TeamLease Services Limited

March 27, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based facilities	30.00	60.00	[ICRA]A (Stable); reaffirmed
Long term - Non-fund-based Facilities	10.00	20.00	[ICRA]A (Stable); reaffirmed
Short term – Fund based facilities	20.00	20.00	[ICRA]A1; reaffirmed
Commercial Paper	40.00	40.00	[ICRA]A1; reaffirmed
Total	**100.00**	**140.00**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings continues to factor the established brand equity of TeamLease Services Limited (TSL), extensive experience of the promoters in the general staffing industry and established client base comprising of top companies across industries. The ratings also consider the diversified geographic footprint and customer base with ~35% of the total revenues derived from top 20 customers. TSL's healthy financial profile characterised by consistent revenue growth (24.1% during 9M FY2019), expanding margins with diversification into specialised (information technology (IT) and telecom) staffing segments, higher efficiencies and automation, comfortable capitalisation and coverage indicators and strong liquidity position, further underpin the ratings.

However, the ratings remain constrained by the inherently low margins and high attrition in the general staffing segment which currently contributes to ~90% of the company's total revenues. While TSL's planned inorganic acquisitions in the specialised staffing segment have supported margins to some extent, it has also resulted in a decline in return on capital employed (RoCE) and increased its exposure to integration-related challenges given that the company continues to scout for new acquisitions over the near term. The ratings also remain constrained by the continued funding support required for TSL's loss-making, not-for-profit subsidiary, TeamLease Skills University (TLSU), held through TeamLease Education Foundation. TLSU's expected break-even at the operating margin level has been delayed from 9M FY2018 to 9M FY2020. While the repayment of unsecured loans is expected from TLSU from FY2020, impact of any further delays on TSL's liquidity position remains to be seen. The company is open to further acquisitions to improve its market share in the specialised staffing segment; ICRA will monitor the acquisitions on a case-by-case basis. Going forward, the company's ability to integrate and grow its business, improve margins and avail the synergies of its acquisitions will be key monitorables.

Outlook: Stable

ICRA expects healthy improvement in TSL's revenue and margins supported by increasing share of revenues from margin accretive specialised staffing segment in the medium term. The outlook may be revised to Positive if significant improvement in profitability and cash flows improves the overall financial profile. The outlook may be revised to Negative in case of lower-than-expected cash accruals or if large acquisitions affect TSL's debt indicators and overall liquidity profile.

Key rating drivers

Credit strengths

Established brand equity and increasing market share in the temporary staffing segment – TSL is one of the largest players in the domestic temporary staffing industry supported by strong brand equity and increasing formalisation of the industry. The large scale of operations with associate employee base of over ~2,11,000 associates as of 9M FY2019 has supported its consistent revenue growth. TSL has also ventured into the margin-accretive specialised staffing segments like IT and telecom staffing through a series of acquisitions post the Initial Public Offer (IPO) in FY2016. Going forward, the increasing employee base and market share are expected to support TSL's revenue and margin growth.

Diversified and established client base – TSL has a diversified geographic footprint with client base consisting of top multinationals and, at present, it serves over ~2,250 clients across industries in the domestic market. Under the general staffing segment, TSL adopts the 'Collect and Pay' model (for ~80% of its billing) for a majority 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 risk of bad debts and the need for working capital support. During 9M FY2019, the top 20 customers contributed ~35% to TSL's total revenues. Going forward, new customer additions, especially in the specialised staffing segment are likely to support diversification and top-line growth.

Comfortable financial profile and liquidity position – TSL's revenues registered a healthy revenue growth of 24.1% during 9M FY2019 supported by growth across business segments. The higher operating efficiency measured in terms of core to associate employee ratio and increasing share of revenues from the specialised staffing segment (from 5% in FY2018 to 7% in 9M FY2019), has supported the increase in operating margins from 1.9% as of FY2018 to 2.1% as of December 2018. The increase in accruals along with low debt levels, have supported the comfortable capitalisation and coverage indicators over the years. TSL's liquidity position remained comfortable, marked by low working capital intensity and large unencumbered cash and liquid investments of Rs. 67.5 crore as of 9M FY2019, though the company plans to use a part of the cash surplus towards further acquisitions in the near term. Going forward, TSL has indicated debt financing in case of large acquisitions, though the modalities are yet to be finalised. While such debt funded acquisitions could result in slight moderation in capitalisation indicators, the overall financial profile is likely to remain comfortable with healthy revenue growth, improving margins and stable cash flows.

