November 19, 2024

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 Facilities	150.00	150.00	[ICRA]A (Stable); Reaffirmed
Long-term – Non-fund Based Facilities	18.00	38.00	[ICRA]A (Stable); Reaffirmed and assigned for enhanced amount
Short-term – Unallocated Limits	10.00	0.00	[ICRA]A1; Reaffirmed and withdrawn
Total	**178.00**	**188.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to factor in Teamlease Services Limited's (TSL) established brand equity and strong market position in the temporary staffing sector, extensive experience of its promoters in the staffing industry and a reputed client base of large companies across industries like consumer durables, FMCG, BFSI, IT services, e-commerce and telecom etc. The rating also considers TSL's diversified customer base with ~43% of its total revenues derived from its top 20 customers in FY2024. 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 received an Income Tax refund for AY 2023-24 pertaining to 80JJAA allowance, amounting to ~Rs. 115 crore (including interest of Rs. 6.5 crore) in H1 FY2025. Besides, the company's liquidity remained strong with free cash balance of ~Rs. 417.3 crore as on September 30, 2024.

TSL witnessed a healthy YoY revenue growth of 18.4% in FY2024, backed by a ~19% rise in headcount in general staffing, despite a decline in headcount in specialised and degree apprenticeship (DA) segments. In H1 FY2025, the company witnessed a YoY revenue growth of ~21%, supported by a headcount increase in general staffing and specialised staffing. Going forward, the company is expected to continue its revenue growth, backed by increasing demand and formalisation of the general staffing market.

The operating profit margin (OPM) contracted to 1.4% in FY2024 from 1.6% in FY2023, primarily due to slowdown in the margin-accretive specialised staffing segment, impacting the overall margins, flat per-associate-per-month (PAPM), loss from reduction in associates due to discontinuation of the NEEM[1] scheme and recognition of losses under Government business. The operating margins contracted further to 1.0% due to a slight decline in PAPM, annual salary hikes to core employees, seasonality in the Edtech business and loss on account of the balance NEEM trainees due to discontinuation of the scheme. Going forward, while the near-term margins are expected to remain in the similar range as that of FY2024, the margins are expected to improve over the medium term, supported by gradual changes in contracts to variable mark-up, especially with new clients, improving demand in the specialised staffing (from GCC business), improved efficiencies from digital investments and back-end process automation, which will remain key monitorables.

The ratings remain constrained by the inherently low profit margins and high attrition in the general staffing segment, which generated ~93% of the company's total revenues in FY2024. 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 also consider the intense competition in the fragmented manpower outsourcing industry.

[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 FY2017. The company has appealed against the same at various panels, and the development in this regard will be a key rating monitorable. Any large potential obligation arising from it will remain a key monitorable and will be assessed when more information is available. Further, ICRA notes that the company has received two assessment orders for AY2021 and AY2022, allowing deduction under 80JJAA and received refunds with full allowance. ICRA also understands that the company had outstanding income tax refunds of ~Rs. 240 crore as of September 30, 2024.

The Stable outlook reflects ICRA's opinion that TSL will continue to benefit from its long track record of operations, established client base and a healthy financial risk profile. The company has a track record of acquiring smaller entities and diversifying through strategic acquisitions. Any significant debt-funded expansion plans, impacting the company's credit metrics, will remain an event risk and would be evaluated on a case-to-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 through a series of acquisitions following the initial public offer (IPO) in FY2016. Its large scale of operations with an associate employee base of 3,50,240, as of September 30, 2024, has supported its consistent revenue growth. ICRA notes that there has been reduction in headcount in FY2024 and Q1 FY2025 due to discontinuation of the NEEM scheme (leading to release of ~46,000 associates overall, post December 2022) and slowdown in the IT sector. Going forward, the headcount in general staffing is anticipated to increase, which should boost revenue growth to some extent. The growth in specialised staffing revenues, particularly with the rise in IT hiring, remains to be seen. TSL's strong market share in the temporary staffing segment is expected to support revenue growth as the trend towards formalisation continues.

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 3,900 clients across industries in the domestic market. Under the general staffing segment, TSL adopts the 'Collect and Pay' model (~87% of general staffing revenues in FY2024), wherein the salaries of associate employees deployed to TSL's customers are collected in advance and are paid to them. This reduces the risk of bad debts and lowers the company's working capital requirements.

In FY2024, TSL's top 20 customers accounted for ~43% of its total revenues (~46% in FY2023). The company added 460 new customers in FY2024 and 365 in H1 FY2025 across various industries, including e-commerce, consumer durables, and telecom. These new customers included both first-time adopters of temporary staffing and those transitioning from the unorganised staffing model. The increasing shift towards formalisation, supported by the adoption of new labour codes, is expected to drive diversification and revenue growth for the company, going forward.

