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Cooling economy won't dampen growth

Published: August 11th, 2008

Issue: International Accounting Bulletin - IAB 432

As India emerges as a desirable environment for foreign investors to relocate parts of their businesses, professional service firms are in great demand. Melanie White reports on the *International Accounting Bulletin's* inaugural survey of the Indian accountancy profession.

Rising inflation, largely influenced by domestic factors such as spiralling salaries and a growing middle class, is slightly cooling India's economy. However, vast amounts of foreign investment are generating plenty of opportunities for professional services firms.

Our survey of professional services firms in India reveals the mid-tier market has grown about 22 percent with a combined fee of INR3.3 billion (\$79 million). Significantly, this survey does not include any of the Big Four firms, which have considerably higher fee incomes and would have greatly increased the total fee income.

The Big Four and a few other notable firms, including members of large mid-tier networks such as Grant Thornton International, declined to participate because India's independence requirements prohibit audit firms and advisory firms from combining their revenue or being publicly represented as affiliated.

The *International Accounting Bulletin* estimates the largest firms in India are PricewaterhouseCoopers, Ernst & Young, Deloitte, KPMG and Grant Thornton, respectively. These estimates are based purely on the opinions of partners we approached from other firms.

Nexia India is the largest of the mid-tier firms featured in this year's survey with a fee income of INR521.3 million. Nexia's combination with SC International as well as organic growth helped the group grow 45 percent in the year ended 31 March 2008. Nexia India chairman Rajesh Chaturvedi says a significant contribution to growth came from Nexia's "principal firm".

"Revenue [of the principal firm] increased by more than 25 percent, which is a fabulous achievement in terms of professional services within India considering the economy grew by [about] 8 percent," he says.

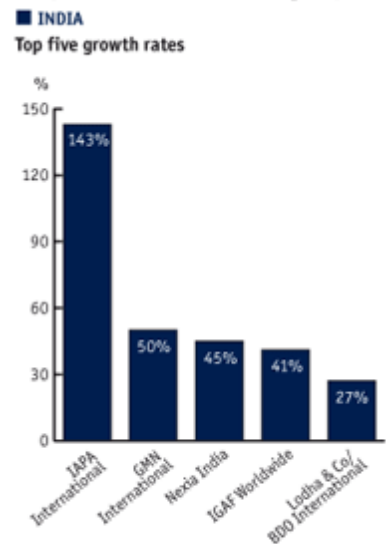
Chaturvedi, the managing partner of the firm Chaturvedi & Shah, notes that one of Nexia's biggest highlights in the past 12 months was steering the Jet Airways buyout of Air Sahara in April 2007.

"This type of deal is something that is done by merchant bankers," Chaturvedi explains. "It's the first time a chartered accountant has done a deal like this so that was a great achievement for us."

Managing risk

RSM India was the second highest achiever in this survey with fee income of INR500.6 million. The firm's managing partner, Suresh Surana, says there has been a rise in demand for internal audit and risk management services.

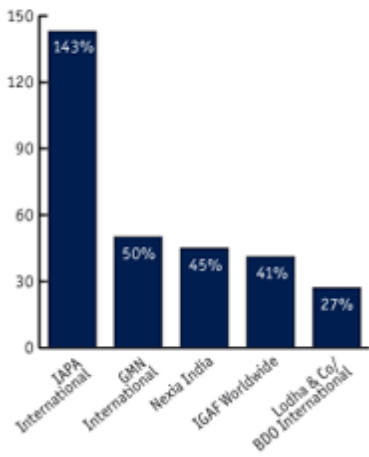
"In the past a lot of demand focused on the service area of tax compliance but increasingly we are seeing more focus on the risk management and internal audit areas. This is particularly so for RSM. In fact, we are one of the top three service providers of internal audit and risk management in India," Surana says.



