March 28, 2023

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)	(2.00)	(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

Wendt (India) Limited's (WIL/the company) ratings continue to derive comfort from its strong parentage, Carborundum Universal Limited (CUMI)[1] and Wendt GmBH[2], its strong market position in the domestic super abrasive industry, reputed client profile and extensive experience of the promoters in the industry. During FY2022 and 9M FY2023, WIL's revenue grew by 31.1% and 15.5%, respectively, driven by robust demand from domestic customers across industries. WIL's business and financial profile remains stable, supported by stable demand from its customers across end-user segments such as auto, auto ancillaries, engineering, steel, bearings, glass, etc, along with healthy margins (with OPM of 25.9% in 9M FY2023) and debt free status as well as a strong liquidity profile on the back of healthy cash accruals.

The ratings, however, remain constrained by the vulnerability of WIL's revenue and earnings to economic activities and capex cycle in the end-user industries. The company derived ~29.3% of its H1 FY2023 revenues from the automotive segment, exposing its revenues to the cyclicality in demand from this segment. Further, the company faces high competition from other players (both domestic and imports) in the super abrasive and non-super abrasive segments. 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, healthy financial profile with strong credit metrics and margins as well as a strong 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 segments – 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 the super abrasive and non-super abrasive sectors for over six decades. They enjoy established relationships with original equipment manufacturers (OEMs) and suppliers, thus supporting WIL's operational profile.

Leading player in domestic super abrasive segment – WIL is one of the leading players in the domestic super abrasive industry in India. The company's established presence in the industry as well as 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 requirements in the

[1] *Part of Murugappa Group*

[2] *Part of US-based 3M Company Group*

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 9M FY2023, the company's revenue was Rs. 151.3 crore with operating and net margins of 25.9% and 18.0%, respectively. The company's ability to pass on rise in raw material prices to its end customers and uninterrupted supply arrangement with the suppliers through bulk ordering, fixed-price contracts, developing alternative vendors wherever possible and planning the inventory in advance have all helped improve its margins, despite an inflationary environment. WIL's capital structure and coverage indicators remain robust as the company remains debt free. WIL plans to expand its capacity for certain product categories between FY2023 and FY2025. However, it plans to fund this entirely through its internal accruals.

Credit challenges

Inherent volatility in end-user industry – WIL is vulnerable to the cyclicity and volatility in industry performance, WIL's products find application in end-user industries like auto, steel, ceramics, glass, cutting tools, engineering, etc; but mainly the automotive industry. WIL derived ~29.3% of its H1 FY2023 revenues from the automotive segment, exposing its revenues to the cyclicality in demand from this sector. Thus, despite catering to multiple end-user industries, the company's revenue and earnings remain susceptible to the economic activities and capex cycles of those industries.

High competition – The domestic abrasives industry is highly fragmented with 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.

Environmental and Social Risks

Environmental considerations: Even though WIL is not directly exposed to climate transition risks from the likelihood of tightening emission control requirements, its automotive manufacturing customers who mainly drive its revenues, remain highly exposed to the same. Accordingly, the company's prospects remain linked to the ability of its customers to meet tightening emission requirements. Over the years, the company has been continuously making improvements in recycling and reusing of waste, consumption of water and energy, and optimal use of available natural resources. The company has been certified in recognised standards such as ISO 9001, ISO 14001, OHSAS18001, TS16949, and EN13236 to ensure its products have a sustainable use from social and environmental perspectives. During FY2022, the company was upgraded from existing OHSAS18001 to ISO 45001 Occupational Health and Safety Management Systems and has been certified and has undergone certification process of EN9100:2018 for Aerospace Quality Standards and has been recognized.

Social considerations: Like most engineering companies, WIL has high dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. As per the disclosures in its FY2022 annual report, the company places strong emphasis on the safety and health of its employees. It provides comprehensive health and safety training, including on-site and job-specific training, to ensure that all employees are equipped with the knowledge and skills necessary to prevent incidents and accidents. The company's CSR programmes aim for inclusive growth and sustainable development of the local community.

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 capex of about Rs. 20-30 crore every fiscal during FY2023 to FY2025, its liquidity is likely to remain comfortable supported by its current cash and liquid investment balance of Rs. 80.7 crore as on September 30, 2022 and healthy cash accruals. As on September 30, 2022, WIL had sanctioned working capital limits of Rs. 2.0 crore, which remain mostly undrawn. The company does not have any term loans on its books and is planning to expand capacity for certain product categories during FY2023 to FY2025 to cater to new markets. 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. However, a substantial scale up in revenues while maintaining healthy credit metrics and liquidity position on a sustained basis would be considered for a rating upgrade.

Negative factors – Pressure on WIL's ratings could arise on a sharp deterioration in the credit profile of CUMI, 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 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 was originally promoted by Mr. SC Khatau and Wendt Gmbh, 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.

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

Currently, the company is jointly held by CUMI and Wendt Gmbh, with each holding 37.50% stake in it. 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 (currently, 3M holds 98.5% in Winterthur Technologies AG), thereby getting an indirect stake in WIL.

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022	9m FY2023*
Operating income	137.0	179.6	151.3
PAT	12.8	27.1	27.3
OPBDIT/OI	17.3%	24.2%	25.9%
PAT/OI	9.3%	15.1%	18.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	NA
Total debt/OPBDIT (times)	0.0	0.0	NA
Interest coverage (times)	35.0	68.9	1962.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 28, 2023	Jan 20, 2022	Oct 30, 2020	Sep 09, 2019	Sep 24, 2018
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)	[ICRA]AA- (Stable)	-	-	-
3	Non-Fund Based	Short term	19.00	3.1	[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: Click Here

Annexure I: 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 II: List of entities considered for consolidated analysis

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

Source: *WIL annual report FY2022; Note: Under liquidation*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherala
+91 80 4332 6411
mythri.macherala@icraindia.com

Gaurav Anand Kanade
+91 22 6114 3469
gaurav.kanade@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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