CRISIL RESEARCH

Independent Equity Research

Enhancing investment decisions

In-depth analysis of the fundamentals and valuation

Wendt (India) Ltd

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)

Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The 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 Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
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).

Independent Research Report – Wendt (India) Ltd

Leading the pack

Industry: Abrasives
Date: August 2, 2010

CRISIL RESEARCH

Bangalore-based Wendt (India) Ltd (Wendt) is a leading manufacturer of superabrasives in India. It also manufactures grinding machines and precision components. We assign Wendt a fundametal grade of '**4/5**', indicating that its fundamentals are 'superior' compared to other listed securities in India. We assign a valuation grade of '**2/5**', indicating that the current market price has '**downside**' to our fair value per share.

Leading the superabrasives pack in India

Wendt currently commands ~35% market share in the Rs 1.5 bn Indian superabrasives industry, which is expected to grow at a CAGR of 7% over the next three-five years. Given its technological advantage, comprehensive product portfolio, strong brand image and reputed customer profile, we expect Wendt to maintain its lead. The rise in incremental demand due to a shift in customer preference from conventional abrasives to superabrasives will further boost the segment, though it is too early to factor this in.

Grinding machines and components to be the next growth driver

Wendt has renewed its focus on manufacturing grinding machines and precision components since FY06 while they have been making these machines since FY95. These products require high-end machines and technological expertise, which Wendt has courtesy of Wendt Gmbh, a leading manufacturer of grinding machine and precision components globally. We expect Wendt's revenues from this segment to grow at a two-year CAGR of 70% to Rs 274 mn by FY12 on account of a strong order flow.

Strong technical support from the parent…

Germany-based Wendt Holding Gmbh, part of the Winterthur Technology Group AG, is one of Wendt's promoters. The company is globally known for its technological know-how and superior quality superabrasives. The technology sharing keeps Wendt's product portfolio continuously updated and helps it command significant premium pricing over its competitors. We believe access to superior technology will help Wendt to maintain a strong foothold in the superabrasives segment.

… but technology dependence could be risky

Wendt benefits on the continuing technology inputs from Wendt Gmbh. But Wendt has over a period of time moved from being entirely dependent on the 'Know how' transfer to a company that operates on 'Know why' understanding. Over 40% of the current sales come from products that have been developed in-house by WIL. Though little but there still lies technology dependence risk which may impact the profitability.

Revenues to grow at a two-year CAGR of 19%, RoE to expand to 24.8%

We expect the company's revenues to grow at a two-year CAGR of 19% to Rs 897 mn in FY12, primarily driven by strong growth in the grinding machines and components business. We expect EBITDA and net margins to marginally improve to 26.9% and 16.4%, respectively, by FY12. Consequently, RoE is expected to improve to 24.8% by FY12. We expect the company to continue to remain debt-free going forward.

Downside valuations

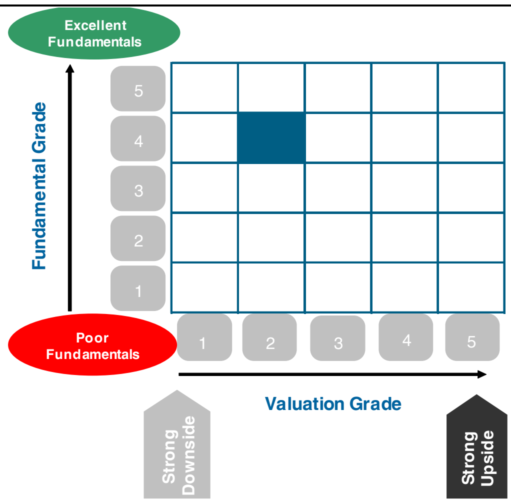
We have used the discounted cash flow method to value Wendt. Based on this method, we value Wendt at Rs 746 per share. We initiate coverage with a valuation grade of '**2/5**', indicating that the current market price of Rs 858 (as on July 30, 2010) has **'downside'** to our fair value of Rs 746 per share.

Key forecast (consolidated financials)

(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Operating income	582	568	630	729	897
EBITDA	148	145	167	195	241
Adj Net income	89	92	100	115	147
EPS-Rs	44.6	46.1	49.9	57.3	73.3
EPS growth (%)	-4.8	7.5	7.2	14.9	27.9
PE (x)	19.2	18.6	17.2	15.0	11.7
P/BV (x)	4.2	3.7	3.1	2.7	2.4
RoCE (%)	32.0	27.4	28.0	30.4	34.2
RoE (%)	23.0	21.1	20.8	21.8	24.8
EV/EBITDA (x)	10.4	11.0	9.8	7.8	6.1

Source: Company, CRISIL Equities estimates

CFV matrix

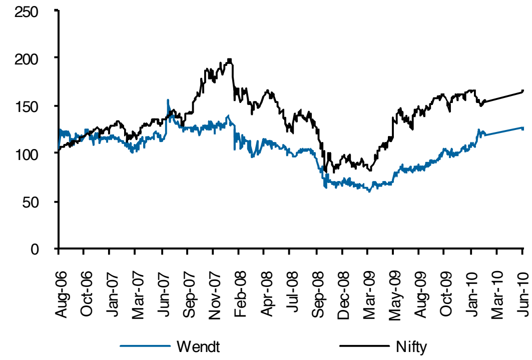


- Fundamental grade of '4/5' indicates superior fundamentals
- Valuation grade of '2/5' indicates downside to CMP

Key stock statistics

NSE Ticker	WENDT
Fair value (Rs per share)	746
Current market price (as on July 30, 2010)	858
Shares outstanding (Mn)	2
Market cap (Rs Mn)	1716
Face Value (Rs per share)	10
Enterprise value (Rs Mn)	1702
52-week range (Rs) (H/L)	924 /480
P/E on EPS estimate (FY11E)	15.0
Beta	1.5
Free float (%)	20.3
Average daily volumes (six months)	457

