Company Name: Aarvi Encon Limited

Operational Highlights:

- Incorporated in 1987, Aarvi Encon pioneered the concept of Technical staffing services in India. Starting from humble beginnings it is now one of the largest Technical staffing solutions company with more than 5,000 engineers/ technical personnel on payroll and working at the client location.
- Aarvi entered into technical staffing business in the year 1997 and reliance was their first project. They had more than 300 engineers at 4 different locations, which is Bombay, Jamnagar, Houston and London. And they moved from a single client to now about 150 clients.
- Aarvi is India's leading technical staffing company, which specializes in providing expert engineering staffing solutions.
- Services offered include Deputation of Technical Staffing, Project Management, Construction supervision, Inspection Services, Pre-Commissioning & Commissioning Assistance, and O&M Services.
- The company has deployed over 35,000 personnel since inception and has a current deployed team strength of more than 5,000 professionals.
- The company has an esteemed clientele list including marquee names like, Larsen & Turbo Industries, Cairn, Reliance Industries Limited, Engineering India Limited, Indian Oil, Technip etc. During the quarter company on boarded five new clients.
- The company targets sectors like oil & gas, power, LNG, PNG, refinery, petrochemical, pipeline, wind power, solar power, offshore, infrastructure, ports & terminals, telecom, fertilizers, cement, automobile, metro & monorail, railway, metals and minerals, information technology.
- Aarvi provides engineers/designers/technicians right from conceptualization of the project to Design to Construction to Pre-commissioning & Commissioning to Operations and Maintenance of the plant.
- The Company has successfully incorporated an entity in Qatar, as "Aarvi Encon Staffing Services."
- During the quarter, the company won a work order worth INR 25.84 Cr. from Gujarat State Petronet Ltd (GSPL). and overall major order received INR 52.07 Cr, during the quarter.
- The company is also pleased to announce that Aarvi has received the Award by Economic Times under the Category of "Leader of Change" 2021.

Key Questions & Answers discussed during the Conference:

- **Are you limited to providing engineering manpower or also into providing technological solutions?** We are not into engineering services, we discontinued it in 2017, major reason for that was the cost of software related to it. Our prime focus is to give technical manpower to our clients because our deputed engineers would be using clients office, their software, with this, margins are lower but risk factor is also reduced.

- **What is the revenue from your top 5 clients as a percentage?** 80-20 rule applies for us, we have gone through that earlier also, in terms of 20% of our clients generate 80% of our revenue.

- **Where do we see the mix between the 2 verticals in the next 3-5 years?** We presume it to be close to this percentage, between 60 to 40%, so overall revenue will go up, but the percentage mix looks like in the similar range, because internationally right now we are not focussing on O&M because we want to have a foot in those countries, we would be focussing on manpower staffing business of Aarvi Encon. But once we have a good presence in those countries in a year or two, we will be bidding for their O&M projects internationally.

- **What is the share of international business today?** Due to covid there was a down turn, we used to do around 10% earlier, last year it was 5%, going further we should be in the range on 10-15% in the current financial year. In the next 2-3 years we would be able to achieve 20% share from international business.

- **What's the margin profile between the 2 verticals and margins for international business?** Broadly at a gross margin level we should be between 20-25% for O&M business and on an average 10-15% for staffing business. International business gross margin is around 15%, as all recruiting and backend expense is done from India, for this we have a team in Chennai which takes care of the recruiting in UAE business. And so international business makes better margins.

- **Company used to have operating margins of 10% in 2015, and post that it is 3-5%, reason for the same and is there any scope for improvement in the margins in future?** In 2010-15, we were a very small company, as compared to what we are currently in terms of growth expansion, expenses were lower, competition was also much lower back then, also O&M was much lower at that time. So in FY22-23, we would be at same margin level of 5-5.5%, and if we are able to achieve international growth in FY23-24 we should reach much higher margins.

- **Who do you consider your competitors?** Majorly there are two international companies Brunel and NES, we compete with them in India, then there is one more company called ANI Integrated Services which is currently on SME platform. Then there are a lot of small unorganised companies, in the range of 10 to 30crores size, which are either client specific or area specific.

- **Can you highlight about working capital cycle for both the segments, including international?** Working capital cycle is same for staffing and O&M. We were in good shape a couple of months prior, but last two-three months we have been using lot of bank facilities. So on an average we get paid in 45-60 days, our idea is to reduce this overtime.

- **What were the capabilities looked at by Reliance, when we got that particular contract?** We did not have a track record, but we had people with us, so because of our engineering background we had a team of about 35 people in our office. So reliance said that why don't you loan your people to us, so they will become owners representative for the project. That time market was bad for us, business was down, so first we gave our own people, then we went in the market and gave additional people to them, and that's how we started with staffing business.

- **How do you decide how to bid for a tender or a new project, what are the considerations?** Our major cost is manpower of about 80%, also depends on the type of project, like do we have to take care of the administration part of it like food, accommodation, transportation so these become second major cost that we have. Insurance is another aspect which is mandatory, as we will ensure that all staff are well insured, well protected, so that's a part of our costing. If it is a side-based activity so we have to provide personal protective equipment, in O&M we have costs related to tools and then lastly finance cost, so all of these are taken into consideration before taking a new project.

- **Any upcoming regulatory changes that will make business dynamics better or worst?** Nothing major will happen, except minimum wages will go off, new rules & regulations for direct contracting labours will keep on coming, but there will not be any such threat in the business, as India is an engineering outsourcing hub for the world as all large companies are in India and we cater to most of them.

- **Is there a margin criteria below which we do not bid ?** Margin criteria depends on the size of the project or the logo of the client, whether we want to be associated with them or not. Certain projects we have taken at a lower margin but just to make sure that we are getting the experience from it or getting to know more about it or the client is with a growth strategy. While when it is a short-term assignment like shutdowns we go with a much higher margin, in that we don't quote below 30% margins and every year we do around 15 shutdown assignments minimum.

- **You are not paying taxes for the last 3 years, what is the reason for that?** There is a rule of 80JJAA, we are getting benefits of that in terms of employing. It allows us three criteria which is salary below INR 25,000; the person should have worked for more that 240 days in the company and there should be growth in the number of employees. We are following on getting all these criteria's which allows us to take this concession.

Disclaimer:

Valorem Advisors is an Independent Investor Relations Management Service company. This Report has been prepared by Valorem Advisors as a value added service for its readers, based on information and data that were discussed on the respective company conference, but Valorem Advisors makes no representation or warranty, express or implied, whatsoever, and no reliance shall be placed on, the truth, accuracy, completeness, fairness and reasonableness of the contents of this Report. This Report may not be all inclusive and may not contain all of the information that you may consider material. Any liability in respect of the contents of, or any omission from this Report is expressly excluded. Valorem Advisors also hereby certifies that the directors or employees of Valorem Advisors do not own any stock in personal or company capacity of the Companies under review.