currently, only 1.5% of this staffing happens through the formal route. The implementation of GST and stricter labour laws could hasten the formalisation of this critical sub-sector (details in the next section).

Human capital

The skill gap is perhaps the most important piece of the employment puzzle. The labour force that reaches the market is not immediately employable due to the inadequacy in meeting skill requirements. The solution to address this arm of the framework is multi-fold. We list some of the essential steps:

i) Strict implementation of apprenticeship and internship in educational institutions (just for reference, Japan has 10mn apprentices)

ii) Promotion of vocational training as a mandatory supplement to the primary qualification of students

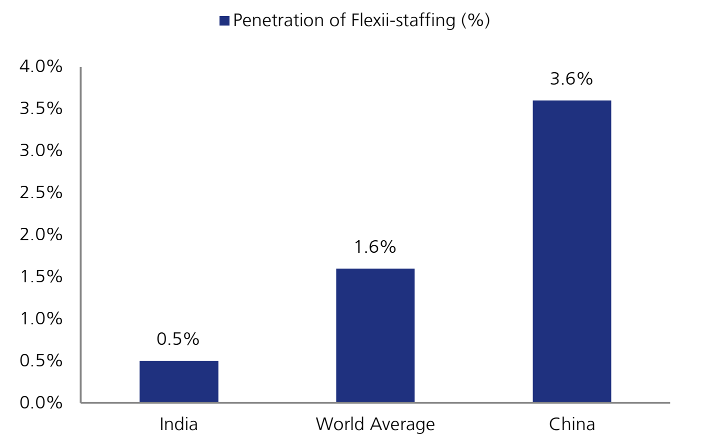
iii) Establishment of institutes to skill and re-skill people unemployed due to obsolescence

There are multiple schemes run by the government around skilling of people through "Skill India" mission as well as various activities taken up by private sector participants such as NIIT Limited (BUY). We do believe that the skilling and re-skilling activities are required to be taken on intensive basis to match with current requirement of jobs.

Flexi-staffing industry benefits from increased formalisation of work-force

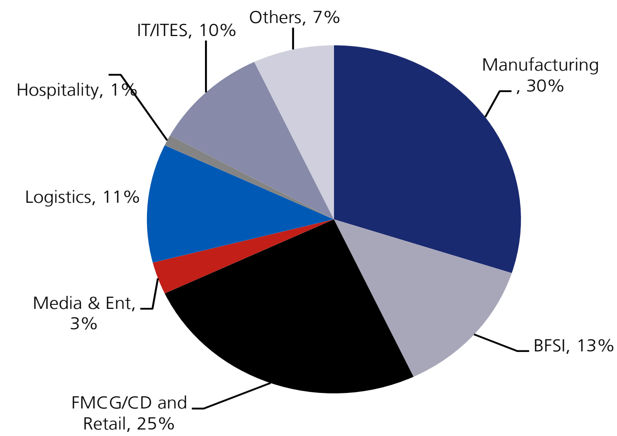
Despite being the second-largest global labour market, only around 10% of India's labour force works in formal employment. In particular, agriculture, manufacturing and construction have a high share of informal staff with complex and tough labour laws hampering job creation in the formal sector. Over the years, driven by demand for skilled labour across sectors, flexi-staffing has grown at a high pace in India (20%+ growth over the past few years) and is estimated to employ 2.1mn people in 2015. Despite strong growth, in terms of penetration, flexi-staffing forms only 0.5% of the labour force—below the world average of 1.6% and China's average of 3.6%.

Exhibit 52. Penetration of flexi-staffing in India much below global average



Source: Indian staffing federation, JM Financial

Exhibit 53. Flexi-staffing across multiple sectors

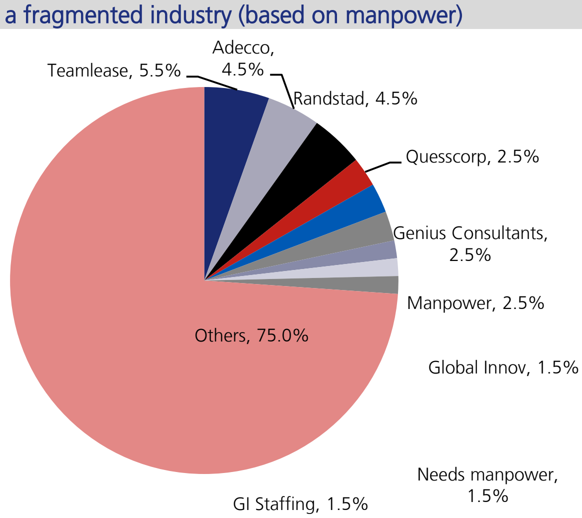


Source: Indian staffing federation, JM Financial

A gradual movement towards a more formal set up to employment is anticipated to occur due to various factors such as: (a) increasing number of enterprises turning formal, (b) continued requirement of new skills, and (c) regulatory amends in favour of formal and flexi-staffing industries. The flexi-staffing industry has benefited positively from the effort of the government to reduce cash-based payments (through demonetisation) and going forward, GST will act as an enabler for the industry. Apart from manufacturing, which is expected to constitute a large amount of the overall formal employee base, sectors such as fast moving consumer goods and logistics are expected to account for a significant proportion of the formal workforce. Going forward, services are likely to see higher outsourcing.

However, the staffing sector suffers from: (a) intense competition and high share of unorganised players (75% share), (b) absence of any licensing regime for staffing firms, and (c) low pricing power.

Exhibit 54. Flexi-staffing is a fragmented industry (based on manpower)



Source: TeamLease, JM Financial

Credit to SME could increase

Promoting entrepreneurship and self-employment are critical in the Government's mission to create new jobs. We estimate about 202 mn people are currently self-employed and with the increased thrust from the Government propelling disbursements under MUDRA, this number could rise significantly in the coming years. The contribution by individual states to this credit growth may have gone unnoticed. Five states with the highest proportion of the country's labour force have contributed nearly 50% of net disbursements under MUDRA in FY17. Incidentally, they also have about 47% of the country's unemployed. Even though, there may be number of other factors, the skewedness of the numbers seem to suggest that unemployment is pushing more number of people into entrepreneurship and self-employment.

Given, the lower cost of capital and the reluctance to aggressively lend to corporates, this entrepreneurial zeal could be a major driver of future credit off-take. We expect financial institutions, mainly NBFCs and MFIs, focused on SME lending to be key beneficiaries.

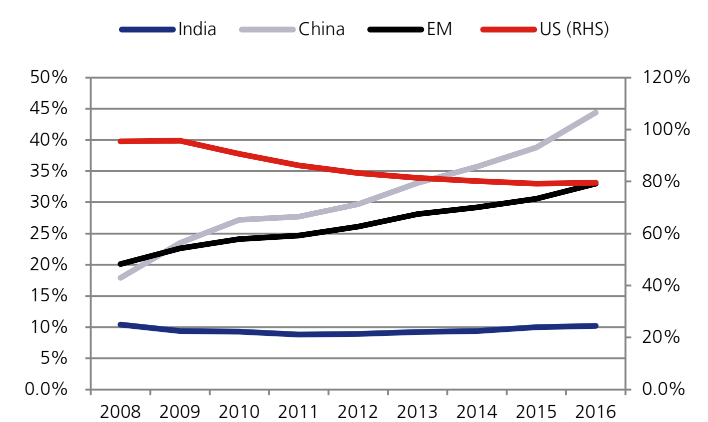
Exhibit 55. Unemployment driving entrepreneurship?

State	% of country's LF	% of country's unemployed	% contribution to net disbursements in FY17
Uttar Pradesh	13.6%	20.2%	6.8%
Maharashtra	10.1%	4.3%	8.5%
West Bengal	8.0%	7.9%	18.3%
Tamil Nadu	7.4%	6.0%	5.3%
Bihar	7.2%	8.6%	10.2%
Total	**46.3%**	**47.0%**	**49.1%**

Source: Mudra, Labour bureau, JM Financial

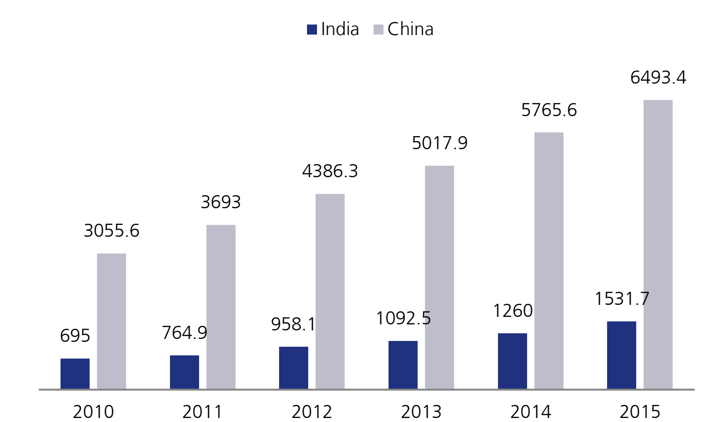
As such, financial penetration in India remains way too low compared to global peers (exhibit 56 and 57), thereby offering tremendous potential for lenders to grow. The recent influx of deposits in to the banking system post-demonetization had tipped the advances-to-deposit ratio of major banks to a low of 72% in 3QFY17, previously witnessed in 1QFY10. The growing corpus should aid in lowering the cost of credit-led consumption.