Share price movement



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Business Environment

Parameter	Superabrasives	Machines and components
Revenue contribution (FY10)	84.4%	15.1%
Revenue contribution (FY12)	69.2%	30.5%
Product / service offering	1) Grinding wheels – resin-bonded wheels, metal-bonded wheels, diamond dressing rolls, electroplated products, vitrified CBN wheels, honing sticks, PCD / PCBN products, brazed products 2) Tools – diamond dressing tools, segmented products, special diamond tools	1) Machines – CNC rotary surface grinder, wheel profiling machine, roll grinding machine, Delapena Honing machines 2) Precision components
Market position	35% market share in FY10. However, most of the suppliers of superabrasives are scattered as well unorganised	Entered in FY06 and it is difficult to depict the market size because of huge application across a wide spectrum of industries
End market	Automotive, steel, ceramics, aerospace, defense, construction, engineering & cutting tools, glass and watch industries	Construction, automotive, defense, steel, petrochemical, glass, aerospace and chemical industries
Sales growth (FY06-FY10 – 4-yr CAGR)	7.0%	54.0%
Sales forecast (FY10-FY12 – 2-yr CAGR) – (organic growth)	8.0%	70.0%
Demand drivers	1) Robust demand for automotive industry driven by strong economic prospects 2) Shift in preference from conventional abrasives to superabrasives across various industries	1) Wider applications due to demand from larger industry base 2) Demand for technologically efficient, high quality product with timely delivery
Key competitors	1) Norton Grindwell (1/8th the size of Wendt in superabrasives segment) 2) Largely imports with limited presence of small local unorganised players	Largely imports with limited presence of small, local unorganised players
Key risks	Technology dependence	Technology dependence
Entry barriers	Technological expertise	Technological expertise

Source: Company, CRISIL Equities

Grading Rationale

Wendt to maintian lead in superabrasives segment in India

Wendt is a leader in the superabrasives segment with ~35% market share

Wendt currently holds ~35% market share in the Indian superabrasives industry. Historically, the company has been successful in growing at a faster pace than the overall industry. The stupendous growth is largely attributable to its technological advantage, comprehensive product portfolio, strong brand image and reputed customer profile. We expect Wendt to maintain its lead over the next three-five years.

Demand in this segment is largely customised and products are built to fit customer-specific requirements. Manufacturing superabrasives requires high-end technology and a huge chunk of demand is met through imports. This is because of limited number of large organised players in the industry. We believe Wendt is well placed to cater to the growing demand given its technological advantage since it receives technology from its parent - Wendt Gmbh, a part of Winterthur Technology AG. Wendts products are well accepted by most of the industry segments like automobile, cutting tool, engineering, ceramics, steel, aerospace, defense etc with most of the leading players like Bosch, Federal Moghul, Shriram Pistons & Rings, Hero Honda, SKF India, Suzuki Power Train etc. to name a few. On the export front the products are reached to the global market through Wendt Gmbh and Winterthur Technology Group – various plants located globally. While also reaching the South East Asia through its 100% owned subsdiaries.

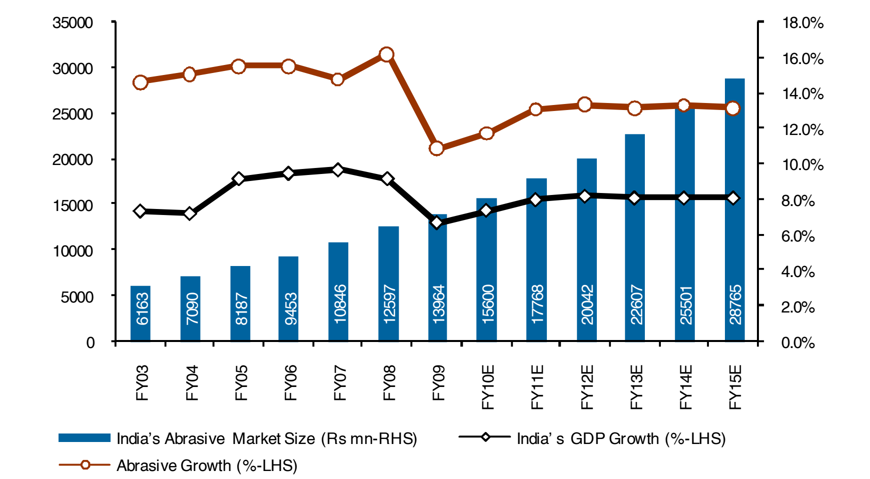
Abrasives industry grows in tandem with India's GDP

Abrasives, conventional and superabrasives, are primarily used in fabrication, automobile, construction, ceramics, glass, aerospace and general engineering industries

The Rs 15.6 bn organised Indian abrasives industry is expected to grow at a five-year CAGR of 13% through FY10-15 to Rs 28.7 bn, in tandem with the strong economic growth expected in India. Traditionally too, the growth in the abrasives industry has been in sync with India's GDP growth.

The Indian abrasives industry, valued at Rs 15.6 bn, is expected to grow at a five-year CAGR of 13% through FY10-FY15

Chart 1: Indian abrasvies industry growth linked to real GDP growth



Source: EIS, CRISIL Research and CRISIL Equities estimates

Conventional abrasives account for ~90% of the overall industry today. Keeping in mind the increasing awareness and technological advancements in India, we expect the superabrasives segment to occupy a larger pie of the overall abrasives industry going ahead.

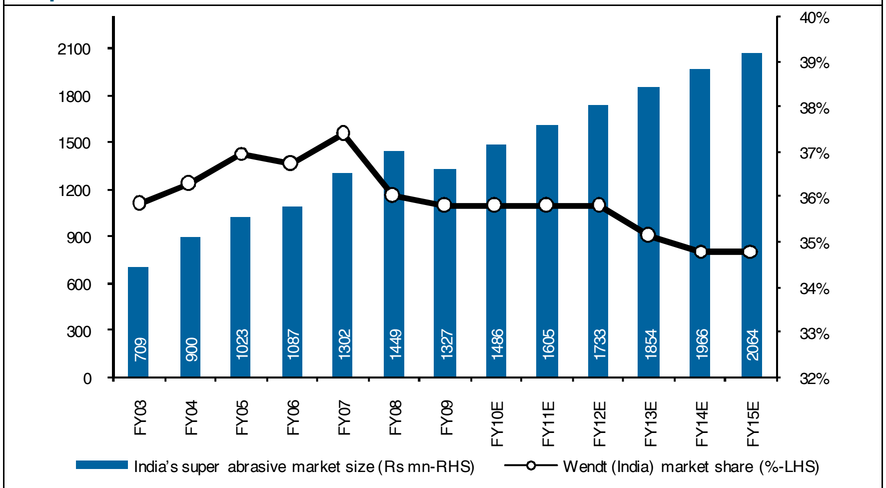
Superabrasives industry poised for a long-term sustainable growth

We expect the Rs 1.5 bn superabrasives industry to grow to Rs 2.1 bn by FY15 at a CAGR of ~7%. The auto original equipment manufacturers (OEMs) and the auto component industry account for >50% of the demand for superabrasives. We expect the automobile industry to grow at ~14-15% over the next five years, lending support to the demand for superabrasives. Glass, construction, steel, aerospace, watches and ceramics industries account for the balance of the demand for superabrasives.

