

TeamLease Services Limited ^{Revised}

April 05, 2018

Summary of rated instruments

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

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 30.00-crore¹ long-term fund-based working capital facilities and the Rs. 10.00-crore non-fund based facilities of TeamLease Services Limited (TSL or the company)². ICRA has also assigned a short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 20.00-crore short-term fund based facilities and Rs. 40.00-crore commercial paper programme of TSL. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in the promoters' extensive experience, TSL's large scale of operations, favourable 'Collect and Pay' business model (for ~80% of its customers in the general staffing segment), strong market share and brand equity in the organised temporary (general) staffing industry in India. The ratings also consider the company's diversified customer base and established relationships with customers across industries in addition to its strengthening geographic diversification. TSL's healthy financial profile is characterised by consistent revenue growth (compound annual growth rate (CAGR) of ~25% between FY2013 and FY2017) and comfortable debt protection metrics. The low working capital intensity and strong cash flow position, including sizeable cash and liquid investments, further underpin the ratings. ICRA also notes that TSL's improving segment diversification by way of its recent entry into specialised (information technology (IT) and telecom) staffing through inorganic acquisitions is expected to expand the company's margin profile, going forward.

However, the ratings remain constrained by low operating margins and high attrition inherent in the general staffing business, which contributed ~95% to TSL's total revenues in 9M FY2018. Competitive intensity and limited pricing flexibility has also limited TSL's margin expansion over the years. TSL's planned inorganic acquisitions, from its initial public offer (IPO) proceeds, has resulted in a decline in return on capital employed (RoCE) levels 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 likely funding support required for TSL's loss-making, not-for-profit subsidiary, TeamLease Skills University (TLSU), held through TeamLease Education Foundation. That said, TLSU's break-even operating margin level during 9M FY2018 and higher operating cash flows are expected to support its operations and reduce the support required from TSL.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA expects improvement in TSL's revenue and profitability supported by organic and inorganic growth, going forward. 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

Extensive experience of promoters - TSL was promoted by first-generation entrepreneurs, Mr. Manish Sabharwal, Mr. Ashok Kumar Nedurumalli and Mr. Mohitkaran Gupta. Mr. Mohit is not engaged in the day-to-day operations of the company. The promoters have over 17 years of experience in the human resource services industry. Their extensive experience has established TSL's strong brand equity and client retention over the years.

Large scale of operations and strong brand equity – TSL is one of the larger players in the domestic temporary staffing industry. The strong brand equity and increasing associate employee base of over 175,000 associates as of 9M FY2018 has supported its consistent revenue growth. Through the post-IPO acquisitions, the company has also entered margin-accretive specialised staffing segments like IT and telecom staffing. Going forward, the economies of scale, supported by the established client base and increasing market share, are expected to support stable revenue growth.

Favourable business model mitigates delinquency and supports cash flow position – Under the general staffing segment (~95% of revenues), TSL adopts the 'Collect and Pay' model for a majority of its customers, wherein the salaries of the associate employees deployed to TSL's customers are collected in advance and paid to the associate employees. Though this model affects TSL's pricing flexibility, it helps in reducing the delinquency risk while securing TSL's cash flows, thereby reducing working capital intensity.

Fairly diversified customer base and expanding geographic footprint – TSL has a diversified client base consisting of top multinationals and, at present, it serves over ~2,500 clients across industries in the domestic market. The entrenched customer relationships ensure stability of revenues and reduce delinquency risks. During 9M FY2018, the top 20 customers contributed ~33% to TSL's total revenues. TSL also has a fairly diversified geographic footprint across all the Indian states though the share of revenues from the North has been historically high and stood at ~42% during 9M FY2018. Going forward, new customer additions are likely to support diversification and top-line growth.

Healthy financial profile – TSL's revenues grew at a healthy five-year CAGR of ~25% during FY2013-FY2017 backed by healthy growth across revenue segments like temporary staffing, specialised staffing and other human resource services including payroll processing, recruitment, regulatory compliance and training. The higher accretion to reserves, coupled with low debt levels, have supported the comfortable capitalisation and coverage indicators. TSL's liquidity position remained comfortable, marked by low working capital intensity and large unencumbered cash and liquid investments of ~Rs. 110 crore as of 9M FY2018, though the company plans to use a part of the cash surplus towards further acquisitions in the near term. Going forward, TSL's financial profile is likely to improve further with healthy revenue growth, higher accruals and stable cash flows.