Exhibit 56. Total credit to households (% of GDP)



Source: BIS JM Financial, EM aggregate using PPP exchange rate

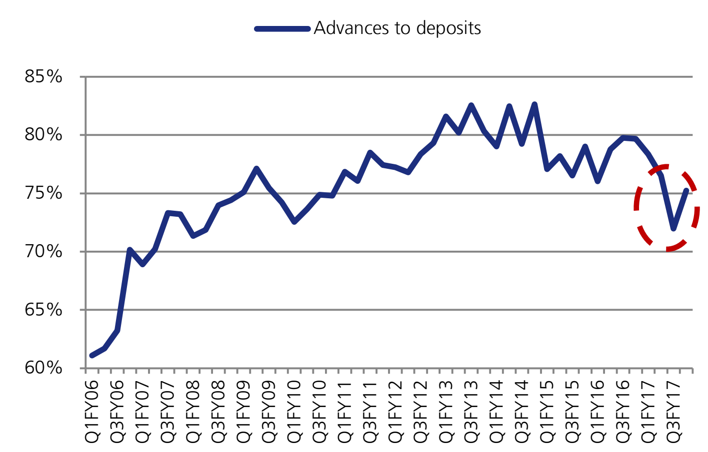
Exhibit 57.Transaction accounts (per 1000 adults)



Source: Worldbank, JM Financial

With the stressful legacy of corporate lending still lingering on, there is an increased propensity to lend to the retail segment evidenced in the personal loan segment growing at a monthly average YoY rate of close to 16% during April '13-17 vs the overall average of 10%. One of the areas that could see a significant uplift is the financing of consumer durables. For instance, the share of vehicle loans as a percentage of non-food gross bank credit has increased from 1.8% in April '13 to 2.5% in April '17.

Exhibit 58. Advances-to-deposits ratio sees a sharp rise in Q4FY17



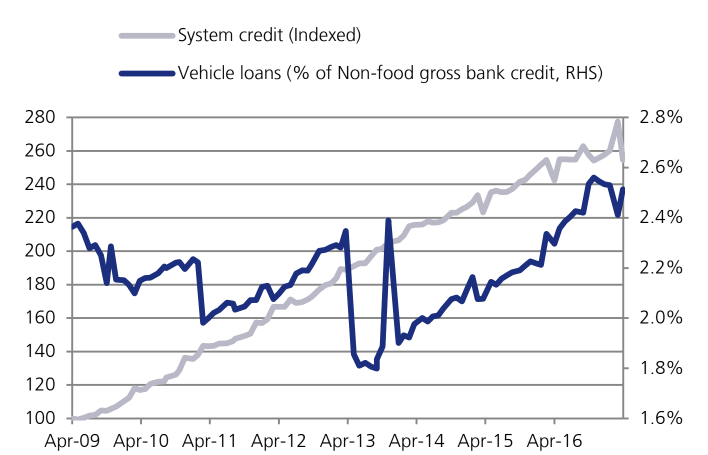
Source: Company, JM Financial

Exhibit 59.Constant decline in WALR of SCBs on O/S INR loans

Source: CMIE, JM Financial

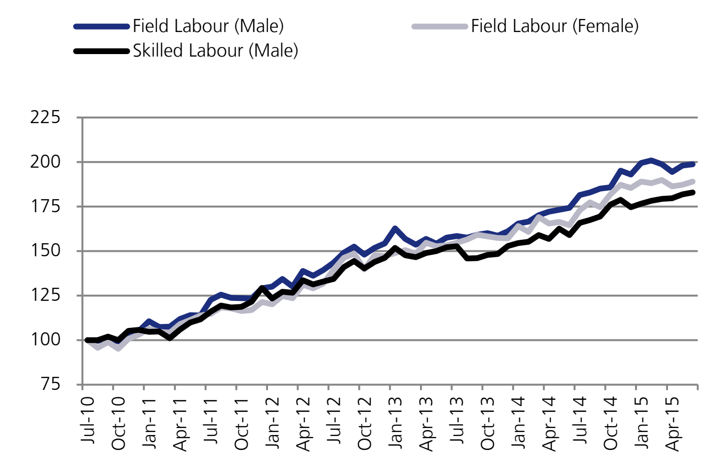
This is in-line with our earlier hypothesis of a growing dependent population supported increasingly by leveraged consumption, benefit of which should flow to lenders focused on the retail portfolio. It is important to note that while the retail credit quality has not necessarily been a concern thus far, persistence of a sluggish job environment could increase the need to watch for development of any stresses in the retail portfolio.

Exhibit 60. Will credit financing drive consumption?



Source: Company, JM Financial

Exhibit 61. Agriculture monthly wages on the rise



Source: Ministry of Agriculture, JM Financial

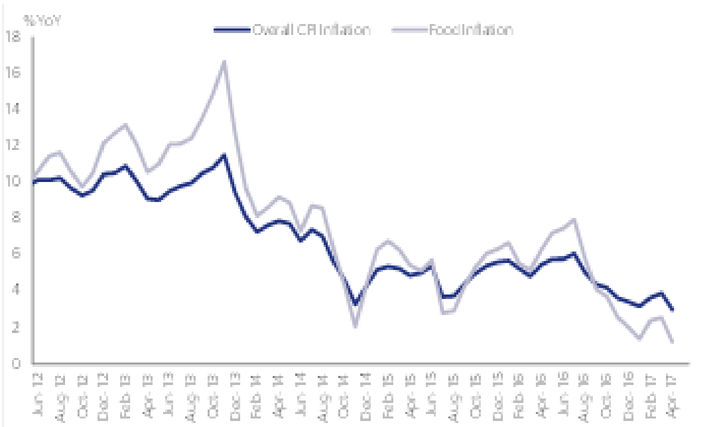
Jobs Growth & Inflation

The pace of job creation in an economy has implications on other major macroeconomic indicators like inflation. Impact of low jobs growth on inflation can be inferred by a sequence of two relationships.

a) Food inflation and agricultural wages: Food inflation governs the overall movement of inflation in India as it has a weightage of 45.86% in the CPI index (Exhibit 62). Agricultural wages indirectly form a crucial determinant of food inflation. The Minimum Support Prices for various crops are decided on the basis of the agricultural cost of the crop. Labour costs accounts for about 20-40% of the total agricultural costs (Refer to Exhibit 63). Analysing data on agricultural wage growth shows that wage growth remained in double-digits from 2008-15. Exhibit 64 shows the substantial pick in wage growth FY06 onwards, from 7.12%YoY in FY07 to 12.1%YoY in FY09 and reaching 27%YoY in FY14. Post FY15, this growth fell to 3.76%. This fall in wage growth was evident in the inflationary trend for recent years as can be seen in the chart. Food inflation fell during the same time period. Recent month-on month data, (as shown in Exhibit 65) reveals pick-up in wage growth, but it is still below 10%YoY. Thus, we expect food inflation will remain under control.

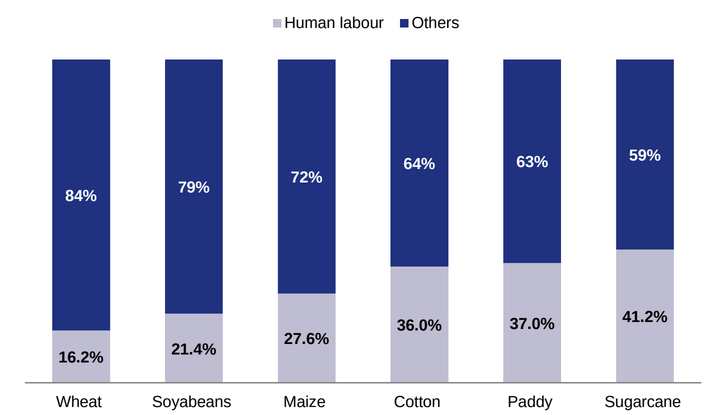
b) Agricultural wages and migration: Labour migration is an indicator of movement of surplus labour from low-productive sectors (like agriculture) to those with higher productivity. Low jobs growth in urban areas has a crucial impact on the rural-urban migration. Although migration growth rate has risen over the overs; from 2.4% in 1991-01 to 4.5% in 2001-11, the rate is still low. Exhibit 66 shows that the falling share of people employed in agriculture has been accompanied by rising share in construction and manufacturing employment. However, the slow jobs growth in urban areas could keep migration rates low, and as people stick to agriculture, the wage growth is expected to remain low due to the availability of ample cheap labour. Hence, we expect food inflation; the driver of CPI inflation to remain benign, unless it is affected by exogenous factors like monsoon, natural calamities etc.

Exhibit 62. CPI inflation is driven by food inflation; correlation between the two statnds at 0.98



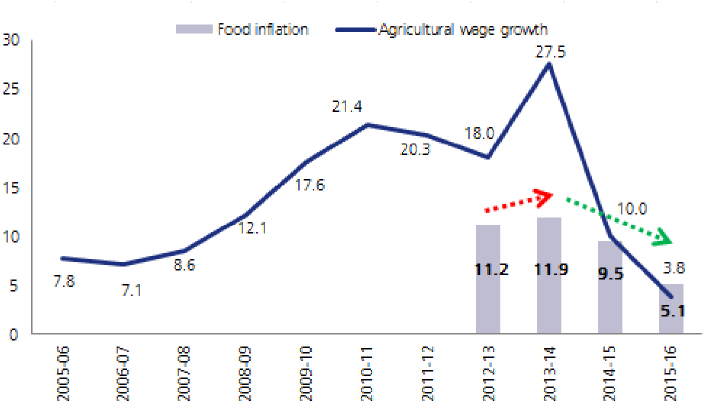
Source: JM Financial, MOSPI

Exhibit 63. Labour cost comprise of a susbstantial portion of agricultural costs



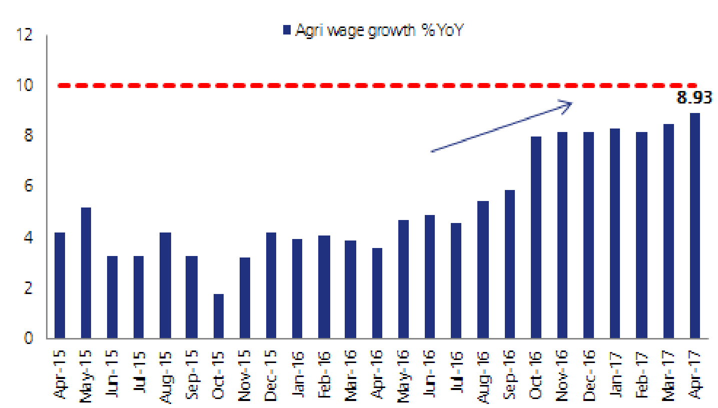
Source: JM Financial, As per FY14 data

Exhibit 64.Lower agricultural wage growth has shown up as cooling food inflation in the recent years



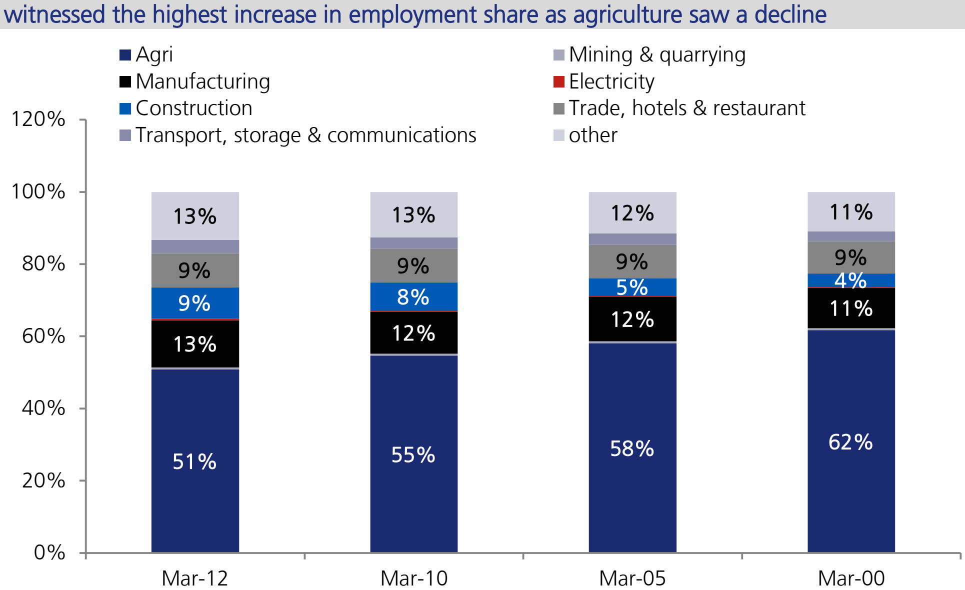
Source: JM Financial, * data for inflation before FY13 is not comparable.

Exhibit 65. Recent pick in agricultural wages remains below 10%YoY



Source: JM Financial, CMIE, * data for inflation before FY13 is not comparable.

Exhibit 66.Changing pattern of employment as a result of migration; Construction has witnessed the highest increase in employment share as agriculture saw a decline



Source: NSSO, JM Financial

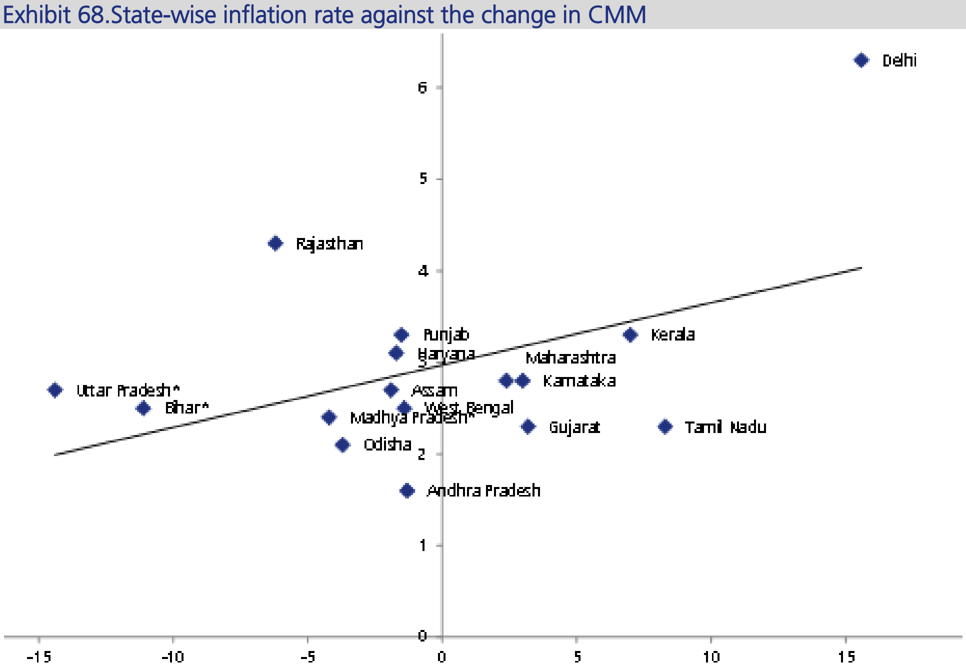
- State-wise Variation: We use Inter-state migration as proxy for rural-urban migration, since states which receive a net inflow of people have a share of agriculture as less than 15% (exception Karnataka) in GSDP as compared to the states with a net outflow of people (Refer to Exhibit 67). The Economic Survey of India 2017-18 provides Cohort-based Migration Metric (CMM), which captures labour migration while netting out any bilateral movements like marriage. We employ the percentage change in this index to hypothesize a relationship between inflation and migration. Exhibit 68 shows that there exists a positive relation between State-wise inflation rates and rate of change in CMM (2001-11). This means that states which have a higher rate of net inflow of migrants also face higher inflation. This is in line with our hypothesis above.

Exhibit 67. Relatively agrarian states face higher net outflow of people

State	Net Inflow of Migrants (2001-2011) In thousands
Share of Agriculture in Real GDP: 20-29%	
Uttar Pradesh*	-5834
Bihar*	-2695
Rajasthan	-791
Madhya Pradesh*	-765
West Bengal	-235
Andhra Pradesh	-218
Assam	-114
Punjab	-82
Karnataka	348
Share of Agriculture in Real GDP: 15-19%	
Odisha	-290
Haryana	-86
Share of Agriculture in Real GDP: <15%	
Gujarat	343
Maharashtra	507
Kerala	900
Tamil Nadu	1013

Source: Agricultural Ministry JM Financial; *Undivided State; As per FY14 numbers

Exhibit 68.State-wise inflation rate against the change in CMM



Source: Economic Survey of India 2017-18, CMIE, JM Financial, CMM considers net migration as a percentage change in population between the 10-19 year-old cohort in 2001 Census and the 20-29 year-old cohort in the same area a decade later (Census 2011), after correcting for mortality effects, * Using Mar'12 inflation rates

Company section

Exhibit 69. Valuations

Company	Reco.	Mkt Cap (INR bn)	CMP	TP	EPS (INR)			EPS Gr (%)	P/E (x)			EV/EBITDA (x)		P/BV (x)		RoE (%)	
					FY17E	FY18E	FY19E	17E-19E	FY17E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Info Edge	BUY	120	975	1,010	21.9	21.5	25.0	6.9	45.3	46.2	39.6	-	-	4.5	4.0	12.6	13.3
TeamLease*	NR	23	1,328	NR	38.8	43.4	54.8	18.8	25.1	30.6	24.2	30.2	22.8	5.1	4.4	18.3	19.1
Quess*	NR	114	897	NR	9.2	15.6	23.5	59.4	74.7	57.4	38.2	30.3	22.2	8.1	6.7	19.2	21.3

