

September 7, 2023 ^(Revised)

TeamLease Services Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Facilities	125.00	150.00	[ICRA]A (Stable); Reaffirmed
Long-term – Non-fund Based Facilities	33.00	18.00	[ICRA]A (Stable); Reaffirmed
Short-term – Fund-based Working Capital	20.00	-	[ICRA]A1; Reaffirmed
Short-term – Unallocated Limits	-	10.00	[ICRA]A1; Reaffirmed
Total	178.00	178.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to factor in Teamlease Services Limited's (TSL/ the company) established brand equity and strong market position in the temporary staffing sector, the extensive experience of its promoters in the general staffing industry and a reputed client base of large companies across industries. The ratings also consider the diversified domestic footprint and customer base with ~46% of its total revenues derived from its top 20 customers in FY2023. TSL's financial profile remains healthy, characterised by low debt, comfortable capitalisation, and coverage indicators, coupled with a strong liquidity position. ICRA notes that TSL has completed its buy back of shares during May 2023, which resulted in cash outflow of ~Rs. 120 crore. Despite this, its liquidity remained strong with cash balance and liquid investments at ~Rs. 311 crore as on June 30, 2023, of which ~Rs. 220 crore was free cash available without considering customer advances or earmarking.

TSL witnessed healthy YoY revenue growth of 21.5% in FY2023, backed by ~15% growth in headcount in general staffing, despite decline in headcount in specialised and degree apprenticeship (DA) segments. The operating profit margins (OPM) contracted to 1.6% in FY2023 from 2.2% in FY2022 due to slowdown in the margin-accretive specialised staffing segment impacting overall margins, decline in per-associate-per-month (PAPM) against inflation in associate salaries, loss from reduction in associates due to discontinuation of the NEEM¹ scheme, one-time cost increase in unallocated overheads and recognition of losses under Government business. While TSL witnessed YoY revenue growth of 16% in Q1 FY2024, the operating margins further contracted to 1.2% due to flat PAPM, annual salary hikes to core employees, seasonality in the HR (human resources) services segment (Edtech) and loss on account of NEEM discontinuation. Going forward, the company is expected to improve its profitability margins gradually, supported by headcount additions and continued efficiencies from back-end process automation, which will remain one of the key monitorables.

The ratings remain constrained by the inherently low profit margins and high attrition in the general staffing segment, which generated ~92% of the company's total revenues in FY2023. ICRA continues to monitor the performance of TSL's acquired entities and considers the risks from its acquisitions (integration-related challenges) and funding support, if any, for its not-for-profit subsidiary, TeamLease Skills University (TLSU), held through TeamLease Education Foundation. The ratings remain tempered by the intense competition in the fragmented manpower outsourcing industry as a major share is provided by the unorganised sector, leading to weaker pricing flexibility.

¹ National Employability Enhancement Scheme

ICRA notes that the income tax (IT) department has disallowed TSL's additional employee cost deduction for FY2019 under section 80JJAA of the IT Act, 1961, and has issued a reassessment notice for FY2018. The developments of the writ petition and appeal filed by TSL in this regard for claiming the deductions will be a key rating monitorable. Any large potential obligation arising from it will need to be assessed when more information is available. However, ICRA notes that the company has received two assessment orders for FY2020 and FY2021 allowing deduction under 80JJAA. Further, ICRA understands that the company had outstanding income tax refunds of ~Rs. 230 crore as of June 30, 2023 (of which ~Rs 45 crore has been received during August 2023).

The Stable outlook 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. While ICRA expects TSL's operating margins to improve from Q1 FY2024 levels over the next few quarters, the same remains one of the key rating monitorable. TSL has a track record of growing and diversifying through strategic acquisitions. Any significant debt-funded acquisition impacting its credit metrics remains an event risk and would be evaluated on a case-by-case basis.

Key rating drivers and their description

Credit strengths

Established brand equity in temporary staffing segment – TSL is one of the largest players in the domestic temporary staffing industry, supported by a strong brand equity and increasing formalisation of the industry. TSL is also present in margin-accretive specialised staffing segments like information technology (IT) and telecom staffing through a series of acquisitions following the initial public offer (IPO) in FY2016. The large scale of operations with an associate employee base of over 2,87,820 associates, as of June 30, 2023, has supported its consistent revenue growth. ICRA notes that there has been reduction in headcount during FY2023 due to discontinuation of the NEEM scheme (leading to release of ~35,000 associates), slowdown in the IT sector and closure of a telecom mandate (leading to reduction of ~1,500 associates). While the company is expected to release further ~10,000 associates in the DA segment in FY2024 (continued impact of NEEM discontinuation), the headcounts in general staffing are expected to improve, going forward, supporting its revenue growth to a certain extent. Going forward, while growth in IT staffing revenues (supported by uptick in IT hiring) remains to be seen, TSL's healthy market share in the temporary staffing segment is expected to support its revenue growth with the increasing shift towards formalisation.

