

May 18, 2022

Walker Chandiok & Co LLP: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	20.0	20.0	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	20.0	20.0	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in the likely improvement in Walker Chandiok & Co LLP's (WCC) performance in FY2022, following a healthy performance in FY2021, as demonstrated by a steady revenue growth, an improvement in profit and cash generation and the resultant reduction in 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 firm.

The rating continues to factor in WCC's established business position and long operational track record 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. WCC has developed a diversified customer base leveraging on the same, 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.

The rating is, however, 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 the share of profits earned will continue, the level is likely to moderate going forward with requirements of increased capital contribution by the partners 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 WCC will continue to benefit from its established business position with diverse service offerings and a wide 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

Sustained healthy financial performance in FY2022 after a significant improvement in FY2021 – In FY2022, the firm is likely to have achieved a ~16% revenue growth with revenues of ~Rs.350-360 crore, driven by increased projects for audit/compliance and related services provided to various public sector undertakings and Government entities as well as the overall fee revision for various services rendered by the firm. The profit margins also stood at healthy levels in FY2022 on the back of cost rationalisation initiatives undertaken, lower travel related and operational expenditure and reduced real estate expenses owing to work-from-home model. These apart, there has been savings in interest costs with almost nil utilisation of limits. WCC has an established business position and an operational track record of several decades in the audit space in the domestic market.

Benefits of GTI network membership – 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.

Diversified 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 the private sector, the public sector and multilateral agencies. This also results in repeat business from its clients. Additionally, WCC provides services to various international GTI member firms, which leads to 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 for the firm 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 – WCC faces high market/reputational risks, given the strict controls by regulatory authorities. Besides, any adverse event can lead to the company's de-affiliation from the global network.

Liquidity position: Adequate

WCC's liquidity position is supported by steady generation of internal accrual, free cash balances (~Rs. 8.4 crore along with investment in mutual funds of ~Rs.14 crore as of March 2022), undrawn bank lines and no term loan repayment liability. Increased generation of internal accrual and capital contribution by the partners led to reduction in debt, as demonstrated by considerably lower utilisation of the working capital bank lines in the current fiscal so far. While capital withdrawals towards the 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 a sustainable improvement in profitability, leading to a strong liquidity position while maintaining strong credit metrics, 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 on a sustained basis and substantial capital withdrawals, leading to weakening of the liquidity position, could also result in 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 businesses in India. It has a pan-India presence and has experience of working with various types of clients, viz. multinational companies, domestic corporate houses, and Government agencies across different sectors.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	267.7	307.3
PAT (Rs. crore)	38.6	63.0
OPBDIT/OI (%)	22.9%	32.8%
RoCE (%)	247.0%	268.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	0.2
Total Debt/OPBDIT (times)	0.3	0.0
Interest Coverage (times)	20.7	36.1

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
					May 18, 2022	-	Feb 22, 2021 Jan 29, 2021	Oct 25, 2019
1	Fund based - Working Capital Facilities	Long-term	20.0	-	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Working Capital Facilities	Simple

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	-	-	-	20.0	[ICRA]A (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
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