February 28, 2022

PricewaterhouseCoopers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based/Working Capital Facilities	980.00	980.00	[ICRA]AA- (Stable); Reaffirmed
Short term – Non-Fund based	200.00	200.00^	[ICRA]A1+; Reaffirmed
Total	**1,180.00**	**1,180.00**	

**Instrument details are provided in Annexure-1* *^out of the Rs. 200 crore, Rs. 145-crore limit is interchangeable between fund-based and non-fund-based limits*

Rationale

While assessing the ratings, ICRA has taken a consolidated view of the operations of the four entities — PricewaterhouseCoopers Private Limited (PwCPL), PricewaterhouseCoopers Services LLP, PricewaterhouseCoopers Professional Services LLP, and PricewaterhouseCoopers India LLP – which are involved in consultancy business, and are hereafter referred to as PwCPL, or the company, or the Group.

The ratings continue to draw strength from PwCPL'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 company establish a reputed and diversified customer base, providing repeat business with low counterparty risk. Further, the company benefits from the business outsourced to it by various member firms of the PwC network spread across multiple countries, providing diversity to its earnings. These operational strengths support its large scale of operations and healthy return metrics. Following an annualised growth of ~18% in the operating income between FY2018 and FY2020, the company's revenues contracted by ~7% in FY2021. Nevertheless, ICRA expects the company to clock a comfortable growth in FY2022. Together with sustained profit margins, this is expected to help the company maintain healthy coverage metrics, despite working capital intensive nature of operations. The ratings noted that the release of funds from working capital by way of income tax refunds have shored up the company's liquidity position. Overall, PwCPL's financial risk profile continues to be robust, characterised by a conservative capital structure (reflected by Total Debt/OPBDITA of 1.3 times in H1 FY2022), robust debt protection metrics (reflected by an interest cover of 14.8 times and DSCR of 6.5 times in H1 FY2022), and strong liquidity position. The ratings, however, continue to be constrained by the intense competition in segments where PwCPL 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 PwCPL is experiencing a significant surge in employee attrition, in line with the broader trend in the service sector. Given the relationship driven nature of operations, the company's ability to maintain a healthy talent base remains a crucial determinant of its performance.

While reaffirming the ratings, ICRA has also noted the status-quo on the matter relating to imposition of fine by the Enforcement Directorate (ED) for alleged violations of FEMA provisions. While ICRA does not foresee any immediate adverse impact, it will continue to monitor the developments and take rating action, as and when required.

The Stable outlook on the long-term rating reflects ICRA's opinion that PwCPL will maintain strong debt coverage metrics and 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 – PwCPL 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, PwCPL has developed a wide client base that includes reputed names from private sector, public sector and multilateral agencies, which provides regular repeat business. Additionally, PwCPL provides services to other network firms, which leads to revenue diversification to some extent. Further, the company has a geographically spread-out revenue base.

Robust financial risk profile – PwCPL has a robust financial risk profile, characterised by a conservative capital structure (debt/net worth of 0.8 times as on September 30, 2021 and total debt/OPBDITA of 1.3 times in H1 FY2022E(provisional estimate)) and robust debt coverage metrics (interest cover and DSCR of 14.8 times and 6.5 times in H1 FY2022E, respectively). It is noted that receipt of significant tax refunds and prudent working capital management have contributed to healthy free cash flow generation, shoring up the company's liquidity during FY2021 and the current fiscal. As on September 30, 2021, PwCPL had unencumbered cash and equivalents of Rs. 676 crore, against working capital borrowing of Rs. 659 crore, resulting in negative net debt. While the cash balances are likely to moderate with year-end employee pay-outs, these are still expected to remain high. ICRA expects a comfortable revenue growth together with steady margins and moderate incremental working capital requirements to keep the company's incremental reliance on debt low and its capitalisation and coverage metrics robust.

