

JULY 21, 2014

CARE ASSIGNS 'CARE BBB+; RATINGS TO BANK FACILITIES OF MAHARASHTRA EX SERVICEMEN CORPORATION LTD

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	7	CARE BBB+ [TRIPLE B PLUS]	Assigned
Total Facilities	7		

Rating Rationale

The rating assigned to the bank facilities of Maharashtra Ex-Servicemen Corporation Limited (MESCO) derives strength from its more than decade of experience in providing manned security solutions, strong ex-servicemen workforce of 9,170 employees, strong support of the Government of Maharashtra (GoM, 100% shareholding) and comfortable financial risk profile marked by healthy revenue growth and comfortable debt coverage and liquidity indicators. The rating further takes into account MESCO's strong client base, enhanced geographical reach, low funding risk related to the on-going project (construction of 120 industrial galas) and cash-flows from the existing security service business being able to comfortably service debt obligations of the project.

The rating, however, is constrained by MESCO's high receivable days on account of a majority of its clients being held by the government or public sector undertaking company, increased competition in the manned security solutions business from the organized and unorganized sector and moderate business risk in the underway project.

The ability of MESCO to improve its profitability in light of the competitive nature of the sector and improve collection efficiency are the key rating sensitivity.

Background

MESCO was established in January 2002 as a 100% undertaking of the Government of Maharashtra for the welfare and resettlement of ex-servicemen through various employment schemes. The scope of operations of MESCO in terms of priority of revenue generation includes providing manned security solutions to government and private sector companies, providing computer training courses and software development services, undertaking construction-related activities for army establishments like hostels and operating a self-owned petrol pump at Malad, in Mumbai. MESCO's major revenue driver, around 90% in FY14 (refers to the period April 1 to March 31) and FY13 was from the manned security services business which employs about 9,170 personnel across 247 clients spanning geographies of Maharashtra, Gujarat, Karnataka, Delhi, NCR.

MESCO, in June 2013 undertook a project for development of an industrial estate (in Pune) which will be given on lease to the ex-servicemen having qualification and aptitude in the engineering or technical field, to provide business venture/employment opportunities. Furthermore, the envisaged venture will aid in diversifying MESCO's revenue stream, although to a small extent. The project has commenced construction in June 2013 is expected to be completed by December 2015.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

During FY14 provisional (refers to the period April 1 to March 31), the company reported a total operating income of Rs.142.42 crore and PAT of Rs.10.51 crore as against a total operating income of Rs.106.92 crore and a deficit of Rs.10.20 crore in FY13(provisional).

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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