

Price Waterhouse & Co. Bangalore LLP

March 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based	-	15.0	[ICRA]AA (Negative); Assigned
Total	-	15.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]AA (pronounced ICRA double A) to Rs. 15.0 -crore¹ fund-based bank facilities of Price Waterhouse & Co. Bangalore LLP (PWCB)². The long-term rating carries a 'Negative' outlook.

Rationale

While assigning the ratings, ICRA has taken a comprehensive view of the operations of the three entities – PricewaterhouseCoopers Private Limited, Price Waterhouse Chartered Accountants LLP and Price Waterhouse And Co. Bangalore LLP and are hereby referred to as PricewaterhouseCoopers India (PwCI).

The rating reflects the robust growth in the PwCI's revenues led by improved performance in Advisory Services and Tax & Regulatory Services in FY2017. In FY2017, the operating income of PwCI improved by 21% and ICRA expects the growth in FY2018 to remain healthy. The ratings also reflect PwCI's established position in India drawing on its long track record of providing quality services and its status as a member of the global network of PricewaterhouseCoopers—one of the largest global professional services firms. Being a part of the global network, all three firms have access to an extensive knowledge base apart from being attuned to international quality standards and processes. Further, the ratings continue to draw support from the diversified revenue base leading to low concentration risks.

Notwithstanding the rising scale, the rating strengths are offset by significant increase in PwCI's debt levels. The total debt increased from Rs. 193.19 crore at the end of March 31, 2016 to Rs. 439.17 crore at the end of March 31, 2017, and further to ~ Rs. 583.80 crore at the end of December 31, 2017. Elevated debt levels, owing to rising working capital requirements, has deteriorated the capitalisation and coverage indicators of PwCI. TOL/TNW³ and NCA/TD⁴ weakened from 3.17 times and 47% respectively in FY2016 to 4.07 times and 33% respectively in FY2017. Moreover, the ratings also remain constrained owing to pressure on the operating profitability because of increasing operational costs as PwCI continues to focus on investing in manpower and other administrative charges. Further, the ratings continue to factor in high working capital intensity of operations owing to higher receivables and advances to statutory authorities. While ICRA has taken cognizance of the various initiatives being undertaken by the management to manage its receivables, the successful implementation of the same will be critical in determining its future profitability and working capital requirements. In addition, the ratings continue to be constrained by high attrition rates and competitive intensity as is typical in this business.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ Total outside liability-to-total networth

⁴ Net cash accruals-to-total debt

Going forward, PwCI's ability to maintain its revenue growth while improving its profitability and working capital cycle, which will result in lower reliance on debt and lead to strengthening of its debt protection metrics, will remain amongst the key rating sensitivity factors. Further, ICRA will continue to monitor the outcome of the appeal against the SEBI's January 2018 order and its impact on the operational and financial profile of PwCI.

Outlook: Negative

The outlook on PwCI's long-term rating reflects the weakening of its capitalisation and debt coverage indicators with the increasing reliance on debt for working capital requirements and the impact of the restraining order passed by SEBI in January 2018 on its business risk profile.

SEBI, in January 2018, passed an order wherein entities/firms practising as Chartered Accountants in India under the brand and banner of Pricewaterhouse were barred from issuing any certificate of audit of listed companies, compliance of obligations of listed companies and intermediaries registered with SEBI for a period of two years from April 01, 2018 onwards. PwCI filed its appeal with SAT against the said order. The SAT, while upholding the restraining order passed by SEBI in January 2018, provided an interim relief to PwCI and its network entities for issuing any certificate of audit of listed companies, compliance of obligations of listed companies and intermediaries registered with SEBI until March 31, 2019. However, the said litigation is likely to have an impact on the operational and financial risk profile of the company over the near to medium term and ICRA will continue to assess the impact on the credit profile.

The rating may be downgraded if the outcome of the appeal significantly impacts the operational and financial profile of PwCI or there is further increase in debt leading to weakening of the capitalisation and coverage indicators. On the other hand, the outlook may be revised to Stable in case there is significant improvement in the capitalisation and there is a positive outcome of the appeal against the SEBI's restraining order or if its impact is limited

Key rating drivers

Credit strengths

Healthy growth in scale of operations – PwCI's operating income improved from Rs. 2263.83 crore in FY2016 to Rs. 2735.88 crore in FY2017 backed by improved performance in Advisory Services and Tax & Regulatory Services in FY2017. In FY2018, the growth is expected to remain robust.

Established track record and member of the global network of PricewaterhouseCoopers – PwCI's has an established position in India providing quality services and is a member of the global network of PricewaterhouseCoopers—one of the largest global professional services firms. Being a part of the global network, all three firms have access to an extensive knowledge base apart from being attuned to international quality standards and processes.

Low client concentration risk - Diversified revenue base of PwCI limits its reliance on any single client. Overall, top-10 clients account for less than 20% of the overall revenues, which mitigates the exposure to client concentration risk.

Credit challenges

Elevated debt levels and weak capitalisation and coverage indicators – PwCI's total debt increased from Rs. 193.19 crore at the end of March 31, 2016 to Rs. 439.17 crore at the end of March 31, 2017, and further to ~ Rs. 583.80 crore at the end of December 31, 2017. Elevated debt levels, owing to rising working capital requirements, has deteriorated the capitalisation and coverage indicators of PwCI. TOL/TNW and NCA/TD weakened from 3.17 times and 47% respectively in FY2016 to 4.07 times and 33% respectively in FY2017.

Modest profitability - The operating profitability has remained modest owing to increasing operational costs as PwCI continues to focus on investing in manpower and other administrative charges. The company operates in a competitive business environment which along with retention of talent, wage inflation and pricing pressure keeps the profitability muted.

Litigation overhang – Currently, PwCI has appealed against SEBI's January 2018 restraining order with SAT. While upholding the restraining order of SEBI passed in January 2018, SAT passed an interim relief in February 2019, to PwCI and its network entities by permitting them to issue any certificate of audit of listed companies, compliance of obligations of listed companies and intermediaries registered with SEBI until March 31, 2019.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company/firm:

Price Waterhouse & Co. Bangalore LLP (PWCB) is a partnership firm providing assurance services in India. Its range of services includes Financial Statement Audit, Assistance on Capital Markets Transactions, Financial Accounting, Independent Controls and Systems Process Assurance, and Regulatory Compliance and Reporting. PWCB has a pan-Indian presence and the experience of having worked with various types of clients, viz. Government, multinational companies, domestic corporate houses, and multilateral organisations..

Key financial indicators (audited, standalone)

	FY2016	FY2017
Operating Income (Rs. crore)	170.93	204.41
PAT (Rs. crore)	24.47	21.87
OPBDIT/OI (%)	21.34%	11.70%
RoCE (%)	148.77%	98.73%
Total Debt/TNW (times)	0.16	0.21
Total Debt/ OPBDIT (times)	0.15	0.25
Interest coverage (times)	155.39	26.10
NWC/ OI (%)	17%	12%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date &Rating March-18	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Fund Based	Long Term	15.0	15.0	[ICRA]AA (Negative)			

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Fund Based – working capital		-		15.0	[ICRA]AA (Negative) Source: PWCB

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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.

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