April 05, 2024

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-I*

Rationale

Wendt (India) Limited's (WIL/the company) ratings continue to derive comfort from its strong parentage wherein it is a subsidiary of Carborundum Universal Limited (CUMI)[1], its strong market position in the domestic super-abrasive industry by being a part of Wendt GmBH[2], reputed client profile and extensive experience of the promoters in the industry. Further, the ratings consider WIL's robust capital structure and coverage indicators as it remains debt free.

The company witnessed a revenue growth of 17.5% in FY2023, primarily supported by volume growth on the back of robust demand from the domestic and export markets across industries. WIL's operating margin improved to 27.6% in FY2023 from 24.4% in FY2022, on the back of various cost-control measures and healthy operating leverage. However, in 9M FY2024, revenue growth slowed down to 3.6% YoY mainly on account of normalisation of revenue growth in the domestic markets due to the high base of FY2023 and marginal decline in revenues from the export markets on account of delayed orders amid geopolitical uncertainties. Although the operating margin declined to 24.3% in 9M FY2024 due to change in product (increased contribution from the lower-margin non-super abrasives segment) and geographical mix (reduced contribution from high-margin exports) and a slowdown in revenue growth to an extent, it remained healthy.

The ratings also consider the vulnerability of WIL's revenue and earnings to economic activities and capex cycles in the end-user industries. The company derived ~29.3% of its 9M FY2024 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 long-term rating reflects ICRA's opinion that, going forward, the company's revenue growth will be supported by stable revenues from its customers across industries, while maintaining its healthy margins. Further, the debt metrics and liquidity position of the company are expected to remain healthy supported by strong accruals.

[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 with proven track record in super abrasive and non-super abrasive segments – The ratings continue to derive comfort from WIL's strong parentage wherein it is a subsidiary of CUMI and its strong market position in the domestic super-abrasive industry by being a part of Wendt GmBH. The promoters have been involved in the super abrasive and non-super abrasive sectors for over six decades. The established relationships with original equipment manufacturers (OEMs) and suppliers support WIL's operational profile and ICRA expects the same to sustain, going forward.

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 sectors in which the company operates. This is a strong entry barrier for new entrants as developing the capabilities with the similar infrastructure for replicating the technological excellence would be a challenge. Moreover, the company's presence in the machine & accessories and precision products segment enables it to cater to various customer needs supporting its business prospects.

Strong customer base supports business growth – The company has established relationships with a highly reputed customer base across industries, which support its revenues. The company derived ~31% of its revenue from top-10 customers in FY2023 and 9M FY2024 and thus, the revenue remains well diversified with little dependence on any single customer.

Strong financial metrics characterised by healthy margins and robust debt metrics – The company generated revenue of Rs. 156.8 crore in 9M FY2024 with operating and net margins of 24.3% and 17.6%, 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, has supported its healthy margins. WIL's capital structure and coverage indicators remain robust as it remains debt free. While the company has plans to expand its capacity in the next 2-3 years, the same is expected to be funded entirely through its internal accruals. Going forward, the debt metrics and liquidity position of the company are expected to remain strong in the absence of any debt-funded capex and supported by its healthy accruals.

Credit challenges

Inherent volatility in end-user industry – WIL is vulnerable to the cyclicity and volatility in industry performance with its products finding application in end-user industries like auto, steel, ceramics, glass, cutting tools, engineering, etc., but mainly the automotive industry. Although the company is focused on increasing contribution from other industries, it derived 29.3% of its revenues in 9M FY2024 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 and imports, thereby affecting its ability to acquire new customers and pricing flexibility to a certain extent.

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, ISO 45001, EN13236, EN9100 and IATF 16949 to ensure its products have a sustainable use from social and environmental perspectives.

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 FY2023 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 strong, with free cash and liquid investment of Rs. 83.8 crore as on September 30, 2023. The company has sanctioned fund-based working capital limit of Rs.4.0 crore and the same remained unutilised between February 2023 and January 2024. While the company has outlined regular capex of about Rs. 20-25 crore every fiscal over the next 2-3 years to expand its capacity and to cater to new markets, it remains moderate and will be funded through internal accruals. At present, the company does not have any outstanding term loans. ICRA expects the company's liquidity to remain strong, supported by its healthy accruals and effective working capital management.

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 in case of any sharp deterioration in the credit profile of CUMI, and/or weakening of the linkages between the two entities. Pressure on WIL's ratings could arise if its 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: 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

Wendt India Limited (Wendt/company), established in 1980, 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) for grinding wheels and tools with technological support from its German parent, Wendt Gmbh.

In 1991, Carborundum Universal Limited (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 a 37.50% stake in the company. In 2007, Winterthur Technologies AG (Switzerland), acquired Wendt Gmbh and, thus, held an indirect stake of 37.50% in the company.

Later in December 2010, 3M acquired Winterthur Technologies AG in a deal valued at $448 million (presently 3M holds 98.5% in Winterthur Technologies AG) thereby getting an indirect stake in Wendt.

Key financial indicators (audited)

WIL (Consolidated)	FY2022	FY2023	9M FY2024*
Operating income	179.9	211.4	156.8
PAT	27.1	40.1	27.6
OPBDIT/OI	24.4%	27.6%	24.3%
PAT/OI	15.0%	19.0%	17.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	-
Total debt/OPBDIT (times)	0.0	0.0	-
Interest coverage (times)	69.3	122.2	-

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation * Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 05, 2024	-	Mar 28, 2023	Jan 20, 2022
1	**Fund based/CC**	Long-term	2.00	--	**[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)**	**[ICRA]AA- (Stable)**
3	**Non-Fund based**	Short-term	19.00	--	**[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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	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	WIL Ownership	Consolidation Approach
Wendt Grinding Technologies, Thailand	100.00%	Full Consolidation

***Source:** WIL annual report FY2023*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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