Press Release

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CARE ASSIGNS 'IPO GRADE 3' TO PROPOSED IPO OF 20 MICRONS LTD.

CARE has assigned a **'CARE IPO Grade 3'** to the proposed IPO of 20 Microns Ltd. (TML). '**CARE IPO Grade 3'** indicates **Average Fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer. TML proposes an initial public offering of 43,50,632 equity shares (approximately Rs.26.10 crore). The objective of the proposed IPO is to partly fund its ongoing expansion projects as well as provide an exit opportunity to Venture Fund, GVFL (Gujarat Venture Capital Fund 1995) which would be offloading 50% of its existing stake in TML.

The grading takes into account TML's long and established track record in the micronised minerals industry, operating captive mines and geographical spread of its manufacturing facilities in a logistics intensive industry, diversified clientele and voluntary compliance with some of the provisions of clause 49 of the listing agreement since last five years. The grading is constrained by unsatisfactory financial performance in the recent past including availing of CDR (Corporate Debt Restructuring) package, competition from players in the organised as well as unorganised sector, increasing cost of fuel, IPO linked project and modest financial profile as reflected by high overall gearing and moderate profit margins, especially in a rising interest rate scenario. The grading is further constrained by subdued return on net worth and moderate level of EPS.

Baroda-based TML, incorporated in 1987, is one of the largest players in the organised sector of the white minerals industry in India. The micronised minerals produced by TML are used as functional fillers and extenders in paints (43% of sales for FY08 for TML), plastics (27%), paper & ceramics (11%) and other products (19%). The top three products viz. GCC (41%), china clay (24%) and talc (15%) contributed approximately 80% of total sales. Its clientele includes Asian Paints, Akzo Nobel Coatings, ICI Paints, Berger Paints, Pidilite, Finolex Cables, etc.

TML incurred losses in three consecutive years from FY03 to FY05 mainly on account of non-functioning of a major equipment at Bhuj due to earthquake in Gujarat in 2001 and high contracted rates of interest. Consequently, it had to avail CDR package. TML made a formal exit from the CDR in early 2008 by paying re-compensation amount.

TML proposes to expand capacities at its existing four locations and setup a new unit at Haldwani and manufacture higher value-added products at these facilities with particle size upto 0.7 micron. Total cost of project of approximately Rs 20 cr is proposed to be financed by way of project debt-equity ratio of 1:1. Disbursement of project term loan of Rs 10 cr is linked to successful completion of IPO.

The weighted average ROCE and RONW for the last three years were 13.18% and 15.69% respectively. Its EPS has increased gradually to a moderate level of Rs.3.64 per share in FY08. Also, the company has not paid any dividend to its shareholders during the past five years.

Total income of TML grew by 22.74% in FY08 compared to FY07 on account of a growth in manufacturing sales as well as trading sales by 17.5% and 34.1% respectively in value terms. PBILDT and PAT margin were comfortable at 14.08% and 4.22% respectively in FY08. TML's long-term debt equity ratio remained moderate at 1.06 times. The overall gearing level, despite showing marginal improvement, was high at 1.85 times as on Mar.31, 2008.

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