



Aarvi Encon Limited

Formerly known as Aarvi Encon Private Limited

CIN : L29290MH1987PLC045499

(ISO 9001 : 2015 & OHSAS 18001 : 2007)

Regd. Office : B1-603, 6th Floor, Marathon Innova, Marathon Nextgen Complex,
Opp. Peninsula Park, Lower Parel, Mumbai - 400 013, INDIA.



AEL/NSE/2020 – 21/16

Date:- July 24, 2020

To,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051

Kind Attention:- Head – Listing
Symbol: AARVI

Sub: - CRISIL Ratings on the bank facilities of the Company.

Dear Sir/Madam,

This is with reference to the CRISIL Ratings informed to the exchange on June 23, 2020, We hereby further informing you the rating rationale of the said CRISIL Ratings on the Borrowings of the Company. The CRISIL Rating Rationale enclosed herewith for your reference.

This is for your information and dissemination purpose.

Thanking you.

Yours faithfully,
For **Aarvi Encon Limited**

Jay Harish
Shah

Digitally signed by
Jay Harish Shah
Date: 2020.07.24
18:38:46 +05'30'

Jay H. Shah
Company Secretary
Membership No. A45556

Ratings

Rating Rationale

June 19, 2020 | Mumbai

Aarvi Encon Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.39.5 Crore
Long Term Rating	CRISIL BBB/Stable
Short Term Rating	CRISIL A3+

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL ratings on the bank facilities of Aarvi Encon Ltd (AEL; formerly, Aarvi Encon Pvt Ltd [AEPL]; part of the Aarvi group) continues to reflect an established market position in supply of technical manpower, the extensive experience of the promoters, and a healthy financial risk profile. These strengths are partially offset by susceptibility to cyclicalities in key end-user industries and a modest operating margin due to intense competition.

CRISIL has taken cognizance of the restrictions on economic activity, including closure of all non-essential manufacturing plants, imposed to contain the spread of Novel Coronavirus (Covid-19). This is likely to moderately impact the company's performance in fiscal 2021. CRISIL believes although subdued, the company would see revival in operations over the next two-three months and although slightly elongated would also continue to see a steady inflow of receivables from its customers, over the medium term. The impact of Covid-19 related restrictions applicable post May 31, 2020 will remain a key monitorable.

Analytical Approach

For arriving at the ratings CRISIL has combined the business and financial risk profiles of AEL, and its wholly owned subsidiaries, Aarvi Engineering and Consultants Pvt Ltd and Aarvi Encon FZE. That's because all three companies, together referred to as the Aarvi group, are in the same line of business and have business and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

* Established market position and extensive experience of the promoters:

AEL commenced operations from 1987, and is currently being managed by the promoter, Mr Virendra Sanghavi, and his son, Mr Jaydev Sanghavi, both chemical engineers. The nearly four-decade-long experience of the promoter has led to a healthy relationship with customers. The group has established itself as a reliable player in the manpower supply industry, leading to sustained improvement in revenue aided by a diversified end-user profile and repeated contracts from existing customers. Customers include Vedanta Ltd ('CRISIL AA/Stable/CRISIL A1+') Reliance Industries Ltd ('CRISIL AAA/Stable/CRISIL A1+'), and Gujarat Gas Ltd ('CRISIL AA+/Stable'). An extensive network of over 60,000 qualified and experienced candidates ensures timely supply of quality manpower and should help sustain double-digit growth over the medium term.

* Healthy financial risk profile:

The capital structure is comfortable with an estimated adjusted networth and total outside liabilities to adjusted networth ratio of Rs 77 crore and 0.34 time, respectively, as on March 31, 2020. Debt protection metrics were healthy, as reflected in the estimated interest coverage and net cash accrual to adjusted debt ratios of 6.93 times and 0.79 time, respectively, for fiscal 2020. The financial risk profile is expected to remain at a similar level over the medium term, backed by steady accretion to reserves. While a decline in revenue and profitability should weaken the metrics in fiscal 2021, these are expected to improve over the medium term.

