September 09, 2019

Wendt (India) Limited: Ratings reaffirmed; Rated amount enhanced

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
Short Term - Non-Fund Based	6.00	9.00	[ICRA]A1+; Reaffirmed
Total	**8.00**	**11.00**	

**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 financial profile remains stable with its revenues increasing by 12.1% in FY2019 supported by healthy demand from its customers across the end user segments such as steel, automobile, cutting tool, bearing industry etc, healthy margins (with OPM of 18.8% and core RoCE of 25.4%) and debt free status and healthy liquidity profile on the back of strong cash accruals.

The ratings, however, remain constrained by WIL's exposure to the cyclical automotive sector (accounted for ~37% of the sales in FY2019), the ongoing demand slowdown in the auto industry, susceptibility of its margins to raw material price fluctuations, and competition from other players (both domestic and imports) in the super abrasive and non-super abrasive segment.

ICRA also takes note of the company's inability to maintain minimum public shareholding limit of 25% following an order from Company Law Board in January 2011 restraining alteration of the shareholding pattern and Board composition. This order was based on the pending disputes between promoter groups following the petition filed by CUMI against the company and other promoter group relating to oppression and mismanagement of affairs. In March 2019, the NCLT had dismissed CUMI's petition and had directed SEBI for further directions on the 20% open offer made earlier by 3M group. ICRA will continue to monitor the development on the same.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that WIL will continue to benefit from strong parentage support from Murugappa group & 3M, which has diversified presence across industries, its long track record of operations, established market position, and healthy financial risk profile.

[1] Part of Murugappa group

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

Key rating drivers and their description

Credit strengths

Strong parentage and experienced promoters– WIL is part of the Murugappa Group and Wendt GmBH Limited, which have a strong business and credit profile. The management has vast experience in the abrasive and super abrasive industry for over three decades and have established relationships with 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 and has reported healthy revenue growth in the last three years (10.2% CAGR during FY2016-19). The company's longstanding presence in the industry and its strong R&D and technical capabilities enable it to maintain healthy market position in the industry. This apart, high precision level is one of the critical requirements in the sectors where the company operates. This is a strong entry barrier for new entrants as the spend towards similar infrastructure for replicating technological excellence would be a challenge.

Strong financial profile – WIL's revenues grew by 12.1% in FY2019, supported by healthy demand from its customers across the end user segments such as steel, automobile, cutting tool, bearing industry etc. With strong sales growth, WIL's operating and net margins also expanded by 50 bps and 90 bps, respectively. The capital structure and coverage indicators remain healthy as the company remains debt free. WIL has plans to add capacities under certain product categories during FY2020; however, WIL is unlikely to avail any significant borrowings and plans to fund entirely through its internal accruals.

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

Credit challenges

Vulnerable to slowdown in automotive sector – While WIL's products are sold across end-user industries like defence, steel, engineering, cutting tools, ceramics, etc., over 35% of the sales was derived from the domestic automotive sector (including auto ancillary) in FY2019. With the ongoing demand slowdown in the auto sector, WIL's performance in FY2020 is likely to be subdued and could impact its revenues and margins. However, the company's foray into other industries and its planned focus on exports mitigate the risk to a large extent.

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

Liquidity position: Strong

WIL's fund flow from operations improved in FY2019, supported by stable working capital intensity and a healthy increase in operating revenues. WIL's liquidity profile remained strong, supported by healthy accruals. As on March 31, 2019 WIL had cash and liquid investments of Rs. 54.1 crore and sanctioned working capital limits of Rs. 2.0 crore, which remains mostly undrawn.

Rating sensitivities

Positive triggers – Scale currently restricts upgrade in the rating.
Negative triggers – Negative pressure on WIL's ratings could arise with 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
Parent/Group Support	Parent/Group Company: [Carborundum Universal Limited and Wendt GmBH] The ratings are based on implicit support from parent/ Group company.
Consolidation/Standalone	The rating is based on consolidated financial statements of the rated entity.

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. In 2007, Winterthur Technologies AG (Switzerland), acquired Wendt GmBH and thus holds an indirect stake of 39.87% in the company. Later in December 2010, 3M acquired Winterthur Technologies AG in a deal valued at USD 448 million (presently 3M holds 98.5% in Winterthur Technologies AG) thereby getting an indirect stake in WIL.

In FY2019, on an audited basis, the company reported a net profit of Rs. 15.4 crore on an operating income of Rs. 164.9 crore, as compared to a net profit of Rs. 12.4 crore on an operating income of Rs. 147.1 crore in the FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	147.1	164.9
PAT (Rs. crore)	12.4	15.4
OPBDIT/OI (%)	18.3%	18.8%
RoCE (%)	15.2%	17.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	29.8	73.0
DSCR	24.5	59.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020) Type	Amount Rated	Amount Outstanding	Rating 09-Sep-2019	Rating History for the Past 3 Years FY2019 24- Sep-2018	FY2018 25- Aug - 2017	FY2017 29- July - 2016
1	Long Term - Fund Based/ CC	Long Term	2.0	0.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Short Term - Non-Fund Based	Short Term	9.0	4.2*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore: Note NFB outstanding amount is as on June 30, 2019

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund Based/ CC	30-Mar-16	8.9%	NA	2.00	[ICRA]AA-(Stable)
NA	Short Term - Non-Fund Based	30-Mar-19	NA	NA	9.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

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

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