May 02, 2024

20 Microns Nano Minerals Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based - Cash credit	23.00	23.00	[ICRA]A- (Stable); reaffirmed
Long term Fund based – Term loan	0.00	7.00	[ICRA]A- (Stable); assigned
Short-term Non-fund based - Letter of credit	4.00	5.00	[ICRA]A2+; reaffirmed/ assigned
Total	**27.00**	**35.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of 20 Microns Limited (20ML) and its subsidiaries, including 20 Microns Nano Minerals Limited {20ML Nano, rated [ICRA]A-(Stable)/[ICRA]A2+}, collectively referred to as the 20ML Group/the Group/the consolidated entity due to their common management and operational linkages, being in the same line of business.

The ratings consider 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 revenue rose at a CAGR of ~7.9% over the last five years ended FY2023 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 near to medium term, the deleveraging trend is expected to continue, resulting in an improvement in the leverage and coverage indicators.

The ratings, however, remain 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 ~7.9% during the last five years (till FY2023), 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 FY2023, the gearing improved to 0.37x from 0.49x and the TD/OPBDITA to 1.25x from 1.55x; the interest coverage has improved to 4.84x from 3.93x compared to the FY2022 levels. In the current fiscal i.e. 9M FY2024, the interest coverage has improved to 6.65x. With no major debt-funded capex plans and expected healthy cash generation in the near to 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 the Department of Scientific and Industrial Research, 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 the 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. However, the maintenance capex is expected to be largely funded through internal accruals. Further, the working capital intensity has remained moderate with NWC/OI of 21% as on March 31, 2023 compared to 23% as on March 31, 2022, mainly due to high receivable and inventory holding period.

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.

Liquidity position: Adequate

20 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. 16.1 crore (Rs. 2.8 crore for term loan and Rs. 13.3 crore for deposits from public) and Rs. 11.7 crore (Rs 2.8 crore for term loan and Rs. 8.97 crore for deposits from public) in FY2024 and FY2025, respectively, and maintenance capex of Rs. 20-25 crore per annum. The liquidity is further supported by unencumbered cash and bank balance of Rs. 20.3 crore as on March 31, 2023, and availability of moderate unutilised working capital limits. Further, after the exit from CDR and the release of pledged shares, the financial flexibility has improved.

Rating sensitivities

Positive factors – The ratings 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 ratings could witness a downward revision in case of a sustained decline in revenue and profitability, leading to a moderation in the credit metrics. Further, any large debt-funded capex or a 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 Limited, 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 captive mines. 20 ML supplies large and organised players in the paint, construction chemicals, rubber, paper and a host of other industries.

20 Microns Nano Minerals Limited was incorporated in 1993. It manufactures specialty micronized mineral based chemicals and serves similar set of customers as 20ML. 20 Microns Nano Minerals Limited is a subsidiary company 20 Microns Limited.

Key financial indicators (audited)

20 ML - Consolidated	FY2022	FY2023	9M FY2024*
Operating income	613.2	701.7	565.2
PAT	34.7	41.9	42.4
OPBDIT/OI	13.0%	12.3%	13.9%
PAT/OI	5.7%	6.0%	7.5%
Total outside liabilities/Tangible net worth (times)	1.0	0.8	-
Total debt/OPBDIT (times)	1.6	1.3	-
Interest coverage (times)	3.9	4.8	6.7

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

20ML Nano Minerals Limited Standalone	FY2022	FY2023
Operating income	88.2	88.1
PAT	5.2	5.1
OPBDIT/OI	11.8%	10.4%
PAT/OI	5.8%	5.8%
Total outside liabilities/Tangible net worth (times)	1.3	1.0
Total debt/OPBDIT (times)	1.6	2.7
Interest coverage (times)	4.8	3.5

Source: 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 (FY2025)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 02, 2024	Apr 03, 2024	-	Mar 23, 2023	-
1	**Cash credit**	Long Term	23.00	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	**[ICRA]A- (Stable)**	-
2	**Term loan**	Long Term	7.00	-	**[ICRA]A- (Stable)**	-	-	**[ICRA]A- (Stable)**	-
3	**Non-Fund Based – Letter of credit**	Short Term	5.00	-	**[ICRA]A2+**	**[ICRA]A2+**	-	**[ICRA]A2+**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term Loans	Simple
Non-Fund Based – Letter of credit	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	-	-	-	23.00	[ICRA]A- (Stable)
NA	Term Loans	-	-	-	7.00	[ICRA]A- (Stable)
NA	Non-fund Based – Others	-	-	-	5.00	[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	Parent	Full Consolidation
20 Microns Nano Minerals Ltd	97.21% (rated entity)	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 FY2023

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:

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