Credit challenges

Legal and reputational risks – PwCPL faces high legal and reputational risks, given the strict controls by regulatory authorities and nature of its operations. Any reputational damage could severely impact its ability to attract and retain employees and clients, which could materially dampen profitability and cash flow. In September 2019, the Enforcement Directorate (ED) had imposed a fine of ~Rs. 230 crore on PwCPL and six other key personnel and ex-employees of PwCPL for alleged violations of FEMA provisions. PwCPL appealed against the said ED order before the Tribunal, which is pending adjudication. Though there has not been any development on the matter in the past 1.5 years, reputational sensitivity continues for PwCPL and the PwC network firms in India as a whole.

Risk of capital withdrawals – Partners'/Directors' payout is the largest cost component for PwCPL. ICRA also notes that the share of business being done in the 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 – PwCPL's business is working capital intensive, with an elongated receivable cycle and blockage of a sizeable amount in income tax receivable. Further, PwCPL 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 PwCPL.

Risk related to employee retention – Given the highly relationship driven nature of operations, employee attrition is generally a major concern for consulting firms. Loss of a significant number of key employees could materially affect the company's service delivery and profitability. While the company has a reasonable track record in employee retention, reflecting favourably on its brand strength, employee policies and compensation packages, it has experienced a surge in the employee attrition in the current fiscal, in line with the broader industry trend. ICRA draws comfort from the company's brand name and track record and has noted the steps being taken by the company to address the said risk.

Liquidity position: Strong

PwCPL's liquidity position is strong, driven by the healthy surplus cash flow generated from operations. This is also corroborated from the sizeable, unencumbered cash and cash equivalents of more than ~Rs. 650 crore, besides Rs. 321-crore cushion available in fund-based working capital limits as on September 30, 2021. While the cash balances are likely to moderate with the year-end employee payouts, these are expected to remain high. With strong business fundamentals, no long-term debt obligations and modest capex outflows, PwCPL'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 –Pressure on PwCPL's ratings 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, a 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 ratings 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 company

PricewaterhouseCoopers Private Limited (PwCPL) offers Advisory Services through four strategic business units: (i) Consulting, (ii) Government Reforms and Infrastructure Development (GRID), (iii) Deals and (iv) Advisory Corporate. PwCPL has a pan-India presence and the experience of having worked with various types of clients viz. the Government, multinational companies, domestic corporate houses, and multilateral organisations. PwCPL is one of the four PwC Network member entities engaged in the consultancy business in India. The others are PricewaterhouseCoopers Services LLP, PricewaterhouseCoopers Professional Services LLP, and PricewaterhouseCoopers India LLP.

Key financial indicators

Consolidated*	FY2020	FY2021
Operating Income (Rs. crore)	4,215.0	3,911.5
PAT (Rs. crore)	183.2	262.9
OPBDIT/OI (%)	13.0%	11.9%
PAT/OI (%)	4.3%	6.7%
Total Outside Liabilities/Tangible Net Worth (times)	4.2	2.9
Total Debt/OPBDIT (times)	2.1	1.8
Interest Coverage (times)	5.4	9.7

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

** Consolidated provisional financial estimates for PwCPL, PricewaterhouseCoopers Services LLP, PricewaterhouseCoopers Professional Services LLP, and PricewaterhouseCoopers India 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 March 31, 2021	Date & Rating in		Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018
					Feb 28, 2022	Apr 20, 2021	Mar 20, 2020	Jul 18, 2019	Jan 14, 2019	Dec 31, 2018	Mar 12, 2018
1	Fund based/ Working Capital Facilities	Long-term	980.0	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
2	Non-Fund based limits	Short-term	200.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based	Simple
Non-Fund based	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 Fund based/Working Capital Facilities	NA	NA	NA	980.00	[ICRA]AA- (Stable)
NA	Non-Fund based limits	NA	NA	NA	200.00	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PricewaterhouseCoopers Private Limited (PwCPL)	NA	Full Consolidation
PricewaterhouseCoopers Services LLP (Holding entity of PwCPL)	NA	Full Consolidation
PricewaterhouseCoopers Professional Services LLP (Fellow subsidiary of PwCPL)	NA	Full Consolidation
PricewaterhouseCoopers India LLP (Fellow subsidiary of PwCPL)	NA	Full Consolidation

Source: *Company*

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About ICRA Limited:

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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