July 03, 2023

Walker Chandiok & Co LLP: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	20.0	20.0	[ICRA]A (Stable); reaffirmed
Total	**20.0**	**20.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the improvement in Walker Chandiok & Co LLP's (WCC) performance in FY2023, following a healthy numbers in FY2021 and FY2022, as demonstrated by a steady revenue growth, improvement in profit and cash generation and sustained low debt levels, leading to strong debt protection metrics. The rating continues to factor in WCC's established business position and long operational track record in India. Its contractual association with the members of the global network of Grant Thornton International (GTI; a network of leading global accounting and consulting firms) also supports the rating. WCC has developed a diversified customer base leveraging on the same, which includes reputed Government and private sector companies. This has continued to result in low client concentration risks, while repeat businesses continue to support 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. While capital withdrawals towards the share of profits earned will continue, the level is likely to moderate, going forward, with requirements of increased capital contribution by the partners 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 WCC will continue to benefit from its established business position with diverse service offerings and a wide client base. These factors are expected to enable WCC to sustain its business growth, profitability level and liquidity position.

Key rating drivers and their description

Credit strengths

Sustained healthy financial performance – WCC's revenues have been rising at a healthy CAGR of 18% during FY2019-FY2023 and it achieved a combined revenue of ~Rs. 425 crore in FY2023. The same was driven by higher number of projects for audit/compliance from various public sector undertakings and Government entities with increased number of partners in the firm as well as the overall fee revision for different services rendered by WCC. These apart, there have been savings in interest costs with almost nil utilisation of limits. WCC has an established business position and an operational track record of several decades in the audit space in the domestic market. In FY2024, the top line is expected to grow by 25-30%. The revenue is expected to be driven by the audit business. The operating margins are expected to remain at healthy levels, albeit some moderation owing to higher employee costs in the near term.

Benefits of GTI network membership – WCC has an established operational track record of several decades in the professional services business in the domestic market. The firm is contractually associated with members of the GTI global network of accounting and consulting firms. Association with the GTI network provides access to the extensive knowledge base, apart from being attuned to the international quality standards and processes.

Diversified client and service base – Given its diverse service offerings, strong brand and established operational track record, WCC 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.

Credit challenges

Intense competition limits pricing flexibility; operations exposed to employee attrition – WCC faces stiff competition from other established audit/consulting majors (Ernst & Young, PricewaterhouseCoopers, KPMG and Deloitte), which limits its pricing flexibility. Also, the firm's ability to attract and retain quality manpower remains a challenge.

Moderate capital base owing to regular capital withdrawals – Given the sizeable capital withdrawals by the partners, the firm's capital base has remained moderate. Nevertheless, the debt protection metrics for the firm remain comfortable. Moreover, with increased capital contribution by the partners, the capital base is expected to increase, going forward.

Exposed to reputational and regulatory risks – WCC faces high market/reputational risks, given the strict controls by the regulatory authorities. Besides, any adverse event can lead to the company's de-affiliation from the global network.

Liquidity position: Adequate

WCC's liquidity position is supported by steady generation of internal accrual, free cash balances (~Rs. 34 crore as of March 2023), undrawn bank lines (average cushion of ~80% of the sanctioned limits for the six-month period ending in March 2023) and small term loan repayment liability. Increased generation of internal accrual and capital contribution by the partners led to reduction in debt, as demonstrated by considerably lower utilisation of the working capital bank lines in the current fiscal so far. While capital withdrawals towards the share of profits earned have continued, the proportion of the same is expected to be comparatively lower, going forward, with increased level of capital contribution by the partners to meet the working capital requirements.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant increase in its scale of operations and a sustainable improvement in profitability, leading to strengthening of the net worth and a strong liquidity position. Further, geographical as well as client diversification on a sustained basis, could lead to a rating upgrade.

Negative factors – The rating could be downgraded if there is any adverse impact on the revenue or profitability of the company, leading to a deterioration in debt protection metrics. Further, any sizeable dividend payout or higher working capital requirement, leading to an adverse impact on the liquidity position of the company, could also result in 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, a limited liability partnership, has a long track record in the assurance, tax and regulatory businesses in India. It has a pan-India presence and has experience of working with various types of clients, viz. multinational companies, domestic corporate houses, and Government agencies across different sectors.

Key financial indicators

	FY2022	FY2023*
Operating Income (Rs. crore)	354.2	425.3
PAT (Rs. crore)	65.9	62.0
OPBDIT/OI (%)	29.2%	22.0%
PAT/OI (%)	18.6%	14.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.5
Total Debt/OPBDIT (times)	0.0	-
Interest Coverage (times)	39.3	486.4

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

PAT: Profit after Tax; OPBDITA: 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	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jul 3, 2023	May 18, 2022	-	Feb 22, 2021 Jan 29, 2021
1	Fund based - Working Capital Facilities	Long-term	20.0	--	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based – Working Capital Facilities	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**	-	-	-	20.0	[ICRA]A (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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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