



INDEPENDENT EQUITY RESEARCH

Wendt (India) Ltd

Q4FY11 Result Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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Wendt (India) Ltd

Near-term weakness

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 3/5 (CMP is aligned)

Industry Machinery

Wendt (India) Ltd's (Wendt) Q4FY11 revenues and profitability were lower than Crisil Equities' expectations, primarily due to change in product mix and certain delayed shipments. Also, Wendt had launched a few new products, offering lower introductory prices. However, for FY11, Wendt reported 46% growth in revenues due to strong demand from auto, engineering, cutting tools and steel industries. Also, EBITDA margins expanded 321 bps owing to increased share in revenues of high-margin machine segment from 15.2% in FY10 to 28.1% in FY11. So, we maintain our fundamental grade of 4/5.

Q4FY11 and FY11 result analysis

- Wendt's Q4 revenues were up by 25.1% y-o-y largely driven by ~ 107% y-o-y growth in the machine segment. Superabrasives reported subdued growth of 9.4% y-o-y contributing 77% to total revenues.
- However, contrary to our expectations, revenues declined 4.6% y-o-y owing to delayed shipments and change in product mix. This, we believe, is a temporary phenomenon and we expect sequential growth to resume from Q1FY12 onwards.
- EBIT margin expanded 221 bps y-o-y as the high-margin machine segment's revenue share increased 22.8% vs. 13.5% in Q4FY10. However, margins declined 532bps q-o-q due to a drop in revenues, new product launches and lower contribution from the machine segment.
- In Q4FY11, PAT increased by 35% y-o-y on account of good show at the operating level and less than proportionate growth in depreciation. EPS stood at Rs 18.9 compared to Rs 14 in Q4FY10.
- Wendt has declared a dividend of Rs 25 per share, same as last year.

Key developments

Status quo on Wendt's parentage: 3M completed its acquisition of Winterthur Technologies, the holding company of Wendt GmbH, which holds a 40% stake in Wendt India. However, there is no further development on Carborundum Universal India's (CUMI) plan to acquire Wendt GmbH's 40% stake in Wendt India.

Company plans to enter Indonesia: Wendt is looking to establish a presence in Indonesia primarily to service the glass, automobile and engineering industry. Further details of investments are yet to be disclosed by the management.

Valuations: Current market price is aligned

We marginally lower our estimates and continue to value Wendt based on the discounted cash flow (DCF) method. We maintain our fair value estimate at Rs 1,229.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	568	633	922	1,124	1,302
EBITDA	145	172	281	338	399
Adj PAT	92	98	168	210	257
Adj EPS-Rs	46.1	49.2	84.2	104.8	128.6
EPS growth (%)	7.5	7.2	68.7	24.5	22.7
RoCE (%)	27.4	29.3	44.0	43.2	41.3
RoE (%)	21.1	20.5	30.4	30.8	30.4
PE (x)	8.9	14.3	14.6	11.7	9.6
P/BV (x)	1.8	2.8	4.0	3.3	2.6
EV/EBITDA (x)	4.8	7.3	8.0	6.3	4.9

