

May 18, 2023

Price Waterhouse & Co LLP: Ratings reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-1; ^Rs. 150-crore limit is interchangeable between fund-based and non-fund-based category 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 a low counterparty risk. These operational strengths support its large scale of operations and healthy return metrics. ICRA expects the improvement trend to continue and the entity's financial risk profile to strengthen over the medium term. After a healthy 43% YoY growth in revenues in FY2022, the entity's performance continued to be healthy in FY2023 as it is expected to report a 17-20% YoY growth in revenues, as per estimates provided by the management. Moreover, the ratings continue to factor in ICRA's expectation of a sustained healthy performance in FY2024 and upcoming years, 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. Overall, PwC's financial risk profile continues to be robust, characterised by a conservative capital structure (reflected by Total Debt/OPBDITA of 0.2 times in 10M FY2023), robust debt protection metrics (reflected by an interest cover of 149.9 times and DSCR of more than 200.0 times in 10M FY2023), and a strong liquidity position.

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. 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 for being a 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 shares 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, PWA has a geographically diversified revenue base.

Robust financial risk profile – PWA has a robust financial risk profile, characterised by a conservative capital structure (debt/net worth of 0.1 times as on January 31, 2023 and total debt/OPBDITA of 0.2 times in 10M FY2023 (provisional estimate)) and robust debt coverage metrics (interest cover and DSCR of 150 times and 242 times in 10M FY2023, respectively). As on January 31, 2023, PWA had unencumbered cash and equivalents of Rs. 600 crore against the working capital borrowing of Rs. 125 crore, resulting in negative net debt. While the cash balances are likely to moderate with year-end employee pay-outs, the same are still expected to remain high. ICRA expects sustained healthy performance 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 control 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 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 – PWA's business is working capital intensive, with an elongated receivable cycle and blockage of a sizeable 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.

Risks 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, the entity has a reasonable track record in employee retention, reflecting favourably on its brand strength, employee policies and compensation packages. ICRA draws comfort from PWA's track record and has considered 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 flow generated from operations. This is also corroborated by the sizeable, unencumbered cash and cash equivalents of more than ~Rs. 500 crore, besides Rs. 85-crore cushion available in fund-based working capital limits as on March 31, 2023. 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, 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 – Pressure on PWA's rating could arise in case of any 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 the credit metrics and the 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/Network 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-II) given the close business, financial and managerial linkages among the same.

About the entity

Price Waterhouse 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 has 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 (Audited)

Consolidated	FY2021	FY2022
Operating income	1376.6	1973.9
PAT	337.0	466.6
OPBDIT/OI	32.6%	32.1%
PAT/OI	24.5%	23.6%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	633.6	632.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				May 18, 2023	-	Feb 28, 2022	-
1 Fund based/Non-Fund based	Long term/Short-term	150.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+	-

Note: Limits are fungible between fund and non-fund based category

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/Non-Fund based	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term/Short-term – Fund based/Non-Fund based limits	-	-	-	150.00	[ICRA]AA (Stable)/[ICRA]A1+

Source: Entity; **Note:** Limits are fungible between fund and non-fund based category

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

Annexure II: 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

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Branches



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