Superabrasives segment to grow at five-year CAGR of 7% through FY10-FY15

Superabrasives currently make up only 10% of the abrasives industry, while the conventional abrasives (i.e. bonded and coated) account for the rest. Increased awareness about the high-end technology and benefits of superabrasives is slowly resulting in a preference for superabrasive products.

Chart 2: Wendt (India) will remain the market leader in superabrasives



Source: EIS and CRISIL Equities estimates

The superabrasives segment grew over 11% through FY03-10, including an 8% decline in FY08. Going ahead, we expect the segment to register moderate growth.

- Despite existing for over three decades, usage of superabrasives is growing at a slower pace compared to convetional abrasives. This is because manufacturing superabrasives requires very high-end technology and very few local players possess the same. And, imports are not economical. This provides a huge demand potential for Wendt's products.
- Use of superabrasives in industries other than automobiles is still at a very nascent stage. With increasing awareness, we expect the usage of superabrasives to increase over a period of time.

- There is a shift in customer preference from conventional to superabrasives. Since this shift is a recent phenomenon, it is too early to factor it in. The transition from conventional to superabrasives is because of a shift in customer preferences and, hence, will not lead to a conflict between interests of Wendt and Carborundum Universal, who operate in super and conventional abrasives respectively.

Grinding machines segment provides tremendous opportunities

There is a huge market for grinding machines as they are used in almost all the industries

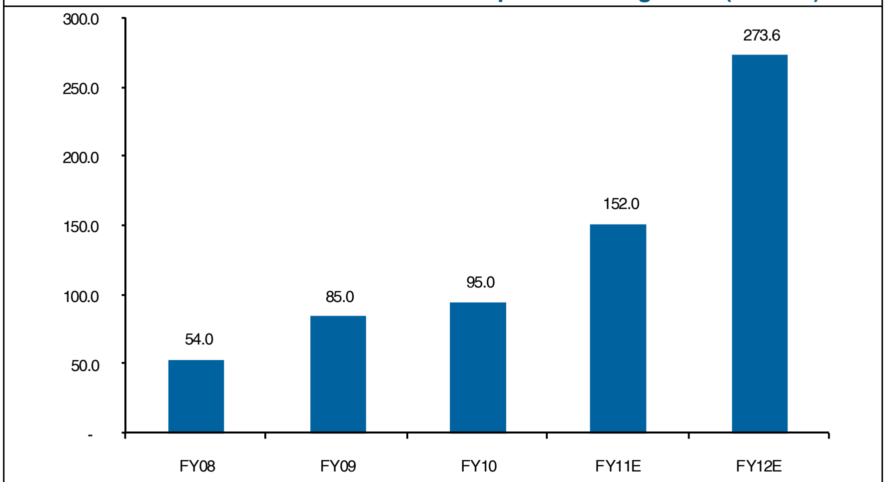
Wendt's renewed focus and thrust on grinding machines manufacturing since FY06 and entry into the precision components manufacturing since FY08 helps the company to derisk its business and ensure the continual growth while reducing its dependency on superabrasive business. These are high-end machines which require technological expertise and high accuracy. Wendt has an advantage of access to the cutting-edge and globally recognised technology for manufacturing grinding machines and precision components through Wendt Gmbh, subsidiary of Winterthur Technology AG, who is a global leader in this field. Given the technological edge, we believe this foray is a step in the right direction.

We believe there exists a huge market for grinding machines as they are used in almost all the industries. While the current demand is largely met by imports, few players manufacture these machines locally. However, they are plagued with the following problems:

- Small size of operations
- Lack of requisite technological expertise
- Limited understanding of customers requirements
- Lack of understanding of super abrasive tools used for grinding.

Though the company will compete largely with imports in this segment, it has a significant price advantage due to low labour cost and high import duty.

Chart 3: Growth in machines and components segment (Rs mn)



Source: Company and CRISIL Equities estimates

In FY09-10, the company started manufacturing vanes for fuel injection, hydraulic and pneumatic tools (precision components) and a few other products which are used in the auto components industry. Vanes have an overall market potential of Rs 1,500-2,000 mn. Given its technical expertise, the company has already bagged an order worth Rs 120 mn from one of the automobile customer, which will be executed in FY11.

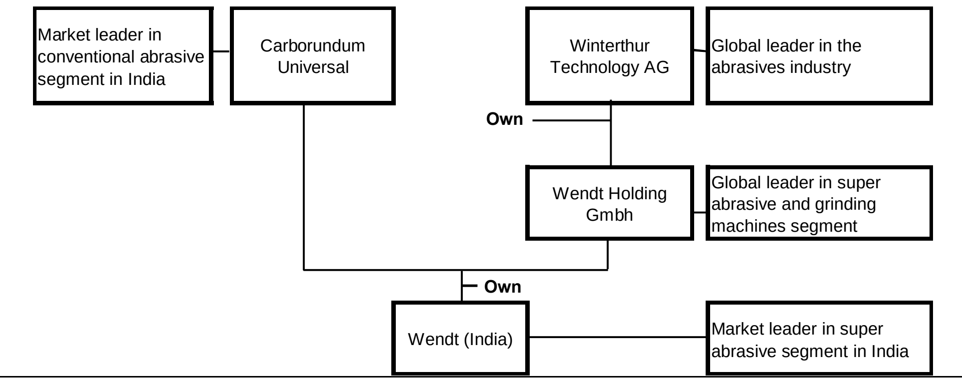
Technical support from the parent lends edge

Wendt hugely benefits from its access to parent's technology upgrades

Being a part of the Wendt Gmbh, Wendt has access to world-class manufacturing technology. We believe this will help Wendt to:

- Keep abreast of latest technological advancements
- Mitigate risk of product obsolescence
- Maintain product quality at par with international standards
- Keep the products competitive
- Maintain leadership position in the superabrasives segment
- Help foray into grinding machines and component segment

Chart 4: Access to superior technology helps to maintain strong leadership



Source: CRISIL Equities

As a result of technological excellence and premium quality products, Wendt is able to command significant premium pricing over its competitors.

