

IPO Note: TeamLease Services Ltd.

Industry: Staffing

Recommendation: AVOID

Date: February 01, 2016

Issue Snapshot

Company Name	TeamLease Services Ltd.
Issue Opens	February 02, 2016 to February 04, 2016
Price Band	Rs. 785 to Rs. 850
Bid Lot	15 Equity Shares and in multiples thereof.
The Offer	Public issue of 4,984,438* Equity shares of Face value Rs.10 each, (Comprising of fresh issue of 1,764,705 – 1,910,828 Equity Shares (Rs. 150 cr) and Offer for Sale of 3,219,733 Equity Shares (Rs. 252.8 – 273.7 crore) by Selling Shareholder).
Issue Size	Rs. 402.8 – 423.7 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
Exchanges	NSE & BSE
BRLM	IDFC Securities Ltd, Credit Suisse Securities (India) Pvt. Ltd and ICICI Securities Ltd.
Registrar	Karvy Computershare Private Limited

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling shareholder (Gaja Capital India Fund-I (GCIF) (275,977 eq. sh.), Gaja Advisors Private Limited (GAPL) (76,660 eq. sh.), GPE (India) Ltd. (GIL) (1,180,569 eq. sh.), India Advantage Fund S3 I (IAF) (1,533,206 eq. sh.) and HR Offshoring Ventures Pte Ltd. (HROV) (153,321 eq. sh.)).

Fresh Issue

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

Company Highlights

Teamlease Services Ltd. (TSL) 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 with a vision of putting India to work. It 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. TSL's employment services include temporary staffing solutions, permanent recruitment services and regulatory consultancy for labor law compliance; its employability offerings includes different types of learning and training solutions, including retail learning solutions, institutional learning solutions and enterprise learning solutions, it had 104,946 Associate Employees as of November 30, 2015, making it one of India's leading people supply chain companies. All of its businesses operate on an asset-light model with low capital expenditure requirements.

TSL's core business is providing staffing solutions across industry sectors and diverse functional areas. The majority of its Associate Employees are engaged in sales, logistics and customer service functions. It focus on people, processes and technology to enhance business productivity by enabling its clients to outsource their staffing

Issue Break up

Issue Size	Allocation	Equity Shares*
QIB	75%	3,730,829
HNI	15%	746,166
RII	10%	497,444
Total Public	100%	4,974,439
Employee		10,000
Total		4,984,439

* Based on higher price band @ Rs. 850

requirements and allowing them to focus on operating and growing their core businesses. It has grown largely organically, driven by strong operational and technological excellence. From time to time it also identifies and completes acquisitions to improve operational synergies, acquire new clients or enter new sectors.

TSL's business is also strongly influenced by the macroeconomic cycle, which typically results in growing demand for employment services during periods of economic expansion and, conversely, contraction of demand during periods of economic downturn. Due to the sensitivity to the economic cycle and the low visibility in the temporary staffing sector, forecasting demand for staffing and human resource services is difficult. Typically, clients are not able to provide much advance notice of changes in their staffing needs. Responding swiftly to the customer's fluctuating staffing requirements in a flexible way is a key element of its strategy.

TSL is operating in highly competitive market with lot of unorganised players operating and thus diluting the pricing power in the industry. Besides, the company earns bulk of its revenue from temporary staffing, where the completion is more intense. Highly fragmented market put pressure on the margins, thus Team lease has been earning net profit margin of around (1.5-1.7%) even after generating respectable other income at net level. So in our view this is the trend of the sector and we are not convinced with the business model with so low margins at net level despite of debt free balance sheet. However, over the last five years company has shown a healthy turnaround with revenue growth of 31% CAGR (FY11-FY15) and reported profit at net level from loss of Rs 39 crore during FY11. Further on valuation front, company has been demanding high premium despite of subpar RoNW (6.7% as per our calculation after adjusting post issue share and annualizing 1HFY16 earnings). At P/E of 60x-66x (post issue EPS of FY16), the total valuation of the company would be around Rs 1334-1445 crore, which in our view is exorbitant and not rational. Hence we advise our investors to stay away from this Issue and our rating on the IPO is **"AVOID"**.

Financial Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	H1FY16
Share Capital	0.4	0.5	0.5	0.5	0.5	15.3
Net Worth	21.9	104.7	101.0	118.8	148.5	159.5
Long Term Borrowings	0.0	0.1	0.0	-	-	-
Other Long Term Liabilities	10.0	11.1	14.5	18.8	22.8	30.3
Short-term borrowings	2.8	8.0	12.0	0.8	-	-
Other Current Liabilities	61.8	73.0	96.7	104.8	179.2	268.6
Fixed Assets	21.1	19.5	10.7	10.7	9.5	12.5
Non Current Assets	16.2	27.6	40.3	40.1	65.9	89.0
Current Assets	59.2	149.8	173.2	192.5	275.1	356.9
Total Assets	96.5	196.9	224.2	243.3	350.5	458.4
Revenue from Operations	686.8	925.8	1250.7	1529.6	2007.1	1209.6
Revenue Growth (%)		34.8	35.1	22.3	31.2	
EBITDA	-39.0	-20.7	-11.1	12.0	24.1	11.3
EBITDA Margin (%)	-5.7	-2.2	-0.9	0.8	1.2	0.9
Net Profit	-39.5	-16.5	-3.7	17.9	29.7	11.0
Net Profit Margin (%)	-5.7	-1.8	-0.3	1.2	1.5	0.9
Earnings Per Share (Rs.)	-33.1	-10.8	-2.4	11.7	19.4	7.2
Return on Networth (%)	-180.7%	-15.8%	-3.7%	15.0%	20.0%	6.9%
Net Asset Value per Share (Rs.)	18.3	68.3	65.9	77.5	96.9	104.0

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	H1FY16
Cash flow from Operations Activities	(7.7)	(40.5)	(9.3)	16.4	34.3	11.3
Cash flow from Investing Activities	(25.6)	(30.6)	6.9	(34.8)	(24.4)	2.5
Cash flow from Financing Activities	7.8	104.2	3.5	(11.5)	(1.0)	(0.2)
Net increase/(decrease) in cash and cash equivalents	(25.5)	33.1	1.1	(30.0)	9.0	13.6
Cash and cash equivalents at the beginning of the year	34.1	8.6	41.8	42.8	12.9	21.8
Cash and cash equivalents at the end of the year	8.6	41.8	42.8	12.9	21.8	35.5

Source: RHP

Comparison with listed industry peers

There are no listed companies in India that engage in the similar line of business. Hence, it is not possible to provide an industry comparison in relation to the Company.

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