June 28, 2021

TeamLease Services Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Working Capital	100.00	122.00	[ICRA]A (Stable); reaffirmed
Long Term – Non-fund Based	20.00	33.00	[ICRA]A (Stable); reaffirmed
Short Term – Fund-based Working Capital	20.00	20.00	[ICRA]A1; reaffirmed
Short Term – Non-fund Based	10.00	0.00	-
Total	**150.00**	**175.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of TeamLease Services Limited (TSL) and its subsidiaries [along with TeamLease Digital Private Limited (TDPL)] while assigning the ratings, given the common management and significant operational and financial linkages between the entities. The analysis also considers the ongoing and future funding support likely to be extended by TSL to TeamLease Skills University (TLSU).

The reaffirmation of the ratings continues to factor in TSL's established brand equity, strong market share in the temporary staffing segment, the extensive experience of the promoters in the general staffing industry and the established client base comprising top companies across industries. The ratings also consider the diversified domestic geographical footprint and customer base with ~40% of the total revenues derived from the top 20 customers in 9M FY2021. TSL's financial profile remains healthy, characterised by operating margin expansion (16 bps to 2.02%), low debt, comfortable capitalisation and coverage indicators and a strong liquidity position.

The ratings remain constrained by the inherently low profit margins and high attrition in the general staffing segment, which currently contributes 90.7% to the company's total revenues. The ratings also consider the risks emanating from the acquisitions made by the company (integration-related challenges) and the funding support required for TSL's not-for-profit subsidiary, TLSU, held through TeamLease Education Foundation. The ratings remain tempered by the intense competition in the fragmented manpower outsourcing industry as a major portion is provided by the unorganised sector, leading to weaker pricing flexibility.

TSL witnessed a revenue decline of 6.1% in FY2021, primarily due to a ~15% headcount reduction in Q1 FY2021 following the onset of the Covid-19 pandemic in the country and the ensuing lockdowns. However, by the end of FY2021, the associate headcount crossed the pre-Covid level aided by healthy demand across industries coupled with the increasing traction seen in the National Employability Through Apprenticeship Program (NETAP) business. Although the company witnessed a headcount increase in Q4 FY2021, localised lockdowns in a few key states in Q1 FY2022 are likely to impact its revenues on account of the expected marginal headcount reduction. However, TSL's ability to grow its associate base amidst the uncertainty of Covid-19 will be a key monitorable.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that TSL will continue to benefit from its long track record of operations, established client base and healthy financial risk profile. ICRA notes that TSL's operations are likely to be affected in the near term by the second wave of the pandemic. A longer-than-expected halt in operations or larger impact on demand in the end-user industries shall be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Established brand equity and strong market share in temporary staffing segment – TSL is one of the largest players in the domestic temporary staffing industry, supported by a strong brand equity and the increasing formalisation of the industry. The large scale of operations with an associate employee base of over 2.28 lakh associates, as of March 31, 2021, has supported its consistent revenue growth. TSL is also present in margin-accretive specialised staffing segments like information technology (IT) and telecom staffing through a series of acquisitions post the initial public offer (IPO) in FY2016. Going forward, the increasing employee base and strong market share are expected to support TSL's revenue and margin growth with the increasing shift towards formalisation and higher revenues from specialised staffing.

Diversified and established client base comprising top companies across consumer durables, BFSI, IT and telecom industries – TSL has a diversified geographical footprint with its client base consisting of top multinationals. At present, it serves over 3,500 clients across industries in the domestic market. Under the general staffing segment, TSL adopts the Collect and Pay model (for ~86% of its billing) for most of its customers, wherein the salaries of the associate employees deployed to TSL's customers are collected in advance and then paid to the associate employees. This reduces the risk of bad debts and lowers the company's working capital requirements.

In 9M FY2021, the top 20 customers contributed ~42% to TSL's total revenues (~42% in FY2020). The company added 100 new customers in FY2021 across industries, comprising a mix of first-time temporary staffing adopters and customers who have shifted from the unorganised staffing model. Under specialised staffing, TSL has also onboarded several customers in high-margin businesses such as machine learning, artificial intelligence, cyber security, etc. Going forward, the company is likely to enter diversified engineering and health tech (large hospitals with online doctor consultation) under specialised staffing, which is expected to onboard new customers. Further, the increasing shift towards formalisation, supported by the adoption of new labour codes, is likely to support diversification and revenue growth.