Source: International Accounting Bulletin



"Due to our international RSM brand, we are seeing a lot of activities in this area as people are becoming conscious as their businesses are growing. It never used to be such a big concern. Family managed groups are suddenly being recognised globally



Source: *International Accounting Bulletin*

through their international membership with RSM and foreign investment and cross-border acquisitions are happening more. The need for a proper corporate sector has become more important than it ever has been before." Surana adds that the IT and manufacturing industry sectors in India have been strong and contributed to the growth of RSM member firms.

Horwath India managing partner Vijay Thacker tells the *International Accounting Bulletin* a strong economy generated new work and growth opportunities for the firm.

Horwath India reported fee revenue of INR176 million in the year ended March 2008, which was a 17 percent increase on the previous fiscal year. Thacker says the growth is due to demand in the hotel, tourism and leisure consulting areas, an area the firm specialises in.

BKR India grew 13 percent to fee income of INR223.1 million. This placed the firm as

the fourth highest earner among the mid-tier. Managing partner Ajay Doshi says competition from other firms that can draw on large global networks, such as the Big Four, is making it difficult to thrive in the market.

"BKR has got on very well this year but the point is that there is a lot of pressure from the Big Four," he says. "Even with their high fees, they have a good reputation so they get the clients. BKR is relatively new in India. I would say we have only been in India for four to five years, so it is not an old firm and will take a bit of time to popularise itself in the market but I think it will grow like a rocket."

Doshi says he is unsatisfied with the performance and feels there is scope to grow the firm much more rapidly.

"We have got firms all over India in Delhi, Chennai and Kolkata. Because of the good services that we provide, I think there are very good prospects as a whole for BKR in India," he says.

PS Kumar, a partner at Morison International member firm Brahmayya & Co, says he was pleased with growth of 16 percent. The firm is the smallest in this year's survey with fee income of INR3.7 million.

Though growth remains healthy for most firms, the increasing pressure of inflation combined with a skills shortage are challenging firms to continue such steady progression.

India's GDP has grown by more than 7 percent year-on-year for the past decade. Economic growth is forecast to cool to 7.1 percent this year from 9 percent in the 2007/2008 financial year. Consumer price inflation is now forecast to average 7.1 in 2008 and 6.2 percent in 2009, according to *The Economist*.

Feeling the pinch

Kumar says further growth of the firm was hampered by inflationary pressures due to rising global oil prices among other factors.

He says: "The oil crisis is hurting us as a firm and hurting the economy. Oil prices have now gone up to about \$148 a barrel and this is causing a slowdown to the market.

"There were a lot of mergers and acquisitions last year, there was a lot of private equity and the stock markets were booming. This year, we are seeing a big fall in merger and acquisition equity and the markets have crashed by almost 50 percent. Because of this, some firms have already taken a hit and some people have already postponed their business issues. Generally, I definitely think there is a slowdown in the markets. This is a mixture of the oil crisis and the sub-prime crisis." Kumar says although Brahmayya & Co has not lost clients, many are tightening spending.

JHI India senior partner and Asia-Pacific executive member Roy Varghese also notes that surging oil prices are an ongoing concern for the wider economy.

According to Surana, there are two challenges affecting the levels of growth for Indian firms at present. Firstly, the

spiralling costs of living, heavily influenced by the price of oil; and secondly, a weak currency with the depreciation in the rupee against the US dollar by between 7 and 8 percent, which is affecting trade.

"Although I can see that investments are going to slow down and the international companies that are coming out to India might be doing so at a slower rate, I don't think that this will affect business," Surana says.

"I think it will affect us in the way some of our clients and business groups are slowing down their growth plans. Whereas before they were looking for aggressive growth they are now slowing down their new projects and some of the projects that are at drawing board stage are being reconsidered."

According to Surana, India is not experiencing any repercussions from a credit crunch because the country has a very different credit culture compared to its Western counterparts. It is however, experiencing financial turmoil.

"The credit crunch is what you are seeing in the banks at the moment due to the sub-prime crisis and banking failures. Those kinds of things are not really in India right now and are not likely to come here because there is a very strong regulatory mechanism by the Bank of India. So even when the banks are lending they are keeping enough margins so that a crisis would not be that big. I think that the only way the credit crisis will impact us in the future is in terms of higher costs of capital," he says.