Credit challenges

Inherently thin operating margins in general staffing business – 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 & pay business model for majority of its customers. Further, competitive intensity and limited pricing flexibility in the general staffing business has affected TSL's margin expansion over the years. TSL has focussed on improving productivity (measured as the number of associate employees per core employee) to ~400 in the next two years from the current level of 260 (during 9M FY2019). Going forward, TSL's margins are set to improve with the increasing share of margin accretive business and improving operating efficiency.

Exposure to risks associated with inorganic growth – TSL is scouting for further acquisitions to meet its long-term growth targets which exposes the company to acquisition-related risks and deterioration of its debt indicators (in case large debt is availed to fund the same). ICRA will continue to monitor TSL's debt metrics post acquisitions on a case-by-case basis.

Delayed breakeven and continued loss funding for TLSU – Breakeven of TLSU at the operating margin level which was expected during FY2018 has been delayed and is likely to occur during Q3 FY2020. Consequently, in the absence of healthy accruals, TSL had lent unsecured loans to TLSU, which stood at Rs. 49.4 crore, as of 9M FY2019, to fund the latter’s working capital requirements. Nevertheless, TLSU is expected to repay the inter-corporate loans commencing from FY2020 and from the expected TDS tax refunds (~Rs. 42 crore as of 9M FY2019) on completion of tax assessments. ICRA expects the unsecured loans to be capped at ~Rs. 60 crore in the medium term. Going forward, TSL’s liquidity position is also expected to improve with the repayments over the medium term.

Liquidity Position

TSL’s liquidity position has remained healthy supported by comfortable collection terms and low working capital intensity. The company had unencumbered cash balances and liquid investments of Rs. 67.5 crore as of 9M FY2019 and the peak working capital utilisation was modest at ~65% of the sanctioned working capital limits during the period March 2018 to January 2019. Going forward, TSL’s liquidity position is likely to remain comfortable at existing levels, despite the plans for further acquisitions, supported by the comfortable working capital position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Nil
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TeamLease Services Limited. As on March 31, 2018 the company had six subsidiaries and two associates that are enlisted in Annexure – 2.

About the company

TSL which commenced operations in 2002 was promoted by Mr. Manish Sabharwal, Mr. Ashok Kumar Nedurumalli and Mr. Mohitkaran Gupta. The company is engaged in providing temporary staffing, recruitment, regulatory compliance, payroll processing and learning services. The company operates out of eight regional offices with ~1,700 core employees and ~2,11,000 associate employees serving over ~2,250 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 strategic initiatives in addition to funding existing working capital requirements and technology upgradation.

TeamLease Skills University was set up by TSL under the public private partnership model with the Government of Gujarat for skill development and placement of students during 2013. TSL provides back-end support to TLSU’s operations through the former’s National Employability Through Apprenticeship Program (NETAP) segment. As of 9M FY2019, student enrolments under TLSU stood at ~55,000.

Key financial indicators - Consolidated (audited)

	FY2017 *	FY2018
Operating Income (Rs. crore)	3,041.3	3,624.1
PAT (Rs. crore)	57.6	73.7
OPBDIT/OI (%)	1.2%	1.9%
RoCE (%)	15.1%	18.4%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	33.8	27.9

* The company has adopted IND AS from FY2018 and accordingly the comparative previous period figures have been restated

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	April 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Cash credit	Long Term	60.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
2	Working Capital Demand Loan	Short Term	20.00	-	[ICRA]A1	[ICRA]A1	-	-	-
3	Bank Guarantee	Long Term	20.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
4	Commercial Paper	Short Term	40.00	-	[ICRA]A1	[ICRA]A1	-	-	-

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	60.00	[ICRA]A (Stable)
NA	Working Capital Demand Loan	NA	NA	NA	20.00	[ICRA]A1
NA	Bank Guarantee	NA	NA	NA	20.00	[ICRA]A (Stable)
NA	Commercial Paper	NA	NA	NA	40.00	[ICRA]A1

Source: TeamLease Services Limited

Annexure-2: List of entities considered for consolidated analysis as of March 31, 2018

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
Employee Benefit Trust	100.00%	Full consolidation
Cassius Technologies Private Limited	30.00%	Equity Method
School Guru Eduserve Private Limited	22.19%	Equity Method

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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.

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