Healthy financial profile marked by low debt, strong cash balance, comfortable capitalisation and coverage indicators, and low working capital intensity – TSL has witnessed consistent revenue growth, with a rise of 18.4% in FY2024, mainly aided by 20% growth in general staffing, 14% in other HR services and 4% in specialised staffing. In H1 FY2025, the company witnessed a YoY revenue growth of 21%, primarily driven by a 22.7% YoY increase in general staffing and a 1.2% YoY increase in specialised staffing. The company's FTE[3] productivity (ratio of number of outsourced employees per core staff) consistently increased in FY2024 due to rationalisation of core staff, which supported the margins to a certain extent. The company is expected to witness a gradual improvement in margins primarily backed by headcount additions, diversifying its customer base, and sequential 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 free cash balance stood at a comfortable ~Rs. 417.3 crore as on September 30, 2024. This was supported by the TDS refund of Rs. 115 (including Rs. 6.5 crore in interest), with full allowance on 80JJAA claims for AY 2023-24 received in Q1 FY2025. 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. While any large debt-funded acquisitions could moderate the capitalisation and coverage indicators, strong net worth and cash flow position of the company are expected to mitigate any major impact.

Credit challenges

Inherently thin operating margins in general staffing business; contraction in margins in FY2024 and H1 FY2025 – TSL's operating margins are inherently thin due to the high share of revenues (92-94% of the total revenues in FY2024 and H1 FY2025) from the general staffing segment wherein the company follows the 'collect-and-pay' model for ~87% of its revenues. Further, intense competition and limited pricing flexibility in the general staffing business have restricted TSL's margin expansion over the years. The contraction in the operating margin to 1.0% in H1 FY2025 from 1.4% in FY2024 was primarily due to annual salary hikes for core employees, a slight decline in PAPM, and losses from discontinuation of the NEEM[2] scheme. Additionally, seasonality in EdTech services contributed to this margin contraction. However, growth in the HR services vertical (mostly driven by EdTech) and economies of scale in general staffing, supported by an increasing headcount and a shift towards formalisation, are expected to aid TSL's margin expansion, moving forward. Margins in the specialised staffing segment are anticipated to remain muted in FY2025 due to headwinds in IT hiring. TSL is also focusing on improving productivity through the automation of most backend processes, which is likely to support its margins over the longer term. However, the margin trajectory in H2 FY2025 remains one of the key monitorables.

Revenues and margins vulnerable to fluctuations in general economic conditions – Following the marginal revenue decline due to Covid-19 induced lockdowns in FY2021, TSL experienced strong revenue growth and improved margins in FY2022. However, FY2023 and FY2024 saw deferred hiring in certain sectors, layoffs, and delays in hiring decisions within the IT industry. Further, the company witnessed a reduction in headcount in its DA segment due to the Government's discontinuation of the NEEM scheme, which affected its margins. Going forward, any impact of the ongoing macro-economic slowdown on TSL's operations would remain a key monitorable.

High attrition rates inherent to staffing industry increase operating cost for finding replacements – As 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 the 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 lower price. Consequently, competitive pressure continues to limit the company's pricing power and the scope for margin expansion in these segments. However, with increasing focus on compliance and streamlining of labour codes, business from the organised sector is likely to improve, going forward. This should further support revenue growth for TSL, 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, nil repayment obligations in the absence of any long-term debt, and low working capital intensity. As of September 30, 2024, TSL had free cash of ~Rs. 417.3 crore and undrawn fund-based working capital limits of ~Rs. 82 crore as on September 30, 2024. The average maximum utilisation of working capital limit for the 12-month period ended in September 2024 stood at ~57%. Overall, ICRA expects TSL's liquidity position to remain strong, supported by a healthy cash generation and comfortable working capital position, despite its plans to grow inorganically. The company has a history of acquiring smaller entities with consideration paid over multiple periods. Any significant debt-funded expansion plans, impacting the company's credit metrics, will remain an event risk and would be evaluated on a case-to-case basis.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a sustained increase 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	Not Applicable
Consolidation/Standalone	Consolidated

About the company

TSL, which commenced its operations in 2002, was 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. The company operates out of 13 regional offices with over 3.3 lakh associate employees serving over 3,900 clients spread across various sectors in India, including BFSI, consumer durables, IT & telecom, FMCG etc.

TSL raised Rs. 150 crore of equity through an IPO in February 2016. The proceeds were utilised mainly for funding various acquisitions and strategic initiatives in addition to funding existing working capital requirements and technology upgradation.