Company	Reco.	Mkt Cap (INR bn)	CMP	TP	EPS (INR)			EPS Gr (%)	P/E (x)			P/BV (x)			RoE (%)		
					FY17E	FY18E	FY19E	17E-19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
SCUF	BUY	162	2,451	2,300	84.3	98.8	126.2	22.4	29.1	24.8	19.4	2.9	2.6	2.3	11.7	12.3	14.2

Source: JM Financial, Note: Data from Bloomberg for uncovered companies

Notes

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Info Edge | BUY

Naukri.com: Scaling insurgency

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Info Edge is a leader in the online classified space in India with internet properties across verticals—core recruitment business (through Naukri.com, c.72% revenue share, 130% EBITDA share), real-estate (99acres.com), matrimony (Jeevansathi.com), education (Shiksha.com) and investments across start-up businesses such as Zomato (food ordering) and Policy Bazar (online insurance). First launched in 1997, the naukri.com portal continues to drive significant revenues and earnings for the company, and has c.70-75% traffic share in its segment. Continuous effort and investment in product development and marketing has helped the platform reach c.52mn resumes. More recently, INFOE has also forayed into the Middle East market through naukrigulf.com and introduced a slew of new products such as an offline executive search site and a hiring site for freshers. This continued product enhancement helps Naukri maintain market share and pricing power. We maintain a BUY rating on INFOE with a TP of INR 1,010.

- **Revenue growth expected to accelerate from FY18:** During FY17, INFOE's revenue growth slowed to 13.5% YoY (20% YoY during FY14-16) because of: **(a)** change in sales incentive structure to lower discounting in the core recruitment business, **(b)** softness in IT sector hiring and also from Naukrigulf (c.8% revenue share of recruitment business), **(c)** demonetisation-led slowdown in collections during 2HFY17, particularly in 99acres.com (which recovered by Feb'17). The company expects revenue growth to accelerate from 1Q-2QFY18. However, during FY17, it witnessed recovery in EBITDA margins to 30.2% (up c.11% YoY), as the company reduced advertising expenses, which had gone up significantly during FY16. INFOE benefits from low capex requirements, negative working capital cycle and thereby cash generation remains strong (Dec'16 cash balance: INR 1.2bn or c.12% of the current MCap).

- **Continuous investments to drive growth in recruitments business:** The company has adopted multiple strategies for growth: **1) newer products/additional features**—tools such as career site manager, Naukri Fast Forward, referral tool and recruiter profiles that add value for users on both sides of the spectrum; also, initiatives such as e-hire, Naukri Premium and cloud solutions further help drive the demand for the portal; **2)** investment in analytics and development of mobile applications as 60%+ of total sessions are through mobile devices; **3)** recent investments across—**(a) Ambition Box,** a discovery platform that assists job-seekers with company reviews/information, interview tips etc., **(b) TooStep,** a Software as a Service provider for recruitment management systems and **(c) Unnati**, a provider of technology-enabled employment solutions for informal sector workers.

- **Diversified customer base mitigates impact from any IT-related hiring slowdown:** Naukri derives c.42% of revenues from the IT and BPO sectors, which have seen some slowdown during the past few quarters. However, Naukri's wide and diversified customer base (10,000+) across back-offices, captives and development centres, and outsourcers partly mitigates the impact.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	1,010
Upside/(Downside)	2.0%
Previous Price Target	1,010
Change	0.0%

Key Data – INFOE IN	
Current Market Price	INR990
Market cap (bn)	INR120.0/US$1.9
Free Float	53%
Shares in issue (mn)	116.9
Diluted share (mn)	122.7
3-mon avg daily val (mn)	INR105.7/US$0.1
52-week range	1,128/752
Sensex/Nifty	31,298/9,654
INR/US$	64.5

Price Performance

%	1M	6M	12M
Absolute	16.5	18.1	21.2
Relative*	13.4	-0.7	4.1

* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Net Sales	6,113	7,235	8,209	9,596	11,691
Sales Growth (%)	20.8	18.3	13.5	16.9	21.8
EBITDA	1,814	1,580	2,677	3,338	4,044
EBITDA Margin (%)	29.7	21.8	32.6	34.8	34.6
Adjusted Net Profit	1,939	1,416	2,671	2,939	3,403
Diluted EPS (INR)	16.1	11.6	21.8	24.0	27.7
Diluted EPS Growth (%)	37.1	-27.4	88.2	10.1	15.8
RoIC (%)	-	147.4	0.0	0.0	0.0
RoE (%)	16.0	8.3	14.3	14.7	15.8
P/E (x)	62.2	85.6	45.5	41.3	35.7
P/B (x)	7.0	6.8	6.1	6.0	5.3
EV/EBITDA (x)	60.3	67.1	37.9	30.3	24.2
Dividend Yield (%)	0.4	0.3	0.5	0.5	0.5

Source: Company data, JM Financial. Note: Valuations as of 20/06/2017

Financial Tables (consolidated)

Income Statement (INR mn)

Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Net Sales	6,113	7,235	8,209	9,596	11,691
Sales Growth	20.8%	18.3%	13.5%	16.9%	21.8%
Other Operating Income	0	0	0	0	0
Total Revenue	**6,113**	**7,235**	**8,209**	**9,596**	**11,691**
Cost of Goods Sold/Op. Exp	2,518	3,205	3,548	3,850	4,631
Personnel Cost	0	0	0	0	0
Other Expenses	1,781	2,450	1,983	2,409	3,016
EBITDA	**1,814**	**1,580**	**2,677**	**3,338**	**4,044**
EBITDA Margin	29.7%	21.8%	32.6%	34.8%	34.6%
EBITDA Growth	8.7%	-12.9%	69.5%	24.7%	21.2%
Depn. & Amort.	173	210	241	297	362
EBIT	1,640	1,370	2,437	3,040	3,682
Other Income	1,035	711	889	1,159	1,180
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	2,675	2,082	3,326	4,199	4,862
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,675	2,082	3,326	4,199	4,862
Taxes	736	666	655	1,260	1,459
Extraordinary Inc./Loss(-)	-293	115	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,647	1,530	2,671	2,939	3,403
Adjusted Net Profit	**1,939**	**1,416**	**2,671**	**2,939**	**3,403**
Net Margin	31.7%	19.6%	32.5%	30.6%	29.1%
Diluted Share Cap. (mn)	120.2	120.9	122.7	122.7	122.7
Diluted EPS (INR)	**16.1**	**11.7**	**21.8**	**24.0**	**27.7**
Diluted EPS Growth	37.1%	-27.4%	88.2%	10.1%	15.8%
Total Dividend + Tax	410	426	664	665	665
Dividend Per Share (INR)	3.0	3.0	4.5	4.5	4.5

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Shareholders' Fund	16,624	17,640	19,831	20,221	22,959
Share Capital	1,202	1,209	1,211	1,211	1,211
Reserves & Surplus	15,422	16,431	18,620	19,010	21,749
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	3	4	4	4	4
Def. Tax Liab./Assets (-)	-64	-60	-295	-295	-295
Total - Equity & Liab.	**16,563**	**17,584**	**19,540**	**19,929**	**22,668**
Net Fixed Assets	935	1,020	602	892	1,063
Gross Fixed Assets	1,615	1,860	1,044	1,417	1,950
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	680	840	442	525	887
Capital WIP	0	0	0	0	0
Investments	5,410	5,736	7,409	7,409	7,409
Current Assets	12,947	13,705	15,807	16,246	19,732
Inventories	0	0	0	0	0
Sundry Debtors	98	118	75	131	192
Cash & Bank Balances	11,981	9,879	14,460	14,800	18,136
Loans & Advances	0	0	0	0	0
Other Current Assets	869	3,707	1,272	1,315	1,403
Current Liab. & Prov.	2,729	2,877	4,278	4,618	5,535
Current Liabilities	0	0	0	0	0
Provisions & Others	2,729	2,877	4,278	4,618	5,535
Net Current Assets	10,219	10,828	11,529	11,629	14,196
Total – Assets	**16,563**	**17,584**	**19,540**	**19,929**	**22,668**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Profit before Tax	2,675	2,082	3,326	4,199	4,862
Depn. & Amort.	173	210	241	297	362
Net Interest Exp./Inc. (-)	-1,327	-597	-889	-1,159	-1,180
Inc (-)/Dec in WCap.	-99	-1,202	3,181	240	769
Others	0	0	0	0	0
Taxes Paid	-736	-662	-890	-1,260	-1,459
Operating Cash Flow	**686**	**-169**	**4,968**	**2,318**	**3,355**
Capex	-157	-295	177	-587	-533
Free Cash Flow	529	-464	5,145	1,731	2,821
Inc (-)/Dec in Investments	-1,788	-326	-1,672	0	0
Others	1,044	-797	1,587	1,159	1,180
Investing Cash Flow	**-901**	**-1,419**	**92**	**572**	**647**
Inc/Dec (-) in Capital	110	7	2	0	0
Dividend + Tax thereon	7,245	-521	-481	-2,550	-665
Inc/Dec (-) in Loans	-2	1	0	0	0
Others	0	0	0	0	0
Financing Cash Flow	**7,354**	**-513**	**-480**	**-2,550**	**-665**
Inc/Dec (-) in Cash	**7,139**	**-2,101**	**4,580**	**340**	**3,337**
Opening Cash Balance	4,842	11,981	9,879	14,460	14,800
Closing Cash Balance	11,981	9,879	14,460	14,800	18,136

