



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

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:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		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](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Rahul Guha Director - CRISIL Ratings CRISIL Limited D:+91 22 4097 8320 rahul.guha@crisil.com</p> <p>Jumana Badshah Associate Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 8324 Jumana.Badshah@crisil.com</p> <p>Abhishek Shetty Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 22 3342 3882 Abhishek.Shetty@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way. CRISIL or its associates may have other commercial transactions with the company/entity.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL