March 30, 2020

TeamLease Services Limited: Ratings reaffirmed, and rated amount enhanced for bank lines; Rating withdrawn for CP programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based facilities	60.00	100.00	[ICRA]A (Stable); reaffirmed
Long term - Non-fund based facilities	20.00	20.00	[ICRA]A (Stable); reaffirmed
Short term – Fund-based facilities	20.00	20.00	[ICRA]A1; reaffirmed
Short term – Non-fund based facilities	0.00	10.00	[ICRA]A1; reaffirmed
Commercial paper	40.00	40.00	[ICRA]A1; Withdrawn
Total	**140.00**	**190.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of TeamLease Services Limited (TSL) and its subsidiaries 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, 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 FY2020. TSL's financial profile remains healthy, characterised by consistent revenue growth of 17.8% in 9M FY2020, enabled by stable demand and revenue contribution from recently acquired entities, 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 90.2% 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.

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 will be affected by the COVID-19 outbreak in the near term. 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 presence 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 2,19,604 associates, as of 9M FY2020, 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 stable market share are expected to support TSL's revenue and margin growth.

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 2,500 clients across industries in the domestic market. Under the general staffing segment, TSL adopts the Collect and Pay model (for 78% 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 increased need for working capital support. In 9M FY2020, the top 20 customers contributed ~40% to TSL's total revenues (~36% in FY2019). Going forward, new customer additions, especially in the specialised staffing segment, are likely to support diversification and top-line growth.

Healthy financial profile characterised by revenue growth, comfortable capitalisation and coverage indicators and low working capital intensity – TSL's revenues registered a healthy revenue growth of 17.8% in 9M FY2020, supported by the growth in the general staffing and IT staffing businesses and the acquisition of eCentric Solutions Private Limited's IT staffing business. The operating margin for 9M FY2020 declined to 1.9% (2.1% in FY2019) owing to a reduction in the headcount in the National Employability Through Apprenticeship (NETAP) programme. The increase in accruals and the low debt levels have supported the comfortable capitalisation and coverage indicators over the years. Going forward, ICRA expects that the overall financial profile is likely to remain comfortable with healthy revenue growth and stable cash flows.

Credit challenges

Inherently thin operating margins in general staffing business; revenues and margins vulnerable to fluctuations in general economic conditions – TSL's operating margins are inherently thin due to the high share of revenues from the general staffing segment wherein the company adopts the Collect and Pay business model for most 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. TSL acquired a 72.7% stake in I.M.S.I. Staffing Private Limited (IMSI) in November 2019 (the stake increased to 93.9% in February 2020), an IT infrastructure staffing company based out of Dehradun. The total consideration paid for the acquisition was ~Rs. 64.6 crore and this was funded through internal accruals. The acquisition 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, from the current level of 266 (9M FY2020).

ICRA notes that TSL's managed provident fund trust (which had total assets of Rs. 1,199.4 crore with Rs. 66.1-crore unrealised mark-to-market (MTM) gains and Rs. 32.1 crore of net surplus as on December 31, 2019) 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 and high attrition-related risks – 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 pricing power and scope for margin expansion for the company in these segments. However, with increasing focus on compliance and the expected 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. 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.

Liquidity position: Adequate

TSL's liquidity is adequate with healthy cash flow from operations, no repayment obligation in the absence of any long-term debt, stable collection terms and low working capital intensity. The company's peak working capital utilisation levels were moderately high at about 70.7% (peak utilisation for 5-10 days during the middle of the month) during the 12 months ending February 2020. Further, TSL has cash credit/overdraft facilities of ~Rs. 125 crore. Moreover, it had cash and cash equivalents of nearly Rs. 75.8 crore as on December 31, 2019. Overall, ICRA expects that TSL's liquidity position is likely to remain comfortable at the existing levels supported by the comfortable working capital position although the company shall continue to grow inorganically.

Rating sensitivities

Positive triggers – The ratings could be upgraded on an improvement in the operating and net margins, supported by an increase in the associate headcount and improved segmental diversification.

Negative triggers – Pressure on the ratings could arise with a significant decrease in the associate headcount and/or a contraction in margins on a sustained basis. Any large debt-funded capex or acquisitions, impacting the debt protection metrics, 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 ~2,150 core employees and ~2,19,604 associate employees serving over 2,500 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 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. As of 9M FY2020, student enrolments under TLSU stood at 52,388.

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 information technology (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 (TSL – consolidated and audited)

	FY2018	FY2019
Operating Income (Rs. crore)	3,624.1	4,447.6
PAT (Rs. crore)	73.7	98.4
OPBDIT/OI (%)	1.9%	2.1%
RoCE (%)	18.4%	20.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	27.9	18.1
DSCR	28.0	16.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating 30-Mar-2020	FY2019 27-Mar-2019	5-Apr-2018	FY2018 -	FY2017 -
1	Cash Credit	Long Term	100.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
2	Bank Guarantee	Long Term	20.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
3	Working Capital Demand Loan	Short Term	20.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-
4	Bank Guarantee	Short Term	10.00	-	[ICRA]A1	-	-	-	-
5	Commercial Paper	Short Term	40.00	-	[ICRA]A1; Withdrawn	[ICRA]A1	[ICRA]A1	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	100.00	[ICRA]A (Stable)
NA	Bank Guarantee	NA	NA	NA	20.00	[ICRA]A (Stable)
NA	Working Capital Demand Loan	NA	NA	NA	20.00	[ICRA]A1
NA	Bank Guarantee	NA	NA	NA	10.00	[ICRA]A1
NA	Commercial Paper	NA	NA	NA	40.00	[ICRA]A1; Withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis

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
Cassius Technologies Private Limited	72.70%	Full consolidation
I.M.S.I. Staffing Private Limited*	93.94%	Full consolidation
School Guru Eduserve Private Limited	40.20%	Equity method
Avantis Regtech Private Limited	33.33%	Equity method

**TSL's stake in IMSI increased to 93.94% on February 3, 2020 from 72.70% as on December 31, 2019*

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

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

Mithun Hegde
+91 80 4332 6411
mithun@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999