Foray into newer geographies to diversify customer base

In order to expand its footprints and diversify the customer base, Wendt established two wholly-owned subsidiaries – one in Thailand – Wendt Grinding Technologies Ltd in FY06 and another Wendt Middle East in Sharjah, UAE, in FY09. Wendt plans to cater to the ASEAN countries through these subsidiaries. These ASEAN markets offer great opportunities because of the absence of any other large organised player in the region. We believe Wendt's entry into these geographies will help the company expand and establish its presence outside India.

Further, Wendt has a sales and marketing tie-up with its parent company which restricts any of the group companies to sell its products in markets where another Winterthur group company exists (either directly or through its subsidiaries). In case where Wendt gets an order from location where the group is present through another entity, the company will sell its products to the group company which is present in that respective market. The same arrangement works vice versa. This agreement will prevent any instance of conflict of interest amongst group companies.

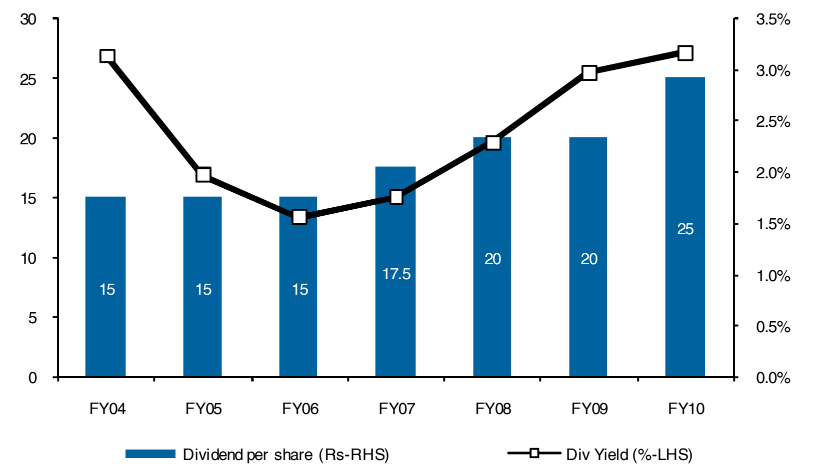
Less capital intensive nature of the business and strong future cash flows to provide greater flexibility of higher dividend payout

Strong balance sheet depicts inherent business strength

Wendt has been a debt-free company for over a decade and we expect it to remain so going forward. The company operates in an industry which is moderately capital intensive but requires very high-end technology. We believe the company will be able to generate sufficient cash from its operations to fund its capital expenditure going forward. The company incurred Rs 75.2 mn capital expenditure in FY09, completely financed through internal accruals. Similarly, we expect Wendt's future capital expenditure plan for FY11 and FY12 to follow the same trend as in the earlier years.

The company has been consistently paying dividends and increasing its dividend payout ratio over the years. This has resulted in a dividend yield of 2.5-3% for the company. Going forward, we expect Wendt to maintain strong cash flows and pay dividends consistently.

Chart 5: Dividend payout and yield



Source: Company, CRISIL Equities

Financial Outlook

Revenues to grow at two-year CAGR of 19% to Rs 897 mn in FY12

We expect Wendt's revenues to grow at a two-year CAGR of 19% to Rs 897 mn in FY12, largely boosted by the machines and components segment. We expect this segment's contribution to overall revenues to double to 30.5% by FY12 from 15.1% in FY10.

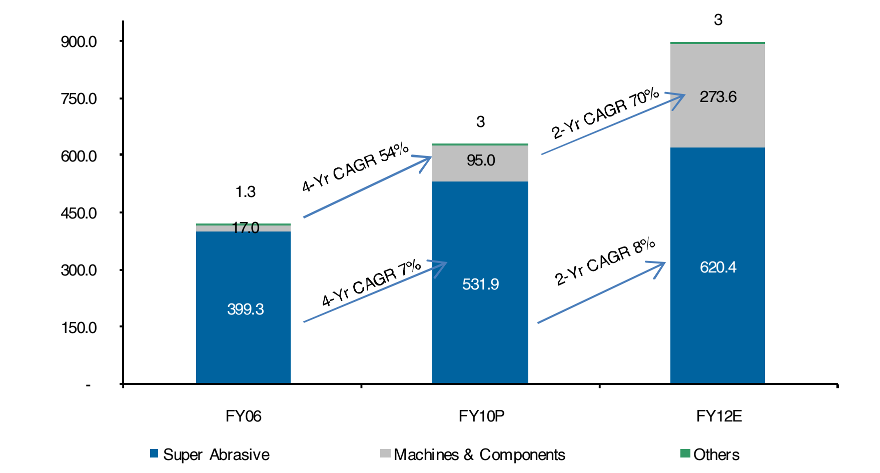
Growth in the machines and components segment to boost overall revenues

In FY10, Wendt clocked revenues of Rs 95 mn from the machines and components segment, which grew by 12% y-o-y. The company has a large number of orders in this segment, which will help it grow at 70-80% p.a. for the next three-four years. Going ahead, we expect this segment to grow at a two-year CAGR of 70% to Rs 274 mn in FY12. The stupendous growth is expected on the back of:

- Increased focus on this segment – launch of new products and machines
- Wider application of these products leading to higher demand
- Limited presence of other organised players in this segment

The superabrasives segment is expected to grow at a CAGR of 8% to Rs 620 mn through FY10-12.

Chart 6: Machines and components segments to drive future growth (Rs mn)



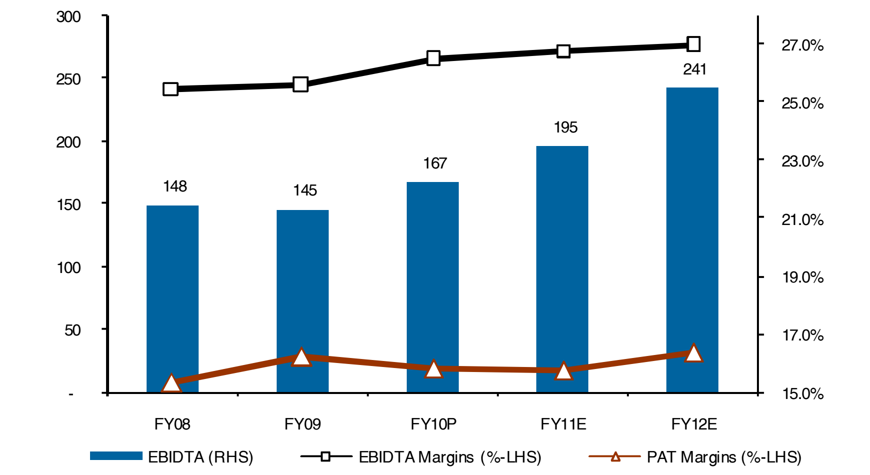
Source: Company, CRISIL Equities estimate

EBITDA margins to stabilise around 27%; PAT around 16%

PAT margins to improve by 60 bps to 16.4% in FY12 over FY10

Wendt's EBIDTA margins improved 90 bps to 26.5% in FY10 on the back of 12% growth in both the segments and 15% decline in cost of raw materials during the year. Going forward, we expect the company to maintain its operating margins because: (a) market leadership in the superabrasives segment enables it to charge a premium, and (b) better positioning in the machines and components business will help it to garner a sizeable share of the market. EBIDTA margins will improve to 26.9% in FY12 due to higher contribution from the machines and components segment.