Healthy financial profile characterised by low debt, strong cash balance, comfortable capitalisation and coverage indicators and low working capital intensity – Despite revenue contraction, TSL's operating margin expanded by 16 bps to 2.02% in FY2021 primarily on the back of cost rationalisation measures such as reduction in the core employee headcount, rationalisation of rentals and improvement in specialised staffing margins (demand from high-margin IT business). The company's FTE productivity (the ratio of number of outsourced employees per core staff) improved to 352 in Q4 FY2021 (264 in Q4 FY2020) led by the automation of various back-end processes in FY2021. TSL received income tax refunds of ~Rs. 200 crore, of which ~Rs. 100 crore was received in Q4 FY2021. This led to nil working capital utilisation in February and March 2021. The company's cash balance and liquid investments stood at Rs. 349.6 crore as on March 31, 2021, of which ~Rs. 250 crore is expected to be free cash without any earmarking. The increase in accruals and the low debt levels have supported the comfortable capitalisation and coverage indicators over the years.

Going forward, ICRA expects the overall financial profile to remain comfortable with healthy revenue growth aided by the increasing shift towards formalisation, strong liquidity position and stable cash flows. TSL has a track record of growing and diversifying through strategic acquisitions. Any significant debt-funded acquisition, thereby impacting the company's credit metrics, remains an event risk and would be evaluated on a case-by-case basis.

Credit challenges

Inherently thin operating margins in general staffing business, which accounts for majority of the revenues – TSL's operating margins are inherently thin due to the high share of revenues (90.7% in FY2021) from the general staffing segment wherein the company adopts the Collect and Pay business model for ~86% of its customers. Further, competitive intensity and limited pricing flexibility in the general staffing business have affected TSL's margin expansion over the years. However, the company acquired some entities in the margin-accretive IT staffing and telecom verticals over a span of 3-4 years, which is likely to support margin expansion going forward. Additionally, the economies of scale in general staffing led by the increasing shift towards formalisation is likely to support TSL's margin expansion going forward. TSL is also focussed on improving productivity (measured as the number of associate employees per core employee) going forward, aided by the automation of most of the back-end processes.

ICRA notes that TSL's managed provident fund trust (which had total assets of Rs. 1,442.6 crore with Rs. 103.4-crore unrealised mark-to-market (MTM) gains and Rs. 25.4 crore of net surplus as on March 31, 2021) has made Rs. 173.7-crore investments in two non-banking financial companies (NBFCs), which are currently undergoing financial distress/bankruptcy. Any large potential obligation arising out of the same, with a consequent impact on the financial profile, will be a key rating monitorable.

Intense competition in fragmented manpower outsourcing industry – The recruitment industry is a fragmented market mostly comprising the unorganised sector, which offers services at a lower price. Consequently, competitive pressures continue to limit the company's pricing power and the scope for margin expansion in these segments. However, with increasing focus on compliance and the streamlining of labour codes, the organised sector is likely to improve its market share going forward. This should further support the growth of the company, which is one of the largest organised players in the staffing industry.

High attrition rates inherent to staffing segment increase the operating cost for finding replacements – Inherent to the industry, TSL witnesses high employee attrition owing to low skill/entry level and the temporary nature of the job. This risk is partially mitigated by the continuous spend on the training and development of employees.

Revenues and margins vulnerable to fluctuations in general economic conditions –TSL witnessed a ~15% reduction in the headcount in Q1 FY2021 owing to the Covid-19-induced lockdown. This led to a YoY degrowth of 9.2% and contraction of the operating margin to 1.5% during the same period though it was followed by a sequential recovery in the headcount and margins. In Q4 FY2021, the general staffing headcount surpassed the pre-Covid levels aided by the strong traction in the NETAP business. Going forward, the impact of the second wave of the pandemic on the company's operations will be a key monitorable.

Liquidity position: Strong

TSL's liquidity is **strong** with healthy cash flow from operations, no repayment obligations in the absence of any long-term debt, and low working capital intensity. The company's working capital utilisation levels were moderate at about 24% during the 12 months ended March 2021 with February and March 2021 having nil utilisation on the back of the ~Rs. 100-crore tax refunds received in Q4 FY2021. TSL received ~Rs. 200-crore income tax refunds in FY2021 and had pending income tax refunds of ~Rs. 100 crore as on March 31, 2021. Further, as on March 31, 2021, TSL had cash credit/overdraft facilities of ~Rs. 172 crore and cash and cash equivalents of Rs. 349.6 crore of which ~Rs. 250 crore is free cash without any earmarking.

Overall, ICRA expects that TSL's liquidity position is likely to remain strong supported by a healthy cash balance and a comfortable working capital position despite its plans to grow inorganically. The company has a history of acquiring relatively smaller entities with considerations paid over multiple time periods.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a sustained improvement in the operating and net margins, supported by improved segmental diversification.

