

India Ratings Assigns 20 Microns Limited 'IND BBB-'/Stable

25

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By Pranay Joshi

India Ratings and Research (Ind-Ra) has assigned 20 Microns Limited a Long-Term Issuer Rating of 'IND BBB-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR660	IND BBB-/Stable	Assigned
Non-fund-based limits	-	-	-	INR290	IND A3	Assigned
Term loan	-	-	April 2022	INR484	IND BBB-/Stable	Assigned

KEY RATING DRIVERS

Consolidated View: To arrive at the ratings, Ind-Ra has taken consolidated view of 20 Microns and its six subsidiaries: 20 Microns Nano Minerals Ltd ('IND BBB-'/Stable), 20 Microns SDN BHD, 20 Microns FZE, 20 Microns Vietnam Limited and Silicate Minerals (I) Private Limited. The entities, collectively referred to as 20 Microns Group, have common promoters and operational linkages as they operate in the business of micronized minerals. Also, 20 Microns has given a corporate guarantee for the bank facilities of 20 Microns Nano.

Healthy EBITDA Margin: 20 Microns Group's operating margin was 13.9% in FY18 (FY17: 13.5%). The rise in the margin was driven by an increase in the share of highly profitable speciality chemical minerals in revenue. In addition, the group's return on capital employed was 18.0% in FY18 (FY17: 18.0%). Ind-Ra believes that with a further increase in the share of highly profitable speciality chemical minerals in revenue, the margin will gradually increase.

Strong Credit Metrics: 20 Microns Group's interest coverage (operating EBITDA/gross interest expense) was 2.8x in FY18 (FY17: 2.4x) and net financial leverage (total adjusted net debt/operating EBITDA) was 2.0x in FY18 (FY17: 2.5x). The improvement in the metrics was due to the increase in EBITDA margin and a reduction in debt. Ind-Ra expects the metrics to remain strong in view of no debt-funded capex in the medium term.

Comfortable Liquidity: The fund-based facility utilisation of 20 Microns was 80% and of 20 Microns Nano Minerals was

40% during the 12 months ended August 2018. 20 Microns Group had positive cash flow from operation of INR389 million in FY18 (FY17: INR213 million).

Diversified, Strong Client Base: 20 Microns Group has a diversified client base, where no single client has a share of more than 20.0% in revenue. The group supplies to all major players in the domestic paint industry and caters to other industries such as paper, polymer and rubber.

Ongoing Capex: 20 Microns Group is undertaking an INR210 million capex to enhance the capacity of 20 Microns Nano Minerals by 15,600 metric tons per annum. The additional capacity is likely to be operational by end-October 2020. The group had incurred about INR67 million through internal accruals until FYE18. The company will fund the remaining capex through the proceeds from the Small and Medium Scale Enterprises Initial Public Offering to be held in 3QFY19.

Experienced Promoters: The promoters have an experience of over 30 years in manufacturing micronized minerals.

Medium Scale of Operations: 20 Microns Group reported a revenue of INR4,312 million for FY18 (FY17: INR4,094 million). Its sales registered a low CAGR of 4.7% for FY15-FY18 due to the management's focus on increasing profitability by increasing the share of speciality chemicals minerals in revenue. The group's revenue was INR1,078 million in 1QFY19. Ind-Ra expects sales growth to be moderate in FY19 in view of the management's focus on low revenue and high-profit orders.

Elongated Working Capital Cycle: 20 Microns Group's working capital cycle was elongated at 128 days in FY18 (FY17: 132 days; FY16: 143 days), primarily due to high inventory days. The group had an inventory of 132 days in FY18 (FY17: 133 days). It generally maintains inventory at around 75 days. However, in March, the group starts stocking raw materials for the monsoons; this results in high inventory days at year-end. The debtor days were 56 days in FY18 (FY17: 53 days), with an average realisation time of 60-90 days. The creditor days were 60 days in FY18 (FY17: 55 days). Its raw material comes mostly from mines or local traders, from whom it received a 60-90-day credit period.

Susceptibility to Regulatory Risks: The minerals mining industry poses operating and regulatory risks that may result in a ban on mining and exports. Moreover, the industry faces regulatory hurdles such as requirement of numerous approvals and royalties for acquiring new mines.

RATING SENSITIVITIES

Positive: A significant rise in revenue and/or EBITDA margin, or an improvement in the working capital cycle, leading to better financial flexibility, will be positive for the ratings.

Negative: Any adverse change in the regulations on mining and/or a fall in revenue and/or EBITDA margin, leading to the net leverage exceeding 3.0x, will be negative for the ratings.

COMPANY PROFILE

Incorporated in 1987 and listed on the Bombay Stock Exchange and the National Stock Exchange, 20 Microns manufactures micronized minerals, which have application in industries such as paint, polymer and paper. Its products include calcium carbonate, calcined clay and other speciality minerals.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY18	FY17
Gross revenues (+)	4,312	4,094
Operating EBITDA (before income from associates)	597	554
Operating EBITDA margin (%)	13.9	13.5
Gross interest expense	224	239
Net income	189	159

Cash & equivalents	88	103
Total Debt	1,308	1,489
Operating EBITDA/gross interest expense	2.7	2.3
Total adjusted net debt/operating EBITDAR	2.0	2.5
Source: 20 Microns, Ind-Ra		

NON-COOPERATION WITH PREVIOUS RATING AGENCY

20 Microns is listed under the 'Non Co-operation by the issuer' category by CRISIL Limited due to inadequate information provided by the company.

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

Corporate Rating Methodology

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