

August 13, 2024

## Grant Thornton Bharat LLP: Rating reaffirmed

### Summary of rating action

| Instrument*                                 | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                |
|---|--------------------------------------|-------------------------------------|------------------------------|
| Long term - Fund based - Cash Credit        | 35.50                                | 35.50                               | [ICRA]A+(Stable); reaffirmed |
| Long term - Non-fund based – Bank guarantee | 50.00                                | 50.00                               | [ICRA]A+(Stable); reaffirmed |
| <b>Total</b>                                | <b>85.50</b>                         | <b>85.50</b>                        |                              |

\*Instrument details are provided in Annexure-I

### 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) — given the strong operational, financial and managerial linkages between the entities, which is also reflected in the shareholding, common promoters and operational synergies. Both entities are primarily involved in the consultancy business and are collectively referred to as the GT Group.

The rating reaffirmation factors in the GT Group's healthy financial performance in FY2024, which is expected to sustain in FY2025 as demonstrated by a CAGR of ~21% in the last five years ending FY2024, including a ~27% YoY growth in FY2024. The operating margins moderated slightly in the last couple of years owing to higher overhead costs. Nonetheless, the operating margin is expected to remain healthy at over 15% in the near term. Moreover, the financial risk profile remains healthy with sustained low debt levels and 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 supports the rating. Leveraging the same, the GT Group has developed a diversified customer base, including 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 within the Group's operational segments. While capital withdrawals towards the share of profits earned are likely to continue, healthy revenue and profitability growth are likely to support the strong liquidity levels. 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 sustain its operating profile owing to a diverse service offering and a wide client base along with its membership with the GTI global network. Such factors are expected to enable the Group to sustain its business growth, profitability levels and liquidity position commensurate with the rating level.

### Key rating drivers and their description

#### Credit strengths

**Healthy financial risk profile:** The Group's revenues have been increasing at a healthy CAGR of 21% during the last five years ending FY2024 and achieved a combined revenue of ~Rs. 1,050 crore. This was supported by higher revenues from technology-enhancement projects, audit/compliance and services provided to various public sector undertakings, Government entities and private companies. Going forward, the revenue growth is expected to remain healthy in the near term. In the last two years, operating margins have slightly moderated on account of higher overhead costs. Nonetheless, it is expected to remain

healthy at over 15% in the near term. Further, the capital structure remains conservative with nominal debt levels. ICRA notes that the fully compulsorily convertible debenture is expected to be completely repaid in the current year. Consequently, the debt protection metrics also remain strong.

**Benefits of GTI network membership** – GT and GTAPL are members of the GTI network. While the GT Group has an established business position and an operational track record of several decades in the consultancy space within the domestic market, it also benefits from the brand strength it derives from being a member of the GTI network. The Indian operations procure 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 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. The advisory business accounts for the majority of the Group's revenues over the years and has widened its service offerings within this segment. Additionally, the GT Group provides services to various international GTI member firms, resulting in 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. Given the strong 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 the GT Group's service delivery and profitability. The Group has a reasonable track record in employee retention, reflecting favourably on its brand strength, employee policies and compensation packages. However, the Group's ability to attract and retain quality manpower remains a challenge.

**Moderate capital base owing to regular capital withdrawals** – As applicable to any partnership model, the capital structure remains vulnerable to the risk of large capital withdrawals by the partners. ICRA notes that in the last years, average capital withdrawals stood at ~52% of profits, resulting in a moderate capital base for the entity. Nevertheless, the Group's debt protection metrics remain comfortable. The extent of withdrawals and the impact of the same on liquidity, leverage and financial risk profile remain a key rating sensitivity.

**Exposed to reputation and regulatory risks** – The GT Group faces high market/reputational risks due to the stringent controls by regulatory authorities. Besides, any adverse event can lead to its de-affiliation from the global network and impact future revenue prospects.

