



INDEPENDENT EQUITY RESEARCH

Wendt (India) Ltd

Q2FY11 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 (negative 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

End-users drive growth

Fundamental Grade	4/5 (Superior fundamentals)
Valuation Grade	3/5 (CMP is aligned with fair value)
Industry	Machinery

Wendt (India) Ltd's (Wendt's) Q2FY11 results exceeded CRISIL Equities' expectations driven by strong performance of the high-margin machines and accessories (machine) segment. Going forward, we expect the machine segment's revenues to improve on account of sustained growth in end-user industries (auto, steel and aerospace). Consequently, we upgrade our earnings estimates for FY11 and FY12. We maintain the fundamental grade of '4/5'.

Q2FY11 result analysis

- Wendt's Q2 revenues were higher by 48% y-o-y (17.4% q-o-q) on the back of 32% y-o-y growth in superabrasives segment and two-fold growth in the machine segment's revenues.
- EBITDA grew by 63.1% y-o-y (27.5% q-o-q) on the back of increase in contribution of high-margin machine segment. Revenue contribution from the machine division increased from 17.8% in 2QFY10 to 26% in 2QFY11.
- PAT grew by 64.4% y-o-y (27.3% q-o-q) due to good show at the operating level.
- Net margins settled at around 19% in 2QFY11 (18% in 2QFY10).

Earnings estimates revised upwards: Moving to a faster lane

After a slow growth of 7.4% during FY08-10, revenues increased 62% y-o-y in H1FY11, due to improvement in the capex spend of end-user industries. The prospects of end-user industries (mainly auto, steel, construction, power, mining, petrochemical and aerospace) are promising considering the increasing demand for consumer and capital goods. CRISIL Equities has revised its revenue projections upwards based on improved business momentum; we now expect revenues to grow at CAGR of 25% during FY10-FY12 than 19% estimated earlier.

Valuations: Current market price is aligned with fair value

We continue to value Wendt based on the discounted cash flow method. Based on our revised earnings estimates and rolling forward of projections by a year to FY12, we have raised our one-year fair value to Rs 1,066 from Rs 746 earlier. Accordingly, the valuation grade has also been revised to '3/5' from '2/5'.

KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	582	568	633	877	1,064
EBITDA	148	145	172	278	346
Adj PAT	89	92	98	172	221
Adj EPS-Rs	44.6	46.1	49.2	85.8	110.4
EPS growth (%)	(4.8)	7.5	7.2	72.0	28.6
Dividend yield	3.7	44.3	4.1	2.9	3.2
RoCE (%)	32.0	27.4	29.3	43.8	45.1
RoE (%)	23.0	21.1	20.5	31.2	32.7
PE (x)	14.2	8.9	14.3	11.8	9.2
P/BV (x)	3.1	1.8	2.8	3.4	2.7
EV/EBITDA (x)	7.7	4.8	7.3	6.4	4.7

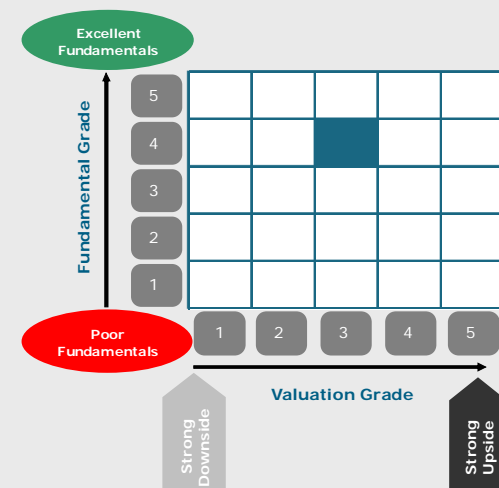
Source: Company, CRISIL Equities estimate

NM: Not meaningful; CMP: Current Market Price

November 03, 2010

Fair Value Rs 1,066
CMP Rs 1,017

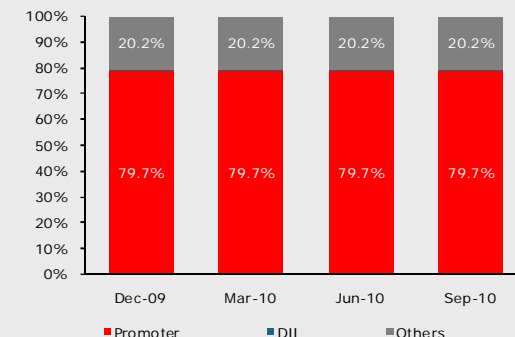
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	6161
NSE ticker	WENDT
Face Value (Rs per share)	10
Shares outstanding (mn)	2.0
Market cap (Rs mn)/(US\$ mn)	2,033/46
Enterprise value (Rs mn)/(US\$ mn)	2,006/45
52-week range (Rs) (H/L)	1,060/580
Beta	0.53
Free float (%)	20.3%
Avg daily volumes (30-days)	563
Avg daily value (30-days) (Rs mn)	0.06

