Pix Transmissions Limited

January 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	42.57 (Reduced from 52.65)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	80.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Short-term bank facilities	26.50	CARE A1 (A One)	Reaffirmed
Total bank facilities	**149.07 (₹ One hundred forty-nine crore and seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The reaffirmation of the ratings of Pix Transmissions Limited (PTL) continues to derive strength from the experienced promoters, diversified clientele and PTL's geographical presence. In addition to this, the ratings factor in the improved performance in FY22 (refers to the period April 1 to March 31) and its sustainability in H1FY23. However, the ratings continue to remain constrained by stretched working capital cycle and exposure to price fluctuations in key raw materials.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations above ₹550 crore on a sustainable basis.
- Improvement in the operating cycle below 100 days on a sustainable basis.
- Improvement in the overall gearing below 0.1x on a sustainable basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure with overall gearing above 0.65x.
- Decline in the scale of operations below ₹300 crore.
- Decline in the operating margin below 18% on a sustainable basis.
- Deterioration in the operating cycle above 180 days on a sustainable basis.

Detailed description of the key rating drivers

Key rating strengths

Sustainability reflected by consistent performance in FY22 and H1FY23: The performance in terms of the total operating income (TOI) is reflected by the revenue growth of 13% observed in FY22 with total income from operations at ₹454.32 crore (FY21: ₹402.38 crore). PTL continues to cater majorly to the industrial segment, with heightened focus on the after-market segment. Post COVID-19, the increasing pace of capex across the industrial segment, industry's replacement activities of machinery to improve efficiency has led to the growth sustainability for PTL's product in the market. In addition to this, the sustainability of the performance is reflected by PTL's total revenue of ₹251.92 crore in H1FY23, which depicts 15% TOI growth from H1FY22 (H1FY22: ₹219.10 crore).

Healthy operating margin: On the operating margin front, the company has been able to sustain the margin above 25% in FY22. The company achieved 24.32% of the operating margin in H1FY23. The marginal decline in margin was on account of the increased personnel cost as well as increased raw material prices. The domestic prices of rubber have shown a downward trend from August 2022 and is estimated to continue this traction given the lower demand from tyre-makers. In addition to this, restrictions imposed by China to curb COVID-19 cases is further anticipated to hit global demand for the commodity as China accounts for 42% of the global demand for rubber.

PTL uses natural rubber as well as synthetic rubber for manufacturing its products. Given PTL's strong market share in V-belts, the company continues to benefit from pass-through of increased prices. The company reviews its pricing periodically, revising its prices annually under normal circumstances. Also, given its long-standing relationship with suppliers, the pass on of prices by suppliers to PTL is limited which further enables the company to restrict the volatility in operating margin.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified geographical presence and low customer concentration risk: PTL's revenue base continues to remain diversified with a significant portion of revenue coming from exports. Though there is a slowdown in orders from European and US markets, the company is still able to bag the orders. The major revenue contribution continues to remain from exports at 57% in H1FY23 (FY22: 60.60%) and rest from domestic market at 43% (FY22: 39.40%). PTL continues to export to more than 100 countries. Moreover, the customer concentration risk remains low with top five customers (excluding subsidiaries) contributing around 18% in FY22 (16%) with no individual customer concentration higher than 25%.

Continuance of comfortable debt and coverage metrics: The capital structure continues to remain comfortable in FY22 with overall gearing continuing below unity at 0.21x (FY21: 0.15x). Out of the total debt profile of the company, 20% comprises unsecured loan from promoters and rest is bank borrowings, which is inclusive of term loan and working capital facility. The coverage metrics continue to remain healthy considering interest coverage at 14.64x (FY21: 12.63x). As per the management, there would be no significant capex in FY23, and no capex has been finalised for the mid-term as well. There would be maintenance capex, which would be funded through internal accruals. Hence, CARE Ratings Limited (CARE Ratings) expects the debt metrics to remain comfortable in near to mid-term.

Experienced promoters with established track record: The ratings continue to benefit from the rich experience of the promoter, Amarpal Sethi, who has over five decades of experience in the manufacturing of rubber V-belts and hoses. The day-to-day operations of the company are managed by a team of qualified and experienced professionals, headed by Sonepal S Sethi (Joint Managing Director). The company has two manufacturing units, located at Hingna and Nagalwadi, in Nagpur, Maharashtra. PTL also has an automated rubber mixing facility at Nagalwadi.

Key rating weaknesses

Working capital intensive operations; however, liquidity position remains strong: PTL's operations continue to remain working capital-intensive. The operating cycle continues to remain stretched at 171 days in FY22, which has increased from 158 days of FY21. This is both due to increased collection and inventory holding days. However, with the company's plan to reduce its collection period, the working capital cycle is anticipated to improve in the upcoming years, which would further reduce the utilisation of working capital limits. The current average utilisation of working capital limits stands comfortable at less than 50%, as the company continues to use internal accruals for meeting working capital requirement.

