

February 28, 2022^{Revised}

Price Waterhouse & Co LLP: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund based/Non-Fund based	150.00 [^]	[ICRA]AA (Stable)/[ICRA]A1+; Assigned
Total	150.00	

*Instrument details are provided in Annexure-1; [^]Rs. 150-crore limit is interchangeable between fund-based and non-fund-based limits and also interchangeable among Price Waterhouse Chartered Accountants LLP (Pw CA LLP), Price Waterhouse & Co Chartered Accountants LLP (Pw & Co CA LLP) and Price Waterhouse & Co LLP (Pw & Co LLP)

Rationale

While assessing the ratings, ICRA has taken a consolidated view of the operations of the 11 entities—Price Waterhouse LLP, Price Waterhouse, Bangalore, Price Waterhouse & Co., Lovelock & Lewes Chartered Accountants LLP, Price Waterhouse Chartered Accountants LLP, Price Waterhouse & Co Bangalore LLP, Price Waterhouse & Co Chartered Accountants LLP, Price Waterhouse & Co LLP, Dalal & Shah Chartered Accountants LLP, Lovelock & Lewes LLP, Choksey Bhargava & Co. LLP., herein collectively referred to as PWA.

The ratings continue to draw strength from PWA’s strong operational and financial profiles, supported by its long track record of operations in India and its status as a member of the global network of PricewaterhouseCoopers (PwC) — one of the largest global professional services firms. These have helped the entity establish a reputed and a diversified customer base, providing repeat business with low counterparty risk. These operational strengths support its large scale of operations and healthy return metrics. PWA’s revenues have been increasing at a healthy pace (more than 20% growth estimated for FY2022, following a 43% increase in FY2021), partly led by increasing business under the Tax and Regulatory Services (TRS) segment. Together with sustained healthy profit margins, moderate working capital requirements and limited capex outlays, this results in minimal reliance on borrowings, thereby facilitating robust capitalisation and coverage metrics. It is noted that prudent working capital management contributed to healthy free cash flow generation, shoring up PWA’s liquidity in FY2021 and the current fiscal. The ratings, however, continue to be constrained by the risks emanating from the strict regulatory environment for assurance business. This was witnessed in the past when a two-year ban was imposed by SEBI on the PwC network entities in carrying out audits for listed companies till March 2020, which intermittently disrupted operations and affected revenues. Further, the ratings remain constrained by the intense competition in segments where PWA operates, leading to limited pricing power. The ratings also remain constrained by the susceptibility of profitability to huge partner and employee payouts, which is the largest cost component. This is particularly relevant in current times, when PWA is experiencing a significant surge in employee attrition, in line with the broader trend in the financial services sector. Given the relationship driven nature of operations, PWA’s ability to maintain a healthy talent base remains a crucial determinant of its performance.

The Stable outlook on the long-term rating reflects ICRA’s opinion that PWA will maintain robust capitalisation and debt coverage metrics and strong liquidity, supported by healthy profits and moderate working capital requirements.

Key rating drivers and their description

Credit strengths

Established track record; benefit as part of PwC network – PWA is a member of PwC global network – one of the largest global professional services firms. Besides brand strength, the Indian operations derive support from the international methodologies, processes and knowledge base of the PwC network. Each of the member firms share processes and knowledge

with others through the network and the Group can draw upon the expertise of other member firms to provide a wide range of services to its clients and work on cross-border assignments.

Reputed and diversified client profile – Given its diverse service offerings, strong brand and established operational track record, PWA has developed a wide client base that includes reputed names from private sector, public sector and multilateral agencies, which provides regular repeat business. Additionally, PWA provides services to other network firms, which leads to revenue diversification to some extent. Further, the PWA has a geographically spread-out revenue base.

Robust financial risk profile – PWA has a robust financial risk profile, characterised by its minimum reliance on debt. Prudent working capital management has contributed to healthy free cash flow generation, shoring up PWA's liquidity in FY2021 and the current fiscal. As on September 30, 2021, PWA had unencumbered cash and equivalents of Rs. 192 crore against working capital borrowing of Rs. 31 crore, resulting in a negative net debt. While the cash balances are likely to moderate with year-end employee payouts, these are still expected to remain high. ICRA expects a significant revenue growth together with steady margins and moderate incremental working capital requirements to keep PWA's incremental reliance on debt low and its capitalisation and coverage metrics robust.

Credit challenges

Legal and reputational risks – PWA faces high legal and reputational risks, given the strict controls by regulatory authorities and the nature of its operations. For instance, the two-year ban imposed by SEBI on PwC network entities in carrying out audits for listed companies till March 2020, intermittently disrupted operations and affected revenues. While the ban period is over and the incremental impact on PWA is likely to be limited, the sector remains exposed to regulatory risks due to the strict regulatory environment. While it does not directly impact the risk profile of PWA, ICRA has noted that there remains a reputational sensitivity for PwC network firms in India due to the ED order of ~Rs. 230-crore fine on an advisory member firm for alleged violations of FEMA provisions.

Risk of capital withdrawals – Partners'/Directors' payout is the largest cost component for PWA. ICRA also notes that the share of business being done in partnership structure is on the rise. As applicable to any partnership model, the capital structure remains vulnerable to the risk of large capital withdrawal by the partners. The extent of withdrawals/ dividends and the impact of the same on liquidity, leverage and financial risk profile remains a key rating sensitivity.

