

## Not Rated

**Issue Opens: 2-Feb-16   Issue Closes: 4-Feb-16   Price Band: Rs785-850**
**Analyst:**

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**Issue details**

Face value (Rs)	10
Fresh issue (up to)	Rs150cr
Offer for Sale (up to)	32.19 lakh
	Equity Shares
Issue type	100% Book building

**Shareholding pattern**

(%)	Pre IPO	Post IPO
Promoters	51.86	46.51
Others	48.14	53.49

**Share reservation**

	(%)
QIB	75
Non institutional	15
Retail	10

**Company management**

Mr. Manish	Chairman
Sabharwal	
Mr. Ashok	MD
Nedurumalli	
Mr. Gopal Jain	Non Executive nominee director

**Issue manager**

BRLM	IDFC Securities Ltd, Credit Suisse Securities Pvt Ltd, ICICI Securities Ltd
Registrar	Karvy Computershare Pvt Ltd
Listing	BSE, NSE

## Business Overview

Teamlease is one of India's leading providers of human resource services in the organized segment delivering a broad range of human resource services to various industries including consumer durables, chemicals, manufacturing, media and telecom, retail, BFSI, e-commerce, pharmaceuticals and healthcare sectors. Its staffing business is the main source of revenue which accounts for 98.8% while HR services accounts for the balance. The company has a market share of ~5% in terms of Associate Employees, and had 1,04,946 Associate Employees engaged mostly in sales, logistics and customer service functions. The company has currently 1,252 clients with 93.21% of total revenues coming from repeat customers. Five of the top ten clients by revenue in FY15 have been with TeamLease for a term exceeding six years.

## Shift to organized service providers to drive growth

The flexi-staffing industry in India as of FY14 was ~Rs. 180-220bn and is expected to be ~Rs. 610-640bn with CAGR of ~25-30% by FY19. The company plans to enter the growing sectors by identifying and completing acquisitions to improve operational synergies, acquire new clients or enter new sectors. Moreover, their focus on regulatory compliance gives a significant competitive advantage with most of the larger clients shifting to organized service providers to comply with applicable regulations.

## Diversification of service offerings to boost margins

Traditionally, Teamlease has been sector agnostic and focused on providing low margin temporary staffing solutions for sales, logistics and customer service functions. Its high margin HR services business contributes a very small portion of company's overall revenue. It intends to provide specialized service offerings in service sectors such as IT, hospitality and healthcare, which will result in elevated margins. Also, the company aims to strengthen its operations by hiring operations staff to support the growth in new verticals and service offerings.

## Valuations

At the upper band of issue, the stock is priced at 53x FY16E P/E and 0.5x EV/sales. This is at a significant premium to its global peers such as Randstad, Adecco, Kelly services which have a much superior margin profile. ROE and ROCE is at 23% and 21.6% respectively. Despite the anticipated double digit growth in topline, we do not expect the profitability to improve significantly in the near term; we are neutral on the issue.

## Financial Highlights

Y/e 31 Mar (Rs cr)	FY12	FY13	FY14	FY15	H1 FY16
Turnover (net)	926	1,251	1,530	2,007	1,210
EBIDTA (excl other income)*	(21)	(11)	12	24	11
EBITDA Margin (%)	(2.2)	(0.9)	0.8	1.2	0.9
Net profit	(17)	(4)	18	30	11
Net Profit Margin (%)	(1.8)	(0.3)	1.2	1.5	0.9
EPS (Rs)	(10.8)	(2.4)	11.6	19.4	7.2

Source: RHP, India Infoline Research, \* EBIDTA – Earnings before interest, depreciation, tax and amortization

