

20 Microns Ltd.

Price Band	: Rs50 - 55 per share	September 2, 2008
Issue open between	: September 8 - 11, 2008	
Recommendation	: None*	
Book Running Lead Manager	: Keynote Corporate Services Ltd.	
To list on	: NSE & BSE	
Grading (CARE)	: 3 / 5	
Market Cap post-listing	: Rs78Cr or \$18mn (based on the cap price)	

(* Being the associate of the Book Running Lead Manager to this IPO, we are unable to give a recommendation; also read disclaimer on page 8)

PO of 4.35mn equity shares of Rs10 each, aggregating to Rs23.9Cr or \$5.5mn (at the cap price), consisting of an offer for sale of 2.7mn shares (Rs14.7Cr) and fresh issue of 1.7mn shares, (Rs9.2Cr)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	60,07,179	48.3%	60,07,179	42.5%
Others				
- GVFL	53,51,264	43.0%	26,75,632	18.9%
- Other Pre-issue investors	10,86,357	8.7%	10,86,357	7.7%
QIBs excluding Mutual Funds	-	0.0%	19,63,223	13.9%
Mutual Funds	-	0.0%	1,03,327	0.7%
Non-Institutional Investors	-	0.0%	6,19,965	4.4%
Public	-	0.0%	16,64,117	11.8%
Total	1,24,44,800	100.0%	1,41,19,800	100.0%

Executive Summary

- Incorporated in 1987, 20 Microns Ltd. (20ML) is a leading producer of micronised minerals in India. It produces various industrial minerals such as Calcium Carbonate, China Clay (Kaolin), Talc, Dolomite, Silica, Mica and Barytes.
- These minerals are used in various industries which comprises of paints, plastics, paper, glass and ceramics.
- India is endowed with huge deposits of industrial minerals including limestone, clay, talc, dolomite, barytes, mica, etc. It has a globally strong position in the production of these minerals. For instance in barytes production, India ranks 2nd, while in talc and mica production it ranks 4th and 10th respectively.
- Demand from user industries (viz. paint, paper, plastics, ceramics, etc.) is driven primarily by economic growth and rising per capita income levels over the last 4-5 years. This has led to increased opportunities for the industrial minerals industry.
- 20ML has a robust track record in the white minerals industry. Commencing operations with a small capacity of just 2,400 tonnes per annum (tpa), it has scaled up over the last 2 decades to reach a size of 96,400 tonnes per annum in FY08. It is one of the only two producers of China Clay in Asia, second only to English Indian Clays Ltd.
- 20ML has 8 manufacturing locations spread across India, giving it the advantage of being in close proximity to either its captive mines or key customers. Also 8 marketing offices and 13 depots facilitate better customer servicing through just in time (JIT) deliveries.
- Captive mines located close to most of its plants can act as one of the entry barriers to new competition.
- The company plans to further augment the capacity by 41,000 tpa. The project consists of expansion in talc, calcined clay, specialty chemicals production and implementation of wet grinding process.
- The company also plans to focus on its strong R&D capabilities to develop high value specialty minerals which carry better pricing and therefore better EBITDA margins.
- The IPO is priced at 18.1x based on pre-issue weighted average EPS and 14.9x based on FY08 pre-issue EPS.

Company Background

Incorporated in 1987 as a private limited company, 20ML was promoted by Mr. Bhanubhai B. Patel, Mr. Anant K. Kamdar & Mr. Chandresh S. Parikh. The company commenced operations in 1988 by setting up an industrial unit at Waghodia, Gujarat with an annual capacity of 2,400 tonnes. In 1994, the company was converted into a public limited company.

Products of 20ML cater to user industries viz., paints, paper, plastics, cement, rubber, ceramics, etc. 20ML has well equipped R&D center located at village Vadadla, Gujarat. It supports 20ML by developing mineral based value-added products and specialty chemicals.

Promoter Background

Mr. Chandresh Parikh, CMD, holds an MSc in Chemistry. He has over 35 years of experience in product development & commercialization of products.

Mr. Anant K. Kamdar, is a BSc in Chemistry. He commenced his career with Asian Paints Ltd in Mumbai in its production department. He has an experience of over 4 decades in the industry.

Mining Industry Overview

Industrial Minerals are geological materials which are mined for their commercial value, which are not fuel (mineral fuels) and are not sources of metals (metallic minerals). They are used both in their natural state and after beneficiation either as raw materials or as additives in a wide range of applications. Industrial minerals include Barytes, Bentonite, Borates, Calcium Carbonates, Diatomite, Feldspar, Gypsum, Kaolin, Mica, etc. These minerals are used as essential raw materials in most industrial activities.

