Teamlease Edtech Limited

December 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	20.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of TeamLease Edtech Limited (TLEL) factors in the company being subsidiary of TeamLease Services Limited (TLSL) which houses the corporate training and online education platform service of the group. There is improvement in the scale of operations in TLEL during FY22 and FY23 mainly on account of transfer of the corporate division (training income) from the TeamLease group entities. While the said vertical is growing at healthy pace for the TeamLease group but its contribution to overall revenues and profitability of the group is low.

TLSL is one of the largest staffing solutions companies in India providing general staffing, specialized staffing and other Human Resources (HR) services. TLSL reported 21% growth in the business with growth primarily coming from general staffing businesses as specialized staffing business witnessed headwinds from slow hiring in IT companies. TLSL continues to maintain strong capital structure with low reliance on debt as the group follows 'collect and pay model' for its general staffing business. The rating also continues to positively factor in adequate liquidity position despite share buyback during H1FY24. Based on the consistent client additions and its strong standing in staffing business, CARE Ratings Limited (CARE Ratings) expects TLSL to maintain revenue growth at a compounded annual growth rate (CAGR) of 15% in the medium term while maintaining strong capital structure.

These rating strengths are partially offset by thin operating margins associated with the staffing industry. The margins have moderated in FY23 and H1FY24, for both TLSL and TLDPL, due to slowdown in specialized staffing segment, reduction in degree apprenticeship (DA) business due to discontinuation of National Employment Enhancement Mission (NEEM) and increase in revenue share from low-margin general staffing businesses. While TLSL is endeavouring to enhance margins by cross-selling value added services, in CARE Ratings opinion, operating margins for the company may remain range bound of 1.5%-1.7% in the near term. The rating also continues to be constrained by the company's presence in a highly fragmented and competitive staffing industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the credit profile of the parent company, TLSL, marked by revenue of more than ₹9,000 crore, return on capital employed (ROCE) of more than 15% and maintenance of net debt negative position.
- Steady growth in revenue while improvement in profit before interest, lease rentals, depreciation and tax (PBILDT) margin over 10% on a sustained basis at standalone level.

Negative factors

- Weakening of linkages between TLSL and TLEL.
- Deterioration in the credit profile of the parent company TLSL marked by ROCE falling below 10% or overall gearing above 0.5x.
- Deterioration in liquidity profile of TLSL and TLEL

Analytical approach:

Standalone and factoring linkages with parent company, i.e. TLSL.

Outlook: Stale

The Stable outlook reflects CARE Ratings expectation that the TLEL's scale would continue to grow while maintaining the stable profitable margins and would continue to receive managerial, operational and financial support from the parent company, TLSL.

Detailed description of the key rating drivers:

Key strengths

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Subsidiary of TLSL, a reputed player in the staffing business: TLEL is subsidiary of TLSL and its bank facilities are guaranteed by TLSL. TLSL is one of the leading companies in human resource providers in the organized sector and provides temporary staffing to companies and has more than 3,600 clients and nearly 3 lakh associates and trainees. TLSL 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. TLSL has a diversified geographical footprint with its client base consisting of top multinationals. TLSL has sectoral expertise in FMCG, logistic, infrastructure, telecom, retail ecommerce, banking and finance, agro and chemicals manufacturing. Supported by its brand equity and the increasing formalisation of the industry, CARE Ratings opines that TLSL would continue to maintain its strong market share in an otherwise highly fragmented industry.

Satisfactory financial profile of TLSL: At consolidated level, TLSL demonstrated significant growth in income which increased by 22% Y-o-Y to ₹7,873 crore in FY23. Nearly 91% of revenues of TLSL, are derived from general staffing business and DA, while 8-9% of revenues were derived from specialized staffing which has better margins as compared to general staffing, and balance 1% of revenues were reported from education entities and other HR services. The improvement in accruals and the low debt levels have supported the comfortable capitalisation and coverage indicators over the years. Under the general staffing segment, TLSL adopts the Collect and Pay model (90% of general staffing and allied services revenues in FY23), wherein the salaries of the associate employees deployed to TLSL's customers are collected in advance and only then paid to the associate employees, thus lowering the company's working capital requirements. During Q1FY24, the company purchased and extinguished 327,869 equity shares at a buyback price of ₹3,050 per equity share comprising 1.92% of the pre buyback paid-up equity share capital which resulted in a cash outflow of ₹100 crore (excluding transaction costs and tax on buyback). Nevertheless, the company continues to maintain healthy liquidity with cash and cash equivalent of ₹320 crore as on September 30, 2023. With constant addition of new clients and formalization of the staffing solutions industry, CARE Ratings expects the company's revenue to grow at CAGR of 15% in the medium term while maintaining strong debt coverage indicators.

