

August 30, 2024

PricewaterhouseCoopers Services LLP: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund-based/ Non-fund based^	400.00	650.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed and assigned for the enhanced amount
Total	400.00	650.00	

*Instrument details are provided in Annexure-I; ^ Rs. 128.0 crore is interchangeable between fund-based and non-fund-based limits

Rationale

While assessing the ratings, ICRA has taken a consolidated view of the financials of the seven PwC entities involved in consultancy business i.e., PricewaterhouseCoopers India LLP, PricewaterhouseCoopers Services LLP, PricewaterhouseCoopers Private Limited, PricewaterhouseCoopers Professional Services LLP, PricewaterhouseCoopers Digital Services Private Limited, PricewaterhouseCoopers Business Consulting Services LLP and PricewaterhouseCoopers CorporateBusiness Services LLP, herein collectively referred to as PwCC (PwC – Consultancy), given the strong business, financial and managerial linkages among the same.

The ratings continue 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 of more than 90% 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 comfortable debt coverage metrics. PwCC's debt protection metrics continue to be robust, reflected by a conservative capital structure (Total Debt/TNW of 1.0 times as on March 31, 2024), comfortable debt protection metrics (interest coverage of 9.1 times and DSCR of 8.3 times in FY2024 as per provisional financials) and a strong liquidity position. PwCC is expected to maintain strong coverage metrics, despite the working capital-intensive nature of operations due to strong cash accruals and limited capex outlays.

The ratings strengths are partially offset by the intense competition in the segments where PwCC operates, resulting in limited pricing power. The long-term rating also remains constrained by the susceptibility of profitability to huge partner and employee pay-outs, which is the largest cost component. Given the increasing scale of operations and working capital-intensive operations, the working capital limits utilisation has been increasing since FY2024; nonetheless, PwCC has maintained adequate liquidity cushion and has also availed timely enhancement in the working capital limits to support its funding requirement. Given the relationship-driven nature of operations, PwCC's ability to maintain a healthy talent base remains a crucial determinant of its performance. ICRA has taken note of the status quo on the matter relating to imposition of fine by the Enforcement Directorate (ED) for alleged violations of the 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 is likely to sustain a healthy growth in revenue and maintain stable profit margins. Further, the outlook underlines ICRA's expectations that PwCC'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 – 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 global network. Each of the member firms share processes and knowledge among them through the network, which help PwCC provide a wide range of services to its clients and work on cross-border assignments.

Reputed and diversified client profile with high potential of repeat business – Diverse service offerings, strong brand and established operational track record enabled PwCC to develop a wide client base that includes reputed names from the private and public sectors as well as multilateral agencies, which provide regular repeat business of around 90%. 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's performance continued to be healthy with YoY growth in operating income of 33.5% and 18.8% in FY2023 and FY2024, respectively. Strong cash accruals along with limited capex outlays, leads to moderate reliance on borrowings (net debt), thereby facilitating robust debt protection and coverage metrics. Overall, PwCC's financial risk profile continues to be robust, characterised by a conservative capital structure (debt/net worth of 1.0 times as on March 31, 2024) and comfortable debt coverage metrics (interest cover and DSCR of 9.1 times and 8.3 times, respectively, in FY2024 as per provisional financials) and a strong liquidity position. As on March 31, 2024, PwCC had unencumbered cash and equivalents of Rs. 269.9 crore, investments in financial assets (mutual funds, corporate bonds and fixed deposits, among others) of Rs. 563.4 crore against fund-based working capital borrowing of Rs. 1,379.3 crore, leading to moderate net debt of Rs. 546.0 crore. ICRA expects sustained healthy performance together with steady margins and a proportionate increase in working capital requirements (in comparison to revenue), supported by enhancements in working capital limits to maintain strong debt protection metrics.

Credit challenges

Exposed to legal and reputational risks – PwCC operations are exposed to high legal and reputational risks, given the strict control by regulatory authorities and the nature of its operations. 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 the FEMA provisions. PwCC appealed against the said ED order before the tribunal, which is pending adjudication. While ICRA does not foresee any immediate adverse impact, it will continue to monitor the developments and take rating action, as and when required.

Working capital-intensive business; exposed to risk of capital withdrawals – PwCC's business is working capital intensive, with high receivable cycle (including unbilled revenue) and blockage of a sizeable amount in income tax receivable/GST. With regular increase in the business, PwCC's working capital limits are expected to be enhanced on a timely basis for managing incremental working capital requirements. Partners'/directors' pay-out 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/pay-outs to the partners. The extent of these pay-outs to the partners/directors and the impact of the same on liquidity, leverage and financial risk profile remains a key rating sensitivity.

Intense competition limits pricing flexibility; exposed to risk related to employee retention – PwCC 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 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, it 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 it to address the said risk.

Liquidity position: Strong

PwCC’s liquidity position is strong with free cash and bank balances of Rs. 269.9 crore, investments in financial assets (mutual funds, corporate bonds and fixed deposits, among others) of Rs. 563.4 crore against fund-based working capital borrowing of Rs. 1379.3 crore, leading to moderate net debt of Rs. 546.0 crore. ICRA also notes that with regular increase in the business, PwCC’s working capital limits are expected to be enhanced on a timely basis for maintaining adequate cushion. With strong business fundamentals, no external long-term debt obligations (except lease liability obligations) and modest capex outflows, its liquidity is expected to remain strong. However, the extent of pay-outs to the partners/directors from the profits of PwCC and the impact of the same on liquidity remains a key rating sensitivity.

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 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 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 close business, financial and managerial linkages among the same.

About the company

PricewaterhouseCoopers Services LLP offers advisory services through four strategic business units: (i) Consulting, (ii) Government Reforms and Infrastructure Development (GRID), (iii) Deals and (iv) Advisory Corporate. PricewaterhouseCoopers Services LLP has a pan-India presence and a diverse clientele including the Government, multinational companies, domestic corporate houses, and multilateral organisations. PwCPL is one of the seven PwC Network member entities engaged in the consultancy business in India.

Key financial indicators (audited)

Consolidated	FY2023	FY2024*
Operating income	5806.9	6900.9
PAT	422.3	543.0
OPBDIT/OI	7.3%	9.7%
PAT/OI	7.3%	7.9%
Total outside liabilities/Tangible net worth (times)	1.5	2.0
Total debt/OPBDIT (times)	1.1	2.2
Interest coverage (times)	19.2	9.1

Source: PwC India, ICRA Research; * Provisional numbers; 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

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	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	650.00	[ICRA]AA-(Stable)/ [ICRA]A1+	19-MAY-2023	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-	-
				04-SEP-2023	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-	-

[^] Rs. 128.0 crore is interchangeable between fund-based and non-fund-based limits

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 [^]	-	-	-	650.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company; [^] Rs. 128.0 crore is interchangeable between fund-based and non-fund-based limits

[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 India LLP	NA	Full Consolidation
PricewaterhouseCoopers Services LLP	NA	Full Consolidation
PricewaterhouseCoopers Private Limited	NA	Full Consolidation
PricewaterhouseCoopers Professional Services LLP	NA	Full Consolidation
PricewaterhouseCoopers Digital Services Private Limited	NA	Full Consolidation
PricewaterhouseCoopers Business Consulting Services LLP	NA	Full Consolidation
PricewaterhouseCoopers CorporateBusiness Services LLP	NA	Full Consolidation

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