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Wendt	0%	11%	28%	49%
NIFTY	1%	12%	15%	22%

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Q2FY11 Result Summary

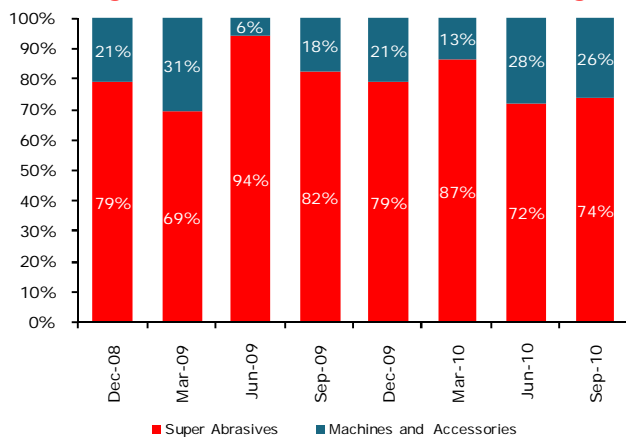
(Rs mn)	Q2FY11	Q1FY11	Q2FY10	q-o-q (%)	y-o-y (%)
Income from Operations	232	198.0	156.1	17.4	48.9
(Increase) / Decrease In Stock In					
Trade & WIP	3	1.6	(0.1)	56.3	(2,600.0)
Consumption of Raw Materials	66	44.0	38.1		
Employees Cost	33	28.3	26.6		
Other Expenses	57	65.5	45.7		
EBITDA	74.7	58.6	45.8	27.5	63.1
EBITDA margin	0.3	0.3	0.3		
Depreciation	9	8.6	7.8	4.7	15.4
EBIT	65.7	50.0	38.0	31.4	72.9
Interest and finance charges	-	-	-	n.m	n.m
Operating PBT	65.7	50.0	38.0	31.4	72.9
Other Income	2	2.9	4.1		
PBT	67.7	52.9	42.1	28.0	60.8
Tax	22.5	17.4	14.6	29.3	54.1
Profit After Tax (PAT)	45.2	35.5	27.5	27.3	64.4
No of equity shares (million)	2.0	2.0	2.0	-	-
Adj EPS (Rs)	22.60	17.8	13.75		

Two-fold increase in machine segment drives revenue growth

Profitability improves on the back of increase in contribution of high-margin machine segment

