August 25, 2022

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	122.00	125.00	[ICRA]A (Stable); Reaffirmed/Assigned
Long-term – Non-fund Based	33.00	33.00	[ICRA]A (Stable); Reaffirmed
Short-term – Fund-based Working Capital	20.00	20.00	[ICRA]A1; Reaffirmed
Total	**175.00**	**178.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation continues to factor in Teamlease Services Limited's (TSL/ the company) established brand equity, and strong market share in the temporary staffing segment, 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 ~43% of its total revenues derived from its top 20 customers in FY2022. TSL's financial profile remains healthy, characterised by low debt, comfortable capitalisation and coverage indicators, coupled with a strong liquidity position.

TSL witnessed strong, YoY revenue growth of 33% in FY2022, backed by ~25% growth in headcount (with ~57,000 associate addition) aided by healthy demand across industries. The operating profit margins expanded by 10 bps to 2.2% in FY2022 led by traction in margin-accretive specialised staffing and human resources (HR) services segments supported by efficiencies driven by digitalisation. While TSL witnessed YoY revenue growth of 36% in Q1 FY2023, the operating margins contracted to 1.3% due to high salary hikes to core employees (~12%), inflation in associates' salaries against flat per-associate-per-month (PAPM), seasonality in the HR services segment (Edtech) and one-off increase in corporate/unallocated overheads. Going forward, the company is expected to improve its profitability margins gradually supported by headcount additions, improvement in segment mix and continued efficiencies from back-end process automation.

The ratings remain constrained by the inherently low profit margins and high attrition in the general staffing segment, which generated 90.1% of the company's total revenues in FY2022. ICRA continues to monitor the performance of TSL's acquired entities and considers the risks from the acquisitions made by the company (integration-related challenges) and the funding support required for TSL's 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 portion is provided by the unorganised sector, leading to weaker pricing flexibility.

ICRA notes that the company has migrated its provident fund accounts to the Employee Provident Fund Organisation (EPFO) in March 2022 and has created adequate provisions (Rs. 57.2 crore) for the shortfall in returns in FY2022. No incremental cash outflow is expected relating to the same. Further, 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 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.

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 FY2023 levels, 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 the increasing formalisation of the industry. The large scale of operations with an associate employee base of over 2,94,900 associates, as of June 30, 2022, 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 healthy 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 of large companies across 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 (~86% of general staffing revenues in FY2022), wherein the salaries of the associate employees deployed to TSL's customers are collected in advance and only then paid to the associate employees. This reduces the risk of bad debts and lowers the company's working capital requirements. In FY2022, the top 20 customers contributed ~43% to TSL's total revenues (~41% in FY2021). The company added 220 new customers in FY2022 across industries (BFSI, e-commerce, IT, telecom, consumer durables) comprising a mix of first-time temporary staffing adopters and customers who have shifted from the unorganised staffing model. Going forward, the company expects to onboard customers in diversified engineering and health tech under specialised staffing apart from IT and telecom, which is expected to support margin expansion as well. 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 marked by low debt, strong cash balance, comfortable capitalisation and coverage indicators, and low working capital intensity – Backed by strong revenue growth, the operating margin expanded to 2.2% in FY2022 led by improved traction in specialised staffing with strong recruitment in IT industry and turnaround of HR services (with reduction in low-margin accretive businesses). However, net profits contracted 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 contracted in Q1 FY2023, recovery of certain past write-offs supported net margins to a certain extent. The company is expected to witness gradual improvement in margins primarily backed by strong pipeline of headcount additions and better segment mix, going forward. The company's FTE[1] productivity (ratio of number of outsourced employees per core staff) consistently increased during FY2021 and FY2022, barring Q4 FY2022, when a slight reduction was witnessed due to addition of core employees, anticipating attrition and high demand. The improvement in accruals and the low debt levels have supported the comfortable capitalisation and coverage indicators over the years. The company's cash balance and liquid investments stood at ~Rs. 350 crore as on June 30, 2022, of which ~Rs. 220 crore was free cash available without any earmarking. 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.