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Net Margin	31.7%	19.6%	32.5%	30.6%	29.1%
Asset Turnover (x)	0.5	0.4	0.4	0.5	0.5
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	16.0%	8.3%	14.3%	14.7%	15.8%

Key Ratios

Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
BV/Share (INR)	142.3	145.4	161.8	164.8	187.1
ROIC	0.0%	147.4%	0.0%	0.0%	0.0%
ROE	16.0%	8.3%	14.3%	14.7%	15.8%
Net Debt/Equity (x)	-0.7	-0.6	-0.7	-0.7	-0.8
P/E (x)	62.2	85.6	45.5	41.3	35.7
P/B (x)	7.0	6.8	6.1	6.0	5.3
EV/EBITDA (x)	60.3	67.1	37.9	30.3	24.2
EV/Sales (x)	17.9	14.6	12.3	10.5	8.4
Debtor days	6	6	3	5	6
Inventory days	0	0	0	0	0
Creditor days	0	0	0	0	0

Source: Company, JM Financial

TeamLease Services Ltd. | Not Rated

The right team for the right opportunity

JM FINANCIAL

TeamLease Services Limited (TSL), with 1,26,400 associates is India's leading provider in the flexi-staffing business with a c.6% share in a highly fragmented industry (c.70% unorganised). TSL provides temporary & permanent staffing solutions, learning and training solutions and consultancy for labour law compliance. During the past three years (FY14-17), revenue/EBITDA/PAT have reported a CAGR growth of 26%/54%/55% respectively, along with healthy cash generation. Number of associate or (employed staff) per core internal employees—a key indicator of operating leverage—improved 22% YoY to 203 in FY17, after remaining largely stable over the past five years. As a result, EBITDA margins expanded 50bps YoY in FY17 to 1.5% (up by 72% YoY), and internal efficiency benefits can continue going forward with increase in scale and focus on improving processes. The company also benefits from favourable tailwinds such as: (a) implementation of GST driving a shift to organised players, (b) formalisation of the work-force after demonetisation, (c) government initiatives around skill development.

- **Strong growth potential of flexi-staffing industry:** India's flexi-staffing industry is still in nascent stage with penetration of 0.2% of the total population and under-penetrated when compared to the global average of 1.6%. **Uninterrupted hiring, just-in-time availability, reduced search for employees and helping overcome seasonal fluctuations** are some of the benefits employers derive through such firms. New and upcoming sectors such as e-commerce and hyper-local had created fresh demand for flexi-staffing in recent period0. Also, the government's push for increased manufacturing in the country has further added to this demand. Apart from the above, TSL is also likely to benefit from the country's demographic dividend, as the % of the population under working age rises.

- **Investments to drive growth along with benefits in cost structure:** TLS has largely grown organically until FY16, and did small acquisitions during FY17 (ASAP, NichePro and Keystone) to expand in the high-margin IT staffing business (c.2% of revenues). In addition, it invested in the following: **1) value-added services**—TSL apart from staffing and payroll processing has also developed expertise in training and regulatory consultancy for labour law compliance, **2) robust IT platform**—TSL has invested and developed an in-house IT platform that efficiently handles the company's various operations throughout its value chain. TLS also adopts a marketplace approach by collecting money from its clients before disbursing salaries to their associates, thereby lowering working capital requirements.

- **GST to accelerate shift to organised staffing players:** At present, unorganised players in the industry provide pricing benefit of c.20-25% from organised players, largely on being able to delay/avoid paying service taxes. The said pricing gap is likely to be reduced with the implementation of GST, as clients will be able to avail service tax credit only when their staffing vendors also pay the same to the government, which can now be tracked conveniently in the new system. Hence, players such as TSL will be able to tap into the huge unorganised segment that remains highly fragmented.

Exhibit 1. Financial Summary (Consolidated) (INR mn)

Y/E March	FY13A	FY14A	FY15A	FY16A	FY17A
Net sales	12,507	15,296	20,071	25,049	30,419
Sales growth (%)	35.1	22.3	31.2	24.8	21.4
EBITDA	(111)	120	241	258	443
EBITDA (%)	(0.0)	0.0	0.0	0.0	0.0
Adjusted net profit	(43)	178	308	248	663
EPS (INR)	NA	NA	20	16	39
EPS growth (%)	NA	NA	NA	(20.7)	143.8
ROIC (%)	(11.6)	52.6	90.6	47.2	45.8
ROE (%)	(4.2)	16.3	23.1	10.8	19.2
PE (x)	NA	37.4	22.0	91.7	34.3
Price/Book value (x)	6.8	5.8	15.3	7.3	6.0
EV/EBITDA (x)	NA	49.5	89.8	78.9	47.5

Source: Company data, JM Financial. Note: Valuations as of 20/06/2017

Key Data

Current Market Price	Rs1324
Market cap (bn)	Rs20.9/$0.3
Free Float	42.1%
Shares in issue (mn)	17.10
Diluted share (mn)	17.10
3-mon avg daily val (mn)	Rs22.8/US$0.4
52-week range	1265/823
Sensex/Nifty	31,191/9,637
INR/US$	64.4

Price Performance

%	1M	6M	12M
Absolute	11.5	39.0	34.5
Relative*	7.0	20.8	18.0

* To the BSE Sensex

Financial Tables (Consolidated)

Profit & Loss					(INR mn)
Y/E March	FY13A	FY14A	FY15A	FY16A	FY17A
Revenue from operations	**12,507**	**15,296**	**20,071**	**25,049**	**30,419**
Growth (%)	35.1%	22.3%	31.2%	24.8%	21.4%
Other operational income					
Raw material (or COGS)	-	-	-	-	-
Personnel cost	12,165	14,839	19,445	24,391	29,377
Other expenses (or SG&A)	453	337	385	400	599
EBITDA	**(111)**	**120**	**241**	**258**	**443**
EBITDA (%)	-0.9%	0.8%	1.2%	1.0%	1.5%
Growth (%)	(46)	(209)	100	7	72
Other non-op. income	110	79	114	154	224
Depreciation and amort.	36	19	27	30	43
EBIT	(38)	180	327	382	624
Less: Finance Costs	(5)	(2)	(1)	(4)	(11)
Pre tax profit	(43)	178	326	378	613
Taxes	-	-	18	130	(50)
Add: Exceptional items	-	-	-	-	-
Add: Extraordinary items					
Less: Minority interest					
Reported net profit	(43)	178	308	248	663
Adjusted net profit	**(43)**	**178**	**308**	**248**	**663**
Margin (%)	-0.3%	1.2%	1.5%	1.0%	2.2%
Diluted share cap. (mn)	5	5	153	156	171
Diluted EPS	NA	NA	**20**	**16**	**39**
Growth (%)	NA	NA	NA	-20.7%	143.8%

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY13A	FY14A	FY15A	FY16A	FY17A
Share capital	5	5	5	171	171
Other capital	-	-	-	-	-
Reserves and surplus	998	1,175	1,483	2,945	3,640
Networth	1,003	1,180	1,488	3,116	3,811
Total loans	121	8	-	194	11
Minority interest	-	-	-	-	-
Sources of funds	**1,123**	**1,189**	**1,488**	**3,309**	**3,822**
Intangible assets	42	39	38	94	1,002
Fixed assets	215	220	210	243	257
Less: Depn. and amort.	150	168	195	225	230
Net block	107	91	53	111	1,029
Capital WIP	-	16	42	-	-
Investments	0	0	0	0	103
Def tax assets/- liability	-	-	57	45	149
Current assets	2,036	2,174	2,807	5,335	5,289
Inventories	5	2	2	2	2
Sundry debtors	613	589	813	1,205	1,872
Cash & bank balances	780	847	1,147	2,590	1,593
Other current assets	246	221	331	760	630
Loans & advances	392	515	514	778	1,192
Current liabilities & prov.	969	1,051	1,410	2,144	2,677
Current liabilities	-	-	-	-	-
Provisions and others	969	1,051	1,410	2,144	2,677
Net current assets	1,066	1,123	1,397	3,191	2,612
Others (net)	(51)	(42)	(61)	(38)	(72)
Application of funds	**1,123**	**1,189**	**1,488**	**3,309**	**3,822**

