

20 Microns

9 March 2018

Reuters: MICR.BO; Bloomberg: 20ML IN

We had a meeting recently with the management of 20 Microns based in Vadodara, Gujarat, to understand its business model and growth prospects. The company is India's largest manufacturer of micronised minerals which primarily has application as functional fillers in paint, paper, rubber and plastic products. 20 Microns started operations in 1988 with 2,000tpa capacity, which has now grown to 400,000tpa. Through research and development or R&D, the company is looking to consistently add to the scope and application of its products. In FY17, it achieved revenues of Rs4,100mn and net profit of Rs154mn. Key takeaways from our interaction with the management are as follows:

- 1) 20 Microns began operations with micronisation of minerals to sizes below 20 microns. Now the company is doing micronisation to sizes less than 1 micron. The nano-sized particles find application in the plastic industry and realisation is also higher. Realisation in nano-sized particles is more than twice.
- 2) The company operates through its eight factories located across various cities in India. The factories are strategically located closer to customers. The company is backward integrated as it has a mining licence to meet the input requirement for its factories. Mining licence is a critical entry barrier for new entrants.
- 3) 20 Microns depends on the paint industry for bulk of its business. All large names in the paint industry work in close association with 20 Microns for sourcing their raw materials.
- 4) The company's competitive strength in the paint segment is reflected by its ability to strengthen its relationship with all clients in the paint industry. Akzo Nobel, which is one of the big players in the paint industry, sources 90% of its requirement of micronised minerals from 20 Microns. Likewise, Kansai Nerolac also sources 40% of its requirement from 20 Microns.
- 5) Micronised minerals are critical inputs for the paint industry and account for 50% of its raw material input.
- 6) The focus over the next few years for 20 Microns is to improve cash flow realisation/EBITDA and reduce its debt which is about Rs1,200mn. Interest costs are currently impacting its net profit as these costs are close to 150% of net earnings. The improvement in realisation will be driven by minimising waste generation across its plants. The company is actively pursuing efforts in this direction and developing product lines which are meant to transform the waste generated by its plants as inputs for various industries. Silica waste generated at its Bhuj plant is being targeted as an input for the construction industry.
- 7) According to 20 Microns, globally the micronised mineral industry operates with an asset turnover ratio of 1.0x, but the company by virtue of its capital efficiency has an asset turnover of 1.8x.
- 8) The main competitors of 20 Microns include English Indian Clays, Ashapura Minechem, Omya India, Wolkem India, and Imerys India.
- 9) Currently, about 70% of revenues of 20 Microns is derived from in-house manufacturing, while the rest comes from outsourcing.
- 10) 20 Microns is looking at Rs700mn capex, which it intends to fund largely through internal accruals.
- 11) In the long run, the company's intention is to transform its business mix in such a manner that bulk of its business comes from retail channels (under its brand), while there is lower dependence on B2B sales. The shift will be driven by a portfolio of products which it has been developing through in-house R&D efforts. Key products that are ready for a retail push include water-proofing agent and a natural mineral based fertiliser for agriculture industry. Soft launch of their fertiliser brand has been made and the response from the farmers is highly encouraging. 20 Microns has also tied up with an Indian company to leverage its rural presence for distribution of the fertiliser. The water-proofing agent has also been launched in some cities and it is being used by builders/contractors/architects.

NOT RATED

Sector: Mining & Minerals

CMP: Rs45

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Key Data

Current Shares O/S (mn)	35.3
Mkt Cap (Rsbn/US\$m)	1.6/24.3
52 Wk H / L (Rs)	68/33
Daily Vol. (3M NSE Avg.)	273,563

One -Year Indexed Stock Performance



Price Performance (%)

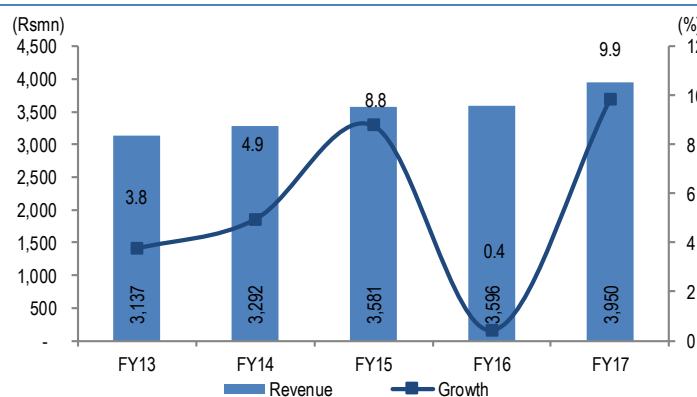
	1 M	6 M	1 Yr
20 Microns	(13.9)	18.5	22.8
Nifty Index	(3.1)	3.1	14.8