Chart 7: EBITDA (Rs mn), EBITDA and PAT margin (%)



Source: Company, CRISIL Equities estimates

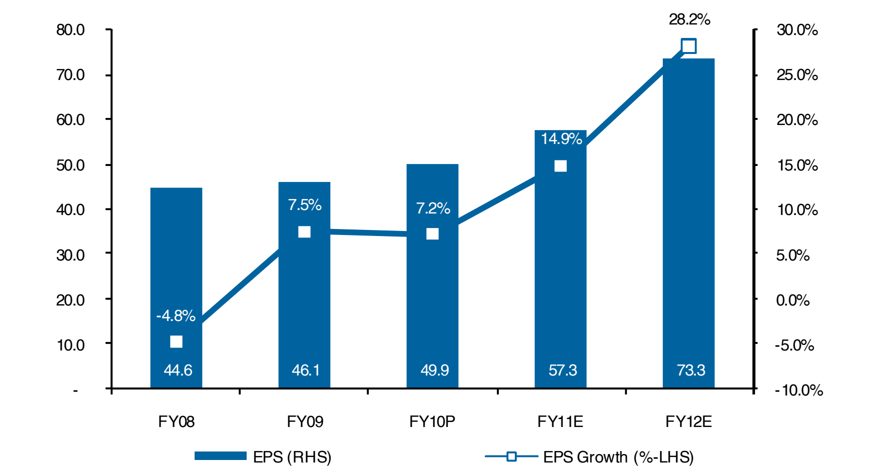
We expect Wendt's consolidated PAT to grow to Rs 146.6 mn in FY12 from Rs 99.8 mn in FY10. We expect the company to earn stable PAT margins of 16-16.4% in the same period.

EPS will grow to Rs 73.3 from Rs 49.9 and RoE to 24.8% from 20.8% by FY12

EPS to grow at a two-year CAGR of 21.3% to Rs 73.3 by FY12

Wendt's EPS is expected to increase to Rs 73.3 in FY12 at a two-year CAGR of 21.3%.

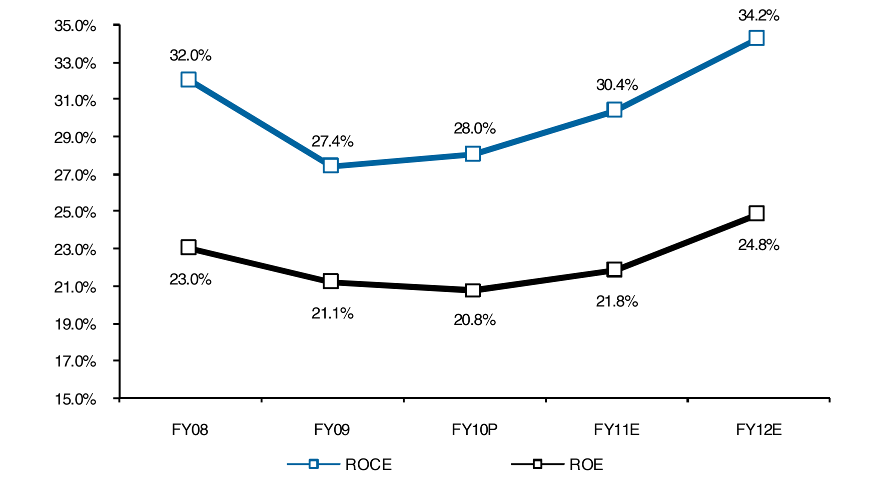
Chart 8: EPS (Rs per share) and EPS growth



Source: Company, CRISIL Equities estimates

Company's RoE is expected to increase to 24.8% by FY12 from 20.8% in FY10 due to better margins and higher dividend payout.

Chart 9: RoCE (%) and RoE (%)



Source: Company, CRISIL Equities estimates

Management Evaluation

Promoter group and other management personnel provide strong headship

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance. Overall, we believe the management is reasonably good and has a moderate appetite for risk.

Strong experience and established track record

Wendt's management, led by CEO Mr Rajesh Khanna, provides sound business and technical knowledge as well as vast experience. Mr Khanna joined the company as an engineer in 1983; he has nearly three decades of experience in the abrasives industry. Under his leadership, the company achieved market leadership in the superabrasives industry and is now capturing the market share of the grinding machines and precision components as well.

Promoter group provides strong technical support and guidance

Carborandum Universal Ltd, a Murugappa Group company, and Winterthur Technology Group AG of Switzerland are the promoters in Wendt with a 39.9% stake each. Wendt Gmbh of Germany, part of the Winterthur Technology (acquired in 2007 which owned 39.9% in Wendt) and Winterthur Technology are known for cutting-edge technology and superior quality of products in the global superabrasives market and manufacturing of grinding machines and precision components respectively. The same is replicated at Wendt (India) by way of technology import and regular transfer of employees between both offices.

Strong second line of management

Based on our interactions with the company, we believe the second line is reasonably experienced. The company has a well laid-out organisational structure with separate business heads for all the departments, who have been given adequate freedom to take business decisions. Key managerial personnel in the company have an average work experience of 10-20 years in their respective fields.

Corporate Governance

Overall, corporate governance at Wendt presents good practices supported by a strong board

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at Wendt meets the desired levels supported by reasonably good board practices and a fairly independent board.

Board composition

Wendt has six directors on its board, three of whom are independent. This composition meets the minimum requirements as per Clause 49 of SEBI's listing guidelines. Mr M. M. Murugappan, one of the promoters, holds the position of chairman and non-executive director. Mr Edmar Allitsch, CEO of Winterthur Technologies AG, has also been appointed as a director in Wendt (India). Given the background of directors, we believe the board is fairly experienced.