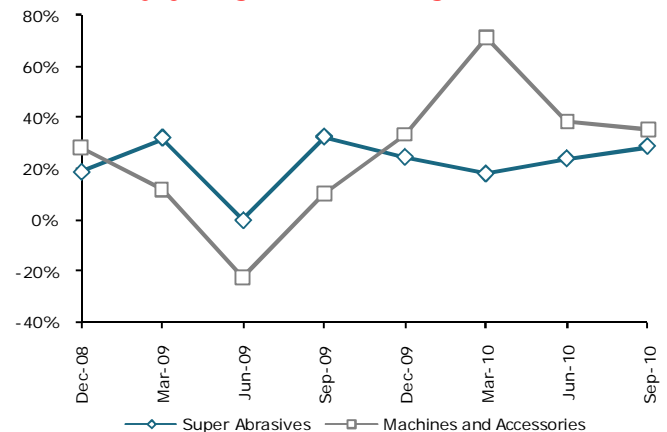
Source: Company, CRISIL Equities

Increasing revenue share from machines segment



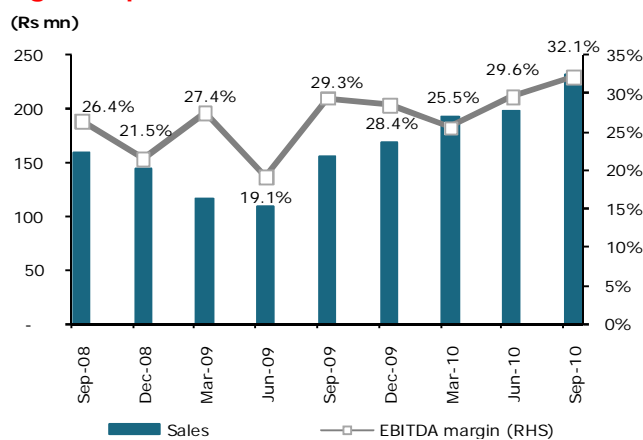
Source: Company, CRISIL Equities

... Which enjoys higher EBIT margins



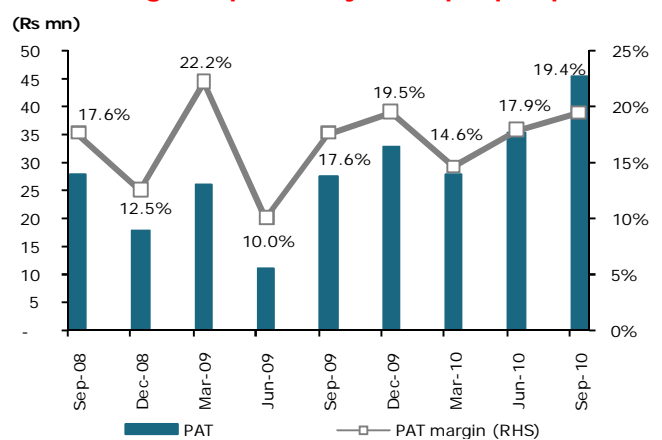
Source: Company, CRISIL Equities

Margins expand thanks to revenue mix



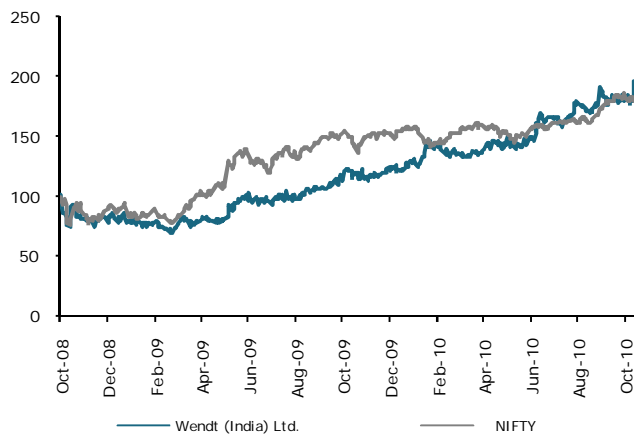
Source: Company, CRISIL Equities

Q2 PAT margin improves by 150 bps q-o-q



Source: Company, CRISIL Equities

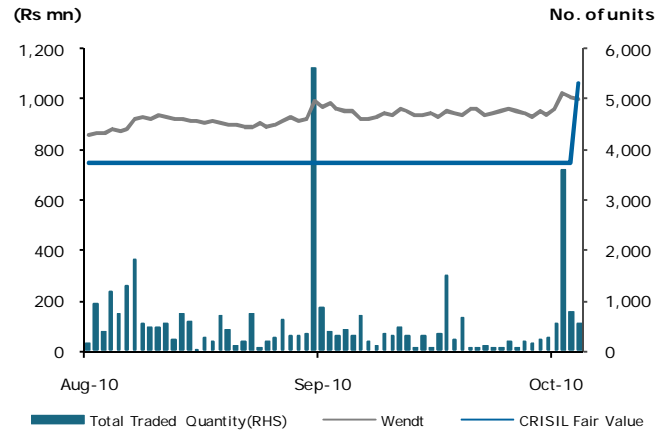
Share price movement



-Indexed to 100

Source: NSE, CRISIL Equities

Fair value movement since initiation



Source: NSE, CRISIL Equities

EARNINGS ESTIMATES REVISED UPWARDS

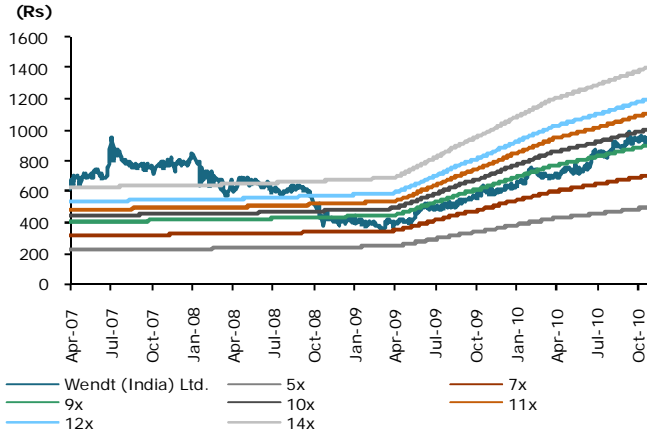
Based on the expected q-o-q business momentum, we have raised our revenue estimates for FY11 by 20% to Rs 877 mn and for FY12 by 19% to Rs 1,064 mn. IHFY11 EBITDA margin of 29% was higher than our expectations. This was primarily on account of increased share of high-margin machine segment. Considering the better-than-expected performance and increasing share of the machine segment, we have raised our EBITDA margin estimates for FY11 from 26.7% to 31.6%. However, going ahead EBITDA margins are expected to stabilise at around 28% as raw material costs increase and as competition intensifies.