Diversified and established client base of large companies across industries – TSL has a diversified geographical footprint with a client base of top multinationals. At present, it serves over 3,600 clients across industries in the domestic market. Under the general staffing segment, TSL adopts the 'Collect and Pay' model (~86% of general staffing revenues in FY2023), wherein the salaries of associate employees deployed to TSL's customers are collected in advance and paid to them. This reduces the risk of bad debts and lowers the company's working capital requirements. In FY2023, TSL's top 20 customers drove ~46% of its total revenues (~43% in FY2022). The company added 459 new customers in FY2023 across industries (BFSI, e-commerce, consumer durables, telecom, etc) comprising a mix of first-time temporary staffing adopters and those who had shifted from the unorganised staffing model. The increasing shift towards formalisation, supported by the adoption of new labour codes, is likely to support diversification and revenue growth.

Healthy financial profile marked by low debt, strong cash balance, comfortable capitalisation and coverage indicators, and low working capital intensity – While the OPM contracted to 1.6% in FY2023 from 2.2% in FY2022, net profits improved to 1.4% in FY2023 as compared to 0.6% in FY2022. Net profits had contracted in FY2022 due to exceptional non-cash loss of Rs. 71.7 crore (largely consisting of Rs. 57-crore provision for PF trust investments and Rs. 17 crore of impairment of assets). While operating margins further contracted in Q1 FY2024, interest on income tax refunds (to the extent of ~Rs. 6 crore) supported net margins to a certain extent. The company's FTE² productivity (ratio of number of outsourced employees per core staff) consistently increased during FY2023 due to rationalisation of core staff, which supported the margins to a certain extent. The company is expected to witness gradual improvement in margins primarily backed by headcount additions and sequential

² Full-time Equivalent

improvement in Edtech services segment, going forward. The improvement in accruals and the low debt levels have supported the comfortable capitalisation and coverage indicators over the years. The low debt is also attributable to low working capital intensity on account of the Collect and Pay model in the general staffing segment. The company's cash balance and liquid investments stood at ~Rs. 311 crore as on June 30, 2023, of which ~Rs. 220 crore was free cash available without considering customer advances or earmarking. Going forward, ICRA expects the overall financial profile to remain comfortable with healthy revenue growth aided by the increasing shift towards formalisation and strong liquidity position.

Credit challenges

Inherently thin operating margins in general staffing business; contraction in margins in FY2023 and Q1 FY2024 – TSL's operating margins are inherently thin due to the high share of revenues (91-92% of the total revenues in FY2023 and Q1 FY2024) from the general staffing segment wherein the company follows the 'collect-and-pay' model for ~86% of its revenues. Further, the competitive intensity and limited pricing flexibility in the general staffing business have restricted TSL's margin expansion over the years. While operating margins in the general staffing segment was contracted by 10 bps in FY2023, the segment witnessed sequential contraction of 40 bps during Q1 FY2024. This was largely on account of annual salary hikes of core employees (~Rs. 2 crore), flat PAPM and loss on account of NEEM discontinuation (~Rs. 3-3.5 crore). Coupled with seasonality in Edtech services, this also led to contraction in overall margins to 1.2% in Q1 FY2024 as against 1.6% in FY2023. The growth in its HR services vertical (Edtech) and the economies of scale in general staffing (supported by improving headcount) led by the increasing shift towards formalisation is likely to support TSL's margin expansion going forward. While the margins are expected to remain muted in the specialised staffing segment (due to IT hiring slowdown) in FY2024, gradual improvement is expected from FY2025. TSL is also focused on improving productivity, going forward, aided by the automation of most backend processes. That said, the expansion of margins from Q1 FY2024 levels remains one of the key monitorable.

Revenues and margins vulnerable to fluctuations in general economic conditions – TSL witnessed marginal de-growth in revenues, owing to the Covid-19 induced lockdowns in FY2021 (mainly led by sharp decline in headcounts during Q1 FY2021 before recovery in subsequent quarters). While FY2022 witnessed strong revenue growth and margins, FY2023 noted deferred hiring in certain sectors, layoffs, and delay in hiring decisions in the IT industry. Further, the company also witnessed reduction in headcount in its DA segment due to discontinuation of NEEM scheme by the Government, which impacted its margins. Going forward, any impact on the economic conditions of varied sectors would remain key monitorable for TSL's revenues and margins.