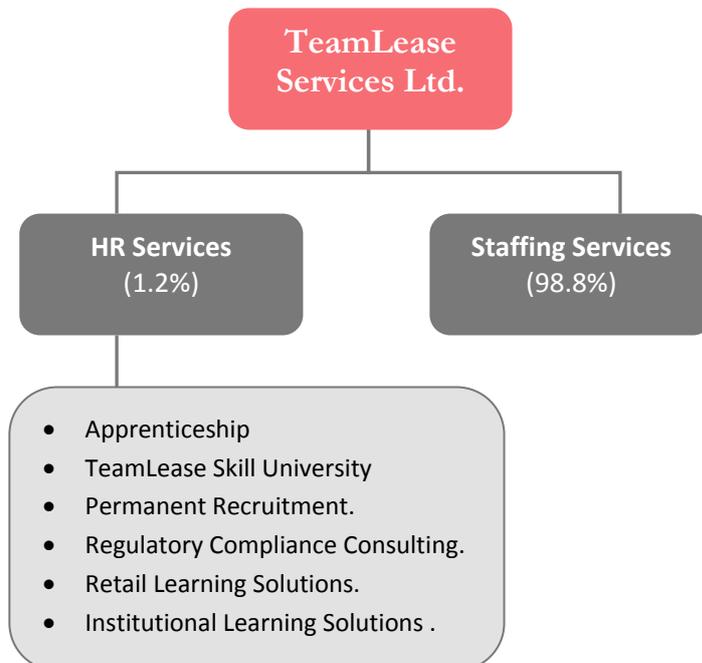
**February 2, 2016**

## Company Background

Teamlease is one of India’s leading providers of human resource services in the organized segment delivering a broad range of human resource services to various industries. The company delivers a broad range of human resource services to various industries and diverse functional roles across India to meet the needs of small and large business clients as well as those of qualified job seekers or “Associate Employees”. Its services span the entire supply chain of human resources in India, covering aspects of employment, employability and education. The employment services include temporary staffing solutions, permanent recruitment services and regulatory consultancy for labor law compliance; whereas the employability offerings include different types of learning and training solutions, including retail learning solutions, institutional learning solutions and enterprise learning solutions.

TeamLease has provided employment to approximately 1.12 million Associate Employees since 2002. . The company has a market share of ~5% in terms of Associate Employees, and had 1,04,946 Associate Employees engaged mostly in sales, logistics and customer service functions. Its staffing business is the main source of revenue which accounts for 98.8% while HR services accounts for the balance. The company has currently 1,252 clients with 93.21% of total revenues coming from repeat customers. Five of the top ten clients by revenue in FY15 have been with TeamLease for a term exceeding six years.

### Business segment



## Objects of the issue

The issue comprises of Offer for Sale and Fresh Issue.

### The objects of the Fresh Issue are

- ✧ Funding existing and incremental working capital requirements;
- ✧ Acquisitions and other strategic initiatives;
- ✧ Upgradation of the existing IT infrastructure; and
- ✧ General corporate purposes

### Offer for Sale

The company will not receive any proceeds from the Offer for Sale.

## Issue details

	Rscr
Funding existing and incremental working capital requirements	80
Acquisitions and other strategic initiatives	25
Upgradation of the existing IT infrastructure	15
General corporate purposes	*
Total Net Proceeds of the Issue	*

Source: RHP, India Infoline Research

## Valuations

High quality management team with deep extensive market and industry expertise has helped Teamlease to consistently improve its revenue over the last five years. During FY11-15, Teamlease registered revenue CAGR of 31% on the back on its improved number of associate employee along with the client. Its staffing business is the main source of revenue which accounts for 98.8% while HR services accounts for the balance. The company turned PAT positive with 18cr in FY14 and improved the bottom-line to Rs. 30cr in FY15. The employee benefit cost is the major expense for the company, being ~97% of the total revenue.

In H1 FY16, Teamlease posted revenue of Rs.1,210cr and net profit of Rs.11cr with EBITDA margin of 0.9%. The average revenue for a month per associate employee improved from ~Rs.16,000 in FY15 to Rs.19,216 on the total associate employee of 1,04,946. The business operates on an asset-light model with low capital expenditure requirements. Due to this, the company has negligible debt on its account.

At the upper band of issue, the stock is priced at 53x FY16E P/E and 0.5x EV/sales. This is at a significant premium to its global peers such as Randstad, Adecco, Kelly services which have a much superior margin profile. Randstad is trading at 15x whereas Adecco is trading at 12x CY15E earnings. ROE and ROCE is at 23% and 21.6% respectively. Keeping the growth in mind, we do not expect the profitability to improve significantly in near term which will keep the return ratios at the same level.

## Key Strengths

### **Market leading position with scale**

According to CRISIL, TeamLease is one of India's leading organized staffing companies with a market share of ~5% in terms of Associate Employees in 2014. Also, the company holds a larger market share than competitors, both Indian companies as well as the Indian operations of global staffing, in terms of revenues. Its growth has been largely organic, and as of November 30, 2015, it had 1,252 clients, and 104,946 Associate Employees, making it one of the leading organized temporary staffing services companies in India with a significant brand value. The company makes use of its wide spread presence across India, well trained, diverse and large Associate Employee base and scale of operations to leverage their centralized operations to provide comprehensive and cost-effective solutions to a diversified client base across sectors with a short turn-around time.

