August 01, 2023

PricewaterhouseCoopers Private Limited: Ratings reaffirmed for Rs. 1,180 crore; Rating reaffirmed and withdrawn for Rs. 5 crore

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based/Working Capital Facilities	985.00	905.00	[ICRA]AA- (Stable); reaffirmed
Short term – Non-Fund based	195.00	275.00^	[ICRA]A1+; reaffirmed
Short term – Non-Fund based	5.00	0.00	[ICRA]A1+; reaffirmed and withdrawn
Total	**1,185.00**	**1,180.00**	

**Instrument details are provided in Annexure-I; ^ limits are interchangeable between fund-based and non-fund-based category*

Rationale

While assessing the ratings, ICRA has taken a consolidated view of the operations of the four entities — PricewaterhouseCoopers Private Limited (PwCPL), PricewaterhouseCoopers Services LLP, PricewaterhouseCoopers Professional Services LLP and PricewaterhouseCoopers India LLP – which are involved in consultancy business and are hereafter referred to as PricewaterhouseCoopers Consulting (PwCC).

The ratings action continues to draw strength from PwCC'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 PwCC establish a reputed and diversified customer base, providing repeat business with low counterparty risk. Further, PwCC benefits from the business outsourced to it by various member firms of the PwC network spread across multiple countries, providing diversity to its earnings. These operational strengths support its large scale of operations and healthy return metrics. ICRA expects the improvement trend to continue and PwCC's financial risk profile to strengthen over the medium term. After a steady 11% YoY growth in revenues in FY2022, PwCC's performance continued to be healthy in FY2023 as it expects a 35% YoY growth in revenues, as per estimates provided by management. Moreover, the ratings continue to factor in ICRA's expectation of a sustained healthy performance in FY2024 and upcoming years, supported by increased business in the consulting divisions. Together with steady profit margins, this is expected to help PwCC maintain healthy coverage metrics, despite the working capital-intensive nature of operations. Overall, PwC's financial risk profile continues to be robust, characterised by a conservative capital structure (reflected by Total Debt/OPBDITA of 0.8 times in 10M FY2023), robust debt protection metrics (reflected by an interest cover of 40.7 times and DSCR of 51.5 times in 10M FY2023), and a strong liquidity position.

The ratings, however, continue to be constrained by the intense competition in the segments where PwCC 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, the entity's ability to maintain a healthy talent base remains a crucial determinant of its performance. While reaffirming the ratings, ICRA has also noted the status quo on the matter relating to imposition of fine by the Enforcement Directorate (ED) for alleged violations of FEMA provisions. While ICRA does not foresee any immediate adverse impact, it will continue to monitor the developments and take rating action, as and when required.

The Stable outlook on the long-term rating reflects ICRA's opinion that PwCC will maintain strong debt coverage metrics and liquidity, supported by healthy profits and moderate working capital requirements.

Further, ICRA has withdrawn the rating assigned to the Rs. 5 crore non-fund based limits based on the receipt of request from the company and in accordance with ICRA's policy on withdrawal.

Key rating drivers and their description

Credit strengths

Established track record; benefits for being a part of PwC network – PwCC is a member of PwC global network – one of the largest global professional services firms. Besides brand strength, the Indian operations derive support from 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 PwCC 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, PwCC has developed a wide client base that includes reputed names from private sector, public sector and multilateral agencies, which provide regular repeat business. Additionally, PwCC provides services to other network firms, which leads to revenue diversification to some extent. Further, the entity has a geographically spread-out revenue base.

Robust financial risk profile – PwCC has a robust financial risk profile, characterised by a conservative capital structure (debt/net worth of 0.4 times as on January 31, 2023 and total debt/OPBDITA of 0.8 times in 10M FY2023 (provisional estimate)) and robust debt coverage metrics (interest cover and DSCR of 40.7 times and 51.5 times in 10M FY2023, respectively. As on January 31, 2023, PwCC had unencumbered cash and equivalents of Rs. 435 crore, against working capital borrowing of Rs. 399 crore, resulting in negative net debt. While the cash balances are likely to moderate with year-end employee pay-outs, these are still expected to remain high. ICRA expects sustained healthy performance together with steady margins and moderate working capital requirements to keep PwCC's incremental reliance on debt low and its capitalisation and coverage metrics robust.