Credit challenges

Low operating margins and high attrition inherent in general staffing business – TSL’s margins have remained low over the years owing to the higher share of revenues (~95%) from the general staffing business wherein TSL adopts the ‘Collect and Pay’ model for a majority of its customers. Net margins improved to 2.2% in FY2017 from -0.3% in FY2013 backed by the increasing scale of operations. The company’s investment in technology upgradation and automation (bots) has improved productivity (measured as the number of associate employees per core employee) to 219 in Q3 FY2018 from 152 in March 2013 and is expected to improve further, thereby resulting in rationalisation of operating costs. Further, the expanding market share in the margin-accretive specialised staffing segment is also expected to support margins, going forward.

Inorganic acquisitions resulting in declining RoCE levels – TSL’s core RoCE had dropped from the pre-IPO level of 96.2% in FY2015 to 35.7%, post-IPO in FY2017, due to a series of inorganic acquisitions targeting margin expansion and penetration in the specialised staffing segment. Integration of these acquisitions with the existing businesses and deriving synergies from the same would be critical for driving operating efficiencies, going forward, given the company’s plans to explore further acquisition opportunities.

Continued net losses at TLSU – TLSU has been incurring losses at both the operating and net profit levels on account of the higher gestation period inherent to the operations. Consequently, in the absence of healthy accruals, TSL had lent unsecured loans to TLSU, which stood at Rs. 38.5 crore, as of 9M FY2018, to fund the latter’s working capital requirements. Nevertheless, with TLSU achieving break even at the operating profit level during FY2018 and the expected tax refunds on the completion of tax assessments, TLSU is likely to commence the repayment of the inter-corporate loans from Q1 FY2019. Going forward, ICRA does not expect any incremental support from TSL to TLSU.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has taken a consolidated view of TSL along with its various subsidiaries and associates, including ASAP Info Systems Private Limited, Nichepro Technologies Private Limited, Keystone Business Solutions Private Limited, Cassius Technologies Private Limited, Evolve Technologies and Services Private Limited and School Guru Eduserve Private Limited, to arrive at the ratings.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

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 ~1,300 core employees and ~1,75,000 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 strategic initiatives in addition to funding existing working capital requirements and technology upgradation. TSL had acquired six companies namely, ASAP Info Systems Private Limited, Nichepro Technologies Private Limited, Keystone Business Solutions Private Limited, Cassius Technologies Private Limited, Evolve Technologies and Services Private Limited and School Guru Eduserve Private Limited, over the last 2 years.

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 FY2018, student enrolments under TLSU are expected to be ~ 45,000.

Key financial indicators - Consolidated (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	2,504.9	3,041.9
PAT (Rs. crore)	24.8	66.3
OPBDIT/ OI (%)	1.0%	1.5%
RoCE (%)	16.0%	17.6%
Total Debt/ TNW (times)	0.1	0.0
Total Debt/ OPBDIT (times)	0.7	0.0
Interest coverage (times)	47.8	32.9
NWC/ OI (%)	-0.4%	0.5%

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	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Cash credit	30.00	-	April 2018 [ICRA]A (Stable)	-	-	-
2	Working Capital Demand Loan	20.00	-	[ICRA]A1	-	-	-
3	Commercial Paper	40.00	-	[ICRA]A1	-	-	-
4	Bank Guarantee	10.00	-	[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	Commercial Paper	NA	NA	7-365 days	40.00	[ICRA]A1
NA	Cash Credit	NA	NA	NA	30.00	[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

Source: TeamLease Services Limited

Corrigendum

Document dated April 5, 2018 has been corrected with revisions as detailed below:

- Contents in summary of rated instrument on page number 1 has been updated with respect to Long term – non fund based facilities
- Contents in extensive experience of promoters under credit strengths in page number 2 has been updated
- Contents in about the company on page number 3 has been updated

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