

August 30, 2024

Price Waterhouse & Co Chartered Accountants LLP: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ working capital facilities	30.00	0.00	-
Long-term/ Short-term – Fund-based/ Non-fund based^	150.00	180.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Total	180.00	180.00	

*Instrument details are provided in Annexure-I; ^Rs. 150.0 crore is interchangeable between fund-based & non-fund based limits and also available for utilisation among Price Waterhouse Chartered Accountants LLP, Price Waterhouse & Co Chartered Accountants LLP and Price Waterhouse & Co LLP

Rationale

While assessing the ratings, ICRA has taken a consolidated view of the financials of the 11 PwC entities involved in assurance/audit business i.e., Price Waterhouse & Co Chartered Accountants LLP, Price Waterhouse Chartered Accountants LLP, Price Waterhouse & Co LLP, Price Waterhouse LLP, Price Waterhouse Bangalore, Price Waterhouse & Co., Lovelock & Lewes Chartered Accountants LLP, Price Waterhouse & Co Bangalore LLP, Dalal & Shah Chartered Accountants LLP, Lovelock & Lewes LLP, and Choksey Bhargava & Co LLP, herein collectively referred to as PwCA (PwC – Assurance), given the strong business, financial and managerial linkages among the same.

The ratings continue to draw strength from PwCA'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 the PwCA establish a reputed and a diversified customer base, providing repeat business (~90%) with a low counterparty risk. The assurance business generally has relatively longer term contacts with the clients, which provide long-term revenue visibility. This, along with healthy profitability, lead to robust return metrics of PwCA entities. PwCA's performance continued to be healthy with YoY growth in operating income of 18.9% and 16.1% in FY2023 and FY2024, respectively. Healthy cash accruals along with limited capex outlays lead to minimal reliance on borrowings, thereby facilitating robust debt protection and coverage metrics. Overall, PwCA's financial risk profile continues to be robust, characterised by a conservative capital structure (Total Debt/OPBDITA of 0.1 times in FY2024), robust debt protection metrics (interest cover of 71.2 times and DSCR of 50.4 times in FY2024 as per provisional financials), and a strong liquidity position. The coverage metrics are expected to remain robust with PwCA likely to remain net-debt free in the medium term.

The ratings, however, continue to be constrained by the risks arising from the strict regulatory environment for the assurance business. This was witnessed in the past when a two-year ban was imposed by SEBI on the PwC network entities in carrying out audits for listed companies till March 2020, which intermittently disrupted operations and affected revenues. Further, the ratings remain constrained by the intense competition in segments where PwCA operates, resulting in limited pricing power. PwCA's business is working capital intensive in nature with high receivable cycle (including unbilled revenue) resulting in dependency on borrowings. The ratings also remain constrained by the susceptibility of profitability to huge partner and employee pay-outs, which is the largest cost component. Given the relationship-driven nature of operations, PwCA's ability to maintain a healthy talent base remains a crucial determinant of its performance.

The Stable outlook on the long-term rating reflects ICRA's opinion that PwCA will maintain robust capitalisation and debt coverage metrics, supported by healthy profits and strong cash flow from operations. Further, the outlook underlines ICRA's expectations that PwCA's working capital requirements would be funded in a manner that is able to durably sustain its debt protection metrics commensurate with the existing ratings, while maintaining a strong liquidity.

Key rating drivers and their description

Credit strengths

Established track record; benefit as part of PwC global network – PwCA 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 global network. Each of the member firms share processes and knowledge among them through the network, which help PwCA provide a wide range of services to its clients and work on cross-border assignments.

Reputed and diversified client profile; long-term revenue visibility of regulated business – Diverse service offerings, strong brand and established operational track record enabled PwCA to develop a wide client base that includes reputed names from the private and public sectors as well as multilateral agencies, which provides regular repeat business of around 90%. The assurance business generally has relatively longer term contacts with the clients, which provide long-term revenue visibility. This, along with healthy profitability, leads to robust return metrics to PwCA entities. Additionally, PwCA provides services to other network firms, which leads to revenue diversification to some extent. Further, PwCA has a geographically diversified revenue base.

Robust financial risk profile – PwCA's performance continued to be healthy with YoY growth in operating income of 18.9% and 16.1% in FY2023 and FY2024, respectively. Strong cash flow from operations along with limited capex outlays leads to minimal reliance on borrowings, thereby facilitating robust debt protection and coverage metrics. Overall, PwCA's financial risk profile continues to be healthy, characterised by a conservative capital structure (Total Debt/OPBDITA of 0.1 times in FY2024), robust debt protection metrics (interest cover of 71.2 times and DSCR of 50.4 times in FY2024 as per provisional financials), and a strong liquidity position. The coverage metrics are expected to remain robust with PwCA likely to remain net-debt free in the medium term.

