

Ernst & Young LLP

April 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	175.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	75.00 (Enhanced from 25.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	250.00 (Rs. Two Hundred Fifty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ernst & Young LLP (EYLLP) continue to derive strength from its strong brand name and long and established track record of operations in the professional services business, diversified clientele and service offerings and the firm's strong operating performance with substantially large scale and healthy profitability margins. The ratings also continue to factor in EYLLP's strong pedigree of Ernst & Young Global (EYG). Being a member firm of EYG network, one of the Big 4 Professional Services firm in the world, EYLLP has access to the global network and extensive knowledge base of EYG. The ratings also consider EYLLP's comfortable financial risk profile characterized by low gearing, robust debt coverage indicators and strong liquidity position. The rating strengths are, however, are partially offset by the highly competitive industry with low entry barriers limiting pricing flexibility and the firms' exposure towards subsidiaries/associates.

Rating Sensitivities

Positive Sensitivities - Factors that could lead to positive rating action/upgrade:

- Ability of the firm to maintaining its market share amidst intense competition and report consistent growth in its scale of its operations.
- Ability of the firm to enhance its PBILDT margin to more than 15% on a sustained basis
- Lower level of capital withdrawals resulting in an increase in the capital base and robust liquidity.

Negative Sensitivities- Factors that could lead to negative rating action/downgrade:

- Increase in collection period to more than 90 days leading to elongation in the operating cycle on a sustained basis.
- Increase in overall gearing beyond 1x or any sizeable increase in investments in group entities
- Involvement of the firm in any adverse event leading to its de-affiliation from the global network amidst increasing strict controls by regulatory authorities, leading to high reputational and regulatory risk for the firm.

Detailed description of the key rating drivers

Key Rating Strengths

Established operations and brand name in the advisory business: EYLLP is an independent Indian member firm of EYG, an entity headquartered in London, which is one of the big four accounting firms in the world providing Assurance and Advisory Business Services, Tax and Transaction Advisory services. EYLLP has access to the global network and extensive knowledge base of EYG, thus, facilitating seamless and consistent provision of professional services to the clients.

Comprehensive range of advisory and other services: EYLLP provides management consultancy services and back-office operations under multiple sub-service lines which primarily include People Advisory services, Business Advisory, International Taxation, Transaction Advisory and advisory related to Risk Assurance, Cyber Security, and Internal Controls, Insurance & Actuarial, Valuation and Business Modelling amongst others.

Sizable scale and strong operating performance: EYLLP operate at a large scale of operations with total operating income not degrowing much during FY21 notwithstanding adverse impact of covid-19 induced restrictions. However, there has been a substantial expansion in the operating profit margin due to lower expenses as result of substantial savings in costs amidst covid-19 pandemic.

Comfortable financial risk profile: The overall gearing of the firm improved substantially to 0.09x (PY: 0.75x) on account of considerable reduction in working capital borrowings on the back of healthy accruals and improved collections from debtors. The debt coverage metrics also remain robust due to low finance costs and healthy accruals backed by strong profitability.

Liquidity position: Strong

The liquidity profile of EYLLP is strong with free cash and bank balance of Rs. 54.73 crore as on March 31, 2021 and a current ratio of 1.22x. The firm generated healthy cash accruals in FY21 against which the firm has nil long-term debt obligations. The

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

fund-based limits remained broadly unutilized for the 12 months ended January 2022 thus providing additional liquidity buffer to the firm. Being in service industry with asset light business model, the firm doesn't need to incur any capex to sustain or grow its operations.

Key Rating Challenges

Exposure to group companies: EYLLP has made investments in its wholly owned subsidiaries and associates in the form of equity and debentures. The exposure of EYLLP in its group companies has been increasing in past years. The exposure, when considered for measuring the capital structure of the firm, deteriorates the overall gearing of the firm to 0.12x as on March 31, 2021 (PY: 0.98x). However, these investments are out of the internal accruals of the firm and no external borrowings are taken for the same.

Competitive industry: Internationally, EYLLP faces stiff competition from other Big Four accounting firms in the world. Thus, given the nature of the advisory business, where the scale of operations and past experience are the key criteria in securing new assignments, EYLLP faces competitive pressures and pricing challenges. EYLLP also faces competition from smaller boutique firms which specialize in a particular area and compete with EYLLP in specific business lines.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

About the Firm

EYLLP is an independent Indian member firm of EYG. EYLLP provides professional services in the areas of consulting and advisory for tax, risk, performance and transactions to large global and Indian organizations and the government sector. EYLLP also provides knowledge and process support via its Global Shared Services (GSS) group, to other member firms of EYG. EYLLP is one of the leading professional service providers in India in the domains of tax, transactions and advisory.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	Q1FY22/ H1FY22/9MFY22 (UA)
Growth in operating income (%)	5.02	-2.03	NA
Overall gearing (times)	0.75	0.09	NA
Current ratio (times)	1.35	1.51	NA
Interest coverage (times)	14.03	31.76	NA

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantee	-	-	-	-	175.00	CARE AA; Stable
Fund-based - ST-Bank Overdraft	-	-	-	-	75.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT-Bank Guarantee	LT	175.00	CARE AA; Stable	1)CARE AA; Stable (06-Apr-21)	1)CARE AA; Stable (07-Apr-20)	1)CARE AA+; Stable (01-Apr-19)	-
2	Fund-based-Short Term	ST	-	-	-	1)Withdrawn (07-Apr-20)	1)Withdrawn (01-Apr-19)	-
3	Fund-based - ST-Bank Overdraft	ST	75.00	CARE A1+	1)CARE A1+ (06-Apr-21)	1)CARE A1+ (07-Apr-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Bank guarantee	The tenure of the bank guarantee is up to 7 Years (including claim period, if any)
Ii OD Limits	The limits also include sub-limits of the short term loan for working capital mismatches.
B. Non-financial covenants	
I Bank guarantee	The purpose of bank guarantee issuance towards meeting out the firm's performance/financial in lieu of advances/security deposits in favour of government departments.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - ST-Bank Overdraft	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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