*Teamlease's growth has been largely organic, and as of November 30, 2015, it had 1,252 clients, and 104,946 Associate Employees, making it one of the leading organized temporary staffing services companies in India*

### **Strong compliance practices enable TeamLease to build longstanding relationships with clients**

Teamlease believes that focus on regulatory compliance gives them a significant competitive advantage, particularly in light of the evolving policy environment in India concerning labor laws with most of the larger clients shifting to organized service providers to comply with applicable regulations. TeamLease has a team of 116 full time employees as of November 30, 2015 which focuses on staffing and labor compliance issues. The company provides temporary staffing services to, large Indian and multi-national companies such as Vodafone, E.I.Dupont India Private Limited and ATC Telecom Tower Corporation Private Limited. Repeat customers are clients on-boarded in the previous financial years representing 95.81% and 93.21% of our total revenues in the years ended March 31, 2014 and March 31, 2015, respectively.

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### **Technological and operational excellence**

TeamLease has undertaken a series of actions that have streamlined its operations which includes centralizing its operations, finance, IT and regulatory compliance teams in Bengaluru. This enables in removing branch level accountability for operations which can result in inconsistent and inefficient client service delivery. It has standardized processes for client, by choosing broad emplates that can be applied uniformly to all clients. It believes that standardizing the processes has enabled company to offer consistently high levels of service to clients and reduce the turn-around time. TeamLease believes that their technological and operational excellence gives them key competitive advantage in the markets that they operate in.

*Standardizing processes has enabled company to offer consistently high levels of service to clients and reduce the turn-around time*

*Owing to the scale of operations and diverse client base, it has developed deep expertise around the human resources functions across sectors for its staffing services.*

### ***Strong functional knowledge and expertise across industry sectors***

TeamLease deliver staffing services across various industries including the consumer durables, chemicals, manufacturing, media and telecom, retail, BFSI, e-commerce, pharmaceuticals and healthcare sectors. Owing to the scale of operations and diverse client base, it has developed deep expertise around the human resources functions across sectors for its staffing services. Sales, customer service and logistics functions are segments where it deploys the majority of our Associate Employees. Direct sales force and go-to-market strategy is aligned with broad sector-neutral reach, which enhances their client value proposition and allows the company to leverage its strong institutional knowledge to further, expand presence in the market.

## **Business Strategies**

### ***Develop new areas of growth by diversifying service offerings across the human resources value chain***

Teamlease has commenced expanding its services to span the entire chain of human resources in India, covering aspects of employment, employability and education.

In this regard, the company intends to grow

- ✧ Permanent recruitment services by adding newer forms of recruitment like Recruitment Process Outsourcing (“RPO”),
- ✧ Regulatory consultancy for labor law compliance businesses
- ✧ Retail learning solutions by expanding foot print of franchise network and converting franchise network into employment centers
- ✧ Institutional learning solutions.

### ***Achieving scale in staffing***

***Teamlease aims to achieve scale as a means to increase its revenues without incurring corresponding increases in operating expenditure. The following five elements are aimed to achieve scale in staffing business:***

- ✧ Technology: A team of 77 software engineers has continually developed various applications that enabled it to grow its business while achieving efficiency and economies of scale.
- ✧ Operations: Moved from a distributed operational model to a centralized model in FY10. Centralizing all the operational teams has helped to maintain consistency in delivery.
- ✧ Compliance: Its objective in focusing on regulatory compliance is to be well prepared to capitalize on market opportunities that present as a consequence of labor reforms being adopted in India.
- ✧ Business Development and Brand promotion: Intends to aggressively expand reach and service offerings by increasing the size of business development teams and brand building activities.
- ✧ Associate Employee Hiring: Intend to increase the total number of associates hired for the staffing business through establishing a portal and converting retail training centers into private employment exchanges.