### Liquidity position: Strong

The Group's liquidity position is strong, supported by the steady generation of internal accruals, undrawn bank lines, free cash balances (~ Rs. 100 crore as of March 2024) and no major debt repayment liability. A steady increase in the Group's internal accruals and regular capital contribution by the partners led to a limited reliance on external debt. ICRA notes the investment of ~Rs. 22 crore made by the Group in a group entity (Unravel Realty LLP for purchase of land) in FY2023 as well as the capital withdrawals towards share of profits earned, which continue 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 a 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 the accumulation of debtor levels on a sustained basis and substantial capital withdrawals, leading to a weakening of the liquidity position, could also lead to a rating downgrade.

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a>  |
| Parent/Group support            | Not applicable   |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has taken a consolidated view of GT and GTAPL, given the strong operational, financial and managerial linkages between the two entities also reflected by shareholding, common promoters and operational synergies. Additionally, both the entities are majorly involved in similar line of consulting business. |

## About the company

Grant Thornton Bharat LLP (GT), a limited liability partnership firm majorly owned by GTAPL, is part of the global network of accounting firms under Grant Thornton International, a non-practising, international umbrella entity. Grant Thornton International has a long track record in the advisory and auditing business and a wide international presence. GT broadly offers three lines of services: tax and regulatory services, specialist advisory services and international assurance services. The firm has a pan-India presence and has the experience of working with a wide variety of clients. Advisory services operation is the largest revenue contributor with about 65-70% share.

## Key financial indicators (audited)

| GT Group   | FY2022 | FY2023 |
|--|--------|--------|
| Operating income                                     | 570.1  | 824.2  |
| PAT  | 116.2  | 122.2  |
| OPBDIT/OI  | 23.4%  | 17.3%  |
| PAT/OI   | 20.4%  | 14.8%  |
| Total outside liabilities/Tangible net worth (times) | 0.4    | 0.5    |
| Total debt/OPBDIT (times)                            | 0.1    | 0.1    |
| Interest coverage (times)                            | 27.6   | 61.2   |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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

| Current (FY2025)                            |           |                         |                   | Chronology of rating history for the past 3 years |                   |           |                   |        |        |
|---|-----------|-------------------------|-------------------|---|-------------------|-----------|-------------------|--------|--------|
| Instrument                                  | Type      | Amount Rated (Rs Crore) | Aug 13, 2024      | FY2024  |                   | FY2023    |                   | FY2022 |        |
|   |           |                         |                   | Date  | Rating            | Date      | Rating            | Date   | Rating |
| Long term - Fund based - Cash Credit        | Long-term | 35.5                    | [ICRA]A+ (Stable) | 03-Jul-23   | [ICRA]A+ (Stable) | 29-Apr-22 | [ICRA]A+ (Stable) | -      | -      |
|   |           |                         |                   | 8-Jun-23  | [ICRA]A+ (Stable) |           |                   |        |        |
| Long term - Non-fund based - Bank Guarantee | Long-term | 50.0                    | [ICRA]A+ (Stable) | 03-Jul-23   | [ICRA]A+ (Stable) | 29-Apr-22 | [ICRA]A+ (Stable) | -      | -      |
|   |           |                         |                   | 8-Jun-23  | [ICRA]A+ (Stable) |           |                   |        |        |

## Complexity level of the rated instruments

| Instrument                                  | Complexity Indicator |
|---|----------------------|
| Long term - Fund based – Cash Credit        | Simple               |
| Long term - Non-fund based – Bank Guarantee | 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 - Cash Credit        | -                | -           | -        | 35.5                     | [ICRA]A+(Stable)           |
| NA   | Long term - Non-fund based – Bank Guarantee | -                | -           | -        | 50.0                     | [ICRA]A+(Stable)           |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis

| Instrument Name                         | Ownership | Consolidation Approach |
|---|-----------|------------------------|
| Grant Thornton Bharat LLP               | -         | Full Consolidation     |
| Grant Thornton Advisory Private Limited | -         | Full Consolidation     |

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