Credit challenges

Exposed to legal and reputational risks – PwCA faces high legal and reputational risks, given the strict control by regulatory authorities and the nature of its operations. For instance, the two-year ban imposed by SEBI on PwC network entities in carrying out audits for listed companies till March 2020, intermittently disrupted operations and affected revenues. While the ban period is over and the incremental impact on PwCA has been limited, the sector remains exposed to regulatory risks due to the strict regulatory environment. While it does not directly impact the credit risk profile of PwCA, ICRA has noted that there remains a reputational sensitivity for PwC network firms in India due to the ED order of ~Rs. 230-crore fine on an advisory member firm for alleged violations of the FEMA provisions.

Working capital-intensive business; exposed to risk of capital withdrawals – PwCA's business is working capital intensive, with a relatively longer receivable cycle (including unbilled revenue) along with large payouts to the partners, which is the largest cost component for PwCA. As applicable to any partnership model, the capital structure remains vulnerable to the risk of large capital withdrawal by the partners. The extent of payout to partners from the profits and the impact of the same on liquidity, leverage and financial risk profile remains a key rating sensitivity. However, ICRA notes that due to strong cash flow from operations and negligible debt in PwCA, overall debt protection metrics remain strong.

Intense competition limits pricing flexibility, exposed to risk related to employee retention – PwCA faces stiff competition from other established consulting majors, which limits its pricing flexibility. Nevertheless, the impact is partly mitigated by its strong brand and market positioning. Given the service-oriented nature of operations, loss of a significant number of key employees could materially affect PwCA's service delivery ability. However, it has a reasonable track record in employee retention, reflecting favourably on its brand strength, employee policies and compensation packages. ICRA draws comfort from PwCA's brand name and track record and has noted the steps being taken by it to address the said risk.

Liquidity position: Strong

PwCA's liquidity position is strong, driven by the healthy surplus cash flow generated from operations. This is also corroborated by the unencumbered cash and cash equivalents of Rs. 170.2 crore, investments in financial assets (mutual funds, corporate bonds and fixed deposits, among others) of Rs. 254.7 crore besides Rs. 160 crore available in fund-based working capital limits as on March 31, 2024. With strong business fundamentals, no external long-term debt obligations and modest capex outflows, PwCA's free cash flows from operations are expected to remain strong at ~Rs. 500 crore. However, ICRA notes that the liquidity of PwCA remains susceptible to partners' and employee payouts, which is the largest cost component of such entities.

Rating sensitivities

Positive factors – A significant improvement in revenues and profitability, while maintaining a strong liquidity profile and debt protection metrics on a sustained basis, would be the key factors for a rating upgrade.

Negative factors – Pressure on PwCA'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 debt protection metrics and liquidity profile, for reasons including but not limited to sizeable capital withdrawals in firms, could be triggers for a 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 consolidated the financials of the various PwC network entities (as mentioned in Annexure-II) given the strong business, financial and managerial linkages among the same.

About the company

Price Waterhouse & Co Chartered Accountants LLP (PW & Co CA LLP) is a part of PwCA (as defined above), which provides assurance and tax services in India. Its range of services include financial statement audit, financial accounting, independent controls and systems process assurance, and regulatory compliance and reporting. PW & Co CA LLP has a pan-India presence and a diverse clientele viz., the Government, multinational companies, domestic corporate houses, and multilateral organisations. The entity is one of the 11 in the PwC India Group, which are involved in assurance and tax-related services.

Key financial indicators (audited)

Consolidated	FY2023	FY2024*
Operating income	2346.5	2723.8
PAT	630.4	685.6
OPBDIT/OI	26.2%	36.4%
PAT/OI	26.9%	25.2%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	0.3	0.1
Interest coverage (times)	75.5	71.2

Source: PwC India, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts 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

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years					
		Amount Rated (Rs crore)	Aug 30, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based/ Non-fund based [^]	Long-term/ Short-term	180.00	[ICRA]AA (Stable)/ [ICRA]A1+	18-May-2023	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	28-Feb-2022	[ICRA]AA (Stable)/ [ICRA]A1+
Fund-based/ Working capital facilities	Long-term	0.00	-	18-May-2023	[ICRA]AA (Stable)	-	-	28-Feb-2022	[ICRA]AA (Stable)

