# Pix Transmissions Limited

March 19, 2021

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Long term Bank Facilities | 12.84 (Reduced from 19.10) | CARE A-; Positive (Single A Minus; Outlook: Positive) | Reaffirmed and outlook revised from Stable |
| Short term Bank Facilities | 80.00 | CARE A-; Positive / CARE A2+ (Single A Minus; Outlook: Positive/ A Two Plus) | Reaffirmed and outlook revised from Stable |
| Long-term/Short-term Bank Facilities | 23.85 (Enhanced from 20.85) | CARE A2+ (A Two Plus) | Reaffirmed |
| **Total Facilities** | **116.69 (Rs. One hundred and sixteen crore and sixty-nine lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE has revised its outlook on the long-term bank facilities of PIX Transmissions Limited (PTL; CIN No. L25192MH1981PLC024837) to Positive from Stable while reaffirming the rating at CARE A-. The short-term rating has been reaffirmed at CARE A2+.

The outlook revision reflects CARE's expectations that the Company's business and financial risk profile will continue to improve over the medium term. Improvement in business performance is reflected from healthy Total Operating Income (TOI) and PBILDT margin in 9MFY21 as compared to 9MFY20 driven by higher volumes and average realization despite the COVID 19 impact on operations and demand. Going ahead, growth trajectory is expected to continue resulting in higher TOI along with sustaining healthy PBILDT margins while also maintaining healthy debt coverage metrics.

The ratings continue to factor in the experience of management in the manufacturing of mechanical power transmission solutions like V-Belts which finds application in diverse industries and the strong market position in the after-market industrial segment. The ratings also derive comfort from established distribution network catering to both domestic and export markets. The ratings also continue to favorably factor in comfortable debt coverage indicators which have been showing an improving trend. Further, CARE believes, the leverage is expected to remain comfortable going forward as well despite partially debt funded capex due to healthy accretion of profits.

The rating strengths however continue to be constrained by PTL's moderate scale, working capital intensive nature of operations leading to elongated operating cycle coupled with susceptibility of profit margins to fluctuations in raw material price and foreign currency exchange rate.

**Rating Sensitivities**

***Positive rating sensitivities***

- *Sustained improvement in the Total Operating Income as a result of capacity addition while maintaining PBILDT margin in range of 24%-25% on a sustained basis*
- *Improvement in interest cover around 10x-12x on a sustained basis*

***Negative rating sensitivities***

- *Deterioration in PBILDT margin beyond 18% on a sustained basis*
- *Deterioration in the overall gearing beyond 0.75x on a sustained basis*

Outlook: Positive

The revision in the outlook assigned to the long-term bank facilities of PTL from Stable to Positive factors in improvement in the operating performance of the Company in 9MFY21. In 9MFY21, PTL reported TOI of Rs.273.37 crore on a consolidated basis which is an improvement of 14.7% over 9MFY20 despite weaker sales in Q1FY21 which was impacted by COVID-19. PTL also reported PBILDT margin of 28.94% in 9MFY21 as against that of 19.92% in 9MFY20. CARE believes that the Company would continue to report robust sales going forward on the back of increase in demand in the domestic as well as export market. Further, in order to cater to the growing demand, the Company is undertaking partially debt funded capex to increase its capacity. The PBILDT margins may moderate to an extent, but are expected to remain healthy going forward as well owing to automation undertaken by the Company over the past couple of years which has led to improved efficiency and productivity along with elimination of certain processes and reduction in manpower requirement. CARE also believes that despite partially

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

debt funded capex to be undertaken in the near term, the debt coverage metrics and interest cover are expected to remain comfortable due to healthy cash accruals being generated by the Company.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Experienced and professional management with established track record***

PTL, promoted by Mr. Amarpal S Sethi (Chairman and Managing Director) is engaged in the manufacture of rubber V-belts. Mr. Amarpal S Sethi has five decades of experience in the mechanical power transmissions space. There are two manufacturing units of the company located at Hingna and Nagalwadi, Nagpur. Under his guidance, PTL has become as one of the major players in the V-belt industry. The day-to day operations of the Company are managed by a team of qualified and experienced professionals headed by Mr. Sonepal S. Sethi (Joint Managing Director) having vast experience in the V-belt industry.

***Consistent growth in revenues coupled with improved margins***

During FY20, the Company registered around 3.3% growth in total operating income on the back of an increase in domestic sales. The operating margin however in FY20 was similar to that of FY19. In 9MFY21, the revenue increased by 14.7% on a YoY basis driven by revival of demand in the domestic market and increase in export sales. The company reported 20% growth in export revenue and about 10% growth in domestic revenue. The PBILDT margin improved to 28.94% in 9MFY21 (Previous period: 19.92%). The improvement in PBILDT margin in 9MFY21 was on the back of improvement in efficiency and productivity in the manufacturing process and reduction in manpower cost due to upgradation activities undertaken by the Company over the last couple of years.

***Comfortable financial risk profile***

The overall capital structure of PTL is comfortable as evidenced by the overall gearing of 0.48x in FY20 (PY: 0.56x) due to accretion to reserves and repayment of term loans. Total Debt to GCA has also improved to 2.40x in FY20 (PY:2.76x). The debt coverage indicators of PTL have been improving consistently. The interest coverage indicators also continue to remain strong at 5.61x in FY20 and 11.85x in 9MFY21.