"The financial turmoil, on the other hand, is as you see in the Indian stock market. It has gone down in the last few months by almost 40 percent and a lot of foreign investment that was coming into India has gone down, so that will impact us because it is a major growth driver in the economy."

Some partners believe economic conditions may have a positive effect on the Indian economy. Thacker says Horwath's consulting business should remain resilient to any unwelcome turns in the economy. He also believes the credit crunch will encourage more outsourcing work into India as foreign companies look for cheaper labour.

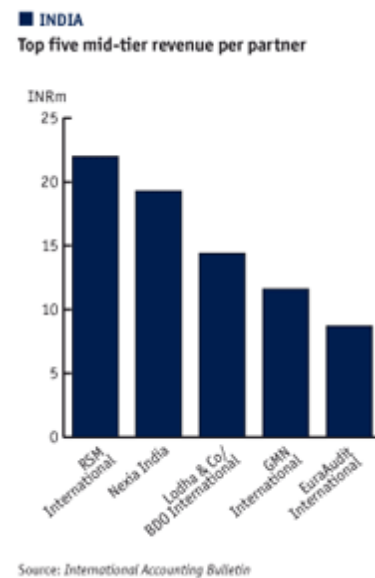
Partners speaking with the *International Accounting Bulletin* all agree that a skills shortage is the greatest challenge facing the profession. They suggest the profession is struggling to develop enough chartered accountants required to service India's surging economy.

Doshi says the supply and demand gap for skilled staff is very large and the ones that are trained prefer to work in the Big Four or the private sector in order to earn higher salaries. He says inflation is not helping this issue because smaller firms cannot keep up with the pay demands to hire and retain qualified staff.

Mazars India managing partner Bharat Dhawan adds: "People are a big challenge here in India.

"I think it will continue to be a big challenge for a while, especially finding the right people and keeping them. [Mazars] doesn't have staff shortages [because] we have reinforced our HR policies and procedures. We have introduced a performance bonus related system. So we are doing a lot more to retain our staff than we used to do."

For a complete list of all surveys in *IAB* for 2008, please look below.



INDIA

Leading accounting firms and associations: fee data

	Most recent year's fee income (INRM)	Growth rate	Fee split (%)							Year-end	
			Audit & Accounting	Tax	Management consulting	Corporate finance	Corporate Recovery / Insolvency	Litigation Support	Other		
INTERNATIONAL AFFILIATE/FIRM											
PKF Sridhar & Santhanam	214.6	-	-	-	-	-	-	-	-	-	Jun-07
Lodha & Co/ BDO International	188.0	27%	39	5	27	11	-	-	19 (1)	Sep-07	
MAZARS (9)	156.6	-	79	21	-	-	-	-	-	Aug-07	
ASSOCIATION OF INDEPENDENT FIRMS											
Nexia India (8)	521.3	45%	34	17	34	2	-	-	12	Mar-08	
RSM International	500.6	17%	60	12	15	-	-	-	13	Mar-08	
DFK International	288.9	27%	35	15	45	-	-	-	5	Sep-07	
BKR International	223.1	13%	44	25	18	6	1	4	2	Mar-08	
HLB India	193.8	-8%	54	20	6	-	-	1	19	Dec-07	
Horwath India (4)	176.0	17%	52	15	20	7	-	-	6 (5)	Mar-08	
Moore Stephens	179.5	15%	64	13	13	1	-	-	9	Dec-07	
GMN International	105.0	50%	20	5	10	5	-	-	60 (3)	Mar-08	
MGI	102.0	-	-	-	-	-	-	-	-	Jun-07	
K S International (6)	81.5	-	42	51	4	3	-	-	-	Dec-07	
Polaris International	78.8	17%	-	-	-	-	-	-	-	May-08	
MSI Global Alliance	69.1	10%	67	8	7	-	-	-	18	Dec-07	
Kreston international (7)	58.6	22%	43	27	4	8	-	-	18	Oct-07	
AGN International	52.8	-	54	27	-	-	-	-	19	Nov-07	
EuraAudit International	43.5	0%	23	-	-	20	-	-	57 (2)	Dec-07	
IAPA International (10)	38.2	143%	-	-	-	-	-	-	-	u/a	
IGAF Worldwide	31.2	41%	52	17	8	16	-	-	7	u/a	
JHI	28.7	-11%	42	24	24	1	-	-	9	Mar-07	
Brahmayya & Co/ Morison International	3.7	16%	60	20	20	-	-	-	-	Mar-08	
Total revenue/market growth	3,335.5	22%									