Board's processes

Based on the disclosure, we are of the opinion that processes are well structured, and committees like audit and grievance are in place. The audit committee is chaired by an independent director, Mr Shrinivas G. Shirgurkar. Further, the position of chairman is independent from that of the CEO. The disclosure levels of the company are sufficient to gauge various business aspects.

The independent directors have been associated with the company since 2006 (one independent director has been on the board since 1991) and have a fairly good understanding of the company's business and its processes.

Valuation Grading Grade: 2/5

We assign a fair value of Rs 746 per share to Wendt and initiate coverage with a valuation grade of '2/5'

We have used the discounted cash flow (DCF) method to value Wendt. Based on this method, we arrive at a fair value of Rs 746 per share for the company which gives an implied P/E 13.0x for FY11 and 10.2x for FY12. Consequently, we initiate coverage on Wendt with a valuation grade of **'2/5',** indicating that the current market price of Rs 858 has a downside to our fair value per share of Rs 746.

Key assumptions to our valuation:

- We have made explicit forecasts for the period FY11 to FY15.
- We have considered Rs 326 mn of capital expenditure during FY11 to FY15 which will be utilised in the manufacture of new products, machinery and maintenance.
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period until FY15.
- We have factored in a high cost of equity of 16% keeping in mind the low liquidity of the stock.

Table 1: WACC computation

Calculation of WACC (%)	Explicit WACC	Terminal WACC
Risk-free rate	7	7
Risk premium	6	6
Beta (computed)	1.5	1.5
Cost of equity	**16**	**16**
After tax cost of debt	**6.7**	**6.7**
Debt equity used for WACC	0.82	0.26
WACC	**15.92**	**15.98**

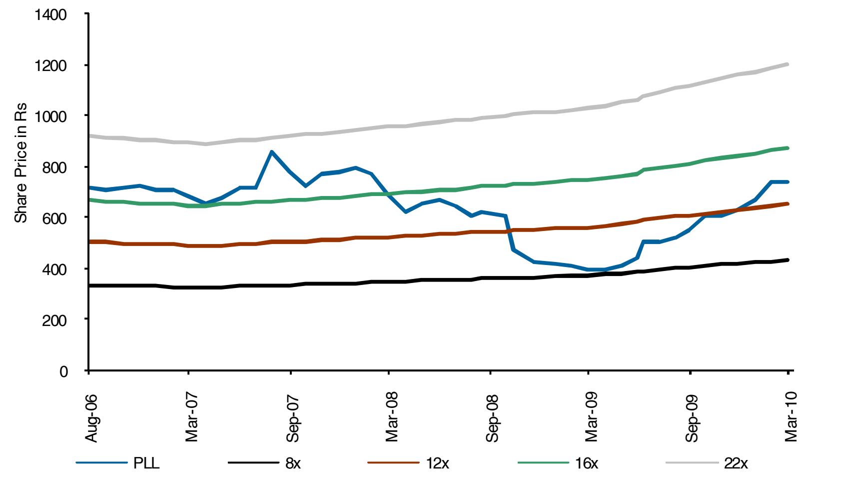
Source: CRISIL Equities estimates

Table 2: Sensitivity analysis to terminal WACC and terminal growth rate

	Terminal growth rate				
WACC	**1.00%**	**2.00%**	**3.00%**	**4.00%**	**5.00%**
11.90%	923	992	1078	1185	1323
13.90%	781	827	881	946	1026
15.90%	681	713	**746**	792	843
16.90%	642	669	699	735	776
17.90%	608	631	657	686	720

Source: CRISIL Equities estimates

Chart 10: Historical one-year forward P/E band



Source: CRISIL Equities

Historically, the stock has traded at an average one-year forward P/E multiple of 14.5x which is in line with our projected one-year forward P/E of 13.0x.

Key Risks

Overseas expansion will expose Wendt to foreign exchange risk

According to the company, it is not required to hedge its foreign earnings because 55-60% of its raw materials are imported

We believe Wendt will continue to derive approximately 30-35% of its revenues from exports. It is now eyeing entry into the ASEAN markets. Expansion into other geographies will expose the company to (a) fluctuations in the economic cycle in the ASEAN region and (b) make revenues / profits vulnerable to exchange rate fluctuations. However, according to the company it is not required to hedge its foreign earnings because 55-60% of its raw materials are imported, which provides a natural hedge.

Entering new area of business – machines and components

The company recently entered the machines and components business to diversify and reduce its dependence on the superabrasives business. Being a new entrant in this space in India, the company will have to compete with imports. The inability to replicate the superabrasives success story in the machines and components segment may impact Wendt's business prospects and profitability.

Technological dependence still pose a risk

Wendt benefits on the continuing technology inputs from Wendt Gmbh. Wendt has over a period of time moved from being entirely dependent on the 'Know how' transfer to a company that operates on 'Know why' understanding. Over 40% of the current sales come from products that have been developed by Wendt's in-house R&D team. Though Wendt has been reducing its dependence on the German technology yet there lies a risk of dependence on Wendt Gmbh.

Company Overview

Established in 1983, Wendt (India) Ltd started its operations under Mr S. C. Khatau and Wendt Gmbh of Germany by setting up a superabrasives manufacturing facility in Hosur, India to manufacture grinding wheels and tools by importing technical knowhow and raw materials from Germany. In 1990-91, Carborundum Universal Limited (a Murugappa Group company), a leading conventional abrasives player in India, acquired the then 30% holding of Mr S. C. Khatau and additional ~10% from the open market in order to expand its presence in the superabrasives segment. In 2007, Winterthur Technologies AG, Switzerland, acquired Wendt Gmbh which in turn holds 40% equity in the company.

Market leader in the Indian superabrasives industry with 35% market share

Today, Wendt (India) is the market leader in the Indian superabrasives industry with ~35% market share. The company is a leading manufacturer of superabrasives grinding wheels and tools (diamond and cubic boron nitride) in India. Superabrasives refer to diamond and cubic boron nitrade (CBN) abrasives used in grinding wheels and tools which are used in automotive, cutting tool, engineering, refractrory, ceramics, steel, vetrified tiles, ferrite, glass, ceramics, paper, textile, watch, power, defence and aerospace industries. The products are largely made to order. A comprehensive product portfolio, focused marketing efforts, close customer interaction and continual service support are responsible for Wendt's success and competitive adavantage.