Exposure to raw material price fluctuations and foreign exchange risk: Rubber and rayon are the key raw materials for the manufacturing of rubber V-belts, constituting 60%-65% of the total raw material purchases of PTL. The prices of these commodities have shown volatility in the past few years. PTL is thus exposed to a certain extent to such fluctuation in prices. However, the pricing risk is partially mitigated by high pricing power of the company. Furthermore, PTL is a net exporter of goods, with approximately 40% of the raw material purchases being imported and around 55% of the total sales comprising exports. Hence, CARE Ratings continues to monitor the foreign exchange risk which remains to be considerably mitigated.

Liquidity: Strong
PTL's liquidity continues to remain strong with sufficient DSCR in the range of 2.3x-3.3x over FY23-FY25. In addition to this, the average utilisation of fund-based limits is 49% for the last 12 months ended November 30, 2022. The non-fund-based utilisation also remains comfortable at 58% in the last 12 months. This reflects that there is sufficient cushion availability both in fund-based and non-fund-based limit. The gross cash accrual (GCA) of the company stood at ₹90.39 crore in FY22 and is expected to remain healthy going forward as well. The cash and bank balance of the company as of March 31, 2022, stood at around ₹25.00 crore. The free cash and bank balance is around ₹12.00 crore as on November 30, 2022. Against these sources of liquidity, the principal debt obligation of the company is ₹12.61 crore and ₹13.20 crore for FY23 and FY24, respectively.

Analytical approach: Consolidated
CARE Ratings Limited (CARE Ratings) has analysed PTL's credit profile by considering consolidated financial statements of the company, owing to financial and operational linkages between the parent, subsidiaries and step-down subsidiaries, as well as common management. These subsidiaries are not engaged in the manufacturing activities and are marketing arms. The following subsidiaries have been consolidated:

Name of the subsidiary	Percentage holding in subsidiary	Country
PIX Middle East FZC	100%	UAE
PIX Transmissions (Europe) Limited	100%	UK
PIX Middle East Trading LLC	100% shares held by PIX Middle East FZC, UAE	UAE
PIX Germany GmbH	100% shares held by PIX Transmissions (Europe) Limited, England	Germany

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company
Incorporated in July 1981, Pix Transmission Limited (PTL) is a public limited company promoted by Amarpal S Sethi (Chairman and Managing Director), and is involved in the manufacturing of mechanical power transmission products like rubber V-belts, cut-edge belts, ribbed belts, synchronous belts, timing belts, etc. Rubber V-belts manufactured by PTL find application in several end-user segments, such as industrial, agricultural, horticulture, special application belts, taper pulleys, bush and couplings, and the automotive segment. PTL has a well-diversified product range with an extensive range of tooling to cover a broad spectrum of belt construction types and sizes. PTL also has an extensive network of committed channel partners across verticals, ably supported by robust infrastructure/systems. There are two manufacturing units of the company, located at Hingna, Nagpur, and an automated rubber-mixing facility at Nagalwadi, in Nagpur. PTL's products are sold in India and abroad through its network of approximately 350 distributors and channel partners spread across 100 countries.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total operating income	402.38	454.32	251.92
PBILDT	115.47	120.44	61.26
PAT	64.90	68.84	33.90
Overall gearing (times)	0.25	0.32	NA
Interest coverage (times)	12.63	14.64	16.51

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	January 2027	42.57	CARE A; Stable
Fund-based - LT/ ST-CC/PC/Bill discounting		-	-	-	55.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-CC/PC/Bill discounting		-	-	-	25.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	26.50	CARE A1

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	42.57	CARE A; Stable	-	1)CARE A; Stable (24-Mar-22) 2)CARE A; Stable (28-Feb-22)	1)CARE A-; Positive (19-Mar-21)	1)CARE A-; Stable (19-Feb-20)
2	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST*	55.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (24-Mar-22) 2)CARE A; Stable / CARE A1 (28-Feb-22)	1)CARE A-; Positive / CARE A2+ (19-Mar-21)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)
3	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST*	25.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (24-Mar-22) 2)CARE A; Stable / CARE A1 (28-Feb-22)	1)CARE A-; Positive / CARE A2+ (19-Mar-21)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)
4	Non-fund-based - ST-BG/LC	ST	26.50	CARE A1	-	1)CARE A1 (24-Mar-22) 2)CARE A1 (28-Feb-22)	1)CARE A2+ (19-Mar-21)	1)CARE A2+ (19-Feb-20)

* Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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