

January 05, 2017

Grant Thornton Advisory Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Working Capital Limits	5.0	[ICRA]A (stable) assigned
BG	2.0	[ICRA]A (stable) assigned
Total	7.0	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned a long-term rating of [ICRA]A (pronounced as ICRA A) for Rs. 7.0 crore¹ bank lines of Grant Thornton Advisory Private Limited (GTAPL)². The outlook on the long-term rating is stable.

Detailed Rationale

The rating action factors in the established operational track record of the company and strengths derived from being a member of the global accounting firm Grant Thornton International, and increasing standing of the Indian operations. By virtue of being part of the Grant Thornton International global network, GTAPL has access to the network's extensive knowledge base, international methodologies and global processes. The company also operates a Global Research Centre which supports other global Grant Thornton International member firms. These factors coupled with wide service offerings and a large client base (also includes reputed public and private sector clients) has enabled GTAPL to register steady revenue growth over the years. The company is also in the process of enhancing its office network and service offerings, which is likely to drive the future revenue growth and support profitability margins.

The rating is however constrained by limited pricing flexibility on account of high competition from other established industry participants and market/reputational risks given the strict controls by the regulatory authorities and increasing challenges in retaining key employees, with both the factors exerting pressures on profitability of the business. This coupled with limited accrual generation on account of GTAPL's moderate scale of operations and increasing operational overheads has led to a decline in operating margins and thin net profitability in recent years. Consequently the company's net worth remains negative and the debt protection metrics are subdued. Also the debtor levels have increased in line with the revenue growth registered by the company. While the debtor levels are well-distributed with limited client concentration, their timely recovery is important for sustaining the liquidity position of the company.

Going forward, increase in GTAPL's scale of operations, improvement in profitability margins and timely recovery of debtors remain the key ratings sensitivities.

1 100 lakh = 1 crore = 10 million

2 For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Key rating drivers

Credit Strengths

- a. Established track record of operations in the advisory business.
- b. The firm is a part of the Grant Thornton International network of accounting firms. Besides the brand strength, the Indian operations derive strength from methodologies, processes and knowledge base of the Grant Thornton International network.
- c. Low concentration risks – GTAPL's revenue stream is diversified across clients, business lines and sectors.
- d. Healthy growth in operating income over the years
- e. The firm is expanding its office network across the country and also increasing the service offerings across this network, which is likely to drive the future revenue growth and also support profitability

Credit Weakness

- a. Relatively moderate scale of operations
- b. GTAPL faces strong competition from the Big Four accounting firms, which can make it challenging to secure new assignments and affect the pricing flexibility. Also the ability of the company to attract and retain quality manpower remains a challenge.
- c. Challenges of attracting and retaining quality manpower, the key resource for the business, especially given the high competitive intensity.
- d. Decline in profitability margins in recent years on the back of increase in employee expenses and other overheads
- e. Net losses have led to negative net worth and moderate debt protection metrics
- f. The firm faces high market/reputational risks given the strict controls by the regulatory authorities; any adverse event can lead to de-affiliation from the global network.
- g. The business is largely held by the members of the Chandiook family. Apart from being the sole equity owners, the family members exercise significant control over the operations.
- h. Economic slowdown and lower investment activity can lead to a slowdown in the business opportunity and affect revenue generation.

Detailed description of key rating drivers highlighted above:

Grant Thornton Advisory Private Limited (GTAPL) is a member firm of Grant Thornton International, which is a non-practicing, international umbrella entity organised as a private company, limited by guarantee, incorporated in England and Wales. It operates through a network of member firms which are independently owned and managed and provide services in the areas of accounting, consulting, assurance, tax and advisory services. Each of the member firms shares processes and knowledge with others through Grant Thornton International. GTAPL can draw upon the expertise of other member firms to provide a wide array of services to its clients and work on cross-border assignments. GTAPL has an established track record of operations and over the years, the company has developed a wide clientele reputed names from private sector, multilateral agencies and public sector. Among other functions, the company provides shared services to other entities of the Grant Thornton India group and also runs a Global Research Centre which supports other Global Grant Thornton firms. This coupled with increase in services offering has enabled it to register steady revenue growth in recent years. The company is expanding its office network in the country and also increasing the service offerings across this network, which is likely to drive the future revenue growth and also support profitability margins. The company faces strong competition from established global firm (Big Four accounting firms), which limits its pricing flexibility. In addition, GTAPL also faces competition from smaller boutique firms which specialize in a particular area and compete with GTAPL in specific business lines. Being part of the international network of firms, it has to comply with the guidelines of Grant Thornton International on quality assurance and risk management. Any violation of these guidelines poses the risk of de-affiliation from the network. At the same time, given the inherent nature of work, GTAPL remains exposed to market/reputational risks.

The company's business is closely linked to the overall economic growth and level of corporate activity in the country. A robust economic growth scenario would entail significant business activity and thus healthy inflow of assignments and vice versa. Given the highly competitive scenario, the company's ability to attract and retain quality manpower is critical. It can be challenging to attract quality manpower and at the same time preserve margins. At the senior management level, operations rely critically on few key employees/partners, with control of operations largely by members of the Chandiook family.

Limited accrual generation on account of GTAPL's moderate scale of operations and increasing operational overheads has exerted pressure on the company's margins, resulting in thin net profitability in recent years. Consequently the company's net worth has remained negative and the debt protection metrics are subdued. Also the debtor levels have increased in line with the revenue growth registered by the company. While the debtor levels are well-distributed with limited client concentration, their timely recovery is important for the liquidity position of the company.

Analytical approach: Not Applicable

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the Company:

Grant Thornton Advisory Private Limited (GTAPL) is a private limited company and a part of the global network of accounting firms under Grant Thornton International. Similar to other group entities, GTAPL also offers Tax, Advisory and Assurance Services. The company provides shared services to other entities of the Grant Thornton India group and also runs a Global Research Centre which supports other Global Grant Thornton firms.

For FY2016, GTAPL registered a net loss of Rs.0.7 crore on an operating income of Rs.49.0 crore as against a net profit of Rs.0.1 crore on an operating income of Rs.34.9 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				January 2017			
1	Working Capital Limit	Long Term	5.0	[ICRA]A (Stable)	-	-	-
2	BG	Long Term	2.0	[ICRA]A (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Working Capital Limit	-	-	-	5.0	[ICRA]A (Stable)
BG				2.0	[ICRA]A (Stable)

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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.

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