

CRISIL Research assigns IPO grade '4/5' to TeamLease Services Private Ltd

CRISIL Research has assigned a CRISIL IPO grade of '**4/5**' (pronounced 'four on five') to the proposed initial public offer (IPO) of TeamLease Services Private Ltd. (TeamLease).

The grade indicates that fundamentals of the IPO are **above average** relative to other listed equity securities in India. However, it is not an opinion on whether the issue price is appropriate in relation to fundamentals. Nor is it a recommendation to buy/ sell/ hold the securities it relates to (or any other securities); it does not comment on the issue price, future market price or suitability for a particular investor.

The grade reflects TeamLease's established position in the flexi-staffing industry, healthy growth prospects and a diversified clientele, including some large, reputed companies.

TeamLease has an estimated market share of 5-6%. The business is supported by strong processes and technology, internal processes and a professional management team with long experience in the flexi-staffing business.

A well-diversified presence across industries mitigates risk of concentration (the top six end-markets served by TeamLease constitute ~55% of its overall billings, with the consumer goods industry having the highest exposure at ~20%). Client concentration, too, is low, with the top 10 accounting for less than 20% of total revenue. Key clients include reputed names such as LG Electronics, BASF India, Microsoft Corporation, ICICI Lombard, Monsanto India, Bata India and Larsen & Toubro.

CRISIL Research expects the industry to log a healthy growth of 20-25% CAGR over FY14-19, led by a pick-up in economic activity, increase in penetration of flexi-staffing, growth in end-market industries - including e-commerce and logistics - and amendments in labour laws favourable to the formal flexi-staffing industry. While the unorganised segment accounts for nearly 70-80% of the industry, the growing need for manpower having necessary skills and specialisations, coupled with a need to comply with regulations, is expected to drive a gradual shift towards the organised segment.

On its part, TeamLease is looking to increase value-added business by playing a more active role in candidate selection and training.

However, the grade is constrained by risks arising from low entry barriers, resulting in high competition. The industry is highly fragmented, with no significant differentiation between staffing services offered by various players. The grade also factors the low profitability and margin profile of the player, given the relatively low value addition.

Between FY11 and FY15, TeamLease's operating income logged a CAGR of 30.7% from ₹6,878 mn to ₹20,077 mn, while EBITDA improved from a negative ₹261 mn in FY11 to ₹249 mn, mainly because losses in the training business declined (having transitioned from a company-owned model to one based on franchise). Under this process, TeamLease closed down centres, significantly cutting operating expenses. Training business currently constitutes ~1% of overall revenue). Adjusted PAT, which was a negative ₹319 mn in FY11, improved to ₹307 mn in FY15. However, profits in the staffing business have remained flat over the past two years despite healthy revenue growth. The balance sheet is strong, with a net cash position of ₹1,073 mn, at the end of FY15. The company also has healthy return ratios with RoCE and ROE of 15.5% and 23%, respectively.

About the company and the issue

TeamLease, incorporated in 2000, offers flexi-staffing solutions. It also has a training business, where it provides vocational and work-related training from around 40 training centres under the franchise model. Around 98% of the revenue comes from flexi-staffing, with ~100,000 associate employees (flexible employees on payroll). The company has a pan-India presence with ~1,215 staffing clients and ~1,110 employees spread across eight offices. It caters to industries such as consumer goods, telecom and internet service providers, IT/ITeS, e-commerce, agriculture and allied activities, financial services and manufacturing.

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About CRISIL Research

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