Source: Bloomberg

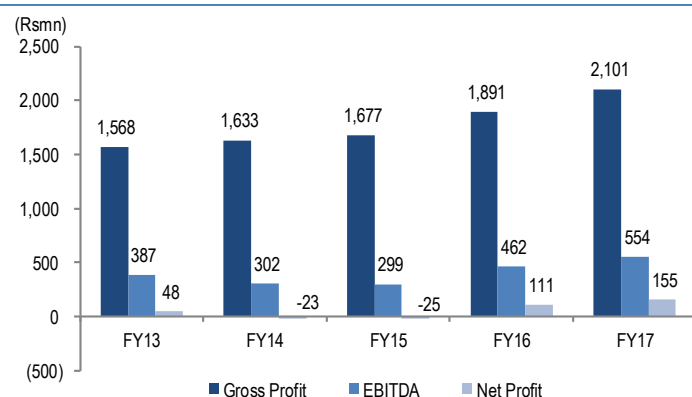
Exhibit 1: Key financials

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Net sales	3,137	3,292	3,581	3,596	3,950
EBITDA	387	302	299	462	554
Net profit	48	(23)	(25)	111	155
EPS (Rs)	1.4	(0.7)	(0.7)	3.1	4.4
EPS growth (%)	(56.7)	(148.3)	-	-	40.1
EBITDA margin (%)	12.3	9.2	8.4	12.8	14.0
PER (x)	33.0	(68.2)	(63.2)	14.2	10.2
P/BV (x)	2.3	2.1	2.2	1.8	1.5
EV/EBITDA (x)	7.6	9.8	9.8	6.4	5.1
RoCE (%)	14.8	8.9	8.7	15.6	19.0
RoE (%)	7.5	(3.2)	(3.4)	14.0	16.3

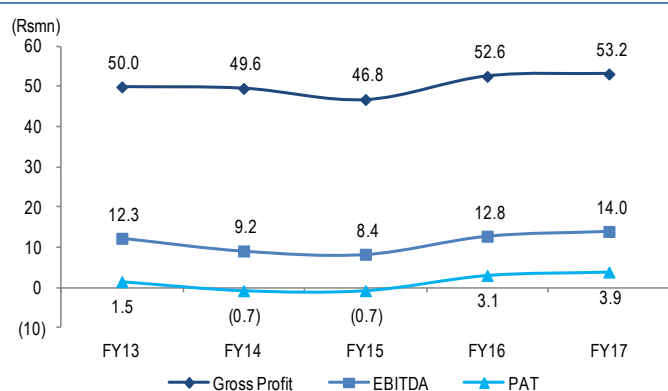
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Revenue trend


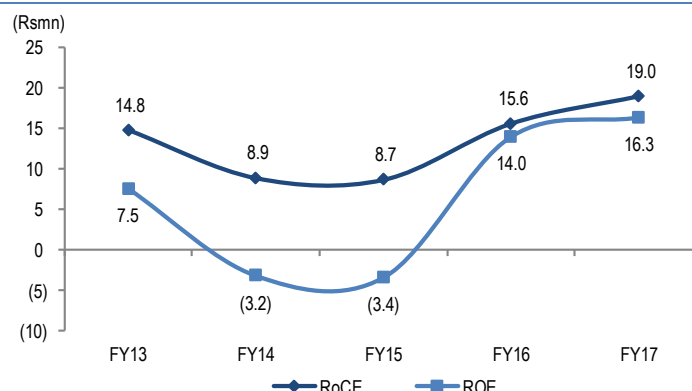
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Gross profit/EBITDA/PAT