Applications in the industries

The above mentioned industrial minerals are applied in industries which include paints, electronics, metal casting & foundry, paper, plastics, glass, ceramics. They are also used as processing aids for the food and feed industries and are increasingly important in environmental engineering (waste and flue gas treatment, water purification, etc.)

World Production of major industrial minerals and India's position

Industrial Minerals	Production (mn tonnes)		% Contribution	India's Rank
	World	India		
Barytes	7.9	1.2	15.1%	2 nd
Talc/ Steatite	8.6	0.8	9.4%	4 th
Mica	0.3	0.0	0.2%	10 th

(Source: Industrial Minerals Yearbook 2006, IBM, Pg 1-6 Table-3)

Indian mining industry

India has a long history of mining. The first recorded history of mining in India dates back to 1774 when an English company was granted permission by the East India Company for mining coal in Raniganj. M/s John Taylor & Sons Ltd. started gold mining in Kolar Gold Fields in 1880.

India has a large number of economically useful minerals, which constitute a quarter of the world's known mineral resources. In India, 80% of mining is in coal and balance in various metals and other materials such as gold, copper, iron, lead, bauxite, zinc and uranium. Of the 89 minerals produced in India, 4 are fuel minerals, 11 metallic, 52 non-metallic and 22 minor minerals.

Mineral Fillers

Mineral fillers are finely ground mineral substance, usually inert, used as fillers. Key physical characteristics of fillers include mean particle diameter, particle size distribution, aspect ratio, surface area, dispersability and inherent colour. Various minerals used as fillers in India are as mentioned below:

- Kaolin
- Calcium Carbonate
- Barytes
- Dolomite
- Talc
- Silica
- Mica

Business Overview

20ML is one of the leading manufacturers of micronized minerals in India. It produces various industrial minerals such as Calcium Carbonate, China Clay (Kaolin), Talc, Dolomite, Silica, Mica and Barytes, with an aggregate installed capacity of 96,400 tonnes p.a.

Plant Locations

State	Location	Products
Gujarat	Vadadla Waghodia Bhuj	Micronized Minerals (marble based) Micronized Minerals Processed China Clay & Calcined Clay
Rajasthan	Swaroopgunj Udaipur Alwar	Micronized Minerals Micronized Minerals Micronized Minerals
Tamilnadu	Hosur Tirunelveli	Micronised Minerals Micronised Minerals & process clay

Capacity and Production

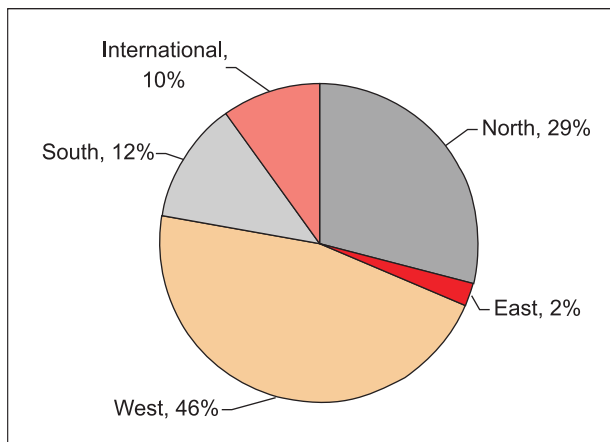
Year	Particulars	Installed Capacity	Capacity Utilisation	
		Tonnes p.a.	Tonnes p.a.	(%)
FY06	Dry Ground Minerals	61,600	53,934	87.6
	China Clay Hydrous/Refined and Calcined	26,400	17,761	67.3
	Speciality Chemicals	2,400	949	39.5
FY07	Dry Ground Minerals	61,600	60,097	97.6
	China Clay Hydrous/ Refined and Calcined	26,400	15,880	60.2
	Speciality Chemicals	2,400	1,250	52.1
FY08	Dry Ground Minerals	67,600	61,129	90.4
	China Clay Hydrous/ Refined and Calcined	26,400	14,793	56.0
	Speciality Chemicals	2,400	1,937	80.7

