

August 27, 2024

CIEL HR Services Limited: [ICRA]BBB- (Positive)/[ICRA]A3; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term- Fund based - OD/CC	40.00	[ICRA]BBB- (Positive)/[ICRA]A3; assigned
Short-term – Fund based – Working capital demand loan	30.00	[ICRA]A3; assigned
Short-term – Non-Fund based – Bank Guarantee	1.00	[ICRA]A3; assigned
Long-Term/Short-term - Unallocated Limits	4.00	[ICRA]BBB- (Positive)/[ICRA]A3; assigned
Total	75.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings consider the established track record of CIEL HR Services Limited's (CIEL) promoters in the staffing industry, and its established client base that includes reputed players across industries. The ratings also consider the significant scale-up in its operations over the last few years, driven by healthy growth in both HR Services and HR Platform (Technology and Consulting) business segments of the company. ICRA notes that the company has made several acquisitions over the last few years in the HR Platform business that has helped it complement the existing business in terms of various cross selling and up-selling synergies. ICRA has also factored in the diversified customer base with ~52% of its total revenues derived from its top 20 customers in FY2024.

Further, ICRA notes that the company's per associate per month (PAPM) margin in FY2024 stood at Rs. 832, which is slightly higher than other industry players. The company had long-term debt of Rs. 9.4 crore and short-term debt of Rs. 51.7 crore as on March 31, 2024. CIEL's debt indicators remained comfortable with TD/OPBITDA of 2.8 times, and interest coverage of 2.9 times in FY2024. CIEL received equity infusion of ~Rs. 52 crore in FY2023 and FY2024, which supported the growth of the company. ICRA also takes comfort from the promoters' ability to infuse money and the company's demonstrated ability to bring in equity from HNIs, whenever required.

The ratings are, however, constrained by the inherently low profit margins and high attrition rates in the staffing segment, which accounted for ~95% of the company's total revenues in FY2024. CIEL largely operates on a 'Pay and Collect' model against the 'Collect and Pay' model predominantly followed by other industry players. This results in high working capital requirements with the company's average peak working capital utilisation at ~95% in the 12 months ending July 2024. The ratings also factor in the intense competition in the fragmented manpower outsourcing industry as a major share of business is provided by the unorganised sector, leading to weaker pricing flexibility. The ratings also factor in any adverse impact of the economic conditions on varied sectors. ICRA also notes that the company has to pay ~Rs. 22 crore between FY2025 and FY2027 towards acquisition of the balance stake in its subsidiaries. The same is likely to be funded through a mix of internal accruals and equity.

The Positive outlook on the long-term rating takes into account the advanced stage of fund raising by the company, which will support its growth, resulting in improved earnings as also strengthening of the liquidity position of the company.

Key rating drivers and their description

Credit strengths

Established track record of promoters in the staffing industry – CIEL is promoted by Mr. K Pandiarajan and Ms. Hemalatha Rajan. Mr. K Pandiarajan co-founded Ma Foi in 1992 and is also the Founder and Chairman of Indian Staffing Federation, and Ex Chairman of Executive Recruiters Association. Ms. Hemalatha Rajan is the Founder and Director of CIEL HR and Co-founder of Ma Foi. She is a CA with over 34 years of experience in HR, Finance, Auditing and Executive Search. The long experience of CIEL's promoters in the staffing industry has helped the company establish healthy relationship with the stakeholders and grow at a significant pace over the last few years. Further, ICRA takes comfort from the promoter's ability to infuse money or bring in equity from HNIs, whenever needed.

Significant scale-up in business, driven by combination of organic and inorganic growth – The company witnessed significant scale-up in business, with its revenues rising at a CAGR of 42.3% over FY2019 to FY2024. ICRA notes that the company's strategy of acquiring entities in technology and consulting segment has supported its inorganic growth and diversification in complementary segments, supporting its business prospects. The revenue growth was healthy at ~54% and ~36% in FY2023 and FY2024, respectively, supported by increase in staffing and platforms business, a growing customer base and improvement in its services offerings. Further, the growth trajectory is expected to continue, going forward, driven by healthy demand and favourable outlook for the industry.

Diversified and established client base of large companies across industries – CIEL's successful track record coupled with its diverse service offerings, and end-to-end management of lifecycle of employees have helped it establish a wide reputed customer base across industries. Also, the company's revenues are diversified across sectors such as manufacturing and engineering, consumer retail and services, information technology (IT), banking & financial services, etc. CIEL's top 20 customers accounted for ~52% of its total revenues in FY2024 (~57% in FY2023). Moreover, the company has developed strong relationships with its key customers, which is resulting in repeat business and a healthy revenue growth. Going forward, increasing shift towards formalisation, supported by the adoption of new labour codes, is likely to support the company's revenue growth.