Source: Company, JM Financial

Cash flow statement					(INR mn)
Y/E March	FY13A	FY14E	FY15E	FY16A	FY17A
Reported net profit	(43)	178	308	248	663
Depreciation and amort.	36	19	27	30	4
-Inc/dec in working cap.	(66)	27	(223)	(392)	(667)
Others	-	-	-	-	-
Cash from operations (a)	**(73)**	**224**	**111**	**(114)**	**1**
-Inc/dec in investments	(0)	-	-	-	(103)
Capex	51	(18)	(14)	(47)	(923)
Others	(66)	(16)	249	42	248
Cash flow from inv. (b)	**(15)**	**(35)**	**235**	**(5)**	**(778)**
Inc/-dec in capital	0	(0)	(0)	1,380	32
Dividend+Tax thereon	-	-	-	-	-
Inc/-dec in loans	40	(113)	(8)	194	(183)
Others	5	(9)	(38)	(11)	(70)
Financial cash flow (c)	**46**	**(121)**	**(46)**	**1,562**	**(220)**
Inc/-dec in cash (a+b+c)	(42)	67	300	1,443	(997)
Opening cash balance	822	780	847	1,147	2,590
Closing cash balance	780	847	1,147	2,590	1,593

Source: Company, JM Financial

Key Ratios					
Y/E March	FY13A	FY14A	FY15A	FY16A	FY17A
BV/Share (INR)	196.2	231.0	87.0	182.2	222.9
ROIC (%)	(11.6)	52.6	90.6	47.2	45.8
ROE (%)	(4.2)	16.3	23.1	10.8	19.2
Valuation ratios (x)					
PER	NA	37.4	22.0	91.7	34.3
PBV	6.8	5.8	15.3	7.3	6.0
EV/EBITDA	NA	49.5	89.8	78.9	47.5
EV/Sales	0.5	0.4	1.1	0.8	0.7

Source: Company, JM Financial

JM FINANCIAL

Quess Corp Ltd. | Not Rated

Seizing opportunities across sectors

Quess Corp Limited (QCL), a subsidiary of Thomas Cook India (62% stake, Mar'17) is an integrated business services provider with c.159,200 employees. The company provides services across four key verticals, namely people staffing and logistics services (56% of FY17 revenues), global IT solutions (29%), integrated facilities management services (10%), and industrial asset management (5%). The company has also expanded its portfolio of services through acquisitions across the US, Canada, Qatar, the UAE and Sri Lanka, among others. As a result, revenues/EBITDA/PAT has reported a CAGR of 43%/51%/73%, respectively, during FY13-17. QCL operates with high-margin levels relative to peers (EBITDA margins c.5%) largely driven by its presence in high-margin IT solutions business and due to long-term and outcome-based contracts in other segments. However, high working capital requirement had historically led to pressure on cash flows. During FY17, EBITDA margins expanded 60bps YoY (EBITDA up by 35% YoY) along with healthy free cash flow generation. The company also benefits from operating leverage (improvement in associate/core employee ratio), shift towards organised staffing players driven by GST and increased share of formal employment.

- **Diversification through multiple acquisitions over the years**: QCL has diversified its businesses across high-growth business verticals and geographies inorganically (9+ acquisitions in the past 8 years) over the years. Some of the acquisitions include: (a) Brainhunter (IT staffing & solutions) and MFX (Insurance products & solutions) in North America, (b) Randstad Lanka in Sri Lanka, and (c) Transfield Services (Qatar) to focus on the oil and gas segment. The integrated facilities management (IFM) segment has been built by the acquisition of the Indian facility management business of the American company Aramark Corp. IAM business has been built by acquiring Chennai-based industrial asset management firm Hofincons Infotech and Industrial Services Pvt Ltd. Following IPO (Jul'16), key acquisitions have been the facility management business of Manipal Integrated Services (INR 2.2bn, 17,000 employees), Comtel Solutions (Technology staffing, Singapore) and Terrier Security Services (manned guarding and security solutions).

- **Client retention and long-term contracts:** The Company has displayed high client retention and stickiness factor—23 of top-35 clients continually associated with the past three years and 15 of top-25 clients associated for the past five years. Top-10 clients contributed 30% of revenues, higher than other leading players in the industry. This again reflects QCL's ability to deliver consistent quality client services for complex business processes.

- **GST and B2C opportunity:** The temporary staffing industry is poised to grow driven by increased formalisation of the employee base and overall requirement of skilled work-force with the growth in the economy. Implementation of GST is likely to reduce the price gaps offered by unorganised players (c.30%) and large clients would be forced to shift to organised players to avail benefits on their tax paid.

Financial Summary (Consolidated) (INR mn)

Y/E March	FY13A	FY14A- (9month)	FY15A- (15 months)	FY16A	FY17A
Net sales	10,012	10,060	25,671	34,350	41,574
Sales growth (%)	57.2	-	-	-	21.0
EBITDA	431	398	1,305	1,641	2,228
EBITDA (%)	4.3	4.0	5.1	4.8	5.4
Adjusted net profit	121	179	672	885	1,083
EPS (INR)	4.0	1.9	5.8	7.7	9.2
EPS growth (%)	94.1	-	-	-	20.5
ROIC (%)	23.0	13.5	26.7	22.0	16.3
ROE (%)	19.9	14.1	30.8	29.6	18.3
P/E (x)	223.7	484.9	155.0	117.4	97.5
Price/Book value (x)	39.6	46.9	45.3	33.0	13.7
EV/EBITDA (x)	64.2	218.3	88.6	71.2	51.1

Source: Company data, JM Financial. Note: Valuations as of 20/06/2017

Key Data

Current Market Price	Rs902
Market cap (bn)	Rs114.4/$1.8
Free Float	10.8%
Shares in issue (mn)	113.34
Diluted share (mn)	113.34
3-mon avg daily val (mn)	Rs56.9/US$0.9
52-week range	935/452
Sensex/Nifty	31,191/9,637
INR/US$	64.4

Price Performance

%	1M	6M	12M
Absolute	10.5	42.3	NA
Relative*	8.1	24.1	NA

* To the BSE Sensex

Financial Tables (Consolidated)

Profit & Loss (INR mn)

Y/E March	FY13A	FY14A-(9m)	FY15A-(15 m)	FY16A	FY17A
Revenue from operations	**10,012**	**10,060**	**25,671**	**34,350**	**41,574**
Growth (%)	57.2%	-	-	-	21.0%
Other operational income					
Raw material (or COGS)	146	225	717	632	469
Personnel cost	9,071	9,095	22,684	30,361	35,435
Other expenses (or SG&A)	364	342	965	1,715	3,442
EBITDA	**431**	**398**	**1,305**	**1,641**	**2,228**
EBITDA (%)	4.3%	4.0%	5.1%	4.8%	5.4%
Growth (%)	60	-	-	-	36
Other non-op. income	32	21	57	74	103
Depreciation and amort.	44	42	101	160	264
EBIT	419	377	1,260	1,555	2,066
Less: Finance Costs	(176)	(88)	(218)	(308)	(465)
Pre tax profit	243	289	1,042	1,247	1,601
Taxes	72	97	370	362	518
Add: Exceptional items	-	-	-	-	-
Add: Extraordinary items					
Less: Minority interest	50	13	-	-	-
Reported net profit	121	179	672	885	1,083
Adjusted net profit	**121**	**179**	**672**	**885**	**1,083**
Margin (%)	1.2%	1.8%	2.6%	2.6%	2.6%
Diluted share cap. (mn)	30	96	116	115	117
Diluted EPS	**NA**	**NA**	**NA**	**7.7**	**9.2**
Growth (%)	NA	NA	NA	-	20.5%

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY13A	FY14A	FY15A	FY16A	FY17A
Share capital	300	962	258	1,133	1,268
Other capital	-	-	-	-	-
Reserves and surplus	383	884	2,261	2,322	7,094
Networth	682	1,845	2,519	3,456	8,362
Total loans	879	641	2,204	3,745	7,301
Minority interest	164	-	-	-	9
Sources of funds	**1,726**	**2,486**	**4,724**	**7,201**	**15,672**
Intangible assets	269	772	1,147	2,106	3,867
Fixed assets	331	384	556	1,014	1,339
Less: Depn. and amort.	266	308	410	570	834
Net block	334	848	1,293	2,551	4,371
Capital WIP	-	4	-	24	77
Investments	-	-	-	37	2,976
Def tax assets/- liability	66	51	38	233	398
Current assets	2,901	3,079	5,856	9,513	13,652
Inventories	4	4	4	18	57
Sundry debtors	1,580	1,245	2,746	4,282	4,468
Cash & bank balances	234	291	818	1,094	4,596
Other current assets	535	824	1,305	2,876	4,156
Loans & advances	548	715	982	1,243	374
Current liabilities & prov.	1,567	1,460	2,376	4,713	5,496
Current liabilities	57	48	414	674	631
Provisions and others	1,510	1,412	1,962	4,040	4,865
Net current assets	1,334	1,619	3,480	4,799	8,155
Others (net)	(9)	(35)	(87)	(443)	(306)
Application of funds	**1,726**	**2,486**	**4,724**	**7,201**	**15,672**