[^]Rs. 150.0 crore is interchangeable between fund-based & non-fund based limits and also available for utilisation among Price Waterhouse Chartered Accountants LLP, Price Waterhouse & Co Chartered Accountants LLP and Price Waterhouse & Co LLP

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term – Fund-based/ Non-fund based	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/ Short-term – Fund-based/ Non-fund based^	-	-	-	180.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: PwC India; ^ Rs. 150.0 crore is interchangeable between fund-based & non-fund based limits and also available for utilisation among Price Waterhouse Chartered Accountants LLP, Price Waterhouse & Co Chartered Accountants LLP and Price Waterhouse & Co LLP

[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
Price Waterhouse & Co Chartered Accountants LLP	NA	Full Consolidation
Price Waterhouse Chartered Accountants LLP	NA	Full Consolidation
Price Waterhouse & Co LLP	NA	Full Consolidation
Price Waterhouse LLP	NA	Full Consolidation
Price Waterhouse Bangalore	NA	Full Consolidation
Price Waterhouse & Co.	NA	Full Consolidation
Lovelock & Lewes Chartered Accountants LLP	NA	Full Consolidation
Price Waterhouse & Co Bangalore LLP	NA	Full Consolidation
Dalal & Shah Chartered Accountants LLP	NA	Full Consolidation
Lovelock & Lewes LLP	NA	Full Consolidation
Choksey Bhargava & Co LLP	NA	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.

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.

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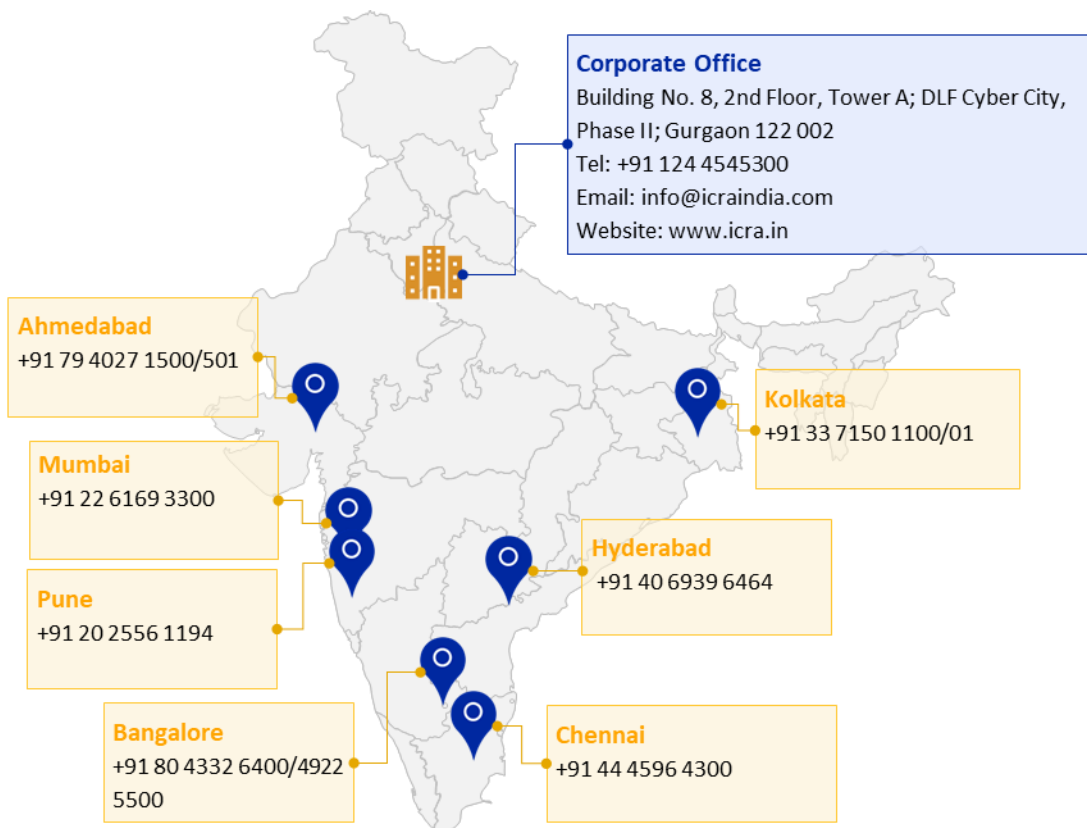
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