

January 29, 2021

Walker Chandiok & Co LLP: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	10.0	10.0	[ICRA]A- (Stable); reaffirmed
Total	10.0	10.0	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in Walker Chandiok & Co LLP's (WCC's) steady performance in FY2020 and the current fiscal, as demonstrated by its steady revenue growth, improvement in profit generation and cash accruals as well as reduced reliance on debt, leading to comfortable debt protection metrics. While the adverse impact of the novel coronavirus (Covid-19) has resulted in some revenue growth moderation, lower operational overheads with adoption of partial work-from-home policy has led to an improvement in profitability levels in the current fiscal. Additionally, the rating continues to factor in the firm's established business position and long operational track record in the audit business in India. Its contractual association with the members of the global network of Grant Thornton International (GTI; a network of leading global accounting and consulting firms) also supports the rating. Leveraging on the same, WCC has developed a diversified customer base, which includes reputed Government and private sector companies. This has continued to result in low client-concentration risks, while repeat businesses continue to support the firm's revenue growth.

However, the rating is constrained by WCC's moderate capital base due to continued sizeable capital withdrawals and limited pricing flexibility owing to stiff competition from other established audit firms. While capital withdrawals towards share of profits earned will continue, the level is likely to be comparatively lower going forward with increased capital contribution to meet the working capital requirements. Moreover, the rating continues to factor in the vulnerability of operations to regulatory/reputational risks, given the dynamic regulatory environment and increasing challenges in retaining key personnel.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the firm will continue to benefit from its established business position with diverse service offering and client base. These factors are expected to enable WCC to sustain its business growth, profitability levels and liquidity position.

Key rating drivers and their description

Credit strengths

Long track record and established presence in audit and assurance business in India – WCC has an established business position and long operational track record of several decades in the audit space in the domestic market. Expansion of the office network, repeat business from the existing clients and addition of new clients has led to steady revenue growth. Although the adverse impact of the pandemic has resulted in some revenue growth moderation, lower operational overheads with adoption of partial work-from-home policy has led to an improvement in profitability levels in the current fiscal. These coupled with increased capital contribution by the partners have led to lower reliance on external debt in the current fiscal, resulting in comfortable debt protection metrics.

Benefits from contractual association with members of GTI – The firm is contractually associated with members of the GTI global network of accounting and consulting firms. The operations derive benefits from global methodologies, processes, and

the knowledge base of the GTI network. WCC can also provide services to GTI member firms for their international assignments.

Diverse client and service base – Given its diverse service offerings, strong brand and established operational track record, WCC has developed a wide client base that includes reputed names from private sector, public sector, and multilateral agencies. This has also resulted in repeat business from clients. Additionally, WCC provides services to various international GTI member firms, which results in revenue diversification to some extent.

Credit challenges

Intense competition limits pricing flexibility; operations exposed to employee attrition – WCC faces stiff competition from other established audit/consulting majors (Ernst & Young, PricewaterhouseCoopers, KPMG and Deloitte), which limits its pricing flexibility. Also, the firm's ability to attract and retain quality manpower remains a challenge.

Moderate capital base owing to regular capital withdrawals – Given the sizeable capital withdrawals by the partners, the firm's capital base has remained moderate. Nevertheless, the debt protection metrics of the firm remain comfortable. Moreover, with increased capital contribution by the partners, the capital base is expected to widen going forward.

Exposed to reputation and regulatory risks – WCC faces high market/reputational risks, given the strict controls by regulatory authorities. Adding to the woes, any adverse event can lead to the firm's de-affiliation from the global network.

Liquidity position: Adequate

WCC's liquidity position is **adequate**, supported by steady internal accrual generation, undrawn bank lines, free cash balances and no major debt repayment liability. Increased internal accrual generation and capital contribution by the partners have led to reduced reliance on debt, as demonstrated by the considerably lower utilisation of working capital bank lines thus far in the current fiscal. While capital withdrawals towards the share of profits earned have continued, the level is expected to be comparatively lower going forward, with increased capital contribution by partners in the firm to meet the working capital requirements.

Rating sensitivities

Positive factors – Significant increase in scale of operations and sustainable improvement in profitability, which coupled with lower capital withdrawals resulting in an increase in the capital base/net worth, could lead to a rating upgrade.

Negative factors – The rating could be downgraded if there is a considerable decline in revenue, profit margins and cash flow generation on a sustained basis. Additionally, stretching of the working capital cycle due to build-up of debtor levels on a sustained basis and capital withdrawals greater than the level of profits generated during the year could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

WCC, a limited liability partnership, has a long track record in the assurance, tax and regulatory business in India. It has a pan-India presence and the experience of having worked with various types of clients, viz. multinational companies, domestic corporate houses, and Government agencies across different sectors.

In FY2020, WCC reported a net profit of Rs. 38.6 crore on an operating income (OI) of Rs. 267.7 crore compared with a net profit of Rs. 36.9 crore on an OI of Rs. 228.5 crore in the previous year.

Key financial indicators (audited)

GTAPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	228.5	267.7
PAT (Rs. crore)	36.9	38.6
OPBDIT/OI (%)	25.1%	22.9%
RoCE (%)	289.4%	247.0%
Total Outside Liabilities/Tangible Net Worth (times)	3.6	2.6
Total Debt/OPBDIT (times)	0.2	0.3
Interest Coverage (times)	43.1	20.7
DSCR (times)	29.3	14.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

*Profit Before Tax

Source: WCC, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Jan 29, 2021	Oct 25, 2019	Apr 6, 2018	-
1	Fund based - Working Capital Facilities	Long-term	10.0	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A(Stable)	-

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 [click here](#)

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 Facilities	-	-	-	10.0	[ICRA]A-(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Company Name	Ownership	Consolidation Approach
-	-	-

ANALYST CONTACTS

Sabyasachi Majumdar

+91-124-4545304

sabyasachi@icraindia.com

Deepak Jotwani

+91-124-4545870

deepak.jotwani@icraindia.com

Anupama Arora

+91-124-4545303

anupama@icraindia.com

Shuvam Banerjee

+91-124-4545300

shuvam.banerjee@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.