Improvement in the revenues of TLEL: TLSL has transferred the corporate division (training income) from its group entities to TLEL, which resulted in company reporting strong growth in revenue during FY22 and FY23. TLSL's income improved from ₹15.00 crore in FY21 to ₹84.00 crore in FY23. Currently, the revenue share between the academic services and corporate training stood in the ratio of 40:60. Going forward, the revenue share between both the divisions is expected to be in the ratio of 50:50.

Promising potential for online education in India: The online education market is approximately US$ 300-400 million in FY20 and is expected to grow at a compounded annual growth rate (CAGR) of 20% by 2025. Increased penetration of the internet, accessibility, affordability, and quality of online content as well as increased acceptance of online courses by the industry are some of the factors that are deriving demand for online education in India. Many start-ups have forayed in this segment over the past three to four years and are already engaged in imparting these support services to the universities for online education in India. However, given the high population, there is still a huge market potential in India.

Key weaknesses

Moderation in the PBILDT margins due to high acquisition costs of TLEL

TLEL reported PBILDT margin at 15.44% in FY22 and 7.42% in FY23. The dip in the PBILDT margin in FY23 was on account of increase in employee & training costs and other expenses. In addition, on account of onboarding new students involving high acquisition costs, PBILDT margin have further moderated.

Thin PBILDT margin which moderated in FY23 and H1FY24 of TLSL

Being into staffing business with majority of the revenues coming from general staffing, the company's margins are inherently thin. TLSL witnessed moderation in the PBILDT margins during FY23 and H1FY24 due to slow down in IT sector, discontinuation of NEEM and increasing competitiveness in the staffing business has impacted the margins. CARE Ratings expects that the margins are likely to continue in the range of 1.5%-1.7% in the near to medium term (as against the earlier level of 2%) but in absolute terms, PBILDT will continue to grow.

Competitive nature of recruitment 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 which augurs well from TLSL prospects.

Liquidity: Adequate

Liquidity profile of the company is driven from its parent, TLSL. TLEL does not have term debt and has minimal reliance on the working capital lines i.e., at 30-40% of the sanctioned limits. Even at the parent entity, the liquidity is assessed at adequate as dependence on working capital (WC) borrowings is minimal as majority of the revenue (around 90%) is billed under collect and pay model translating into low working capital cycle. At consolidated level, TLSL's cash and bank balances along with liquid investments stood at around ₹320 crore as on September 30, 2023, even after buyback and 50% undrawn credit limits.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Education
Service Sector Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Other consumer services	E-Learning

TLEL (formerly known as School Guru Eduserve Private Limited) was incorporated on December 27, 2010. TLSL had acquired the stake in TLEL and currently held 77.67% stake in TLEL, thereby making it a subsidiary of TLSL.

TLEL partners with Indian Universities to help them provide premium online and virtual courses for their students. In addition to the providing online education, TLEL also conducts trainee programs for the corporate employees. In FY22, this corporate division was transferred to TLEL for streamlining of the education services within the TeamLease group.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	70.97	84.06	41.82
PBILDT	10.90	5.69	0.56
PAT	7.00	2.15	NA
Overall gearing (times)	0.33	0.55	NA
Interest coverage (times)	61.52	11.01	1.12

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	20.00	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT*	20.00	CARE A-; Stable				

*Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91-80- 4662 5555 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Himanshu Jain Associate Director **CARE Ratings Limited** Phone: +91-80- 4662 5528 E-mail: himanshu.jain@careedge.in Sowmya Yatham Assistant Director **CARE Ratings Limited** E-mail: Sowmya.Yatham@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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