### Key risks

- ✧ **Operate in a highly competitive and fragmented industry with low barriers to entry**  
Steady success depends on its ability and adaptability to compete effectively against its existing and future competition. Further, global competitors might be able to realign themselves with change in global macro-economic environment more effectively than it.
- ✧ **Business is subject to extensive government regulation**  
The staffing services sector is subject to complex laws and regulations such as Minimum Wages Act, ESI Act, CLRA Act, EPF Act and ID Act, which vary from state to state in India and are subject to change.
- ✧ **Unable to fully realize the anticipated benefits of any future acquisitions successfully within intended time frame**  
TSL failed to integrate acquisitions with their existing businesses or should the acquisitions not deliver the intended results as was the case with the acquisition of IIJT, TSL's financial performance could be negatively affected.
- ✧ **TeamLease's ability to attract and retain qualified temporary personnel**  
TSL's success is substantially dependent on their ability to recruit and retain qualified temporary personnel. Intense competition may limit their ability to attract and retain the qualified personnel necessary for them to meet clients' staffing needs.
- ✧ **Training business could experience cost overruns and payment delays**  
Institutional training business, including placement-linked vocational training business, could incur cost overruns and payment delays from their partnerships with the Central and State Governments, which may adversely affect TSL business, financial condition and results of operations.

## Financials (Consolidated)

### Income statement

Y/e 31 Mar (Rs m)	FY13	FY14	FY15	H1 FY16
Revenue	1,251	1,530	2,007	1,210
<b>Operating profit</b>	<b>(11)</b>	<b>12</b>	<b>24</b>	<b>11</b>
Depreciation	(4)	(2)	(3)	(1)
Interest expense	(1)	(0)	(0)	(0)
Other income	11	8	11	6
<b>Profit before tax</b>	<b>(4)</b>	<b>18</b>	<b>33</b>	<b>16</b>
Taxes	0	0	(2)	(6)
<b>Adj. profit</b>	<b>(4)</b>	<b>18</b>	<b>30</b>	<b>11</b>
Exceptional items	-	-	-	-
<b>Net profit</b>	<b>(4)</b>	<b>18</b>	<b>30</b>	<b>11</b>

### Balance sheet

Y/e 31 Mar (Rs m)	FY13	FY14	FY15	H1 FY16
Equity capital	0.5	0.5	0.5	17
Reserves	100	118	148	144
<b>Net worth</b>	<b>101</b>	<b>119</b>	<b>149</b>	<b>161</b>
Debt	17	7	5	5
Def. tax liabilities	0	0	0	0
<b>Total liabilities</b>	<b>118</b>	<b>125</b>	<b>154</b>	<b>166</b>
Intangible assets	4	6	8	11
Fixed assets	7	5	2	2
Investments	0	0	0	0
Other non-current assets	9	15	17	28
<b>Net working capital</b>	<b>98</b>	<b>100</b>	<b>122</b>	<b>119</b>
Inventories	1	0	0	0
Sundry debtors	62	59	80	119
Cash	78	85	115	124
Other current assets	64	74	123	171
Sundry creditors	0	0	0	0
Other current liabilities	(106)	(118)	(197)	(294)
Deferred tax assets	-	-	6	7
<b>Total assets</b>	<b>118</b>	<b>125</b>	<b>154</b>	<b>166</b>

\* Total operating expense includes Raw material consumed, (Increase)/decrease in inventories, Employee benefits expense and Other expenses

### Ratios

Y/e 31 Mar	FY13	FY14	FY15	H1 FY16
<b>Growth matrix (%)</b>				
Revenue growth	35.1	22.3	31.2	28.2
Op profit growth	-	-	99.5	25.8
EBIT growth	-	-	81.8	-
Net profit growth	-	-	73.3	-
<b>Profitability ratios (%)</b>				
OPM	-	0.8	1.2	0.9
EBIT margin	-	1.2	1.6	1.4
Net profit margin	-	1.2	1.5	0.9
RoCE	-	14.8	23.5	10.7
RoNW	-	16.2	23.0	7.2
RoA	-	8.2	11.3	3.1
<b>Valuation ratios (x)</b>				
P/E	-	81.9	47.3	-
P/BV	14.4	12.3	9.8	-
<b>Payout (%)</b>				
Tax payout	-	-	5.5	34.6
Dividend payout	-	-	-	-
<b>Liquidity ratios</b>				
Debtor days	18	14	15	36
Inventory days	-	-	-	-
Creditor days	-	-	-	-
<b>Leverage ratios</b>				
Interest coverage	(7.3)	78.3	251.8	97.3

## 'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

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**Buy** – Absolute return of over +15%

**Accumulate** – Absolute return between 0% to +15%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

**Call Failure** - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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