

April 29, 2022^(Revised)

Grant Thornton Bharat LLP: Rating upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	35.0	35.5	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Non-fund based – BG	30.0	35.0	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Total	65.0	70.5	

*Instrument details are provided in Annexure-1

Rationale

While assessing the ratings, ICRA has taken a consolidated view of two entities—Grant Thornton Bharat LLP (GT) and Grant Thornton Advisory Private Limited (GTAPL)—that are involved in consultancy business. The entities together have been referred to as the GT Group.

The rating action factors in the likely improvement in the GT Group's performance in FY2022, followed by healthy performance in FY2021 as well, as demonstrated by steady revenue growth, improvement in profit and cash generation and the resultant reduced reliance on debt, leading to strong debt protection metrics. The margins, after showing a significant improvement in FY2021, continued to remain at healthy levels in FY2022 with cost rationalisation measures taken by the GT Group.

The rating continues to factor in the Group's established business position and long operational track record with wide service offerings in the consulting business in India. Its membership in the global network of Grant Thornton International (GTI, a network of leading global accounting and consulting firms), which provides brand strength and benefits in terms of access to the extensive knowledge base, attunement to international quality standards and processes also support the rating. Leveraging on the same, the GT Group has developed a diversified customer base, which includes reputed Government and private sector companies. Repeat businesses from its clientele continue to support the Group's revenue growth.

The rating is, however, constrained by the GT Group's moderate capital base due to continued sizeable capital withdrawals (by partners in case of GT) and limited pricing flexibility owing to stiff competition from other established consulting firms in the segments in which the Group operates in. While capital withdrawals towards the share of profits earned will continue, the level is likely to be moderate going forward with requirements of increased capital contribution by the partners in GT 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 reflects ICRA's opinion that the GT Group will continue to benefit from its established business position with diverse service offerings and a wide client base. Its membership of the global network of GTI also supports the outlook. These factors are expected to enable the Group to sustain its business growth, profitability levels and liquidity position.

Key rating drivers and their description

Credit strengths

Sustained healthy financial performance in FY2022 after a significant improvement witnessed in FY2021 – In FY2022, the Group is likely to have achieved a ~30% revenue growth with combined revenues of ~Rs.560-570 crore, driven by increased projects for technology advancement, audit/compliance and services provided to various public sector undertakings and Government entities as well as overall fee revision for various services rendered by the Group. The profit margins also stood at healthy levels in FY2022 for the entities on the back of cost rationalisation initiatives undertaken, lower travel related and operational expenditure and reduced real estate footprint with work from home being followed. These apart, there has been savings in interest costs with almost nil utilisation of limits and reduction in Fully Compulsorily Convertible Debenture's interest cost with their conversion. The GT Group has an established business position and an operational track record of several decades in the consultancy space in the domestic market. The advisory business accounts for most of the Group's revenues, and over the years, it has widened its service offerings within this segment.

Benefits of GTI network membership – The Group is a member of the GTI network. Besides brand strength, the Indian operations derive support from the international methodologies, processes and knowledge base of the GTI 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.

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

Credit challenges

Intense competition limits pricing flexibility, operations remain exposed to employee attrition – The Group faces stiff competition from other established consulting majors (Ernst & Young, PricewaterhouseCoopers, KPMG and Deloitte), which limits its pricing flexibility. Also, the Group'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 of GT, the Group's capital base has remained moderate. Nevertheless, the debt protection metrics of the Group remain comfortable. Moreover, with increased capital contribution by the partners, the capital base is expected to increase, going forward.

Exposed to reputation and regulatory risks – The GT Group faces high market/reputational risks, given the strict controls by regulatory authorities. Besides, any adverse event can lead to its de-affiliation from the global network.

Liquidity position: Adequate

The Group's liquidity position remains **adequate**, supported by steady generation of internal accruals, undrawn bank lines, free cash balances (~ Rs. 30 crore along with investment in mutual funds of ~Rs.21 crore as of March 2022) and no major debt repayment liability. Increased internal accrual generation and capital contribution by the partners led to reduced reliance on debt, also demonstrated by considerably lower utilisation of the working capital bank lines in the current fiscal so far. While capital withdrawals towards share of profits earned have continued, the proportion of the same is expected to be comparatively lower going forward, with increased level of capital contribution by the partners to meet the working capital requirements.

Rating sensitivities

Positive factors – A significant increase in the scale of operations and sustainable improvement in profitability could result in a rating upgrade. Besides, lower level of capital withdrawals will result in strong liquidity position while maintaining strong credit metrics and 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 substantial capital withdrawals, leading to weakening of the liquidity position, could also lead to a rating 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 taken a consolidated view of GTB and GTAPL given the shareholding, business, and financial linkages between the two entities.

About the company

GT is a limited liability partnership firm and a part of the global network of consulting firms under GTI, a non-practicing, international umbrella entity. GT broadly offers three lines of services, namely Tax and Regulatory Services, Specialist Advisory Services, and International Assurance Services. The firm has a pan-India presence and experience of working with various clients.

Key financial indicators (audited) - GT

GT Standalone	FY2020	FY2021
Operating Income (Rs. crore)	333.7	347.8
PAT (Rs. crore)	27.6	60.6
OPBDIT/OI (%)	13.5%	26.3%
RoCE (%)	114.2%	180.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	0.3
Total Debt/OPBDIT (times)	0.6	0.01
Interest Coverage (times)	10.2	29.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 29, 2022	-	Feb 22, 2021 Jan 29, 2021	Oct 25, 2019
1	Fund based - Working Capital Facilities	Long-term	35.5	-	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Non-fund based - BG	Long-term	35.0	-	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Working Capital Facilities	Simple
Non-fund based - BG	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	Fund based - Working Capital Facilities	-	-	-	35.5	[ICRA]A+ (Stable)
NA	Non-fund based - BG	-	-	-	35.0	[ICRA]A+ (Stable)

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
Grant Thornton Bharat LLP	-	Full Consolidation
Grant Thornton Advisory Private Limited	-	Full Consolidation

Corrigendum:

Rationale dated April 29, 2022 has been corrected with revisions as detailed below:

In the key financial indicators table, OPBDIT/OI (%), RoCE (%) and Total Outside Liabilities/Tangible Net Worth (times) figures were captured incorrectly. The same has been corrected in the key financial indicators on page number 3.

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