Products and applications

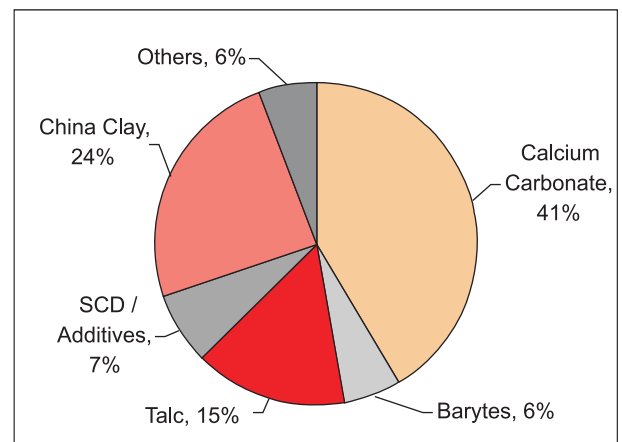
Products	User industries
Natural Calcium Carbonate	Paints, plastics, surface coatings, paper, food, pharmaceuticals, putty, sealants, rubber, cosmetics, explosives and pyrotechnic industry.
China clay/Kaolin	Paper, ceramics, paint, plastics, rubber, cement
Talc	Water based and concrete paints, wall paint undercoats, primers, anti-settling agents and plastics.
Dolomite	<ul style="list-style-type: none"> • Rigid PVC pipes • Additive for thermoplastic and as hardening agent for rubber industry • Power Coating, Paints and Ceramic industry • Reinforced Polyester glass fibre • Leather cloth and flooring applications • Detergent applications • Glass industry (in manufacturing sheet & optical glass)
Silica	Architectural paint, powder coatings, traffic paint, protective coatings, silicon rubber, adhesives, sealants, wire and cable coating compounds, thermo sets, thermoplastics, ceramics, high temperature insulation and epoxy castings.
Mica	Coatings and plastics.
Barytes	Emulsion paints, primers, undercoats, nitrocellulose and synthetic paste fillers, industrial coatings, printing inks, powder coating and polymers.

Revenue break-up (FY08)

Geographical breakup



Product-wise



Client list

User industry	Clients
Paint	Goodlass Nerolac, Asian Paints, ICI, Berger Paints, Jenson Nicholson, Rajdoot Paints, Shalimar Paints etc.
Plastics	Finolex Cables, Supreme Industries, Jain Plastics, Jain Irrigation, TIPCO, Bajaj Polyester, Kabra Extrusion Group, IPCL, Royal Cushion Vinly Products, Bhor Industries, Plastiblends India, Hydro S & S Industries, Sanghi Industries etc.
Paper	N R Paper and Boards, Balkrishna Industries, Gayatri Shakti Paper and Boards
Ceramics	Euro Cermaics, H R Johnson
Adhesives	Hankle, Altana Insulators

Competitive Strengths

1. Well-entrenched promoters and management
2. Multiple products
3. Geographically diversified, with 8 manufacturing locations and 8 marketing offices and 13 depots
4. Access to captive mines, ensuring supply of quality raw materials
5. Infrastructure availability
6. Active in product research and innovation
7. Strong marketing and distribution network

Expansion Project

Location	Capacity Expansion (tonnes p.a.)	Amount spent (RsCr)		Plan
		FY08	FY09	
Haldwani, Uttaranchal	7,000	0.00	0.65	Talc
Udaipur, Rajasthan	12,000	0.08	3.93	
Vadadla, Gujarat	7,000	0.00	1.35	Specialty Chemicals and implementation of wet grinding process
Bhuj, Gujarat	12,000	0.12	6.78	Calcined Clay
Tirunelveli, Tamil Nadu	3,000	0.36	2.03	Calcined Clay

Schedule of Completion

Location	Commencement	Completion
Haldwani, Uttaranchal	Oct-08	Mar-09
Udaipur, Rajasthan	Oct-08	Mar-09
Vadadla, Gujarat	Mar-08	Mar-09
Bhuj, Gujarat	Mar-08	Mar-09
Tirunelveli, Tamil Nadu	Mar-08	Mar-09

Fund Raising Programme

The expansion project will be funded by term loan from IDBI (IDBI has appraised the project) and public issue.

Peer Comparison

(RsCr)

Company Name	Imerys*	Ashapura Minechem	English Indian Clays	20ML
Sales Turnover	3471.10	1676.32	270.78	107.41
Adjusted Net Profit	277.30	154.00	18.20	4.59
Paid-up Equity cap.	62.93	15.79	4.47	12.44
Price Rs (01-Sept-2008)	44.95	118.95	690.95	55.00
Market Cap	2828.70	939.11	308.85	77.66
EPS (Rs)	4.41	19.51	40.72	3.69
Book Value (Rs)	-	70.18	135.50	22.85
P/E (x)	10.2	6.1	17.0	14.9
P/B (x)	-	1.7	5.1	2.4
P/S (x)	0.8	0.6	1.1	0.7
EBITDA margin	18.0%	12.0%	17.9%	14.1%
52 Week High (Rs)	71	445	3583	-
52 Week Low (Rs)	34	105	188	-
FVPS (Rs)	-	2	10	10

* Financials in ₹Mn & per share price in ₹ data for trailing twelve months

Risks

(Please refer to the RHP for a complete listing of risk factors)

- Delay in raising funds can adversely impact the implementation of the plans.
- Orders for machinery and equipment, amounting to 30% of total machineries and equipments required are not placed.
- Performance is linked to the government policies.