Negative factors – Pressure on the ratings could arise if there is a significant contraction in the revenues and margins on a sustained basis. Any large debt-funded capex or acquisitions, materially impacting the debt protection metrics on a sustained basis, shall be a key negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the consolidated financials of TSL excluding the subsidiary, TLSU. However, the analysis also considers the ongoing and future funding support likely to be extended by the company to TLSU.

About the company

TSL, which commenced operations in 2002, is promoted by Mr. Manish Sabharwal, Mr. Ashok Kumar Nedurumalli and Mr. Mohitkaran Gupta. The company provides temporary staffing, recruitment, regulatory compliance, payroll processing and learning services. It operates out of nine regional offices with over 2.28 lakh associate employees serving more than 3,500 clients spread across various sectors in India, including consumer durables, IT & telecom, FMCG, financial services, etc.

TSL raised Rs. 150 crore of equity share capital through an initial public offering (IPO) in February 2016. The proceeds are being utilised mainly for funding various acquisitions and for strategic initiatives in addition to funding the existing working capital requirements and technology upgradation.

TeamLease Skills University was set up in 2013 by TSL under the public private partnership model with the Government of Gujarat for skill development and the placement of students. TSL provides back-end support to TLSU's operations through the former's National Employability Through Apprenticeship Program (NETAP) segment.

TeamLease Digital Private Limited (TDPL) was incorporated as a human resources (HR) service company on July 4, 2016. It is primarily engaged in the business of IT staffing, recruitment and other allied activities. The company changed its name to TeamLease Digital Private Limited from TeamLease Staffing Services Private Limited and obtained a fresh certificate of incorporation dated March 8, 2018. TDPL is a 100% subsidiary of TSL.

Key financial indicators (audited)

TSL consolidated	FY2020	FY2021
Operating Income (Rs. crore)	5,200.7	4,881.5
PAT (Rs. crore)	37.1	79.6
OPBDIT/OI (%)	1.9%	2.0%
PAT/OI (%)	0.7%	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0
Total Debt*/OPBDIT (times)	1.3	0.2
Interest Coverage (times)	7.9	14.3

Source: *Company, ICRA research*

Note: *PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All calculations are as per ICRA research*

Total debt also includes lease liabilities of Rs. 47.4 crore in FY2020 and Rs. 22.8 crore in FY2021; the o/s debt (excluding lease liabilities) as on March 31, 2020 and March 31, 2021 was Rs. 76.2 crore and nil, respectively

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument (TSL)	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jun 28, 2021	--	Mar 30, 2020	Mar 27, 2019
1	Fund Based – Working Capital	Long Term	122.00	--	[ICRA]A (Stable)	--	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Non-fund Based	Long Term	33.00	--	[ICRA]A (Stable)	--	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Fund Based – Working Capital	Short Term	20.00	--	[ICRA]A1	--	[ICRA]A1	[ICRA]A1
4	Non-fund Based	Short Term	0.00	--	--	--	[ICRA]A1	--
5	Commercial Paper	Short Term	--	--	--	--	[ICRA]A1; withdrawn	[ICRA]A1

Complexity level of the rated instruments

Instrument (TSL)	Complexity Indicator
Long-term Fund-based Working capital	Simple
Long Term – Non-fund Based	Very Simple
Short Term – Fund-based Working Capital	Simple
Short Term – Non-fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details (TSL)

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based – Working Capital	NA	NA	NA	122.00	[ICRA]A (Stable)
NA	Non-fund Based	NA	NA	NA	33.00	[ICRA]A (Stable)
NA	Fund Based – Working Capital	NA	NA	NA	20.00	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis (TSL)

Company Name	Ownership	Consolidation Approach
TeamLease Digital Private Limited	100.00%	Full Consolidation
TeamLease Education Foundation	100.00%	Full Consolidation
Keystone Business Solutions Private Limited	100.00%	Full Consolidation
Evolve Technologies and Services Private Limited	100.00%	Full Consolidation
IIJT Education Private Limited	100.00%	Full Consolidation
TeamLease e_Hire Private Limited	100.00%	Full Consolidation
I.M.S.I. Staffing Private Limited	93.94%	Full Consolidation
TeamLease Edtech Limited (formerly known as Schoolguru Eduserve Private Limited (associate till September 8, 2020)	78.43%	Full Consolidation
Avantis Regtech Private Limited	59.71%	Equity Method

Source: *TSL audited FY2021 financials and company data*

Note: *TSL acquired an incremental 36.17% stake in TeamLease Edtech Limited in September 2020. From September 9, 2020, it is classified as a subsidiary while earlier it was classified as an associate*

ICRA has taken a consolidated view of the parent (TSL), its subsidiaries, its associates and joint venture while assigning the ratings

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