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Margins


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Return ratios


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 6: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Net sales	3,137	3,292	3,581	3,596	3,950
Growth (%)	3.8	4.9	8.8	0.4	9.9
Raw material costs	1,569	1,659	1,904	1,705	1,849
Employee expenses	236	254	280	313	349
Other expenses	945	1,077	1,098	1,116	1,197
Total expenditure	2,750	2,990	3,281	3,134	3,396
EBITDA	387	302	299	462	554
Growth (%)	7.1	(21.9)	(0.9)	54.2	20.0
EBITDA margin (%)	12.3	9.2	8.4	12.8	14.0
Other income	37	38	44	38	19
Interest costs	178	238	267	252	236
Depreciation	84	109	105	102	102
Exceptional items	(85)	(12)	-	-	-
PBT	76	(19)	(29)	145	235
Tax	28	4	(4)	34	80
Effective tax rate (%)	37.3	(19.5)	15.2	23.7	34.0
PAT	48	(23)	(25)	111	155
Growth (%)	(56.7)	(148.3)	-	-	40.1
EPS (Rs)	1.4	(0.7)	(0.7)	3.1	4.4
EPS growth (%)	(56.7)	(148.3)	-	-	40.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Equity	158	169	169	176	176
Reserves	533	572	541	697	846
Net worth	692	741	710	873	1,023
Minority interest	1	1	1	6	7
Short-term loans	710	842	720	761	737
Long-term loans	727	641	823	724	648
Total loans	1,437	1,482	1,543	1,485	1,385
Deferred tax liabilities	145	146	136	150	218
Other non-current liabilities	7	5	4	3	5
Total liabilities	2,281	2,375	2,394	2,517	2,637
Fixed assets including CWIP	1,554	1,669	1,582	1,552	1,559
Intangible assets	3	2	1	3	3
Long-term loans & advances	182	188	159	152	246
Other non-current assets	7	7	14	11	9
Inventories	475	608	658	702	676
Debtors	525	583	495	560	630
Cash and cash equivalents	64	92	184	94	121
Other current assets	214	220	323	378	366
Total current assets	1,278	1,503	1,660	1,734	1,793
Creditors	328	508	719	552	560
Other current liabilities/provisions	415	485	303	383	413
Total current liabilities	743	993	1,022	934	973
Net current assets	535	509	638	799	820
Total assets	2,281	2,375	2,394	2,517	2,637

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
PAT	32	1	(41)	93	127
Depreciation	75	101	95	93	90
Other income	(41)	(87)	(64)	(42)	(25)
Changes in net working capital	109	54	(37)	(251)	6
Cash flow from operations	175	68	(48)	(106)	199
Capital expenditure	(418)	(215)	(6)	(65)	(97)
Net cash after capex	(243)	(147)	(54)	(172)	102
Other investment activities	50	82	86	52	(68)
Cash from financial activities	165	93	60	30	(7)
Opening cash balance	91	64	92	184	94
Change in cash balance	(28)	28	92	(90)	27
Closing cash balance	64	92	184	94	121

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

Y/E March	FY13	FY14	FY15	FY16	FY17
Per share (Rs)					
EPS	1.4	(0.7)	(0.7)	3.1	4.4
Book value	20	21	20	25	29
Valuation (x)					
P/E	33.0	(68.2)	(63.2)	14.2	10.2
P/sales	0.5	0.5	0.4	0.4	0.4
P/BV	2.3	2.1	2.2	1.8	1.5
EV/EBITDA	7.6	9.8	9.8	6.4	5.1
EV/sales	0.9	0.9	0.8	0.8	0.7
Return ratios (%)					
RoCE	14.8	8.9	8.7	15.6	19.0
RoE	7.5	(3.2)	(3.4)	14.0	16.3
Margins (%)					
Gross margin	50.0	49.6	46.8	52.6	53.2
EBITDA margin	12.3	9.2	8.4	12.8	14.0
EBIT margin	9.6	5.9	5.4	10.0	11.4
PBT margin	2.4	(0.6)	(0.8)	4.0	5.9
PAT margin	1.5	(0.7)	(0.7)	3.1	3.9
Turnover ratio					
Asset turnover ratio (x)	1.1	1.0	1.1	1.0	1.1
Avg. inventory days	116.5	119.2	121.4	145.6	136.0
Avg. collection period (days)	61.3	61.5	55.0	53.6	55.0
Avg. payment period (days)	71.8	92.0	117.6	136.0	109.7
Solvency ratios (x)					
Debt-equity	2.1	2.0	2.2	1.7	1.4
Growth (%)					
Sales	3.8	4.9	8.8	0.4	9.9
EBITDA	7.1	(21.9)	(0.9)	54.2	20.0
PAT	(56.7)	(148.3)	-	-	40.1

Source: Company, Nirmal Bang Institutional Equities Research

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