Particulars	Unit	FY11E			FY12E		
		Old	New	% change	Old	New	% change
Revenue	(Rs mn)	729	877	20.3%	894	1,064	19.0%
EBITDA	(Rs mn)	195	278	42.3%	241	346	43.7%
EBITDA margin	%	26.7	31.6		27.0	32.6	
PAT	(Rs mn)	115	172	49.3%	147	221	50.6%
PAT margin	%	16	20	-	16	21	0
EPS	Rs	57.3	85.8	49.8%	73.3	110.4	50.6%

VALUATION

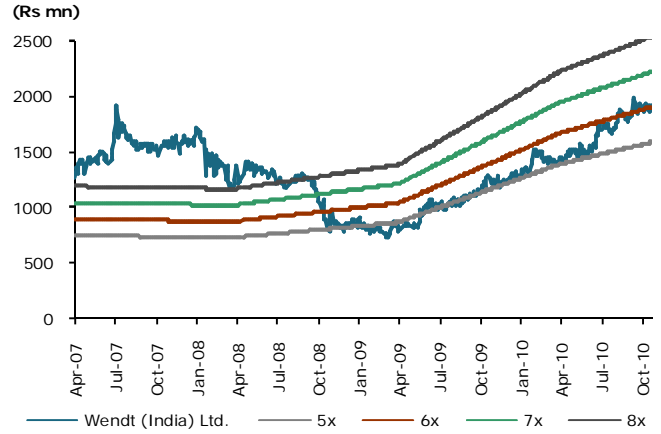
We continue to value Wendt based on the discounted cash flow method. Due to rolling forward of our projections to FY12E from FY11E and on account of better-than-expected performance supported by increased focus on high-margin machines segment, our fair value estimate for Wendt is revised to Rs 1,066. At this value, the implied P/Es are 12.4 FY11 earnings estimate and 9.7x FY12 earnings estimate.

One-year forward P/E band



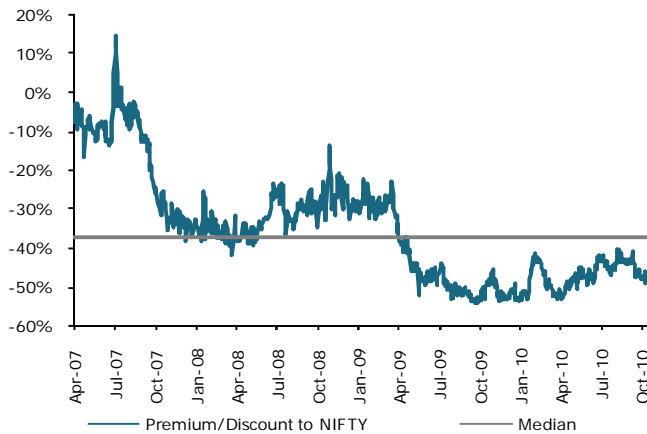
Source: NSE, CRISIL Equities

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

* 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

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	582	568	633	877	1,064
EBITDA	148	145	172	278	346
EBITDA margin	25.5%	25.6%	27.2%	31.6%	32.6%
Depreciation	23	25	31	36	40
EBIT	126	120	141	242	306
Interest	2	2	2	0	0
Operating PBT	124	118	139	241	306
Other income	8	19	12	17	26
Exceptional inc/(exp)	(3)	1	1	-	-
PBT	129	138	152	258	332
Tax provision	42	45	52	87	111
Minority interest	-	-	-	-	-
PAT (Reported)	87	93	100	172	221
Less: Exceptionals	(3)	1	1	-	-
Adjusted PAT	89	92	98	172	221

