March 09, 2023

20 Microns Limited: [ICRA]A-(Stable); Ratings reaffirmed; assigned and reaffirmed for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based Working Capital	25.00	61.80	[ICRA]A- (Stable); reaffirmed; assigned for enhanced amount
Long Term – Term Loan	-	22.79	[ICRA]A- (Stable); assigned
Short Term-Non-Fund Based – Others	-	26.08	[ICRA]A2+; assigned
Total	**25.00**	**110.67**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the rating, ICRA has taken a consolidated view of 20 Microns Limited and its subsidiaries (20ML group, the group) due to their common management and operational linkages, being in the same line of business.

The rating considers the group's established market position in the micronized mineral segment, along with its experienced management, healthy operating profitability and growing scale of operations. This is supported by the sustained growth in the company's research & development spend for value-added products and process improvement. On a consolidated basis, 20ML's revenues have improved at a CAGR of 7.23% over the last five years owing to healthy demand from various client segments such as paints, plastic, rubber etc and favourable changes in the product mix towards more value added/speciality products. Going forward, ICRA expects the company to benefit from the product and geographic diversification, leading to higher share of value-added products and exports. ICRA also takes note of the access to raw materials from diverse domestic and overseas sources and the presence of captive mines, which mitigates any availability risks.

The ratings also take note of the improvement in the capital structure and coverage indicators in the last few years with gradual deleveraging and moderation in interest rates and the exit from corporate debt restructuring (CDR) by paying the last instalment of CDR debt in September 2020 and recompense expense in FY2022. With no major debt-funded capex plans in the medium term, the deleveraging trend is expected to continue.

The rating, however, remains constrained by the capital-intensive operations that require high recurring maintenance capex, along with the moderately high working capital intensity and sectoral concentration towards the paint and plastic industries. The group is also susceptible to regulatory risks pertaining to the mining industry, which may increase environmental compliance or restrict raw material access. The company's performance is also susceptible to forex risk, although the same is mitigated by the natural hedge from the import of raw materials.

The Stable outlook on 20ML's rating reflects ICRA's opinion that the company's financial performance will benefit from the expected geographic and product diversification and the credit profile will be supported by the deleveraging in the medium term. The group will continue to benefit from its established market position in the micronized mineral segment.

Key rating drivers and their description

Credit strengths

Established market position in micronized minerals segment – The group has an established presence in micronized minerals. Over the years, the company has grown to be a dominant player in the segment and has also expanded its product portfolio to include value-added/specialty products (including under subsidiaries). The group also has strong access to raw material from diversified domestic and overseas suppliers and access to captive mines. 20ML caters to reputed players in the paint, construction chemicals, rubber, paper and a host of other industries.

Healthy operating profitability and improved credit metrics – 20ML's consolidated financial performance has witnessed a healthy revenue growth at a CAGR of 7.23% during the last five years (till FY2022), while the operating margin has been strong in the range of 12-14.5% during this period. The sustained healthy margins have been on account of the continued focus on operational efficiencies, favourable changes in product mix towards more value-added products and ability to procure raw materials from diversified sources. While nearly ~50% of the products under 20ML are commoditised in nature, the remaining products are more specialised, depending on value addition. The products under the subsidiary – 20ML Nano - are more specialised in nature and have higher value addition.

The consolidated entity's capital structure and coverage indicators have also improved in the last few years with the gradual deleveraging and moderation in interest rates and exit from corporate debt restructuring (CDR) by paying the last instalment of CDR debt in September 2020 and recompense expense in FY2022. During FY2018 to FY2022, the gearing improved to 0.49x from 0.93x and the TD/OPBDITA to 1.55x from 2.21x; the interest coverage has improved to 3.93x from 2.7x during this period. In the current fiscal, the interest cover has improved to 3.50x during 9M FY2023 and with no major debt-funded capex plans in the medium term, the deleveraging trend is expected to continue.

Strong in-house research and development – The 20ML group has a robust R&D set-up approved by DSIR, Government of India. It develops both in-house products as well as customised products. In the last few years, the company's (consolidated) R&D spend has increased consistently at the absolute level as well as a percentage of the operating income and the benefit is expected to be realised going forward.