Source: Company, JM Financial

Cash flow statement (INR mn)

Y/E March	FY13A	FY14E	FY15E	FY16A	FY17A
Reported net profit	121	179	672	885	1,083
Depreciation and amort.	44	42	101	160	264
-Inc/dec in working cap.	(391)	325	(1,135)	(1,290)	(268)
Others	50	(164)	-	-	9
Cash from operations (a)	**(176)**	**383**	**(362)**	**(244)**	**1,089**
-Inc/dec in investments	-	-	-	(37)	(2,940)
Capex	(55)	(560)	(543)	(1,442)	(2,138)
Others	(193)	(552)	(199)	246	414
Cash flow from inv. (b)	**(248)**	**(1,112)**	**(741)**	**(1,232)**	**(4,664)**
Inc/-dec in capital	31	984	2	51	3,823
Dividend+Tax thereon	-	-	-	-	-
Inc/-dec in loans	323	(239)	1,564	1,540	3,556
Others	13	41	65	160	(302)
Financial cash flow (c)	**367**	**787**	**1,631**	**1,752**	**7,077**
Inc/-dec in cash (a+b+c)	(57)	57	527	275	3,503
Opening cash balance	291	234	291	818	1,094
Closing cash balance	234	291	818	1,094	4,596

Source: Company, JM Financial

Key Ratios

Y/E March	FY13A	FY14A	FY15A	FY16A	FY17A
BV/Share (INR)	22.8	19.2	19.9	27.3	65.9
ROIC (%)	23.0	13.5	26.7	22.0	16.3
ROE (%)	19.9	14.1	30.8	29.6	18.3
Valuation ratios (x)					
PER	223.7	484.9	155.0	117.4	97.5
PBV	39.6	46.9	45.3	33.0	13.7
EV/EBITDA	64.2	218.3	88.6	71.2	51.1
EV/Sales	2.8	8.6	4.5	3.4	2.7

Source: Company, JM Financial

Adecco India Pvt Ltd. | Unlisted

Leading transformation

With over 700,000 associates on assignments daily and more than 33,000 full-time associates worldwide, Adecco Group is the world's largest staffing firm based out of Zurich, Switzerland. It had global revenues of EUR 22.7bn and operates in India through its subsidiary Adecco India Private Limited (AIPL) based in Bengaluru (CY16 revenue: c.EUR230mn). The company's primary services include executive search, training and learning, recruitment, and temporary staffing services. It also provides a wide array of other services such as recruitment support, seamless migration, compliance management, employee assessment, turnkey staffing and other IT solutions. AIPL is estimated to have 2-3% market share by number of associates in the flexi-staffing industry that largely remains fragmented and majorly dominated by unorganised players.

- India remains a key market for Adecco: India is one of the major markets for the global HR solutions provider. Of the total, 10% of the global employees and associates placed by Adecco Group are from the country. AIPL has a multiple-fold strategy and India remains a key market for the company as: **1)** increased urbanisation has led the company to focus on tier-II and tier-III cities and expanding into towns there; **2)** the present global environment is volatile and unpredictable—hence, it is vital for organisations to be flexible to remain competitive, driving the demand for flexi-staffing; **3)** technology is driving automation in many sectors and threatening especially low-skilled jobs—**however, automation will also result in spurt of new jobs being created and hence AIPL has been actively investing in technologies and in talent and skills development;** 4) unlike many countries that are likely to face ageing population, India is a priority market for the company as it eyes to leverage the demographic asset by focusing on development of right competencies within the young population.

- Increased usage of social media and analytics: The company has been early in identifying changes in recruitment patterns as more and more millennials leverage the social media for job searches. It has hence focused on data-driven recruiting and integrated social media in its recruitment process. Through social media, the company is able to list out jobs to a wider audience and at the same time scan through candidate profiles. AIPL has also invested and focused on business intelligence, as they believe it is going to be an important driver for the HR industry in the future. Furthermore, within the company, a dedicated innovation team explores different ways of harnessing technology to stay ahead of the competition.

- Differentiated and wide service footprint provides competitive advantage: Adecco Group adopts multi-brand strategy to ensure services offered are tailored by client type. For large clients, it provides on-site solutions, whereas for SME clients, customised services through branch networks are offered. Globally, Adecco earned EUR 3bn during FY16, from its on-site solutions. With over 11000 placements, it has set up permanent placement hubs across countries that establish peer-to-peer relationships with hiring managers. Adecco's revenues from IT and other outsourcing solutions surpassed the EUR 1bn mark in FY16 largely due to its broad experience in outsourcing across industries.

- High associate attraction and retention over the years: Companies across the staffing industry are plagued with high employee attrition and turnover. It is pertinent for players in the segment to control associate attrition and attract best talent to succeed. AIPL attracts best candidates through a mix of both traditional and online platforms and is able to retain them, primarily because of its ability to offer consecutive assignments at attractive wages. Being a multinational corporation and a leading player in HR services in most geography where it operates, it is able to closely monitor economic development in different markets. Such diversity apart from providing a natural hedge also helps the organisation stay abreast of any business developments and adjust its capacity levels accordingly.

Collabera Inc. | Unlisted

Stepping up the IT staffing game

Collabera Inc (CI) is a US based company with over 25 years of experience in providing IT staffing solutions and services that includes staff augmentation, professional staffing and permanent placements. With CY15 revenues of USD 525mn, CI ranks among the top-10 US IT staffing firms. The company has over 14,000 professionals with c.50% of them in USA. It serves clients in multiple countries, including in the US, India, Philippines and Malaysia and its clients largely include leading global 2,000 corporations, including IBM. In 2014, the company spun off its growing IT services wing into the subsidiary company Brillio, and CI continues to focus on its core staffing service business.

- Global reach, while India is a key market to the expansion plans: With operations in 30 locations spanning three continents, CI drives value for its multinational corporations due to its global footprint. It is able to tap into local resources for its clients specifically for global projects. CI's international business has been growing at a much faster pace compared to its US business. The company aims to reach USD 1bn in revenues by 2018 globally. India happens to be a key market for CI's international expansion plans. The company operates in the country through its subsidiary that provides IT staffing solutions. As of now, CI caters only to the niche market of white collar staffing and has not forayed into blue collar staffing segment yet. Quess Corp happens to be one of the largest players and CI's biggest competitor in this high-margin Indian IT staffing segment.

- Business model: CI primarily earns it revenues through the commission it charges on the salary its clients pay to the employees sourced through the firm. Apart from the above, it also charges specific fees for clients availing its services. CI also focuses on campus hiring, wherein it sources employees, trains them and deploys to client sites. The typical deal period ranges from 3 months, 6 months to 1-2years.

- Differentiating from peers: To ensure that quality requirements of clients are met, CI has developed the in-house adaptive quality system (AQS) model that facilitates high standard of quality throughout the value chain of staffing process. It comprises: **1) fulfilment model**—includes dedicated servicing team and a 24*7 recruitment engine that serves every client's needs at every hour; **2) competency units**—recruiters with specific domain or location expertise, CI is able to deliver customised staffing solutions to its clients; 3) **quality control**—dedicated audit and compliance team ensures 100% SLA compliant track record; and 4) **methodologies**—tools such as tower-based recruiting model and high touch employee relations help drive efficiency throughout the process.

- Leveraging the inflection point: The IT firms in the country have been focusing on automating processes and increasing productivity per employee as a measure to rationalise headcount. With the softening IT industry and the digital transformation, current scenario requires employees to continuously acquire new skill sets to stay relevant in the industry. **However, unlike most other staffing firms, CI does not limit itself to just providing employment, but also training employees on the processes prevailing in the industry.** Hence, CI through its domain expertise and skill specific recruiting will be in a better position to leverage the said inflection point in the industry to its advantage.

Shriram City Union Finance | BUY

High coverage ratio provides comfort

- **Higher focus on small business loans to drive AUM growth:** SCUF's AUM growth has improved in the past two years after a period of moderation in FY14, wherein the company pursued a consolidation strategy in the face of volatility in gold prices, slowdown in economic activity and further dislocation of activity owing to political uncertainty in SCUF's key market—Andhra Pradesh. In recent years, SCUF has focused on increasing the share of small business financing in the overall AUM (55% in FY17 vs. 51% in FY14). This trend is expected to continue over the period, driven by deeper penetration into the group's chit-fund customer base outside South India. The management expects i) the non-gold portfolio to increase 20-25%, while gold portfolio growth momentum is likely to remain subdued ii) expansion into the urban market (where ticket size will be higher at Rs 1-2.5mn); and iii) the proportion of SME loans in the portfolio to improve to 60-65% over the next two years. We forecast a CAGR of 18% in AUM over FY17–19E.

- **Margin to witness 40bps compression over FY17–19E:** We expect margins to compress 40bps over FY17-19E as i) it expands into the urban market where yields are lower ii) migration to 90DPD; and iii) decrease in proportion of gold loans.. We expect NII CAGR of 16% over FY17–19E.