NM: Not meaningful; CMP: Current Market Price

#FY11 numbers based on the abridged financials

Source: Company, CRISIL Equities estimate

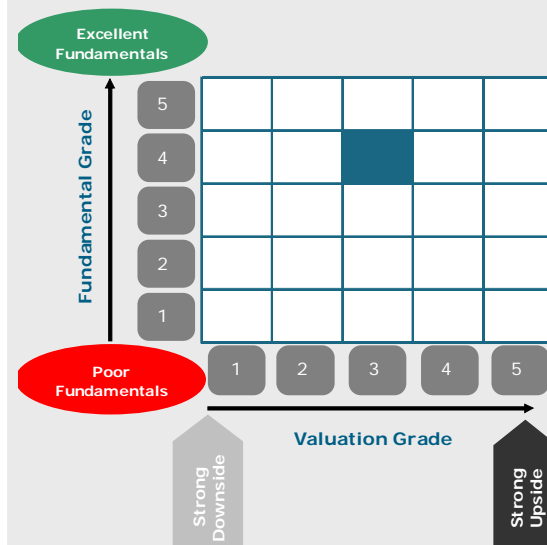


May 04, 2011

Fair Value Rs 1,229

CMP Rs 1,299

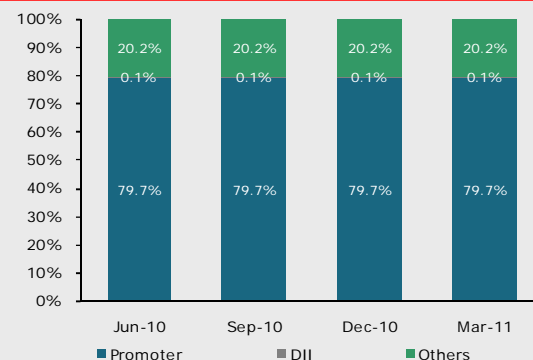
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5537
NSE ticker	WENDT
Face Value (Rs per share)	10
Shares outstanding (mn)	2.0
Market cap (Rs mn)/(US\$ mn)	2,598/59
Enterprise value (Rs mn)/(US\$ mn)	2,553/58
52-week range (Rs) (H/L)	1,389/722
Beta	0.20
Free float (%)	20.3%
Avg daily volumes (30-days)	417
Avg daily value (30-days) (Rs mn)	0.51

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Wendt	16%	22%	26%	69%
NIFTY	-6%	3%	-12%	8%

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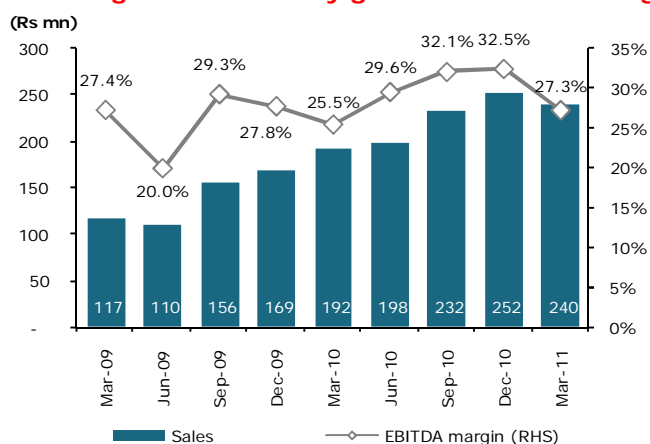
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Q4FY11 Result Summary

(Rs mn)	Q4FY11	Q3FY11	Q4FY10	q-o-q (%)	y-o-y (%)	FY11	FY10	y-o-y (%)
Net sales	240	252	192	(4.6)	25.1	922	633	45.6
Consumption of Raw Materials	89	77	73	15.9	22.1	291	219	33.1
Raw material as a % of sales	37%	31%	38%	2,141 bps	(93) bps	32%	35%	(860) bps
(Increase) / Decrease in Stock in Trade	(8)	(4)	(8)	(131.4)	(1.3)	(8)	(3)	139.5
Other expenses	63	64	51	(0.9)	23.5	234	137	70.0
Employees Cost	31	33	27	(7.0)	13.3	124	108	15.3
EBITDA	66	82	49	(19.8)	33.9	281	172	62.9
EBITDA margin	27.3%	32.5%	25.5%	(519) bps	179 bps	30.4%	27.2%	321 bps
Depreciation	9	9	8	(1.1)	12.5	36	31	16.0
EBIT	57	73	41	(22.1)	38.0	245	141	73.0
Interest and finance charges	-	0	-	0	-	-	2	(100.0)
Operating PBT	57	73	41	(21.9)	38.0	245	139	76.0
Other Income	3	2	5	45.5	(36.0)	10	12	(10.7)
PBT	60	75	46	(19.9)	30.0	255	151	69.4
Tax	22	25	18	(11.3)	22.2	87	52	66.1
PAT	38	50	28	(24.2)	35.0	168	98	71.1
Adj PAT	38	50	28	(24.2)	35.0	168	98	71.1
Adj PAT margin	15.7%	19.8%	14.6%	(4) bps	115 bps	18.3%	15.5%	272 bps
No of equity shares (mn)	2.0	2.0	2.0	-	-	2.0	2.0	-
Adj EPS (Rs)	18.9	25.0	14.0	(24.2)	35.0	84.2	49.2	71.1