Credit challenges

Inherently thin operating profit margins in staffing business – CIEL's operating profit margins (OPM) are inherently thin due to high share of revenues (~95% of the total revenues in FY2024) from the staffing business. The OPM contracted to 0.8% in FY2023 from 2.0% in FY2022, on account of ESOP (Employee Stock Option Plan) expenses of Rs. 5.9 crore. The OPM revived in FY2024 to 2% (after ESOP expense of Rs. 2.3 crore) backed by the operating leverage benefits in addition to higher revenue from the HR platforms business, which has relatively higher margins. Going forward, with improving segment mix, the company's margins are expected to improve steadily.

Intense competition in the fragmented manpower outsourcing industry and high attrition rates – The recruitment industry is a fragmented market, comprising mainly the unorganised sector, which offers services at a lower price. Consequently, competitive pressure continues to limit the company's pricing power and the scope for margin expansion in these segments. Inherent to the industry, CIEL witnesses high employee attrition owing to the low skill/ entry level and temporary nature of the work profile. 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 would further support CIEL's growth.

Revenues and margins vulnerable to fluctuations in general economic conditions – While the company witnessed revenue growth over the last few years, the professional staffing segment witnessed a decline in revenues in FY2024, given the subdued demand from the IT segment. The company's revenues and margins also remain vulnerable to fluctuation in the general

economic conditions. Going forward, any impact on the economic conditions of varied sectors would remain key monitorable for CIEL's revenues and margins.

Liquidity position: Adequate

The company had free cash and bank balance of ~Rs. 10.6 crore as on March 31, 2024. The company had total sanctioned working capital limits of Rs. 60 crore as of June 2024, with average peak utilisation of ~95% in the last 12 months. The company has debt repayments of Rs. 1.12 crore and Rs. 4.14 crore in FY2025 and FY2026, respectively, in addition to the capex plans of ~Rs. 10 crore each in FY2025 and FY2026. ICRA also notes that the company has to pay ~Rs. 22. crore during FY2025-FY2027 towards acquisition of the balance stake in its subsidiaries. ICRA expects the company's cash flows to be adequate to fund its working capital requirements and capex plans, and the incremental payouts to acquire stake in its subsidiaries to be funded through a mix of internal accruals and equity. ICRA also takes comfort from the promoter's ability to infuse money and the company's demonstrated ability to bring in equity from HNIs, whenever required.

Rating sensitivities

Positive factors – ICRA could upgrade CIEL's ratings if the company demonstrates a healthy growth in revenues and margins, while also improving its debt metrics and liquidity position.

Negative factors – Negative pressure on the ratings could arise if there is a significant decline in associate headcount leading to contraction in revenues and margins or any debt-funded acquisition that could have a material impact on the company's debt metrics or liquidity position. Specific credit metrics that could lead to a rating downgrade are interest cover of below 2.8x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CIEL HR Services Limited. As on March 31, 2024, the company had 7 subsidiaries, which are enlisted in Annexure-2.

About the company

CIEL HR Services Limited, incorporated in 2015, provides HR services to clients from various end-user industries. The company offers services such as permanent and contract staffing, executive search and recruitment process outsourcing services etc. The company has presence across 43 locations in India with more than 90 offices, with significant presence across tier-2 and tier-3 cities. The company also provides technology and consulting services to the customers, which include services that manage end-to-end employee lifecycle in the organisations.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	799.6	1,085.7
PAT	-3.2	10.8
OPBDIT/OI	0.8%	2.0%
PAT/OI	-0.4%	1.0%
Total outside liabilities/Tangible net worth (times)	4.0	2.4
Total debt/OPBDIT (times)	8.3	2.8
Interest coverage (times)	0.9	2.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based - OD/CC	Long-term/Short-term	40.00	Aug 27, 2024	[ICRA]BBB-(Positive)/[ICRA]A3	-	-	-	-	-	-
Fund based – Working capital demand loan	Short-term	30.00	Aug 27, 2024	[ICRA]A3	-	-	-	-	-	-
Non-Fund based – Bank Guarantee	Short-term	1.00	Aug 27, 2024	[ICRA]A3	-	-	-	-	-	-
Unallocated Limits	Long-term/Short-term	4.00	Aug 27, 2024	[ICRA]BBB-(Positive)/[ICRA]A3	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term- Fund based - OD/CC	Simple
Short-term – Fund based – Working capital demand loan	Simple
Short-term – Non-Fund based – Bank Guarantee	Very Simple
Long-Term/Short-term - Unallocated Limits	Not Applicable

