Pix Transmissions Limited

February 28, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.84	**CARE A; Stable** (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Long Term / Short Term Bank Facilities	80.00	**CARE A; Stable / CARE A1** (Single A; Outlook: Stable/ A One)	Revised from CARE A-; Positive / CARE A2+ (Single A Minus; Outlook: Positive / A Two Plus)
Short Term Bank Facilities	23.85	**CARE A1** (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**116.69 (Rs. One Hundred Sixteen Crore and Sixty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to bank facilities of Pix Transmissions Limited (PTL) factors in the improvement in business risk profile and financial risk profile of the company during FY21 and 9MFY22. CARE Ratings has simultaneously revised outlook from 'Positive' to 'Stable' as the agency expects PTL to maintain current level of performance in near future.

The ratings assigned to bank facilities of PTL derive strength from experienced promoters in V-belt industry supported by professional management, consistent growth in top-line with improvement in operating performance for FY21 and 9MFY22, diversified clientele as well as geographical presence, established product range and distributor network, comfortable capital structure and debt coverage indicators. The ratings, however, are constrained by working capital intensive nature of operations, exposure to raw material price fluctuations and foreign exchange risk associated with export orders and project risk associated with capex undertaken by the company.

Rating Sensitivities

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

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

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

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with established track record

PTL promoted by Mr. Amarpal S Sethi (Chairman and Managing Director) and is engaged into manufacturing of rubber V-belts. Mr. Amarpal S Sethi has over four decades of experience in manufacturing of rubber V-belts and hoses. There are two manufacturing units of the company located at Hingna and Nagalwadi, Nagpur. PTL also has an automated rubber mixing facility at Nagalwadi in Nagpur, Maharashtra. 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).

Consistent growth in top-line; significant improvement in operational performance in FY21 and 9MFY22

For FY17-FY21 period, PTL has been registering consistent growth with CAGR at 10.44%. On YoY basis, PTL's TOI registered growth of ~24% for FY21 to Rs.404 crore. The company has been reporting PBILDT margins of over 20% since the past few years. However, during FY20-FY21, the company had undertaken efficiency improvement measures for its manufacturing lines as well as one time cost cutting measures on account of COVID-19 pandemic. PTL's operating margin stood at.29.06% for FY21 (PY: 21.17%). Further, PAT margin improved to 16.05% in FY21 from 9.26% in FY20. However, with normalization in business operations, company's operating expenses are also expected to go up. Despite the same, PTL is expected to report operating margin above 25% on sustained basis for near term.

---

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

9MFY22 performance of the company remains robust with TOI of Rs.344 crore vis-à-vis TOI of Rs.273 crore in 9MFY21. Further, operating margins has moderated marginally from 28.94% for 9MFY21 to 26.53% for 9MFY22 due to significant rise in raw material prices as well as rise in operating expenses of the company. Going forward, PTL is expected to deliver operating margins above 25%, backed by improvement in manufacturing processes and upgradation of machinery.

Diversified geographical presence and low customer concentration risk
PTL's revenue base is diversified with 50% of revenue coming from exports market during FY21. PTL mainly exports to European countries and the US. Further, PTL has a diversified customer profile with low customer concentration risk with top 5 customers (excl. sales to subsidiaries) contributing to 16% in net sales for FY21 as against 19% contribution to net sales in FY20.

Comfortable capital structure and financial risk profile; capital structure to remain comfortable going forward despite partially debt funded capex
PTL's capital structure remains satisfactory with overall gearing (including acceptance on LC) at 0.30x as on March 31, 2021 (PY: 0.48x). Going forward, PTL's capital structure expected to show modest decline due to partially debt-funded capex, although is expected to remain at comfortable level. As on March 31, 2021, PTL's debt profile consist of term loan from banks, unsecured loan from directors and working capital limits of Rs.80 crore.
The debt coverage indicators are showing an improving trend over the past few years due to improvement in operating performance and accretion of profits to reserves. Total debt to cash accruals ratio improved significantly to 0.86x for FY21 (PY: 2.14x). Interest coverage improved to 12.85x for FY21 vis-à-vis 5.80x for FY21, led by improvement in operating margin. For H1FY22, interest coverage stood at 18.35x. Going forward, interest coverage is expected to remain healthy above 15x.