Moderate working capital intensity and intense competition- PWA's business is working capital intensive, with an elongated receivable cycle and blockage of sizable amount in income tax receivable. Further, PWA faces stiff competition from other established consulting majors, which limits its pricing flexibility. Nevertheless, the impact is mitigated by the strong brand and market positioning of PWA.

Risk related to employee retention – Given the service-oriented nature of operations, loss of a significant number of key employees could materially affect PWA's service delivery ability. However, ICRA draws comfort from the PWA's track record and has taken a note of the steps being taken by PWA to address the risk.

Liquidity position: Strong

PWA's liquidity position is strong, driven by the healthy surplus cash flows generated from operations. This is also corroborated from the sizeable, unencumbered cash and cash equivalents of more than ~Rs. 190 crore, besides Rs. 180-crore cushion available in fund-based working capital limits as on September 30, 2021. While the cash balances are likely to moderate with year-end employee pay-outs, these are expected to remain high. With strong business fundamentals, no long-term debt obligations and modest capex outflows, PWA's free cash flows from operations are expected to remain strong.

Rating sensitivities

Positive factors – A significant improvement in revenues and profitability, while maintaining a strong liquidity profile, on a sustainable basis would be key for a rating upgrade.

Negative factors – Negative pressure on PWA’s rating could arise in case of adverse legal or regulatory action against the PwC Group firms, or if there is a significant decline in revenues and accruals. Additionally, significant deterioration in credit metrics and liquidity profile, for reasons including but not limited to sizeable capital withdrawals in firms, could be a trigger for downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various PwC network entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among the same.

About the entity

Price Waterhouse & Co Chartered Accountant LLP is a part of PWA (as defined above), which provides assurance and tax services in India. Its range of services include Financial Statement Audit, Financial Accounting, Independent Controls and Systems Process Assurance, and Regulatory Compliance and Reporting. Price Waterhouse Chartered Accountant LLP has a pan-India presence and experience of working with various types of clients viz. the Government, multinational companies, domestic corporate houses, and multilateral organisations. The entity is one of the 11 assurance and tax entities in the PwC network in India. These entities include Price Waterhouse LLP, Price Waterhouse, Bangalore, Price Waterhouse & Co., Lovelock & Lewes Chartered Accountants LLP, Price Waterhouse Chartered Accountants LLP, Price Waterhouse & Co Bangalore LLP, Price Waterhouse & Co Chartered Accountants LLP, Price Waterhouse & Co LLP, Dalal & Shah Chartered Accountants LLP, Lovelock & Lewes LLP, Choksey Bhargava & Co. LLP., collectively referred to as PWA.

Key financial indicators

Consolidated*	FY2020	FY2021
Operating Income (Rs. crore)	961.0	1376.6
PAT (Rs. crore)	167.2	337.0
OPBDIT/OI (%)	25.6%	32.6%
PAT/OI (%)	17.4%	24.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.7
Total Debt/OPBDIT (times)	0.2	0.0
Interest Coverage (times)	57.5	633.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

** Consolidated provisional financial estimates for Price Waterhouse Chartered Accountants LLP, Price Waterhouse LLP, Price Waterhouse, Bangalore, Price Waterhouse & Co., Lovelock & Lewes Chartered Accountants LLP, Price Waterhouse & Co Bangalore LLP, Price Waterhouse & Co Chartered Accountants LLP, Price Waterhouse & Co LLP, Dalal & Shah Chartered Accountants LLP, Lovelock & Lewes LLP and Choksey Bhargava & Co. LLP*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				Feb 28, 2022	-	-	-
1 Fund based/Non-Fund based	Long term/Short-term	150.00	-	[ICRA]AA (Stable)/[ICRA]A1+	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based/Non-Fund based	Simple/Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long term/Short-term – Fund based/Non-Fund based limits	NA	NA	NA	150.00	[ICRA]AA (Stable)/[ICRA]A1+

Source: Entity

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Entity Name	Ownership	Consolidation Approach
Price Waterhouse LLP	NA	Full Consolidation
Price Waterhouse, Bangalore	NA	Full Consolidation
Price Waterhouse & Co.	NA	Full Consolidation
Lovelock & Lewes Chartered Accountants LLP	NA	Full Consolidation
Price Waterhouse Chartered Accountants LLP	NA	Full Consolidation
Price Waterhouse & Co Bangalore LLP	NA	Full Consolidation
Price Waterhouse & Co Chartered Accountants LLP	NA	Full Consolidation
Price Waterhouse & Co LLP	NA	Full Consolidation
Dalal & Shah Chartered Accountants LLP	NA	Full Consolidation
Lovelock & Lewes LLP	NA	Full Consolidation
Choksey Bhargava & Co. LLP	NA	Full Consolidation

Source: Entity

Corrigendum

Document dated February 28, 2022 has been corrected with revisions as detailed below:

- Removed “Dalal & Shah LLP” from the list on page number 1, 2 and 5.
- Removed “Dalal & Shah LLP” from the list of entities consolidated as Dalal & Shah LLP is merged with Price Waterhouse & Co Chartered Accountants LLP.

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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