***Established distribution network catering to various segments:***

PTL is a well-established player in the V-belt industry catering to various segments such as industrial, agricultural, automobile etc. Presence in diversifies segment insulates the Company to the risk of slowdown to an extent. The Company derives around half of its revenues from the domestic and balance from the export market. Over the years, the Company has developed a strong distribution network with a presence in over 100 countries with a network of around 250 distributors.

**Key Rating Weaknesses**

***Working capital intensive operations***

The operating cycle of the company remained high at 162 days in FY20 (157 days in FY19) driven by the high inventory of around 114 days (PY: 110 days). PTL's operations are working capital intensive as the company derives around half of its revenues from the export market which entails a higher transit period and as it follows a stock and sale model backed by on time delivery to its export customers and higher credit terms extended to distributors.

***Exposure to raw material price fluctuations and foreign exchange risk associated with export orders***

Rubber and Rayon are the key raw materials for manufacturing of rubber V-belts constituting a significant chunk of the total raw material purchases of PTL. The prices of these commodities remain volatile depending upon demand supply situation. PTL is thus exposed to a certain extent to such fluctuation in prices. Furthermore, the Company is into exports and is net exporter of goods with approximately 40% of the raw materials purchases being imported. To mitigate impact of forex volatility the Company takes forward cover on export bills discounting which helps in mitigating forex risk to a certain extent.

**Liquidity: Adequate**

PTL has adequate liquidity position reflected by cash and cash equivalents of Rs.9.43 crore as on December 31, 2020. The average working capital utilization for the past 15 months has been moderate at about 53%. Further, PTL is expected to garner gross cash accruals over Rs.70 crore in FY21 on a consolidated basis. As against this, PTL has repayments to the tune of ~Rs.17.5 crore (principal and interest) in FY21. The company had availed moratorium in the first phase as per RBI notification dated March 27, 2020.

**Analytical approach: Consolidated**

CARE 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.

**Applicable Criteria**
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)
[Rating Methodology: Consolidation](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology - Manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)

**About the Company**
Incorporated in July, 1981, PIX Transmissions Limited (PTL), is a public limited company promoted by Mr. Amarpal S Sethi (Chairman and Managing Director) and is engaged in the manufacturing of Mechanical power transmission solutions 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, construction equipment, special application belts, taper pulleys, bush and couplings and 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 established network of committed channel partners across verticals ably supported by robust infrastructure/systems. There are two manufacturing units of the company located at Hingna and Nagalwadi & an automated rubber mixing facility at Nagalwadi in Nagpur, Maharashtra. PTL's products are sold in India and abroad through its network of approximately 250 distributors and channel partners spread across 100 countries.

| Brief Financials (Rs. crore)-Consolidated | FY19 (A) | FY20 (A) | H1FY21 (UA) |
|---|---|---|---|
| Total operating income | 313.89 | 324.18 | 273.37 |
| PBILDT | 64.20 | 66.82 | 79.12 |
| PAT | 28.57 | 30.23 | 42.98 |
| Overall gearing (times) | 0.56 | 0.48 | * |
| Interest coverage (times) | 5.12 | 5.61 | 11.85 |

A: Audited; UA: Unaudited
**Data 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 instrument / facility:** *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 | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | - | FY24 | 12.84 | CARE A-; Positive |
| Fund-based - LT/ ST-CC/PC/Bill Discounting | - | - | - | - | 80.00 | CARE A-; Positive / CARE A2+ |
| Non-fund-based - ST-BG/LC | - | - | - | - | 23.85 | CARE A2+ |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Term Loan | LT | 12.84 | CARE A-; Positive | - | 1)CARE A-; Stable (19-Feb-20) | 1)CARE A-; Stable (04-Jan-19) | 1)CARE BBB+; Positive (03-Jan-18) |
| 2. | Fund-based - LT/ ST-CC/PC/Bill Discounting | LT/ST | 60.00 | CARE A-; Positive / CARE A2+ | - | 1)CARE A-; Stable / CARE A2+ (19-Feb-20) | 1)CARE A-; Stable / CARE A2+ (04-Jan-19) | 1)CARE BBB+; Positive (03-Jan-18) |
| 3. | Fund-based - LT/ ST-CC/PC/Bill Discounting | LT/ST | 20.00 | CARE A-; Positive / CARE A2+ | - | 1)CARE A-; Stable / CARE A2+ (19-Feb-20) | 1)CARE A-; Stable / CARE A2+ (04-Jan-19) | 1)CARE A2+ (03-Jan-18) |
| 4. | Non-fund-based - ST-BG/LC | ST | 23.85 | CARE A2+ | - | 1)CARE A2+ (19-Feb-20) | 1)CARE A2+ (04-Jan-19) | 1)CARE A2+ (03-Jan-18) |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available**

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

| Sr. No. | Name of the 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 List of subsidiaries which are consolidated**

| Sr. No. | Name of the subsidiary | Percentage holding in subsidiary |
|---|---|---|
| 1. | PIX Middle East FZC | 100% |
| 2. | PIX Transmissions (Europe) Limited | 100% |
| 3. | PIX Middle East Trading LLC | 100% shares held by PIX Middle East FZC, UAE |
| 4. | PIX Germany GmbH | 100% shares held by PIX Transmissions (Europe) Limited, England |

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

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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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