Credit challenges

Legal and reputational risks – PwCC faces high legal and reputational risks, given the strict control by regulatory authorities and the nature of its operations. Any reputational damage could severely impact its ability to attract and retain employees and clients, which could materially dampen profitability and cash flow. In September 2019, the Enforcement Directorate (ED) had imposed a fine of ~Rs. 230 crore on PwCC and six other key personnel and ex-employees of PwCC for alleged violations of FEMA provisions. PwCC appealed against the said ED order before the tribunal, which is pending adjudication. Though there has not been any development on the matter in the past few years, reputational sensitivity continues for PwCC and the PwC network firms in India as a whole.

Risk of capital withdrawals – Partners'/Directors' payout is the largest cost component for PwCC. 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 – PwCC's business is working capital intensive, with an elongated receivable cycle and blockage of a sizeable amount in income tax receivable. Further, PwCC 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 PwCC.

Risk related to employee retention – Given the highly relationship driven nature of operations, employee attrition is generally a major concern for consulting firms. The loss of a significant number of key employees could materially affect PwCC's service delivery and profitability. However, PwCC has a reasonable track record in employee retention, reflecting favourably on its brand strength, employee policies and compensation packages. ICRA draws comfort from PwCC's brand name and track record and has noted the steps being taken by PwCC to address the said risk.

Liquidity position: Strong

PwCC's liquidity position is strong, driven by the healthy surplus cash flow generated from operations. This is also corroborated from the sizeable, unencumbered cash and cash equivalents of more than ~Rs. 400 crore, besides more than Rs. 700 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, PwCC'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 sustained basis, would be the key factors for a rating upgrade.

Negative factors – Pressure on PwCC's ratings could arise in case of an adverse legal or regulatory action against the PwC network firms in India, or if there is a significant decline in revenues and accruals. Additionally, a significant deterioration in credit metrics and liquidity profile, for reasons including but not limited to sizeable capital withdrawals in firms, could be triggers for ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy On Withdrawal of Credit Ratings
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

PricewaterhouseCoopers Private Limited (PwCPL) offers advisory services through four strategic business units: (i) Consulting, (ii) Government Reforms and Infrastructure Development (GRID), (iii) Deals and (iv) Advisory Corporate. PwCPL has a pan-India presence and experience of having worked with various types of clients viz. the Government, multinational companies, domestic corporate houses, and multilateral organisations. PwCPL is one of the four PwC Network member entities engaged in the consultancy business in India. The others are PricewaterhouseCoopers Services LLP, PricewaterhouseCoopers Professional Services LLP and PricewaterhouseCoopers India LLP.

Key financial indicators (Audited)

Consolidated	FY2021	FY2022
Operating income	3911.5	4349.1
PAT	262.9	291.7
OPBDIT/OI	11.9%	9.4%
PAT/OI	6.7%	6.7%
Total outside liabilities/Tangible net worth (times)	2.9	2.6
Total debt/OPBDIT (times)	1.8	1.7
Interest coverage (times)	9.7	8.1

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	Current rating (FY2024)						Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Aug 1, 2023	Jul 25, 2023	May 18, 2023	-	Feb 28, 2022	Apr 20, 2021	-
1	**Fund based/ Working Capital Facilities**	Long-term	905.0	-	**[ICRA]AA- (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	**Non-Fund based limits**	Short-term	275.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	-
3	**Non-Fund based limits**	Short-term	5.0	-	**[ICRA]A1+ withdrawn**	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	-

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/Working capital facilities	Simple
Non-Fund based	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	Long-term Fund based/Working Capital Facilities	-	-	-	905.00	[ICRA]AA- (Stable)
NA	Non-Fund based limits	-	-	-	275.00	[ICRA]A1+
NA	Non-Fund based limits	-	-	-	5.00	[ICRA]A1+; withdrawn

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
PricewaterhouseCoopers Private Limited (PwCPL – 100% held by PricewaterhouseCoopers Services LLP)	NA	Full Consolidation
PricewaterhouseCoopers Services LLP	NA	Full Consolidation
PricewaterhouseCoopers Professional Services LLP (100% held by PricewaterhouseCoopers Services LLP)	NA	Full Consolidation
PricewaterhouseCoopers India LLP (90% held by PricewaterhouseCoopers Services LLP and 10% held by PricewaterhouseCoopers Private Limited)	NA	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Gaurav Singla
+91 124 4545 366
gaurav.singla@icraindia.com

Preeti Rana
+91 124 4545 887
preeti.rana@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

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.