Ratios

	FY08	FY09	FY10	FY11E	FY12E
Growth					
Operating income (%)	8.8	(2.5)	11.5	38.5	21.3
EBITDA (%)	(2.5)	(2.1)	18.5	61.1	24.8
Adj PAT (%)	(1.5)	3.3	6.8	74.4	28.6
Adj EPS (%)	(1.5)	3.3	6.8	74.4	28.6
Profitability					
EBITDA margin (%)	25.5	25.6	27.2	31.6	32.6
Adj PAT Margin (%)	15.3	16.2	15.5	19.6	20.7
RoE (%)	23.0	21.1	20.5	31.2	32.7
RoCE (%)	32.0	27.4	29.3	43.8	45.1
RoIC (%)	26.4	27.5	25.1	40.5	50.7
Valuations					
Price-earnings (x)	14.2	8.9	14.3	11.8	9.2
Price-book (x)	3.1	1.8	2.8	3.4	2.7
EV/EBITDA (x)	7.7	4.8	7.3	6.4	4.7
EV/Sales (x)	2.0	1.3	2.1	2.0	1.5
Dividend payout ratio (%)	54.1	50.3	58.4	34.0	29.0
Dividend yield (%)	3.7	5.7	4.1	2.9	3.2
B/S ratios					
Inventory days	44.0	50.4	66.4	36.6	37.1
Creditors days	71.0	86.9	102.2	91.4	91.4
Debtor days	73.4	78.6	70.1	49.2	49.2
Working capital days	38.2	38.6	25.7	1.5	(6.3)
Gross asset turnover (x)	1.8	1.6	1.5	1.7	1.9
Net asset turnover (x)	2.8	2.5	2.3	2.8	3.1
Sales/operating assets (x)	2.6	2.1	2.0	2.5	2.8
Current ratio (x)	2.3	2.3	1.9	2.0	2.3
Debt-equity (x)	0.0	0.0	-	0.0	0.0
Net debt/equity (x)	(0.3)	(0.2)	(0.3)	(0.4)	(0.5)
Interest coverage	76.8	54.3	58.4	1,488.8	621.2

Per share

	FY08	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	44.6	46.1	49.2	85.8	110.4
CEPS	56.0	58.6	64.6	103.8	130.5
Book value	204.7	231.4	249.1	300.8	373.7
Dividend (Rs)	23.4	23.4	29.2	29.2	32.0
Actual o/s shares (mn)	2.0	2.0	2.0	2.0	2.0

Balance Sheet

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Equity share capital	20	20	20	20	20
Reserves	389	443	478	582	727
Minorities	-	-	-	-	-
Net worth	409	463	498	602	747
Convertible debt	-	-	-	-	-
Other debt	3	4	-	3	7
Total debt	3	4	-	3	7
Deferred tax liability (net)	22	23	23	29	36
Total liabilities	435	490	521	634	790
Assets					
Net fixed assets	208	243	308	329	353
Capital WIP	26	54	19	41	46
Total fixed assets	234	297	326	371	400
Investments	4	9	9	9	9
Current assets					
Inventory	51	56	80	58	70
Sundry debtors	124	125	122	130	157
Loans and advances	25	21	22	34	41
Cash & bank balance	17	26	27	126	238
Marketable securities	117	90	128	141	156
Total current assets	333	318	379	489	663
Total current liabilities	143	139	198	240	287
Net current assets	191	179	181	249	376
Intangibles/Misc. expenditure	6	4	6	6	6
Total assets	435	490	521	634	790

Cash flow

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	132	137	151	258	332
Total tax paid	(44)	(44)	(52)	(81)	(105)
Depreciation	23	25	31	36	40
Working capital changes	11	(5)	36	44	0
Net cash from operations	122	113	165	258	268
Cash from investments					
Capital expenditure	(44)	(88)	(60)	(80)	(69)
Investments and others	(29)	22	(37)	(13)	(15)
Net cash from investments	(73)	(66)	(97)	(94)	(84)
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(2)	1	(4)	3	3
Dividend (incl. tax)	(47)	(47)	(58)	(68)	(75)
Others (incl extraordinary)	(1)	8	(5)	-	-
Net cash from financing	(50)	(38)	(67)	(65)	(72)
Change in cash position	(1)	9	1	99	112
Closing cash	17	26	27	126	238

Quarterly financials

(Rs Mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net Sales	156	169	192	198	232
Change (q-o-q)	-82%	8%	13%	3%	17%
EBITDA	46	48	49	59	75
Change (q-o-q)	-36%	4%	3%	19%	27%
EBITDA margin	29.3%	28.2%	25.7%	29.6%	32.1%
PAT	28	33	29	36	45
Adj PAT	28	33	29	36	45
Change (q-o-q)	-28%	21%	-14%	25%	27%
Adj PAT margin	17.6%	19.6%	14.9%	17.9%	19.4%
Adj EPS	13.8	16.6	14.3	17.8	

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Equities estimate

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