Profit & Loss Statements**(RsCr)**

For y. e. March 31,	2004	2005	2006	2007	2008
Net Sales					
Manufacturing Sales	41.40	46.83	49.45	58.92	69.18
Trading Sales	10.43	9.69	18.04	28.50	38.23
Total Sales	51.83	56.52	67.50	87.42	107.41
Expenditure					
Raw Material expenses	21.96	22.10	27.75	35.30	44.76
Operating Expenses	9.09	10.43	11.19	15.23	16.82
Personnel Expenses	5.96	6.55	8.12	9.80	13.23
Administrative & Selling Expenses	10.45	11.10	12.62	15.14	17.50
Total Expenditure	47.46	50.17	59.67	75.48	92.31
EBITDA	4.37	6.35	7.83	11.94	15.10
Other Income	0.28	0.42	0.37	0.42	0.52
Finance & Exchange Variation	3.64	3.46	3.71	4.16	5.65
PBDT	1.00	3.30	4.48	8.21	9.97
Depreciation	2.62	2.99	3.40	3.55	3.73
Profit Before Tax and Extra-ord. Items	-1.62	0.31	1.08	4.65	6.24
Extra-ordinary Items.	5.41	6.60	0.00	0.00	0.00
Tax	-1.72	0.03	-0.72	1.08	1.65
Profit After Tax	-5.31	-6.31	1.80	3.57	4.59
EBITDA margins	8.4%	11.2%	11.6%	13.7%	14.1%
EPS (Rs)	-4.27	-5.07	1.45	2.87	3.69
Book Value (Rs)	20.10	15.03	16.22	19.09	22.85
Paid-up Equity Capital	12.44	12.44	12.44	12.44	12.44

KEYNOTE

Balance Sheets

(RsCr)

As at March 31,	2004	2005	2006	2007	2008
Sources of Funds					
Share Capital	12.44	12.44	12.44	12.44	12.44
ESOP	0.00	0.00	0.00	0.00	0.23
Loss Account	0.00	0.00	5.45	1.88	0.00
Reserves and Surplus	12.57	6.25	13.20	13.20	15.76
Total Shareholders funds	25.01	18.70	20.19	23.76	28.44
Loan Funds					
Secured Loans	30.23	29.92	30.60	33.29	37.16
Unsecured Loans	8.62	9.06	9.43	9.17	9.36
Total Debt	38.84	38.98	40.03	42.46	46.52
Total Liabilities	63.86	57.68	60.22	66.23	74.95
Applications of Funds					
Gross Block	59.25	66.62	68.14	71.29	76.07
Less Depreciation	12.98	15.65	18.95	22.35	25.84
Net Block	46.27	50.97	49.20	48.94	50.23
CWIP	4.12	0.00	0.29	1.33	0.88
Capital Advances	1.22	0.14	0.19	0.15	0.24
Investments	0.06	0.66	0.66	0.69	0.69
Curr. Assets, Loans and Adv.					
Inventories	9.34	6.32	6.26	9.03	12.83
Sundry Debtors	11.91	8.04	10.57	13.99	19.89
Cash and bank balances	1.63	1.53	1.79	1.92	3.04
Loans and Advances	1.89	1.82	2.31	3.29	5.80
Other Current Assets	0.00	0.38	0.09	0.25	1.21
Total Current Assets	24.78	18.09	21.01	28.48	42.77
Curr. Liabilities and Prov.					
Current Liabilities	7.67	7.26	7.30	9.10	13.69
Net Current Assets	17.10	10.82	13.71	19.38	29.08
Deferred Tax Liability	-4.91	-4.91	-3.84	-4.27	-6.17
Misc. Expenditure	0.00	0.00	0.00	0.00	0.00
Total Assets	63.86	57.68	60.22	66.23	74.95

Keynote Capitals Ltd.

Member

Stock Exchange, Mumbai (INB 230930539)
National Stock Exchange of India Ltd. (INB 010930556)
Over the Counter Exchange of India Ltd. (INB 200930535)
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

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Disclaimer

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