

July 03, 2023

Grant Thornton Bharat LLP: Rating Reaffirmed; 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	35.5	35.5	[ICRA]A+ (Stable); reaffirmed
Non-fund based – BG	35.0	50.0	[ICRA]A+ (Stable); reaffirmed/ assigned for enhanced limits
Total	70.5	85.5	

*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 the consultancy business. The entities together have been referred to as the GT Group.

The rating reaffirmation factors in the improvement in the GT Group's healthy financial performance in FY2023, following a strong performance in FY2021 and FY2022, as demonstrated by a steady revenue growth, improvement in profit and cash generation and the sustained low debt levels, leading to strong debt protection metrics. 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, compliance with 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 promoters of 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 FY2023 after a significant improvement witnessed in last two years – The Group's revenues have been rising at a healthy CAGR of 26% during FY2020-FY2023 and achieved a combined revenue of ~Rs. 824 crore, driven by increased projects for technology advancement, audit/compliance and services provided to various public sector undertakings and Government entities as well as the overall fee revision for different services rendered by the Group. This 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. In FY2024, at the consolidated level, the top line is expected to grow by 35-40%. The revenue is expected to grow from the audit business as well as increased service offerings. While the operating margins are expected to be moderated with higher employee costs in the near term, the same still remain at healthy levels.

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 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.

Diverse client and service base – Given its diverse service offerings, a strong brand and an established operational track record, the GT Group 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, 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 (~52% on an average during FY2021-FY2023) 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: Strong

The Group's liquidity position is strong, supported by steady generation of internal accruals, undrawn bank lines, free cash balances (~ Rs. 91 crore as of March 2023) 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. ICRA notes the investment of ~Rs.22 crore made by the Group in a group entity in FY2023 as well as the capital withdrawals towards share of profits earned have continued to remain high.

Rating sensitivities

Positive factors – A significant increase in the scale of operations and a sustained improvement in profitability while maintaining strong credit metrics along with strong liquidity position could result in 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 GT 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

GT Group	FY2022	FY2023*
Operating Income (Rs. crore)	570.1	824.3
PAT (Rs. crore)	116.2	117.2
OPBDIT/OI (%)	23.3%	17.3%
PAT/OI (%)	20.4%	14.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	27.4	32.7

Source: GT Group; *Note: FY2023 figures are provisional

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: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in	Earlier rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jul 3, 2023	Jun 8, 2023	Apr 29, 2022	-	Feb 22, 2021 Jan 29, 2021
1	Fund based - Working Capital Facilities	Long-term	35.5	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)
2	Non-fund based - BG	Long-term	50.0	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)

Complexity level of the rated instrument

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 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	Fund based - Working Capital Facilities	-	-	-	35.5	[ICRA]A+ (Stable)
NA	Non-fund based - BG	-	-	-	50.0	[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

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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.

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