Credit challenges

Capital intensive operations – The operations are fixed and working capital-intensive. Moreover, the inherent nature of work, involving micronization of minerals, results in high wear and tear of the plant. Consequently, the group needs to incur significant annual maintenance capex to sustain its production capacity, consuming a hefty share of its accruals. However, the maintenance capex is expected to be largely funded through internal accruals. Further, the working capital intensity has been moderately high with NWC/OI in the range of 20-23% in the last few years, mainly due to receivable days in the range of 55-70 days and inventory holding period of 90-110 days, partly offset by a payable period of 105-130 days.

Susceptibility to adverse changes in Government regulations – The mineral and mining industry is vulnerable to operating as well as regulatory risks arising from any changes in Government policies with respect to the ban on mining, stringent environment norms or changes in royalties.

Environment and Social Risks

20ML, being present in the mining and chemical industry, is exposed to the risk of tightening regulations on environment and safety norms and potential penalties in case of any non-compliance. However, as per the disclosures in the audit report, the company is environmentally compliant and adheres to various industry standards.

The company's exposure to social risks mainly pertain to safe operations and remaining compliant with all environmental regulations to ensure the safety of employees. As per the disclosures, the company has best mining practices, high safety standards and a trained workforce coupled with strong technological advancement

Liquidity position: Adequate

ML's liquidity position remains adequate with healthy cash flows from operations in the last few years and is expected to grow further in the medium term, against a moderate annual repayment obligation of Rs. 17.19 crore (Rs 5.04 crore for term loan and Rs 12.15 crore for deposits from public) and Rs 14.25 crore (Rs 4.29 crore for term loan and Rs 9.96 crore for deposits from public) in FY2023 and FY2024 respectively and maintenance capex of Rs. 12-15 crore per annum. The liquidity is further supported by unencumbered cash and bank balance of Rs. 12.73 crore as on March 31, 2022 and availability of moderate unutilised working capital limits. Further, post the exit from CDR and release of pledged shares, the financial flexibility has improved.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant scale up in the company's revenues and profitability on a sustained basis, backed by diversification in its geographic, product and customer profile, while maintaining/improving its working capital intensity and credit metrics.

Negative factors – The rating could witness a downward revision in case of a sustained decline in revenue and profitability, leading to a moderation in credit metrics. Further, any large debt-funded capex or stretch in the working capital cycle, weakening the liquidity profile, could also lead to a downward revision in rating. A specific credit metric that could trigger a downgrade is interest coverage of less than 4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of 20 Microns Limited along with its subsidiaries 20 Microns Nano Minerals Ltd, 20 Microns FZE, 20 MCC Private Limited, 20 Microns Vietnam Company Limited and 20 Microns SDN BHD

About the company

20 Microns Ltd, the flagship company of the 20 Microns group, was incorporated in 1987 by Mr. Chandresh Parikh to manufacture micronized minerals. Over the years, the company has grown to become one of the largest and most prominent players in this industry with access to its captive mines. 20 ML supplies to large and organised players in the paint industry, construction chemicals, rubber, paper and a host of other industries.

Key financial indicators

Consolidated	FY2021	FY2022
Operating income	483.6	613.2
PAT	23.0	34.7
OPBDIT/OI	12.3%	13.0%
PAT/OI	4.8%	5.7%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	1.8	1.5
Interest coverage (times)	2.3	3.9

Source: Company; Project stage company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 09, 2023	Feb 27, 2023	-	-	-
1	Cash credit	Long Term	61.80	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
2	Term loan	Long Term	22.79	16.26	[ICRA]A- (Stable)	-	-	-	-
3	Non-Fund Based – Others	Short Term	26.08	-	[ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Non-Fund Based – Others	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	61.80	[ICRA]A- (Stable)
NA	Term loan	Feb 2021	-	Jan 2026	22.79	[ICRA]A- (Stable)
NA	Non-Fund Based – Others	-	-	-	26.08	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	20 ML Ownership	Consolidation Approach
20 Microns Ltd	100.00% (rated entity)	Full Consolidation
20 Microns Nano Minerals Ltd	97.21%	Full Consolidation
20 Microns FZE	100.00%	Full Consolidation
20 MCC Private Limited	100.00%	Full Consolidation
20 Microns Vietnam Company Limited	100.00%	Full Consolidation
20 Microns SDN BHD	100.00%	Full Consolidation

Source: 20ML annual report FY2022

Note: ICRA has consolidated the financials of the parent (20 ML), its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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