Key financial indicators (audited)

TSL Consolidated	FY2023	FY2024	H1FY2025
Operating income	7,870.0	9,321.5	5,376.7
PAT	111.5	112.7	44.2
OPBDIT/OI	1.6%	1.4%	1.0%
PAT/OI	1.4%	1.2%	0.8%
Total outside liabilities/Tangible net worth (times)	1.1	1.4	1.6
Total debt/OPBDIT (times)	0.8	0.8	1.2
Interest coverage (times)	21.8	13.0	7.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Nov 19, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based Facilities	Long term	150.00	[ICRA]A (Stable)	07-Sep-23	[ICRA]A (Stable)	25-Aug-22	[ICRA]A (Stable)	28-Jun-21	[ICRA]A (Stable)
Non-fund Based Facilities	Long term	38.00	[ICRA]A (Stable)	07-Sep-23	[ICRA]A (Stable)	25-Aug-22	[ICRA]A (Stable)	28-Jun-21	[ICRA]A (Stable)
Fund-based Working Capital	Short term	-	-	07-Sep-23	-	25-Aug-22	[ICRA]A1	28-Jun-21	[ICRA]A1
Unallocated Limits	Short term	0.00	-	07-Sep-23	[ICRA]A1	25-Aug-22	-	28-Jun-21	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based	Simple
Long-term – Non-fund Based	Very 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: 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	38.00	[ICRA]A (Stable)

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	TSL Ownership	Consolidation Approach
TeamLease Digital Private Limited	100.00%	Full Consolidation
TeamLease Foundation	100.00%	Full Consolidation
TeamLease HRTech 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 FY2024; ownership as on March 31, 2024 (fully diluted)

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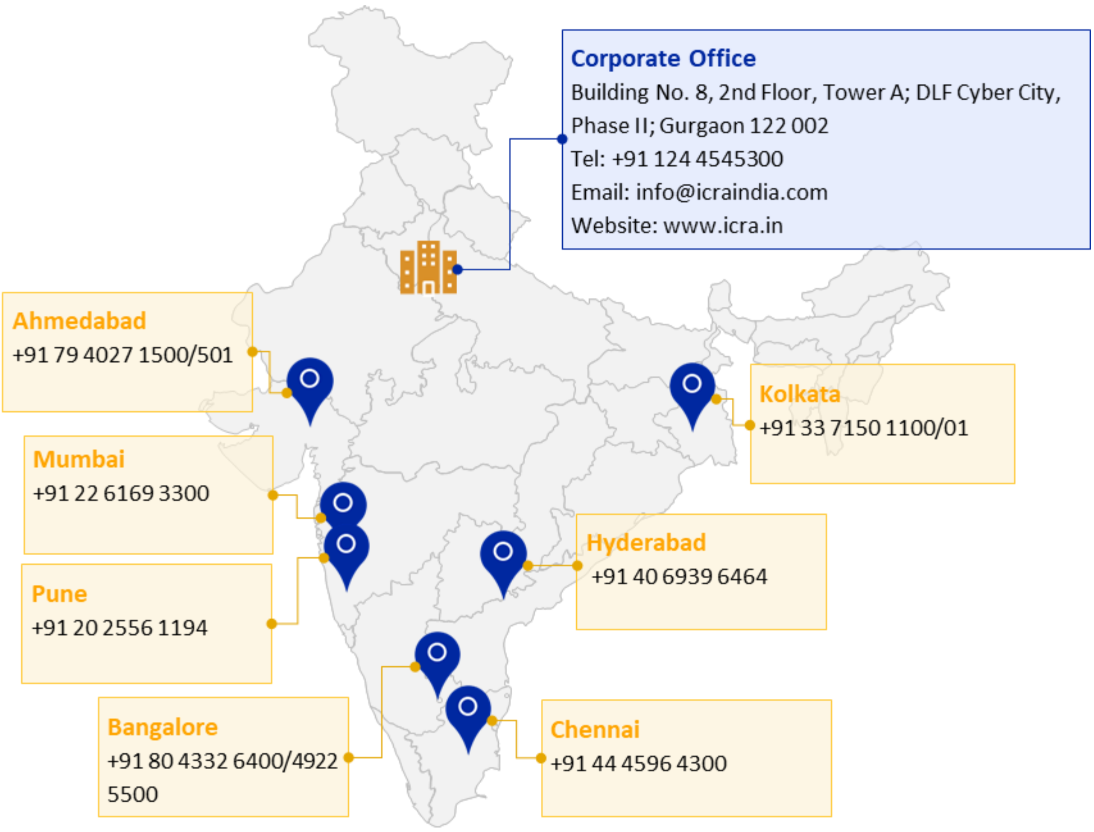

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