- **Credit costs to remain elevated:** SCUF's asset quality has deteriorated recently with gross increasing to 6.4% vs. 3% GNPL (on 180DPD) due to migration to 150DPD and demonetisation in Y17; however, the coverage ratio has remained high at 73% vs. 78% in FY15. We expect GNPLs and credit costs to remain elevated owing to migration to 90DPD over the next two years. We forecast credit costs (on AUM basis) of 3.7% in FY18 vs. the six-year average of 2.4% and expect coverage ratio to decline to 58% as SCUF migrates to 90DPD by FY18E.

- **Cost-to-AUM to improve by 23bps over FY17-19E:** Cost to AUM has declined to 5.3% (vs. 6% in FY15) due to lower branch/employee addition and productivity of existing employees. We expect cost to AUM to improve further by 23bps to 5.1% as productivity and cross-selling opportunities improve.

- **Provision coverage remains high at 73% despite migrating to 120DPD:** Gross NPL ratio (on AUM basis) increased 164bps YoY to 6.4% as i) the company migrated from 150DPD to 120DPD in Q4 and ii) 40% of demonetisation impacted accounts worth Rs 0.8bn slipped into NPL. The key positive was that the coverage ratio remained high at 73% (vs. 70% in 4Q16 on 150DPD) while credit cost (provisions/AUM) remained elevated at 720bps (vs. 530bps in 4Q16). We have assumed a coverage ratio of 60% after migration to 90DPD by FY18 and factor credit costs of 380bps over FY17-19E.

- **Forecast earnings CAGR of 22% over FY17-19E:** The Company has one of the highest tier I (22.3%) coverage in the NBFC space. Due to which, we believe the company is well positioned to capture growth as and when it returns. We forecast earnings CAGR of 22% over FY17–19E. We expect SCUF to deliver RoA of 2.6% and RoE of 14% by FY19E. We value SCUF at 2.4x Mar'19 BV, implying Mar'18 TP of INR 2,300.

Financial Summary					(INR mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net Profit	5,581	5,298	5,561	6,515	8,324
Net Profit (YoY) (%)	7.1%	-5.1%	5.0%	17.2%	27.8%
Assets (YoY) (%)	10.1%	15.6%	17.7%	16.3%	20.9%
ROA (%)	3.2%	2.7%	2.5%	2.5%	2.6%
ROE (%)	16.0%	12.3%	11.7%	12.3%	14.2%
EPS	84.7	80.4	84.3	98.8	126.2
EPS (YoY) (%)	-3.7%	-5.1%	4.9%	17.2%	27.8%
P/E (x)	**28.7**	**30.2**	**28.8**	**24.6**	**19.2**
BV	622	684	762	841	942
BV (YoY) (%)	27.2%	10.0%	11.4%	10.4%	12.0%
P/BV (x)	**3.90**	**3.55**	**3.19**	**2.89**	**2.58**

Source: Company data, JM Financial. Note: Valuations as of 20/06/2017

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Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,360
Upside/(Downside)	-2.8%
Previous Price Target	2,100
Change	12.4%

Key Data – SCUF IN	
Current Market Price	INR2,428
Market cap (bn)	INR160.1/US$2.5
Free Float	33%
Shares in issue (mn)	65.9
3-mon avg daily val (mn)	INR65.1/US$0.1
52-week range	2,650/1,521
Sensex/Nifty	31,298/9,654
INR/US$	64.5

Price Performance			
%	1M	6M	12M
Absolute	13.3	34.0	49.4
Relative*	10.2	12.7	28.3

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	**FY15A**	**FY16A**	**FY17A**	**FY18E**	**FY19E**
Net Interest Income (NII)	21,431	24,080	28,452	32,242	38,556
Non Interest Income	410	43	29	125	150
Total Income	**0**	**0**	**0**	**0**	**0**
Operating Expenses	560	638	520	699	652
Pre-provisioning Profits	**970**	**682**	**549**	**824**	**802**
Loan-Loss Provisions	22,401	24,762	29,001	33,067	39,358
Others Provisions	9,452	10,685	11,359	13,196	15,343
Total Provisions	**12,949**	**14,077**	**17,642**	**19,870**	**24,015**
Extra ordinaries (Net of Tax)	4,538	6,008	9,105	9,847	11,208
Reported Profits	**8,411**	**8,068**	**8,536**	**10,023**	**12,807**
Dividend	2,830	2,771	2,976	3,508	4,482
Retained Profits	**5,581**	**5,298**	**5,561**	**6,515**	**8,324**

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	**FY15A**	**FY16A**	**FY17A**	**FY18E**	**FY19E**
Equity Capital	659	659	659	659	659
Reserves & Surplus	40,327	44,437	49,605	54,817	61,476
Share holders equity	**40,986**	**45,096**	**50,264**	**55,476**	**62,136**
Borrowed Funds	124,021	144,084	170,420	209,873	258,563
Current Liabilities and Provisions	15,347	19,344	24,660	19,974	24,141
Preference Shares	**180,380**	**208,544**	**245,365**	**285,346**	**344,866**
Current Liabilities & Provisions	9,817	7,923	7,145	8,744	10,575
Total Liabilities	157,229	190,236	228,469	264,980	320,445
Net Advances	8,714	6,539	6,371	7,949	9,453
Loans & Advances	1,674	1,170	1,142	1,060	1,282
Other Current Assets	1,814	1,455	1,013	1,189	1,391
Deferred Tax Asset	310	372	442	514	622
Loans and Advances	**180,380**	**208,544**	**245,365**	**285,346**	**344,866**

Source: Company, JM Financial

Key Ratios					
Y/E March	**FY15A**	**FY16A**	**FY17A**	**FY18E**	**FY19E**
Growth (YoY) (%)					
Advances	23.5%	21.0%	20.1%	16.0%	20.9%
Total Assets	10.1%	15.6%	17.7%	16.3%	20.9%
NII	14.4%	12.4%	18.2%	13.3%	19.6%
Non-interest Income	11.9%	-29.7%	-19.4%	50.1%	-2.7%
Operating Expenses	18.8%	13.0%	6.3%	16.2%	16.3%
Operating Profits	11.2%	8.7%	25.3%	12.6%	20.9%
Core Operating profit	11.7%	11.9%	25.5%	12.1%	20.9%
Provisions	18.1%	32.4%	51.5%	8.1%	13.8%
Reported PAT	7.1%	-5.1%	5.0%	17.2%	27.8%
Yields / Margins (%)					
Interest Spread	9.87%	9.51%	9.75%	9.66%	10.00%
NIM	12.75%	12.56%	12.67%	12.26%	12.35%
Profitability (%)					
ROA	4.3%	2.8%	1.9%	2.5%	2.0%
ROE	42.2%	43.2%	39.2%	39.9%	39.0%
Cost to Income	3.24%	2.72%	2.45%	2.46%	2.64%
Asset quality (%)	16.0%	12.3%	11.7%	12.3%	14.2%
Gross NPA					
Capital Adequacy (%)	3.05%	4.97%	6.41%	8.69%	7.79%
Tier I	0.68%	1.56%	1.79%	3.67%	3.27%
CAR	78.3%	69.7%	73.3%	60.0%	60.0%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	**FY15A**	**FY16A**	**FY17A**	**FY18E**	**FY19E**
NII / Assets	12.45%	12.38%	12.54%	12.15%	12.24%
Other Income / Assets	0.33%	0.33%	0.23%	0.26%	0.21%
Total Income / Assets	12.78%	12.71%	12.77%	12.41%	12.44%
Cost / Assets	5.49%	5.49%	5.01%	4.97%	4.87%
PPP / Assets	7.52%	7.24%	7.77%	7.49%	7.62%
Provisions / Assets	2.64%	3.09%	4.01%	3.71%	3.56%
PBT / Assets	4.89%	4.15%	3.76%	3.78%	4.06%
Tax rate	33.6%	34.3%	34.9%	35.0%	35.0%
ROA	3.24%	2.72%	2.45%	2.46%	2.64%
Leverage	3.76%	3.02%	2.70%	2.64%	2.78%
ROE	4.4	4.6	4.9	5.1	5.6

Source: Company, JM Financial

Valuations					
Y/E March	**FY15A**	**FY16A**	**FY17A**	**FY18E**	**FY19E**
Shares in Issue	65.9	65.9	65.9	65.9	65.9
EPS (INR)	84.7	80.4	84.3	98.8	126.2
EPS (YoY) (%)	-3.7%	-5.1%	4.9%	17.2%	27.8%
P/E (x)	28.7	30.2	28.8	24.6	19.2
BV (INR)	622	684	762	841	942
BV (YoY) (%)	27.2%	10.0%	11.4%	10.4%	12.0%
Div. yield (%)	3.90	3.55	3.19	2.89	2.58

Source: Company, JM Financial

APPENDIX I

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Corporate Identity Number: U65192MH1995PLC092522
Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610
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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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