Traditionally, the company has focused on auto and auto component industries but in the past few years it has started exploring business opportunities in sectors like steel, construction, power, mining, petrochemical and aerospace, and has achieved tremendous success. In addition, the company is continuously adding new machines and products every year in order to widen the scope of its product application in various industries.

Table 3: Industry-wise product application of the Wendt (India) – superabrasives

↑Industry / Products →	Resin Bonded	Metal Bonded	Electroplated	Infiltrated	Hones	Segments	D & ST	PCD / PCBN	Vit CBN	Machines
Automobile	■		■	■	■		■	■	■	■
Cutting Tools	■									■
Engineering	■	■	■	■	■		■	■	■	■
Refractory			■			■		■		■
Ceramics	■	■	■							
Vitrified Tiles	■	■				■				
Glass	■	■								
Steel (Wire Rod Mills)	■	■						■		■
Pow er	■		■	■	■		■	■	■	■
Defense	■		■	■	■		■	■	■	■
Aerospace	■		■	■	■		■	■	■	■

Source: CRISIL Equities

The company has over 700 direct customers. It reaches them directly through its sales and application field personnel. The company enjoys single-source supplier status with most of its major customers. Business through distributors accounts for less than 3%.

In FY06, Wendt entered the segment of manufacturing of grinding machines and precision components. The company has also started refurbishing Wendt Gmbh machines, thereby converting old machines into new ones and then selling them.

Wendt Gmbh – global leader in the superabrasives industry

Founded in 1920 as a trading company for diamond grinding tools, Wendt Holding Gmbh (headquarters at Germany) developed rapidly after extending the manufacturing program and starting the development and production of grinding machines. Currently, the company concentrates on and specialises in the development of grinding technologies for hard materials, such as steel, glass, hard metal, ceramic and polycrystalline materials polycrystalline diamond and cubic born nitride CBN. Wendt Group owns and operates 11 plants across the globe including one in India. The group is globally recognised for its high quality products and high-end efficient technologies in the superabrasives space which has made them the leading manufacturer of superabrasives and grinding machine tools globally. In 2007, Winterthur Technology Group, Switzerland, acquired Wendt Group from 3i. Winterthur is the global market leader in manufacturing grinding machines and precision components through another group company called Winterthur Schleiftechnik Group.

Annexure: Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10P	FY11E	FY12E
Net sales	557	537	627	726	894
Operating Income	**582**	**568**	**630**	**729**	**897**
EBITDA	**148**	**145**	**167**	**195**	**241**
EBITDA Margin	**26.7%**	**27.1%**	**26.6%**	**26.9%**	**27.0%**
Depreciation	23	25	31	34	38
Interest	2	2	-	0	1
Other Income	8	19	16	12	17
PBT	**132**	**137**	**152**	**173**	**221**
PAT	**89**	**92**	**99.8**	**115**	**146.6**
PAT Margin	**16.0%**	**17.2%**	**15.9%**	**15.8%**	**16.4%**
No. of shares	2	2	2	2	2
Earnings per share (EPS)	**45**	**46**	**50**	**57.3**	**73.3**

Balance Sheet

(Rs Mn)	FY08	FY09	FY10P	FY11E	FY12E
Equity capital (FV - Rs XX)	20	20	20	20	20
Reserves and surplus	389	443	478	534	606
Debt	3	4	5	6	7
Current Liabilities and Provisions	143	139	122	141	173
Deferred Tax Liability/(Asset)	22	23	23	29	35
Capital Employed	**577**	**628**	**648**	**729**	**841**
Net Fixed Assets	208	243	275	296	319
Capital WIP	26	54	35	39	44
Intangible assets	6	4	4	4	4
Investments	121	99	81	89	97
Loans and advances	25	21	25	28	35
Inventory	51	56	72	48	59
Receivables	124	125	138	108	133
Cash & Bank Balance	17	26	19	118	151
Applications of Funds	**577**	**628**	**648**	**729**	**841**

Source: Company, CRISIL Equities estimates

Cash Flow

(Rs Mn)	FY08	FY09	FY10P	FY11E	FY12E
Pre-tax profit	132	137	152	173	221
Total tax paid	(44)	(44)	(52)	(52)	(68)
Depreciation	23	25	31	34	38
Change in working capital	11	(5)	(49)	69	(10)
Cash flow from operating activities	**122**	**113**	**82**	**223**	**180**
Capital expenditure	(44)	(88)	(44)	(58)	(66)
Investments and others	(29)	22	18	(8)	(8)
Cash flow from investing activities	**(73)**	**(66)**	**(25)**	**(66)**	**(74)**
Debt raised/(repaid)	(2)	1	1	1	1
Dividend (incl. tax)	(47)	(47)	(50)	(59)	(75)
Others (incl extraordinaries)	(1)	8	(15)	-	-
Cash flow from financing activities	**(50)**	**(38)**	**(64)**	**(58)**	**(74)**
Change in cash position	**(1)**	**9**	**(7)**	**99**	**33**
Opening Cash	18	17	26	19	118
Closing Cash	17	26	19	118	151