Credit challenges

Inherently thin operating margins in general staffing business, which mainly drives revenues – TSL's operating margins are inherently thin due to the high share of revenues (over 90.1% in FY2021 and FY2022) 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. However, the company acquired some entities in the margin-accretive IT staffing and telecom verticals over a span of 4-5 years, which is likely to support margin expansion, going forward, coupled with growth in its HR services vertical. Additionally, the economies

[1] Full-time Equivalent

of scale in general staffing led by the increasing shift towards formalisation is likely to support TSL's margin expansion. TSL is also focussed on improving productivity, going forward, aided by the automation of most back-end processes.

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.

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.

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, Q1 FY2023 noted deferred hiring in certain sectors and delay in hiring decisions in the IT industry. Going forward, while hiring positions are opening, any impact on the economic conditions of varied sectors would remain key monitorable for TSL's revenues and margins.

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 low at ~9% during the 12 months ended March 31, 2022; however, the utilisation typically increases by mid-month for paying associate salaries. TSL had free cash and cash equivalents of ~Rs. 220 crore as of June 30, 2022 (total cash available of ~Rs 350 crore) and undrawn fund-based working capital limits of ~Rs. 115 crore as on March 31, 2022. 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 on 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 Rating Approach - Consolidation
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 TeamLease Skills University.

About the company

TSL, which commenced operations from 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 13 regional offices in India with over 2.95 lakh associate employees serving more than 3,500 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. TeamLease Skills University was set up in 2013 by TSL under the public–private partnership (PPP) model with the State Government of Gujarat for the skill development and placement of students. TSL provides back-end support to TLSU's operations through the former's National Employability Through Apprenticeship Program (NETAP; currently being migrated to Teamlease Education Foundation for consolidation of operations).

TeamLease Digital Private Limited (TDPL) was incorporated as an HR service company on July 4, 2016. It is primarily engaged in IT staffing, recruitment and other allied activities. The company was renamed as TDPL 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	FY2021	FY2022	Q1 FY2023
Operating income (Rs. crore)	4,881.5	6,479.8	1,879.4
PAT (Rs. crore)	79.6	39.5	26.5
OPBDIT/OI (%)	2.1%	2.2%	1.3%
PAT/OI (%)	1.6%	0.6%	1.4%
Total outside liabilities/Tangible net worth (times)	1.0	1.2	NA
Total debt/OPBDIT (times)	0.2	0.4	NA
Interest coverage (times)	14.6	36.5	NA

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NA – Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Aug 25, 2022	Jun 28, 2021	--	Mar 30, 2020
1	**Fund-based Working Capital**	Long Term	125.00	--	**[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	--	--	--	--	--	**[ICRA]A1**

5	**Commercial Paper**	Short Term	--	--	--	--	--	**[ICRA]A1; withdrawn**

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Working Capital	Simple
Long Term – Non-fund Based	Very Simple
Short Term – Fund-based Working Capital	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 I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term Fund-based Working Capital**	NA	NA	NA	125.00	[ICRA]A (Stable)
NA	**Long Term – Non-fund Based**	NA	NA	NA	33.00	[ICRA]A (Stable)
NA	**Short Term – Fund-based Working Capital**	NA	NA	NA	20.00	[ICRA]A1

Source: Company; Note: Amount in Rs. crore

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
Evolve Technologies and Services Private Limited	100.00%	Full Consolidation
TeamLease HRTech Private Limited	100.00%	Full Consolidation
I.M.S.I. Staffing Private Limited	93.94%	Full Consolidation
TeamLease Edtech Limited	77.67%	Full Consolidation
Teamlease Regtech Private Limited	61.50%	Full Consolidation

Source: Company's Auditor report FY2022; ownership as on March 31, 2022 (fully diluted)

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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

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