Teamlease Edtech Limited

October 04, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of TeamLease Edtech Limited (TLEL) continues to factor in company being subsidiary of TeamLease Services Limited (TLSL), which houses the corporate training (non-IT) and online education platform service of the group. There is consistence improvement in TLEL's scale of operations, which, however, continues to remain modest. While TLEL has transferred IT corporate training program to group company, however, its revenue is likely to grow by 20% in FY25 aided by addition of new universities and higher business from Corporate Social Responsibility (CSR) program. While TLEL is growing at healthy pace for the TeamLease group but its contribution to the group's overall revenues and profitability continues to remain low.

TLSL is one of the largest staffing solutions companies in India providing general staffing, specialised staffing and other Human Resources (HR) services. TLSL reported 18% growth in the business, with growth primarily coming from general staffing businesses as specialised staffing business continues to witness 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 in FY24. Based on 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 a strong capital structure.

Rating strengths are partially offset by thin operating margins associated with the staffing industry. Operating margins have moderated in FY24 and Q1FY25 for TLSL, due to slowdown in specialised staffing segment, reduced 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, the company's operating margins may remain range bound from 1.41.6% 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

- Improving credit profile of the parent company, TLSL, marked by revenue of over ₹10,000 crore, return on capital employed (ROCE) of over 15% and maintenance of net debt negative position.
- Significant contribution of TL Edtech to overall TLSL's profitability with 20% of consolidated earnings before interest, taxation, depreciation, and amortisation (EBIDTA) being generated by it.

Negative factors

- Weakening linkages between TLSL and TLEL.
- Deteriorating credit profile of the parent company TLSL marked by ROCE falling below 10% or overall gearing above 0.25x.
- Deteriorating liquidity profile of TLSL and TLEL.

Analytical approach:

Standalone, factoring linkages with parent company, TLSL. TLEL is into imparting education to students and professionals, which is one of TLSL's primary objectives. Hence, TLEL is expected to receive continuing operational, financial and management support from TLSL.

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

Outlook: Stable

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

Detailed description of key rating drivers:

Key strengths

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 organised sector and provides temporary staffing to companies and has more than 3,600 clients and nearly 3.3 lakh associates and trainees. TLSL is also present in margin-accretive specialised staffing segments such as information technology (IT) and telecom staffing through a series of acquisitions post the initial public offer (IPO) in FY16. 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 a consolidated level, TLSL demonstrated significant growth in income, which increased by 18% Y-o-Y to ₹9,323 crore in FY24. Nearly 92% of TLSL's revenues are derived from general staffing business, while 7% of revenues were derived from specialised staffing, which has better margins compared to general staffing, and balance 1% of revenues were reported from education entities and other HR services. Improved accruals and low debt levels have supported comfortable capitalisation and coverage indicators over the years. Under the general staffing segment, TLSL adopts the Collect and Pay model, 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. In 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). The company continues to maintain healthy liquidity with cash and cash equivalent of ₹439 crore as on June 30, 2024. With constant addition of new clients and formalisation 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
TLEL continues to report growth in income level and has reported total operating income (TOI) of ₹93.5 crore in FY24, against ₹84.1 crore in FY23. While the company transferred its IT corporate training business in Q1FY25, TLEL's revenues are expected to grow by 20% in FY25 from addition of new Universities and receipt of higher order in its CSR vertical. CARE Ratings takes note of losses reported by TLEL in Q1FY25 due to seasonality associated with business and expects to PBDIT margins to recover in subsequent quarters.

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 CAGR of 20% by 2025. Increased penetration of the internet, accessibility, affordability, and quality of online content and 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 in the last 3-4 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

Modest scale of operations of TLEL

Though improved, TLEL's scale of operations continues to remain modest with TOI of ₹93.5 crore in FY24. TLEL's contribution to overall TLSL's income and operating profitability continues to remain low at near 1%. Considering that onboarding new students involved high acquisition costs in Q1, there is seasonality associated with TLEL's business and profitability.

Thin PBILDT margin which moderated in FY24 and Q1FY25 of TLSL
Being in the staffing business with majority revenues coming from general staffing, the company's margins are inherently thin. TLSL's PBILDT margins moderated in FY24 and Q1FY25 due to slow down in IT sector, discontinuation of NEEM and increasing competitiveness in the staffing business. CARE Ratings expects that margins to continue in the range of 1.4-1.6% in the near-to-medium term (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

The company's liquidity profile is driven from its parent, TLSL. TL Edtech does not have term debt but its reliance on working capital has been increasing. At TLSL consolidated level, liquidity is assessed at adequate as dependence on working capital (WC) borrowings is minimal as majority revenue (~90%) is billed under collect and pay model translating into low working capital cycle. At consolidated level, TLSL's cash and bank balances and liquid investments stood at ₹439 crore as on June 30, 2024, even after buyback.

Applicable criteria

[Definition of Default](#)
[Factoring Linkages Parent Sub JV Group](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Education](#)
[Financial Ratios – Non financial Sector](#)

About the company and industry

Industry classification

Macroeconomic 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 acquired stake in TLEL and currently held 77.67% stake in TLEL, making it a subsidiary of TLSL.

TLEL partners with Indian Universities to help them provide premium online and virtual courses for their students. TLEL also conducts trainee programs for corporate employees.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	84.06	93.47	12.07
PBILDT	5.69	8.72	-6.44
PAT	2.15	3.42	-7.88
Overall gearing (times)	0.55	0.86	NA
Interest coverage (times)	11.01	7.57	NM

A: Audited UA: Unaudited; NA: Not applicable; Not Meaningful; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	20.00	CARE A-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	1)CARE A-; Stable (27-Dec-23)	-	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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: +91-22-67543404 E-mail: saikat.roy@careedge.in	Himanshu Jain Associate Director **CARE Ratings Limited** Phone: +91-80-46625528 E-mail: himanshu.jain@careedge.in Sourav Dalan Analyst **CARE Ratings Limited** E-mail: Sourav.dalan@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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