Ratios

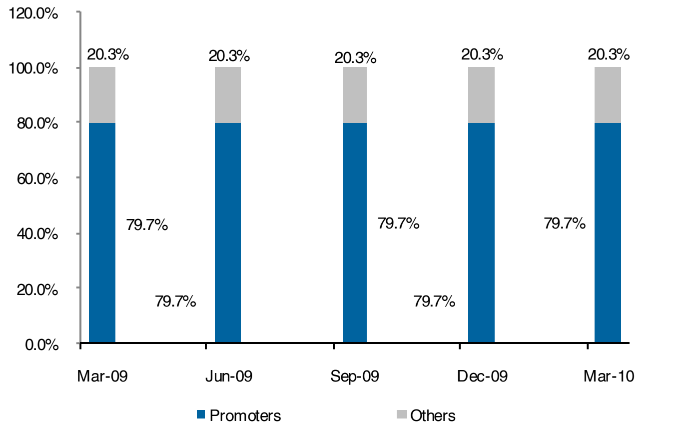
	FY08	FY09	FY10P	FY11E	FY12E
Growth ratios					
Sales growth (%)	8.8	(2.5)	11.0	15.6	23.1
EBITDA growth (%)	(2.5)	(2.1)	14.7	17.0	23.8
EPS growth (%)	(4.8)	7.5	7.2	14.9	27.9
Profitability Ratios					
EBITDA Margin (%)	25.5	25.6	26.5	26.8	26.9
PAT Margin (%)	15.3	16.2	15.8	15.7	16.4
Return on Capital Employed (RoCE) (%)	32.0	27.4	28.0	30.4	34.2
Return on equity (RoE) (%)	23.0	21.1	20.8	21.8	24.8
Dividend and Earnings					
Dividend per share (Rs)	23.4	23.4	25.0	25.0	32.0
Dividend payout ratio (%)	54.1	50.3	50.1	43.6	43.6
Dividend yield (%)	2.7	2.7	2.9	2.9	3.7
Earnings Per Share (Rs)	44.6	46.1	49.9	57.3	73.3
Efficiency ratios					
Asset Turnover (Sales/GFA)	1.8x	1.6x	1.5x	1.5x	1.7x
Asset Turnover (Sales/NFA)	2.8x	2.5x	2.4x	2.6x	2.9x
Sales/Working Capital	9.5x	9.5x	7.2x	9.3x	18.5x
Financial stability					
Net Debt-equity	-0.3	-0.2	-0.2	-0.3	-0.4
Interest Coverage	76.8	54.3	NA	366.7	370.2
Current Ratio	2.3	2.3	2.7	2.7	2.7
Valuation Multiples					
Price-earnings	19.2x	18.6x	17.2x	15.0x	11.7x
Price-book	4.2x	3.7x	3.4x	3.1x	2.7x
EV/EBITDA	10.7x	11.0x	9.8x	7.8x	6.1x

Source: Company, CRISIL Equities estimates

CRISIL RESEARCH

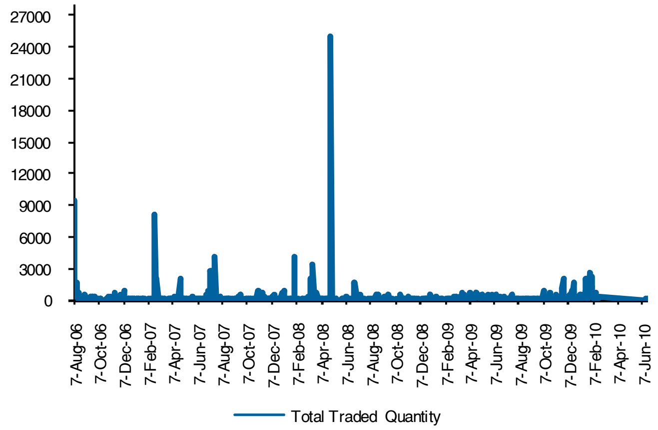
Focus Charts

Shareholding pattern – last five quarters



Source: NSE

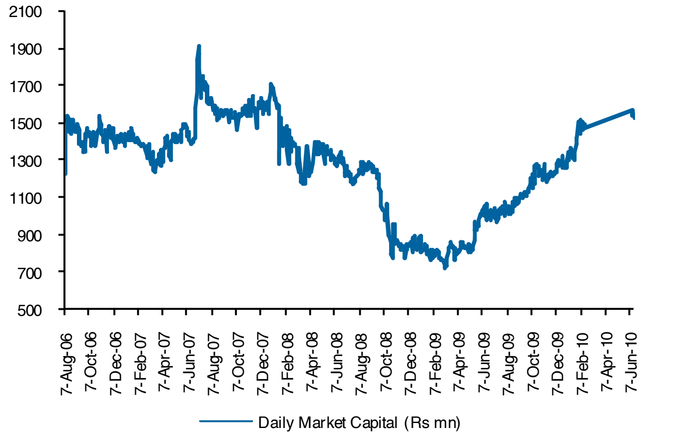
Daily traded volume – low liquidity



Source: NSE

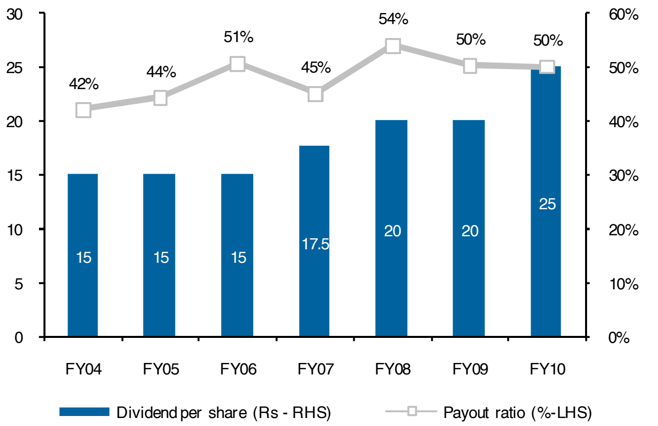
There were no trades between Feb 19, 2010 and June 13, 2010

Market capitalisation movement



Source: Company, CRISIL Equities

History of high dividend



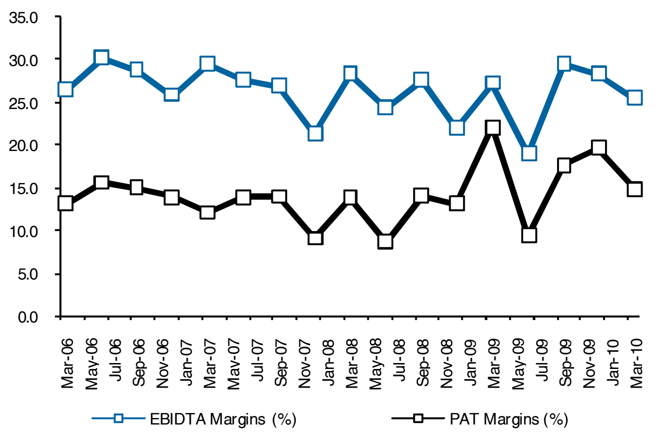
Source: Company, CRISIL Equities

Did not deliver high return

All in rupees	7-Aug-06	FY07	FY08	FY09	FY10
Shares bought	**100**				
Price per share	611.6				
Investment made	**61,160**				
Dividend Per Share		17.5	20.0	20.0	25.0
Total Dividend income		1,750	2,000	2,000	2,500
Current Market Price	858 (as on July 30, 2010)				
Total return	**32,890**				
Total return (%)	54%				
Holding period - yrs	4.0				
Yearly return (%)	**11%**				

Source: Company, CRISIL Equities

Historically sustainable margins



Source: Company, CRISIL Equities

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