Notes: u/a – unavailable; (1) Certification; (2) Outsourcing; (3) Business process outsourcing; (4) Comprises of a full member firm and a business alliance associate belonging to the network of Horwath International; (5) IT and other special consulting work; (6) K S International have three new member firms in the region; (7) Kreston have acquired two new firms, JF Dastoor in Kolkata and Frank & Co in Nagercoil; (8) In December 2007, SC International merged with Nexia International; (9) Mazars is a member firm of Praxity, an international alliance of independent firms. The fee income of Praxity participants in India was INR156.6 million, which would place Praxity as the eighth largest association of independent firms in India; (10) IAPA International has recently taken on two new member firms in India bringing their total to four.

Source: *International Accounting Bulletin*

INDIA

Leading accounting firms and associations: staff data

	Offices		Partners		Professional staff		Administrative staff		Total staff	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
FIRM/INTERNATIONAL AFFILIATE										
Lodha & Co/ BDO International	6	6	16	13	222	248	47	45	285	306
MAZARS	4	-	11	-	262	-	23	-	296	-
PKF Sridhar & Santhanam	-	4	-	15	-	524	-	26	-	565
ASSOCIATION OF INDEPENDENT FIRMS										
AGN International	12	-	33	-	207	-	163	-	403	-
BKR International	17	14	26	24	392	355	40	33	475	426
Brahmayya & Co/ Morison International	9	9	22	22	165	175	35	35	222	232
DFK International	14	14	50	48	89	542	515	69	654	659
EuraAudit International	1	1	5	5	95	95	20	20	120	120
GMN International	5	5	9	9	45	40	280	180	325	220
HLB India	17	20	55	72	364	541	213	384	632	997
Horwath India	9	-	35	-	391	-	61	-	487	-
IAPA International	5	2	27	9	30	-	162	-	218	-
IGAF Worldwide	8	5	26	11	19	4	122	47	164	9
JHI	8	8	16	13	104	99	28	24	151	129
K S International	10	-	24	-	231	-	34	-	289	-
Kreston international	10	8	23	20	200	149	89	94	312	263
MGI	-	6	-	17	-	73	-	68	-	158
Moore Stephens	18	17	42	39	459	401	158	155	659	595
MSI Global Alliance	12	13	49	52	204	210	69	102	322	364
Nexia International	13	13	27	24	564	376	113	111	701	507
Polaris International	10	10	34	35	216	201	63	66	313	311
RSM International	15	15	23	2	477	429	466	395	966	845
Total	203	170	553	430	4,736	4,462	2,701	1,854	7,994	6,706

Source: International Accounting Bulletin

INDIA

Leading accounting firms and associations: who's who

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Source: International Accounting Bulletin

International Accounting Bulletin Survey Schedule: 2008

Issue number	2008	Country/Region
IAB 421	January	Canada
IAB 422	January	US
IAB 423	February	China
IAB 424	February	Sweden
IAB 425	March	Poland
IAB 426	April	Italy
IAB 427	April	United Arab Emirates
IAB 428	May	Mexico
IAB 429	June	Germany
IAB 430	July	France
IAB 431	July	Netherlands
IAB 432	August	India
IAB 433	August	Republic of Ireland
IAB 434	August	Japan
IAB 435	September	South Africa
IAB 436	September	Russia
IAB 437	October	Australia
IAB 438	October	Brazil
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IAB 440	December	World

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