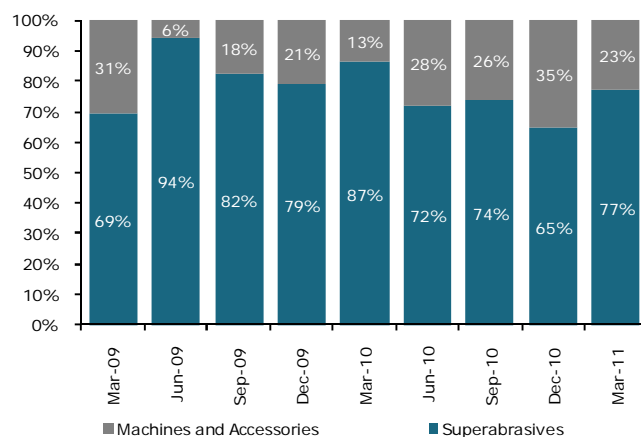
Source: Company, CRISIL Equities

Revenue growth driven by growth across offerings



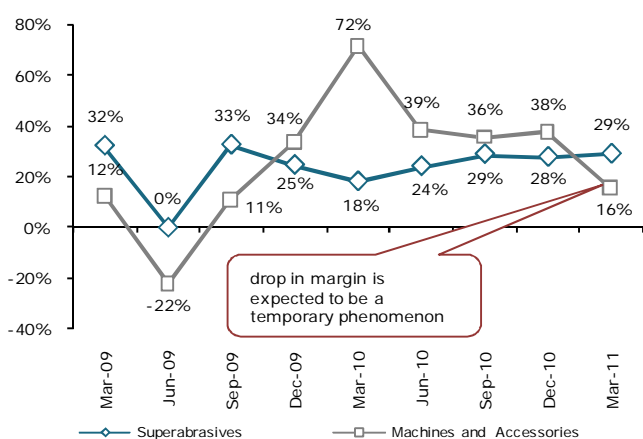
Source: Company, CRISIL Equities

Changing revenue-mix



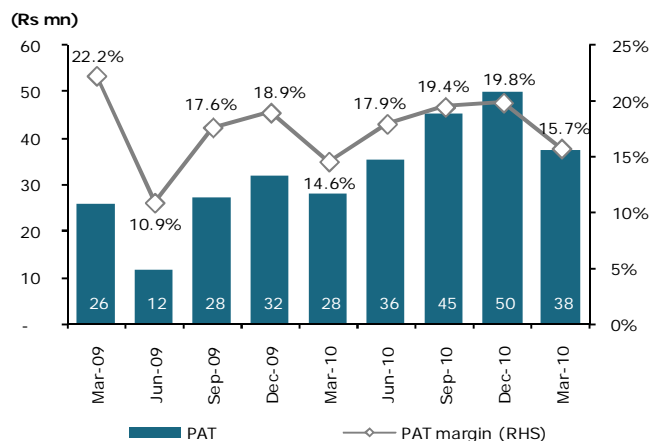
Source: Company, CRISIL Equities

Segmental EBIT margin trend



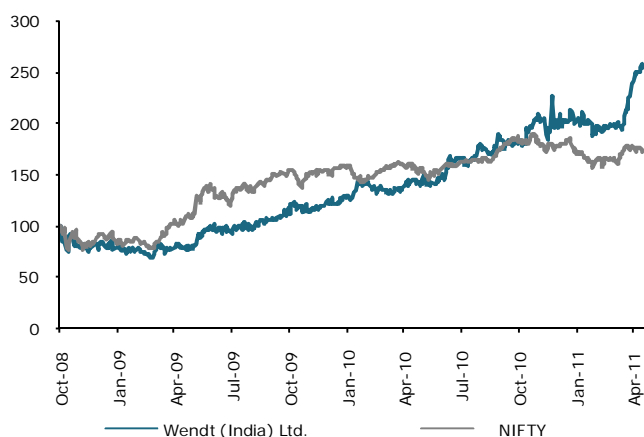
Source: Company, CRISIL Equities

Machine segment dragged q-o-q profitability



Source: Company, CRISIL Equities

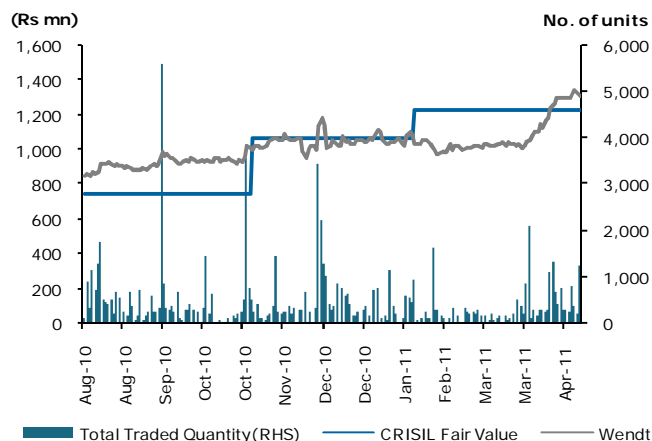
Share price movement



-Indexed to 100

Source: NSE, CRISIL Equities

Fair value movement since initiation



Source: NSE, CRISIL Equities

KEY DEVELOPMENTS

3M acquires stake in Wendt's parent

The US-based technology devices manufacturer 3M completed the acquisition of a controlling interest in Swiss-based Winterthur Technologies AG (WT), the holding company of Wendt GmbH, which holds a 40% stake in Wendt (India). This has resulted in an indirect acquisition of the Indian subsidiary by 3M. CUMI, the other 40% stake holder in Wendt (India), having the first right of refusal for Wendt GmbH's exit, has objected to the acquisition and wants to acquire Wendt GmbH's stake. We believe that the ownership change, if any, is less likely to impact Wendt's business, since CUMI, a Murugappa group company, is a market