

August 14, 2024

Walker Chandiok & Co LLP: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Cash Credit	20.00	20.00	[ICRA]A (Stable); reaffirmed
Total	20.00	20.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in Walker Chandiok & Co LLP's (WCC) healthy financial profile with sustained low debt levels and operating margins of over 22%, leading to strong debt protection metrics. ICRA takes note of the steady revenue growth of ~14-15% in the recent past, which is expected to sustain going forward. The rating continues to factor in WCC's established business position and long operational track record in India. WCC derives benefits in the form of contractual business with the GT Group (Grant Thornton Bharat LLP and Grant Thornton Advisory Private Limited), which is affiliated to Grant Thornton International (GTI; a network of leading global accounting and consulting firms). WCC has developed a diversified customer base including reputed Government and private sector companies. This has continued to result in low client concentration risks, while repeat businesses supported 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. The capital withdrawals towards the share of profits earned are likely to continue. However, its impact on the debt protection metrics is expected to remain low with healthy profit 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 WCC will sustain its operating profile on the back of a diverse service offering and a wide client base of repute. These factors are expected to enable WCC to sustain its business growth, profitability level and liquidity position commensurate with the rating level.

Key rating drivers and their description

Credit strengths

Healthy financial risk profile: WCC's revenues have been increasing at a healthy CAGR of 16% during the last five years ending FY2024. The company achieved a revenue of ~Rs. 483 crore in FY2024, driven by a higher number of projects for audit/compliance from various public sector undertakings and Government entities with an increased number of partners in the firm. Going forward, the revenue growth is expected to remain healthy in the near term. In the last two years, operating margins remained healthy at over 22%, which is expected to remain steady, going forward. Further, the capital structure remains conservative with nominal debt levels. Consequently, the debt protection metrics also remain strong.

Established presence in audit business with reputed clientele: WCC has an established business position and an operational track record of several decades in the audit segment in the domestic market. Further, WCC benefits in the form of contractual business with the GT Group, which is an affiliate of the GTI network, which supports the firm's business growth. The entity has developed a wide client base that includes reputed companies from the private sector, the public sector and multilateral agencies, which has resulted in repeat business from its clients.

Pan-India presence with diverse service offerings: Over the past few years, the promoter group (GT Group) has expanded its presence in India by opening offices in new cities and by enhancing service offerings across various locations. WCC has a pan-

India presence, along with diverse services offered in the audit, tax and advisory segments. This results in geographical as well as product diversification for WCC.

Credit challenges

Intense competition limits pricing flexibility, operations remain exposed to employee attrition – WCC faces stiff competition from other established audit/consulting majors (Ernst & Young, PricewaterhouseCoopers, KPMG and Deloitte), limiting its pricing flexibility. Given the highly relationship-driven nature of operations, employee attrition is a major concern for audit and consulting firms. The loss of a significant number of key employees could materially affect WCC's service delivery and profitability. The firm has a reasonable track record in employee retention, reflecting favourably on its brand strength, employee policies and compensation packages. However, the firm'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 during the last three years, average capital withdrawals stood at ~65% of profits, resulting in a moderate capital base for the entity. Nevertheless, the firm's debt protection metrics remain comfortable on account of healthy profits and low debt levels. The extent of withdrawals and the impact of the same on liquidity, leverage and financial risk profile remains a key rating sensitivity.

Exposed to reputation and regulatory risks – WCC faces high market/reputational risks, given the stringent controls by regulatory authorities.

Liquidity position: Adequate

WCC's liquidity position is supported by a steady generation of internal accruals, free cash balances (~Rs. 26.6 crore as of March 2024), undrawn bank lines and small-term loan repayment liability. While capital withdrawals towards the share of profits earned have continued, the proportion of the same is expected to be comparatively lower going forward. This, along with the increased level of capital contribution by the partners will be used to meet the working capital requirements.

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 build-up 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	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

WCC is a limited liability partnership firm and is primarily owned by Mr. Vinod Chandiok. It has an established operational track record in the assurance (audit, taxation, etc) business in India. WCC has a pan-Indian presence, and undertakes operations with several multinational companies, domestic corporate houses and government agencies across different sectors.

Key financial indicators (audited)

	FY2023	FY2024 Prov
Operating income	425.3	483.1
PAT	61.6	65.7
OPBDIT/OI	22.3%	22.7%
PAT/OI	14.5%	13.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	1,225.6	22.6

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					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Aug 14, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based - Cash Credit	Long-term	20.0	[ICRA]A (Stable)	03-Jul-23	[ICRA]A (Stable)	18-May-22	[ICRA]A (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash Credit	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 - Cash Credit	-	-	-	20.0	[ICRA]A (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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About ICRA Limited:

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Branches



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