

August 25, 2017

Wendt (India) Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – WC	2.00	[ICRA]AA-(Stable); Reaffirmed
Non-fund based	6.00	[ICRA]A1+; Reaffirmed
Total	8.00	

*Instrument details are provided in annexure-1

Rating action

ICRA has reaffirmed the long term rating outstanding on the Rs.2.0 crore fund based facilities of Wendt (India) Limited (Wendt /the company)¹ at [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long-term rating is stable. ICRA has also re-affirmed the [ICRA]A1+ (pronounced as ICRA A one plus) rating outstanding on the Rs.6.00 crore non-fund based facilities.

Rationale

The reaffirmation in ratings continues to factor the strong group support enjoyed by Wendt and the financial flexibility arising from being part of the Murugappa Group, the company's sustained market position in the domestic super-abrasives industry and its diversified business mix with increasing revenue share of non-super abrasives. During FY2017, Wendt's revenues grew by 9.4% primarily driven by a healthy 18% growth in the super abrasives division; this division accounted for almost 75% of revenues during FY2017. Wendt generates 25% of revenue from non- super abrasive which has high growth potential. The ratings also factors in sustained healthy financial profile of the company characterized by nil debt, adequate coverage indicators, stable working capital cycle and strong liquidity profile supported by liquid investments, cash reserve and unutilized credit lines.

The ratings continue to factor in Wendt's moderately high exposure to the domestic automotive industry (~34% of revenues during FY2017) and the risks associated with the inherent cyclicity, susceptibility of its margins to input price fluctuations and dependence on imports for certain key raw materials. Further, the ownership structure of the company continues to remain uncertain with no resolution on valuations between the two promoter groups (Murugappa and 3M), although there has been minimal impact of the same on the day to day operations and performance of the company. Going forward, the company's ability to sustain its growth momentum, improve margins while maintaining its strong capital structure would be key rating sensitivities

¹ For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Strong parentage by Murugappa Group:** Murugappa group holds 39.87% stake in the company, providing it with financial flexibility.
- **Experience of management**– The management team of the company has extensive experience in the industry, enabling the company to carry out its operations with focused guidance
- **Strong relationship with its customers** - The company has strong relationships with its existing customers which has enabled in sustaining the wallet share it enjoys.
- **Established market position in the super abrasive industry** - The company has well established market position in the Indian super abrasive industry, where the company's product find application in several industries.

Credit weaknesses

- **High exposure to Indian automotive industry** - Significant exposure (~34% of total turnover) on the automotive sector making the company vulnerable to the cyclicity of automobile industry
- **High competitive intensity from large players in the market** – Highly fragmented market structure with intense competition from both domestic and foreign players leading to pricing pressure in addition to affecting the ability of the company to acquire new customers
- **Ownership structure of the company continues to remain uncertain:** The company is jointly held by CUMI and Wendt Gmbh, with each holding 39.87% stake in the company. Wendt GmbH is currently owned by 3M; following the change of final ownership, CUMI offered to buy out the foreign joint venture partner's stake in Wendt, however the same has been pending due to valuation issues, leading to uncertainty. However there has been minimal impact of the same on the day to day operations and performance of the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Auto Components Manufacturer

About the company:

Established in 1980, Wendt (India) Ltd (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. Thus, presently, the company is jointly held by CUMI and Wendt Gmbh, with each holding 39.87% stake in the company.

Presently, the company is jointly held by CUMI and Wendt Gmbh, with each holding 39.87% stake in the company. In FY2007, Winterthur Technologies AG (Switzerland), acquired Wendt Gmbh. Later in FY2011, 3M acquired Winterthur Technologies AG (presently 3M holds 98.5% in Winterthur Technologies AG) thereby getting an indirect stake in Wendt. Following this, CUMI, during FY2015 offered to buy out the foreign joint venture partner's stake in Wendt, however the same could not be resolved, following negotiations between the promoter group. There have been no developments on the

ownership of the company with the matter still pending with the National Company Law Tribunal (NCLT).

Key Financial Indicators

Amount (In Rs. Crore)	FY2016 Audited	FY2017 Audited
Operating Income	135.1	147.8
PAT (Rs. crore)	10.1	12.1
OPBDIT/ OI	16.7%	18.1%
RoCE	15.2%	15.2%
Total Debt/ TNW	-	-
Total Debt/ OPBDIT	-	-
Interest coverage	40.4	218.7
NWC/ OI	23.9%	23.6%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

Table.								
S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					August 2017	July 2016	May 2015	May 2014
1	Fund based	Long Term	2.00	0.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Non- Fund based	Short Term	6.00	3.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund based – Working Capital	-	-	-	2.00	[ICRA]AA-(Stable)
	Non – Fund based	-	-	-	6.00	[ICRA]A1+

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