leader in the domestic conventional abrasive segment and will be the technology provider. Also, Wendt (India) has developed an indigenous R&D team to reduce technology dependence on the parent. But the situation remains a monitorable.

EARNINGS ESTIMATE REVISED DOWNWARDS

Particulars	Unit	FY12E			FY13E		
		Old	New	% change	Old	New	% change
Revenue	(Rs mn)	1,160	1,124	-3.2%	1,358	1,302	-4.1%
EBITDA	(Rs mn)	358	338	-5.8%	416	399	-4.1%
EBITDA margin	%	30.9	30.0	-84bps	30.7	30.7	-1bps
PAT	(Rs mn)	230	210	-8.8%	273	257	-5.8%
PAT margin	%	19.8	18.7	-116bps	20.1	19.8	-36bps
EPS- Rs	x	115.0	104.8	-8.8%	136.6	128.6	-5.8%

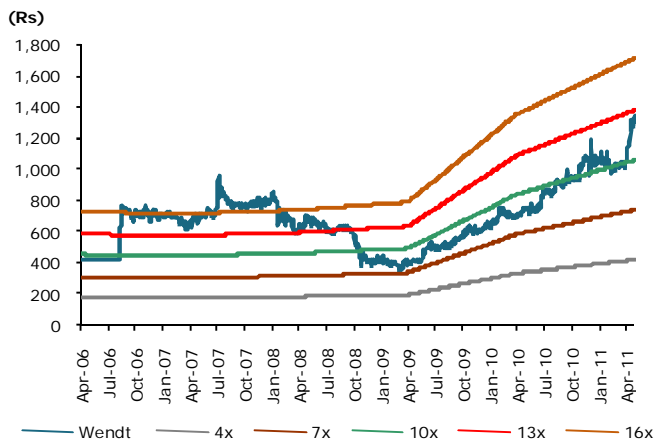
Reason for change in estimates

Line item	FY11	FY12
Revenues	Change in product mix to impact revenue growth	
EBITDA margin	<ul style="list-style-type: none"> Selling and distribution expenses to remain on the higher side owing to new product launch 	<ul style="list-style-type: none"> No material change
PAT margin	<ul style="list-style-type: none"> Lower EBITDA margins 	<ul style="list-style-type: none"> Lower growth in revenues and lower other income

VALUATION

We continue to value Wendt based on the discounted cash flow method and maintain our fair value estimate of Rs 1,229. At this value, the implied P/E multiples are 11.7x FY12E and 9.6x FY13E based on our earnings estimate.

