

## PIX Transmissions Limited

February 19, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	19.10	<b>CARE A-; Stable (Single A Minus; Outlook: Stable)</b>	Reaffirmed
Short term Bank Facilities	20.85	<b>CARE A2+ (A Two Plus)</b>	Reaffirmed
Long-term/Short-term Bank Facilities	80.00	<b>CARE A-; Stable /CARE A2+ (Single A Minus; Outlook: Stable /A Two Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>119.95 (Rs. One hundred and nineteen crore and ninety-five lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of PIX Transmissions Limited (PTL; CIN No. L25192MH1981PLC024837) 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 as well as an established distribution network catering to both domestic and export markets.

The rating also continues to favorably factor in the volume backed growth reported by PTL during FY19 coupled with consistent capacity utilization levels witnessed during FY19 and 9MFY20. Despite availing term debt during FY19 for maintenance capex, both leverage and debt coverage indicators continue to remain comfortable. Further, CARE believes, the leverage is expected to remain comfortable going forward as there is minimal capex planed in the short-to- medium term.

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 Factors*

- *Improvement in PBILDT margin to 24% on a sustained basis*
- *Improvement in PBILDT interest cover to 7.00x on a sustained basis*

#### *Negative Factors*

- *Deterioration in PBILDT margin below 15% on a sustained basis*
- *Deterioration in the Total debt/PBILDT beyond 2.00x on a sustained basis*

### Detailed description of the key rating drivers

#### **Key Rating Strengths**

##### ***Comfortable financial risk profile***

The overall capital structure of PTL is comfortable as evidenced by the overall gearing of 0.56x at the end of March 31, 2019 as compared to 0.63x as on March 31, 2018 due to accretion to reserves and repayment of term loans. The overall gearing has further improved to 0.53x at the end of September 30, 2019. Total Debt to GCA has also improved to 3.11x in FY19 (PY:3.26x) and to 2.60x in H1FY20. The capital structure and debt coverage indicators of PTL have been improving consistently. The interest coverage indicators also continue to remain comfortable.

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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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 able 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. Sonopal S. Sethi (Joint Managing Director) having vast experience in the V-belt industry.

***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. The Company derives around 52% 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 channel partners. Presence of the Company's products in both industrial and automotive segments mitigates the risk from slowdown in any one segment.

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

During FY19, the Company registered around 17.3% growth in total operating income on the back of about 20% increase in domestic sales due to spending on infrastructure projects and improved consumption pattern. The operating margin however declined in FY19 by 272 bps on the back of increase in utilities, employee costs and other expenses. Nevertheless, PTL enjoys a healthy operating margin of 20.89% in FY19. In 9MFY20 (refers to the period from April 01 to December 31), PTL reported marginal increase in total operating income. Operating margin continues to be stable at 19.92% in 9MFY20.

**Key Rating Weaknesses**

***Working capital intensive operations***

The operating cycle of the company remained high at 157 days in FY19 (159 days in FY18) driven by the high inventory of around 109 days (PY: 110 days). The collection period of PTL has improved marginally and was at 77 days in FY19 (PY: 85 days). PTL's operations are working capital intensive as the company derives around 48% 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 and 48% of the total sales being exports. 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: Strong**

PTL has strong liquidity position as reflected by cash and cash equivalents of Rs.11.16 crore as on September 30, 2019 (Rs.10.56 crore as on March 31, 2019) and liquid investments to the tune of Rs.6.28 crore as on September 30, 2019 (Rs.8.27 crore as on March 31, 2019). The average working capital utilization for the past 15 months has been moderate at about 68%. The unutilized bank lines and expected cash accruals in FY20 are more than adequate to meet its repayment obligations.

**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. The list of subsidiaries which are consolidated are given in Annexure 4.

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch'](#)

[CARE's Policy on Default Recognition](#)

[Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

### 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.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	264.93	309.06	238.27
PBILDT	58.10	59.37	47.46
PAT	22.55	28.57	21.76
Overall gearing (times)	0.63	0.56	*
Interest coverage (times)	4.00	4.74	5.59

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

### 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	-	-	-	October 2023	19.10	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	60.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-EPC/PSC	-	-	-	-	20.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	-	20.85	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	19.10	CARE A-; Stable	-	1)CARE A-; Stable (04-Jan-19)	1)CARE BBB+; Positive (03-Jan-18)	1)CARE BBB (23-Sep-16)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	60.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (04-Jan-19)	1)CARE BBB+; Positive (03-Jan-18)	1)CARE BBB (23-Sep-16)

3.	Fund-based - LT/ ST-EPC/PSC	LT/ST	20.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (04-Jan-19)	1)CARE A2+ (03-Jan-18)	1)CARE A3+ (23-Sep-16)
4.	Non-fund-based - ST-BG/LC	ST	20.85	CARE A2+	-	1)CARE A2+ (04-Jan-19)	1)CARE A2+ (03-Jan-18)	1)CARE A3+ (23-Sep-16)

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

**Annexure 4: List of subsidiaries which are consolidated**

Name of the subsidiary	Percentage holding in subsidiary
PIX Middle East FZC, UAE	100%
PIX Transmissions (Europe) Limited, England	100%
PIX Middle East Trading LLC,UAE	100% shares held by PIX Middle East FZC, UAE
PIX Germany GmbH, Germany	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. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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