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term-Fund based - OD/CC	NA	NA	NA	40.00	[ICRA]BBB- (Positive) / [ICRA]A3
NA	Short-term – Fund based – Working capital demand loan	NA	NA	NA	30.00	[ICRA]A3
NA	Short-term – Non-Fund based – Bank Guarantee	NA	NA	NA	1.00	[ICRA]A3
NA	Long-Term/Short-term - Unallocated Limits	NA	NA	NA	4.00	[ICRA]BBB- (Positive)/ [ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
CIEL Skills and Careers Private Limited	50.98%	Full Consolidation
Ma Foi Strategic Consultanats Private limited	51.01%	Full Consolidation
Integrum Technologies Private Limited	62.50%	Full Consolidation
Next Leap Carrer Solutions Private Limited	91.40%	Full Consolidation
CIEL Technologies Private Limited	100.0%	Full Consolidation
Aargee Staffing Services Private Limited	100.0%	Full Consolidation
First Venture Corporation Private Limited	51.71%	Full Consolidation

Source: Annual Report FY2024

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Kritika Jain
+91 80 4332 6404
kritika.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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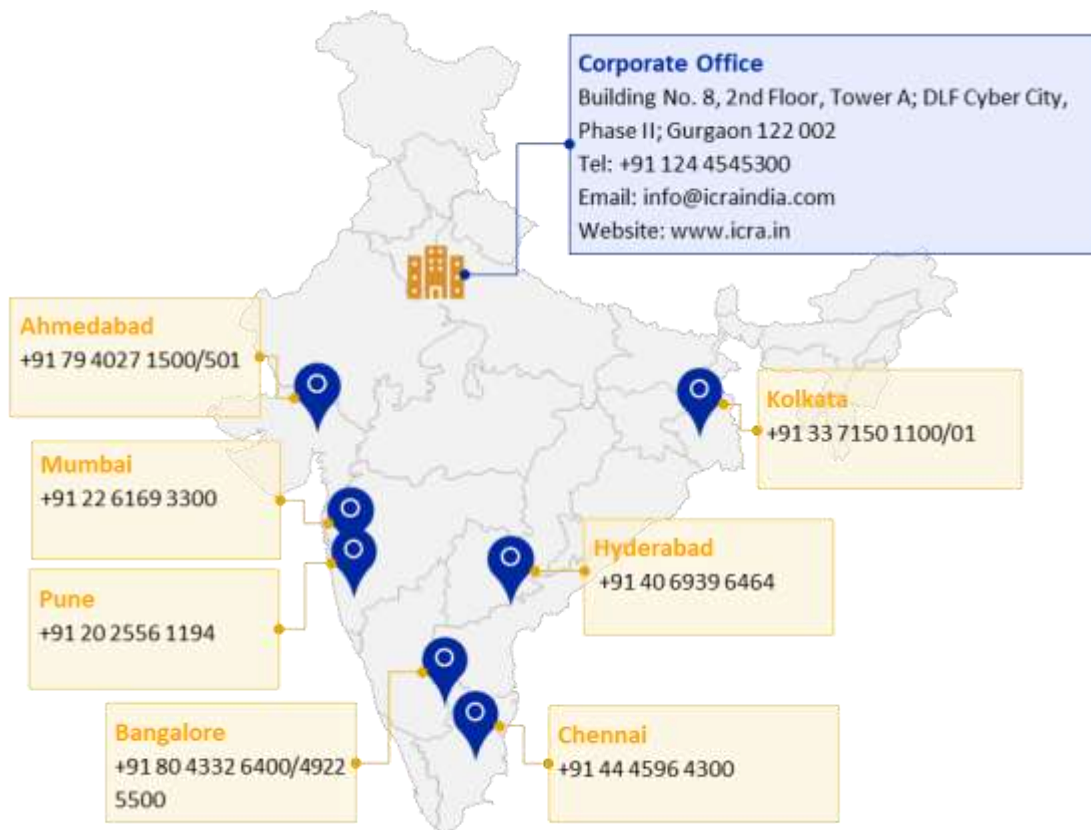
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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