Key Rating Weaknesses
Working capital intensive operations; however, liquidity position remains strong
PTL's operations are working capital intensive. Operating cycle of the company remained high at 158 days in FY21 (162 days in FY20) driven by the high inventory holding period and high receivable days. The average collection period of PTL improved marginally from 76 days in FY20 to 67 days in FY21. The average inventory holding period deteriorated slightly from 114 days in FY20 to 123 days in FY21. The working capital utilization for the past 12 months ending in Dec-21 has been moderate at 50%. The utilization remains moderate as the company also uses its internal accruals to meet working capital requirements.

Exposure to raw material price fluctuations and foreign exchange risk associated with export orders
Rubber and Rayon are the key raw materials for the manufacturing of rubber V-belts constituting 60-65% of 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.
Furthermore, PTL is a net exporter of goods with approximately 40% of the Raw Materials purchases being imported and around ~55% of the total sales comprising exports. Further, the company has moved away from bill discounting mechanism to hedge its forex exposure. The company has availed a foreign currency term loan which provides natural hedge for balance receivable for export. Hence, risk of foreign exchange volatility is partially mitigated.

Capex plan to enhance capacity and streamline operations
In FY21, the company had undertaken capex to the tune of ~Rs.25 crore which was mainly towards technology upgradation. As per the management, improvement in technology has led the company to phase out older machinery with latest technology. The company is undertaking this transformation in a phased manner, without disrupting overall operations. For FY22, the company is undertaking capex of ~Rs.60 crore (with debt-equity ratio of 3:1) for streamlining operations and increasing capacity for meeting market demand as well as launching new products. PTL is in the final stage of completing the capex. As per the management, entire project is expected to be completed by Q1FY23. Hence, project risk associated with current year's capex is partially mitigated.
Capex for FY23-FY24 is still under consideration stage and will focus mainly on upgrading machinery and equipment for meeting market demand as well as introducing new products to make PTL has one-stop shop for its industrial customers. The company would assess the demand situation and accordingly decide on the capex. The capex for FY23-24 is expected to be funded through internal accruals owing to strong cash generation ability of the company.
In respect of the capex for above mentioned period, although the company is exposed to execution risk, the same is mitigated to an extent as the capex is for expansion of the existing capacities and upgradation of technology. Further, the company has successfully implemented capex in the past which has resulted into incremental revenue over the years.

Liquidity: Strong
PTL's liquidity profile is marked by healthy cash balance of Rs.10.07 crore and current ratio at 2.54x as on March 31, 2021. Average working capital utilization remains around 50% for 12-month period ending in Dec-21, providing sufficient headroom for meeting incremental working capital needs through existing credit line as well as from internal accruals. During FY22, PTL has term loan repayment of Rs.4.84 crore against expected cash accruals of Rs.95 crore. Till 31-Jan-2022, PTL has repaid Rs.3.74 crore out of its gross repayment obligations for the year. The company is also undertaking capex of Rs.60 crore, funded through debt-equity ratio of 3:1. Considering above, PTL's liquidity profile remains strong.

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. These subsidiaries are not engaged in 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 Mr. Amarpal S Sethi (Chairman and Managing Director) and is involved in 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 automotive segment. PTL has a well diversified product range with extensive range of tooling to cover a broad spectrum of belt construction types and sizes. PTL also has 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 & 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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	326.46	404.43	344.95
PBILDT	69.10	117.51	91.52
PAT	30.23	64.90	53.38
Overall gearing (times)	0.48	0.30	NA
Interest coverage (times)	5.80	12.85	NA

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 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	-	-	-	2024	12.84	CARE A; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	60.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	20.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	23.85	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	12.84	CARE A; Stable	-	1)CARE A-; Positive (19-Mar-21)	1)CARE A-; Stable (19-Feb-20)	1)CARE A-; Stable (04-Jan-19)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	60.00	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (19-Mar-21)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)	1)CARE A-; Stable / CARE A2+ (04-Jan-19)
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	20.00	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (19-Mar-21)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)	1)CARE A-; Stable / CARE A2+ (04-Jan-19)
4	Non-fund-based - ST-BG/LC	ST	23.85	CARE A1	-	1)CARE A2+ (19-Mar-21)	1)CARE A2+ (19-Feb-20)	1)CARE A2+ (04-Jan-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Soumya Dasgupta
Contact no.: +91-22-6754 3456
Email ID: soumya.dasgupta@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

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.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**