One-year forward P/E band



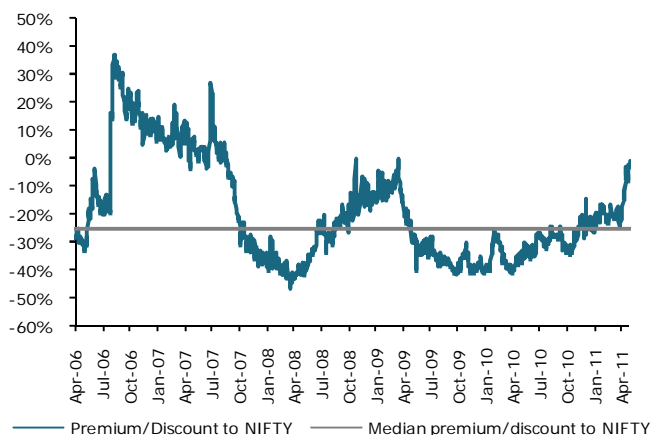
Source: NSE, CRISIL Equities

One-year forward EV/EBITDA band



Source: NSE, CRISIL Equities

P/E – premium / discount to NIFTY



Source: NSE, CRISIL Equities

P/E movement



Source: NSE, CRISIL Equities

CRISIL IER reports released on Wendt (India) Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
2-Aug-10	Initiating coverage*	4/5	Rs 746	2/5	Rs 858
3-Nov-10	Q2FY11 result update	4/5	Rs 1,066	3/5	Rs 1,017
31-Jan-11	Q3FY11 result update	4/5	Rs 1,229	4/5	Rs 1,042
04-May-11	Q4FY11 result update	4/5	Rs 1,229	3/5	Rs 1,299

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement						Balance Sheet					
(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E	(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	568	633	922	1,124	1,302	Liabilities					
EBITDA	145	172	281	338	399	Equity share capital	20	20	20	20	20
EBITDA margin	25.6%	27.2%	30.4%	30.0%	30.7%	Reserves	443	478	588	732	919
Depreciation	25	31	36	40	44	Minorities	-	-	-	-	-
EBIT	120	141	245	298	355	Net worth	463	498	608	752	939
Interest	2	2	-	1	1	Convertible debt	-	-	-	-	-
Operating PBT	118	139	245	297	353	Other debt	4	-	7	12	15
Other income	19	12	10	19	34	Total debt	4	-	7	12	15
Exceptional inc/(exp)	1	1	-	-	-	Deferred tax liability (net)	23	23	24	30	38
PBT	138	152	255	316	387	Total liabilities	490	521	639	795	992
Tax provision	45	52	87	106	130	Assets					
Minority interest	-	-	-	-	-	Net fixed assets	243	308	329	354	381
PAT (Reported)	93	100	168	210	257	Capital WIP	54	19	29	32	36
Less: Exceptionals	1	1	-	-	-	Total fixed assets	297	326	358	386	418
Adjusted PAT	92	98	168	210	257	Investments	9	9	9	9	9
						Current assets					
						Inventory	56	80	109	132	143
						Sundry debtors	125	122	158	197	228
						Loans and advances	21	22	36	45	52
						Cash & bank balance	26	27	52	138	282
						Marketable securities	90	128	182	201	222
						Total current assets	318	379	537	714	928
						Total current liabilities	139	198	271	320	367
						Net current assets	179	181	266	394	560
						Intangibles/Misc. expenditure	4	6	6	6	6
						Total assets	490	521	639	795	992
						Cash flow					
						(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
						Pre-tax profit	137	151	255	316	387
						Total tax paid	(44)	(52)	(86)	(99)	(123)
						Depreciation	25	31	36	40	44
						Working capital changes	(5)	36	(6)	(23)	(1)
						Net cash from operations	113	165	199	233	308
						Cash from investments					
						Capital expenditure	(88)	(60)	(68)	(68)	(76)
						Investments and others	22	(37)	(54)	(19)	(21)
						Net cash from investments	(66)	(97)	(122)	(87)	(97)
						Cash from financing					
						Equity raised/(repaid)	-	-	-	-	-
						Debt raised/(repaid)	1	(4)	7	5	3
						Dividend (incl. tax)	(47)	(58)	(59)	(66)	(70)
						Others (incl extraordinary)	8	(5)	-	-	-
						Net cash from financing	(38)	(67)	(52)	(61)	(67)
						Change in cash position	9	1	25	86	144
						Closing cash	26	27	52	138	282
						Quarterly financials					
						(Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q3FY12
						Net Sales	192	198	232	252	240
						Change (q-o-q)	13.6%	3.1%	17.4%	8.3%	-4.6%
						EBITDA	49	59	75	82	66
						Change (q-o-q)	4.3%	19.6%	27.5%	9.5%	-19.8%
						EBITDA margin	25.5%	29.6%	32.1%	32.5%	27.3%
						PAT	28	36	45	50	38
						Adj PAT	28	36	45	50	38
						Change (q-o-q)	-12.5%	26.8%	27.3%	10.4%	-24.2%
						Adj PAT margin	14.6%	17.9%	19.4%	19.8%	15.7%
						Adj EPS	14.0	17.8	22.6	25.0	18.9

Note: All ratios are computed on Adj PAT

#FY11 numbers based on the abridged financials

Source: Company, CRISIL Equities estimate

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