Weaknesses:

* Susceptibility to cyclicalities in key end-user industries:

Around 60% of revenue comes from the oil and gas industry. Contribution from this sector has reduced over the years and the share of renewable energy and information technology is expected to increase over the medium term. Nevertheless, with the oil and gas sector likely to contribute 50-60% of revenue, growth in revenue and improvement in profitability will remain susceptible to cyclicalities in this sector.

*** Exposure to intense competition, leading to a modest operating margin:**

The skilled human resource supply industry is highly fragmented due to a low entry barrier, leading to intense competition. Further, the tender-based nature of operations triggers intense price competition among players. The operating margin was thus low at 5.60% in fiscal 2019 and is expected to remain at 4.75-5.20% over the medium term.

Liquidity Adequate

Net cash accrual is expected at Rs 5.50-7.20 crore, against debt obligation of Rs 0.12 crore, per fiscal over the medium term. The fund-based limit of Rs 29.50 crore was utilised at an average of 33% during the 12 months through December 2019. No major capital expenditure is expected over the medium term. The estimated unutilised bank limit of Rs 15 crore and unencumbered liquid mutual funds of Rs 4 crore as on March 31, 2020, along with regular debtor realisation should support fixed operational costs during the lockdown period. The current ratio is estimated at around 2 times as on March 31, 2020.

Outlook: Stable

CRISIL believes the group will continue to benefit from an established market position and improved financial flexibility.

Rating Sensitivity factors**Upward factors**

- * Sustained increase in revenue by 20% per fiscal while sustaining the operating margin, leading to higher cash accrual.
- * Improvement in the working capital cycle while sustaining the financial risk profile.

Downward factors

- * A decline in revenue with the operating margin at below 5%, leading to lower net cash accrual.
- * A stretch in the working capital cycle or large, debt-funded capital expenditure, weakening the capital structure

About the Group

Established in 1987 by the Sanghavi family, AEL supplies technical manpower to the oil and gas, engineering, infrastructure, and renewable energy industries. Operations are managed by Mr Virendra Sanghavi and his son, Mr. Jaydev Sanghavi.

Key Financial Indicators*

As on/for the period ended March 31	Unit	2019	2018
Operating income	Rs crore	206.04	173.48
Reported profit after tax (PAT)	Rs crore	9.12	5.81
PAT margin	%	4.43	3.35
Adjusted debt/adjusted networkth	Times	0.10	0.06
Interest coverage	Times	8.34	8.30

*Consolidated numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity date	Issue Size (Rs.Cr)	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	10	CRISIL A3+
NA	Cash Credit	NA	NA	NA	29.5	CRISIL BBB/Stable

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Aarvi Encon Ltd	Full consolidation	Parent-subsidiary relationship along with business and financial linkages
Aarvi Engineering and Consultants Private Limited	Full consolidation	Parent-subsidiary relationship along with business and financial linkages
Aarvi Encon FZE	Full consolidation	Parent-subsidiary relationship along with business and financial linkages

Annexure - Rating History for last 3 Years

Current				2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

		Amount										
Fund-based Bank Facilities	LT/ST	29.50	CRISIL BBB/Stable	28-05-20	CRISIL BBB/Stable	05-04-19	CRISIL BBB/Stable	21-02-18	CRISIL BBB/Stable			CRISIL BBB-/Stable
Non Fund-based Bank Facilities	LT/ST	10.00	CRISIL A3+	28-05-20	CRISIL A3+	05-04-19	CRISIL A3+	21-02-18	CRISIL A3+			CRISIL A3

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	10	CRISIL A3+	Bank Guarantee	10	CRISIL A3+
Cash Credit	29.5	CRISIL BBB/Stable	Cash Credit	27	CRISIL BBB/Stable
--	0	--	Proposed Long Term Bank Loan Facility	2.5	CRISIL BBB/Stable
Total	39.5	--	Total	39.5	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

[The Rating Process](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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