



Press Release

MMG Impex (MMGI)

March 30, 2021

Ratings

Sl.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term/Short Term Fund Based Bank Facility- Packing Credit	10.00	IVR BB+; Stable/ IVR A4+ (IVR Double B Plus with Stable Outlook/ IVR A Four Plus)	Assigned
	Total	10.00 (Rupees ten crores only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of MMG Impex considers the common management team and operational & financial linkages between MMGI and its group concerns, Gupta Enterprises (GE) and Gupta Hair Products Pvt Ltd (GHPPL). Infomerics has taken a consolidated view of these entities referred together as Gupta group. The ratings take into account extensive experience of the promoters in the Indian human hair industry with established track record and established collection network. The ratings also consider Gupta group's stable financial performance marked by improvement in total operating income, moderate capital structure and comfortable debt protection metrics in FY20. However, these rating strengths are partially offset by industry subject to discretionary demand and threat from substitute products, dependence on overseas markets and susceptibility to fluctuations in forex rates and working capital intensive nature of operation.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in the capital structure with improvement in overall gearing ratio to below 1.00x and/or improvement in debt protection metrics

Downward factor:



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- Moderation in scale of operations and/or moderation in profitability impacting the debt protection metrics on a sustained basis
- Elongation of operating cycle
- Moderation in the capital structure with further deterioration in overall gearing to over 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters in the Indian human hair industry with established track record**

Mr. M.M. Gupta, founder of Gupta Group has been engaged in the business of trading of human hair since 1968. He has more than five decades of experience in Indian human hair industry. He manages the day-to-day operations of the group supported by his two sons who have around ten years of experience in the industry. Gupta Enterprises, group's flagship arm has been engaged in trading and export of human hair for over four decades and is one of the leading players in Indian human hair industry.

- **Established collection network**

The group having been operational for more than five decades and has established relationship with its collection agents, which are spread across the country. The group procures a major portion of human hair from hawkers who in turn collect it from households and barber shops. The remaining portion is sourced from temples through auction and tender processes.

- **Stable financial performance marked by improvement in total operating income, moderate capital structure and comfortable debt protection metrics in FY20**

The group primarily exports human hair to China where it is further processed into wigs, hair wefts and hair extensions. The processed hair from China is then exported majorly to Western countries especially the USA and Africa where there is a huge market for natural, human hair products. The group's total income registered a y-o-y improvement of around 56% in FY20 to Rs. 190.14 crore from Rs.121.65 crore in FY19 due to higher demand of processed human hair, despite lockdown in last few weeks of March 2020. Capital structure is moderate marked by a low net worth base and debt is largely in the form of packing credit with no term liabilities.



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Overall gearing ratio has improved as on March 31, 2020 to 1.35x from 1.76x as on March 31, 2019 backed by lower utilisation of bank borrowings and accretion of profit to reserves. Debt protection metrics stands comfortable with interest coverage ratio of 6.90x in FY20 as compared to 6.73x in FY19. However, Total Debt to GCA, though improved, remains high at 5.58 years in FY20 as compared to 8.55 years in FY19. In 9MFY21, the group has reported turnover of Rs.113.26 crore with EBITDA margin of 3.90%, PAT margin of 3.60% and interest coverage of 1.74x

Key Rating Weaknesses

- **Industry subject to discretionary demand and threat from substitute products**

The processed hair industry is subject to volatility in demand in the end-user segment as the consumer spending in beauty and cosmetic industry is of discretionary nature. Thus, the revenue growth of the group is largely dependent on macroeconomic factors like economic growth, employment and disposable income levels and consumer spending. Indian hair Industry is facing a peculiar challenge because of smuggling of hair in the India-Myanmar border. Human hair is smuggled along the border and then enters China where it processed into wigs, wefts, etc. and exported. This impacts the business performance of the Indian exporters. Furthermore, human hair-based fashion products also face threat of substitution from wigs and hair pieces made from synthetic fibers, given that synthetic fibers are less expensive.

- **Dependence on overseas markets and susceptibility to fluctuations in forex rates**

The entire output in the hair processing segment is exported to countries across the globe, but mainly to China. So, the company remains susceptible to falling demand scenario in global cosmetic markets, and also to fluctuations in the value of the Indian rupee which could affect realisations.

- **Working capital intensive nature of operation**

On a consolidated basis, the group extends a credit period of around 1.5 to 2 months to its customers, whilst holding an inventory of around two months. The group pays to its suppliers in around 1 to 1.5 months, resulting in a cash conversion cycle of 68 days during FY20.



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Further, average utilisation of its group also stood high at ~93% during the past 12 months ended December 31, 2020.

Analytical Approach: Consolidated. For arriving at the ratings, INFOMERICS analytical team has combined the financials of Gupta Enterprises, Gupta Hair Products Pvt Ltd and MMG Impex commonly referred as Gupta Group as these entities have a common management team and operational & financial linkages. The lists of entities considered for consolidation are given in Annexure 2.

Liquidity Position: Adequate

The Gupta group on a combined basis has adequate liquidity marked by adequate cash accruals against nil repayment obligations with average utilisation of fund based limits of around 93% during the past 12 months ended December 2020. The Gupta group had cash balance and fixed deposits of Rs.8.02 crore as on March 31, 2020. The current ratio stood at 1.25 times as on March 31, 2020.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the group

- Gupta group established in 1974 by Mr. M. M. Gupta consists of Gupta Enterprises (GE), Gupta Hair Products Private Limited (GHPL) and MMG Impex are engaged in processing of human hair and exporting of human hair and hair products.
- M/s. MMG Impex was Export Oriented Unit located at Madras Export Processing Zone – Special Economic Zone, Tambaram, Chennai. It's a partnership firm engaged in the year 2012, engaged in the business of Export of Human Hair and Sandal Wood Products.
- Incorporated in 2002, GHPL is engaged in the manufacture & export of hair wefts. GHPL has a manufacturing plant in Chennai. GHPL is concentrating more on the value added products in addition to exporting Human Hair as the value added products has a good demand in the USA , Italy, Germany and Brazil etc and also the margins on the value added products is better.



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- Gupta Enterprises is a partnership firm primarily engaged in the business of processing and exporting of human hair. The firm has its hair processing facility at Eluru, Andhra Pradesh where the collected hair is processed by way of unwinding, cleaning and drying.

Financials: Combined

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Combined	Combined
Total Operating Income	121.65	190.14
EBITDA	9.90	11.39
PAT	5.24	6.95
Total Debt	55.36	45.74
Tangible Net worth	31.39	33.86
EBITDA Margin (%)	8.14	5.99
PAT Margin (%)	4.31	3.65
Overall Gearing Ratio (x)	1.76	1.35

*Classification as per Infomerics' standards.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	14.47	25.51
EBITDA	5.18	5.11
PAT	4.12	4.48
Total Debt	10.34	10.65
Tangible Net worth	5.90	7.91
EBITDA Margin (%)	35.80	20.04
PAT Margin (%)	18.42	17.57
Overall Gearing Ratio (x)	1.75	1.35

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1..	Packing Credit	Long/Short Term	10.00	IVR BB+/ Stable/ IVR A4+	-	-	-



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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
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Long/ Short Term Bank Facilities- Packing Credit	-	-	-	10.00	IVR BB+/Stable/IVR A4+
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Annexure 2

Name of the Entity	Consolidation Approach
Gupta Enterprises (GE)	Full consolidation
Gupta Hair Products Pvt Ltd (GHPPL)	Full consolidation
MMG Impex (MMGI)	Full consolidation