January 20, 2022

Wendt (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	2.00	2.00	[ICRA]AA- (Stable); Reaffirmed
Long Term – fund based / CC (sub limit of non-fund based)	0.00	(2.00)	[ICRA]AA- (Stable); Reaffirmed
Short Term - Non-Fund Based	19.00	19.00	[ICRA]A1+; Reaffirmed
Total	**21.00**	**21.00**	

Instrument details are provided in Annexure-1

Rationale

The ratings continue to derive comfort from strong parentage - Carborundum Universal Limited (CUMI)[1] and Wendt GmBH[2], Wendt (India) Limited's (WIL) strong market position in the domestic super abrasive industry, reputed client profile and long-standing experience of the promoters in the industry. WIL's business and financial profile remains stable supported by stable demand from its customers across the end user segments such as steel, automobile, cutting tool, bearing industry etc, healthy margins (with OPM of 23.7% and core RoCE of 25.5% in H1 FY2022) and debt free status and healthy liquidity profile on the back of strong cash accruals.

The ratings, however, remain constrained by vulnerability of WIL's revenue and earnings to economic activities and capex cycle in the end-user industries. Given the pandemic impact on economic activities and automotive production, which accounts for a substantial portion (~30%) of the company's sales, WIL's revenues were affected during FY2021. This apart, the company faces high competition from other players (both domestic and imports) in the super abrasive and non-super abrasive segment. While the company's margins are susceptible to raw material price fluctuations, the various cost control measures and pass-through clauses against commodity inflation insulates WIL's margins to a large extent.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company will continue to benefit from the current healthy demand trends across segments, its long track record of operations, reputed client profile, the expected improvement in its financial profile with improving credit metrics and margins and adequate liquidity position.

Key rating drivers and their description

Credit strengths

Strong parentage and experienced promoters with proven track record in super abrasive and non-super abrasive segment – WIL is a part of the Murugappa Group and Wendt GmBH Limited, which have a strong business and credit profile. The promoters have been involved in super abrasive and non-super abrasive industry for over three decades and have established relationships with original equipment manufacturers (OEMs) and suppliers, thus supporting WIL's operational profile.

One of the leading players in domestic super abrasive segment – WIL is one of the leading players in the domestic super abrasive industry in India. The company's long-standing presence in the industry and its strong R&D and technical capabilities enable it to maintain a healthy market position in the industry. This apart, a high precision level is one of the critical

[1] Part of Murugappa group
[2] Part of US-based 3M Company group

requirements in the sectors in which the company operates. This is a strong entry barrier for new entrants as the spend towards similar infrastructure for replicating the technological excellence would be a challenge.

Strong customer base supports business growth – The company has a highly reputed customer base across industries, which supports its revenues. WIL has developed established relationships with its customers, which continue to support its business prospects. The company's revenues are well diversified with little dependence on any single customer.

Healthy financial metrics characterised by negligible gearing and comfortable coverage indicators – For H1 FY2022, the company's revenues was Rs. 89.8 crore with operating and net margins of 23.7% and 15.6% respectively. WIL's capital structure and coverage indicators remain healthy as the company remains debt free. WIL plans to add capacity in certain product categories in FY2022. However, it is unlikely to avail any significant borrowings and plans to fund this entirely through its internal accruals.

Credit challenges

Inherent volatility in the end user industry - WIL is vulnerable to the cyclicity and volatility in the industry performance, WIL's products find application in end user industries like auto, steel, ceramics, glass, cutting tools, engineering, etc. and majorly to automotive industry. WIL's FY2021 revenue and profitability were impacted by the contraction in orders from the end user industries as compared to the previous year. However, from Q1 FY2022, the company has received healthy orders which is expected to support the revenues of the company.

High competition – The domestic abrasives industry is highly fragmented with the presence of a large number of players. Despite its strong market position, WIL faces intense competition from several industry majors, thereby affecting its ability to acquire new customers.

Liquidity position: Strong

WIL's liquidity profile remains comfortable supported by healthy accruals, effective working capital management and moderate capital expenditure. While the company has outlined regular capital expenditure of about Rs. 12-15 crore every year, its liquidity is likely to remain comfortable supported by its current cash and liquid investment balance of Rs. 58.8 crore and annual accruals of about Rs. 15-18 crore. As on September 30, 2021, WIL had sanctioned working capital limits of Rs. 4.0 crore, which remain mostly undrawn. The company does not have any term loans on its books and is planning to add capacity for certain product categories in FY2022. However, WIL is unlikely to avail any significant borrowings and plans to fund the same entirely through its internal accruals.

Rating sensitivities

Positive factors – The lower scale of operations currently restricts an upgrade in the long-term rating.

Negative factors – Pressure on WIL's ratings could arise on a sharp deterioration in the credit profile of either of the parent entities or if WIL's financial profile weakens sharply on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group Support	Parent/Group Company: CUMI and Wendt GmBH The ratings are based on implicit support from the parent - CUMI
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity. which are all enlisted in Annexure-2.

About the company

Established in 1980, Wendt India Limited (Wendt / the company) was originally promoted by Mr S. C. Khatau and Wendt Gmbh of Germany. The company started its operations by setting-up a super abrasives manufacturing facility at Hosur (Tamil Nadu) to manufacture grinding wheels and tools with technological support from its German parent, Wendt Gmbh.

In 1991, Carborundum Universal Limited (*CUMI, a Murugappa Group company,* a leading conventional abrasives player in India, acquired 30% in the company from Mr S. C. Khatau and subsequently an additional ~10% from the open market to expand its presence in the super-abrasives segment.

Presently, the company is jointly held by CUMI and Wendt Gmbh, with each holding 37.50% stake in the company. In 2007, Winterthur Technologies AG (Switzerland), acquired Wendt Gmbh and thus holds an indirect stake of 37.50% in the company. Later in December 2010, 3M acquired Winterthur Technologies AG (presently 3M holds 98.5% in Winterthur Technologies AG) thereby getting an indirect stake in Wendt.

ICRA takes note of the voluntary de-registration of wholly owned subsidiary in Sharjah, Wendt Middle East (WME), considering the challenging business conditions in Middle East. WME was a trading unit in UAE to cater to the customers in the region. Going forward, the company would directly be supplying to its end customers in UAE from India.

Key financial indicators (audited)

WILL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	145.8	137.0
PAT (Rs. crore)	10.0	12.8
OPBDIT/OI (%)	15.2%	17.3%
PAT/OI (%)	6.9%	9.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	25.0	35.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research;. All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Jan 20, 2022	Oct 30, 2020	Sep 09, 2019	Sep 24, 2018	Aug 25, 2017
1	Fund Based/ CC	Long-term	2.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	fund based / CC (sub limit of non-fund based)	Long-term	(2.00)	--	[ICRA]AA- (Stable)	-	-	-	-
3	Non-Fund Based	Short term	19.00	6.1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Long Term – fund based / CC (sub limit of non-fund based)	Simple
Short Term - Non-Fund Based	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long Term - Fund Based/ CC	2021	NA	NA	2.00	[ICRA]AA-(Stable)
NA	Long Term – fund based / CC (sub limit of non-fund based)	2021	NA	NA	(2.00)	[ICRA]AA-(Stable)
NA	Short Term - Non-Fund Based	2021	NA	NA	19.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	WIL ownership	Consolidation Approach
Wendt Grinding Technologies, Thailand	100.00%	Full Consolidation
Wendt Middle East, FZE*	100.00%	Full Consolidation

Source: *WIL annual report FY2021; Note: Under liquidation*

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