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

Intense competition in fragmented manpower outsourcing industry – The recruitment industry is a fragmented market comprising mainly the unorganised sector, which offers services at a low 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 TSL's growth, one of the largest organised players in the staffing industry.

Environment and social risk

Environmental considerations – The exposure to environmental risk is low for the company. It is reducing its resource consumption through ensuring better energy efficiency standards while procuring electronic equipment and lighting devices, among others. It has systems in place to manage and dispose off dry and wet waste efficiently.

Social considerations – Exposure to social risk is moderate for the manpower outsourcing industry where the company operates. These include changes in the regulatory environment and employee management. However, the organised sector's focus on compliance and streamlining of labour codes would support the company's operations. Any political/ economic situation could also impact the industry.

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. As of June 30, 2023, TSL had free cash and cash equivalents of ~Rs. 220 crore (total cash and liquid investments of ~Rs. 310 crore) and undrawn fund-based working capital limits of ~Rs. 114 crore as on June 30, 2023. The company's average working capital utilisation levels were low at ~7% during the 12 months ended June 2023; however, the utilisation typically increases by mid-month for paying associate salaries. The maximum utilisation during the month was at ~19% in the last 12-month period ended June 2023. Overall, ICRA expects TSL's liquidity position to remain strong, supported by healthy cash generation and comfortable working capital position, despite its plans to grow inorganically. The company has a history of acquiring smaller entities with considerations paid over multiple periods. Any significant debt-funded expansion plans, impacting the company's credit metrics, shall remain an event risk and would be evaluated on a case-by-case basis.

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 with a significant contraction in revenues and margins on a sustained basis. Any large debt-funded capex or acquisitions, materially impacting the debt protection metrics on a sustained basis, could be a key negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA
Consolidation/Standalone	ICRA has considered the consolidated financials of TSL while assigning the ratings, given the common management, and significant operational and financial linkages between the entities. The analysis also considers the funding support likely to be extended by TSL to Team-Lease Skills University.

About the company

TSL, which commenced operations from 2002, is promoted by Mr. Manish Sabharwal and Mr. Ashok Kumar Nedurumalli. The company provides temporary staffing, recruitment, regulatory compliance, payroll processing and learning services. It operates out of 13 regional offices in India with over 2.9 lakh associate employees serving more than 3,600 clients across various sectors, including consumer durables, IT and telecom, FMCG, financial services, etc. TSL raised Rs. 150 crore of equity share capital through an IPO in February 2016. The proceeds will be utilised mainly for funding various acquisitions and strategic initiatives, in addition to funding TSL's existing working capital requirements and technology upgradation. TSL set up Team-Lease Skills University in 2013 under the public-private partnership (PPP) model with the State Government of Gujarat for the skill development and placement of students.

Key financial indicators (audited)

TSL Consolidated	FY2022	FY2023
Operating income	6,479.8	7,870.0
PAT	39.5	111.5
OPBDIT/OI	2.2%	1.6%
PAT/OI	0.6%	1.4%
Total outside liabilities/Tangible net worth (times)	1.2	1.1
Total debt/OPBDIT (times)	0.4	0.8
Interest coverage (times)	36.5	21.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; All amounts as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
			Amount Rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Sep 7, 2023	Aug 25, 2022	Jun 28, 2021	--
1	Fund-based Facilities	Long Term	150.00	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	--
2	Non-fund Based Facilities	Long Term	18.00	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	--
3	Fund-based Working Capital	Short Term	--	--	--	[ICRA]A1	[ICRA]A1	--
4	Unallocated Limits	Short Term	10.00	--	[ICRA]A1	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based	Simple
Long-term – Non-fund Based	Very Simple
Short-term Unallocated	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 Fund-based	NA	NA	NA	150.00	[ICRA]A (Stable)
NA	Long Term – Non-fund Based	NA	NA	NA	18.00	[ICRA]A (Stable)
NA	Short Term – Unallocated	NA	NA	NA	10.00	[ICRA]A1

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
TeamLease Digital Private Limited	100.00%	Full Consolidation
TeamLease Education Foundation	100.00%	Full Consolidation
Keystone Business Solutions Private Limited	100.00%	Full Consolidation
TeamLease HRTech Private Limited	100.00%	Full Consolidation
I.M.S.I. Staffing Private Limited	100.00%	Full Consolidation
TeamLease Edtech Limited	77.67%	Full Consolidation
TeamLease Regtech Private Limited	61.50%	Full Consolidation

Source: Company's Auditor report FY2023; ownership as on March 31, 2023 (fully diluted)

Corrigendum

Document dated September 07, 2023, has been corrected with revisions as detailed below:

“Rating Approach – Consolidation” methodology in Applicable rating methodologies under Analytical approach table has been removed.

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