

Pix Transmissions Ltd

January 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities – Term Loan	41.14 (34.09)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Revised from CARE BBB; (Triple B)
Long-term Bank Facilities – Fund Based	25.00 (25.00)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Revised from CARE BBB; (Triple B)
Short Term Bank Facilities- (Fund Based)	55.00 (55.00)	CARE A2+ (A Two Plus)	Revised from CARE A3+; (A Three Plus)
Short Term Bank Facilities- (Non-Fund based)	22.89 (22.89)	CARE A2+ (A Two Plus)	Revised from CARE A3+; (A Three Plus)
Total Facilities	144.03 (Rs. One hundred Forty Four Crore and three lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to Bank facilities of Pix Transmission Limited (PTL) factors in the steady growth in revenues, improvement in the profitability margins, capital structure and debt coverage indicators along-with comfortable liquidity position in FY17 (refers to the period April 1 to March 31). The ratings, further continue to derive strength from the long track record and extensive experience of the promoters in rubber V-belt industry.

However, the ratings continue to be constrained by PTL's working capital intensive nature of operations leading to elongated operating cycle, margins susceptible to raw material price and foreign exchange fluctuations.

Going forward, PTL's ability to achieve the envisaged growth in revenue, improvement in profit margins along with maintenance of comfortable liquidity position would be the key rating sensitivities.

Outlook: Positive

The 'Positive outlook' is assigned on account of envisaged growth in total operating income, improvement in profit margins, gearing levels and successful completion of its on-going capex. Further, CARE Ratings believes that the company will maintain liquid investments at comfortable levels as there is no further major capex planned in the near future.

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) 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

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

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. Sonpal S Sethi (Joint Managing Director).

PTL caters to various user industries like agriculture equipment, engineering and auto. The domestic sales are majorly through a network of distributors. Exports sales, which contribute approximately 50% of total sales, are through its distributors in Europe and America. Normally, the order book cycle is 1-2 months long.

Growth in revenues coupled with improvement in profit margins

The company registered a 7.36% growth in total operating income in FY17 driven by improved demand in the engineering, agriculture and auto industry which are the main end user segments of PTL. During FY17, PBILDT margin improved from 17.41% to 20.27% mainly due to cost optimization measures initiated by PTL; which included recent capex undertaken for modernization and technological upgradation of plant and machinery at the manufacturing facilities of Hingna and Nagalwadi. Going forward, profit margins are expected to improve from the present levels.

Moderate financial risk profile

The overall capital structure of PTL remains comfortable. PTL's overall gearing slightly improved to 0.79x as at March 31, 2017 as compared to 0.84x as on March 31st 2016 due to accretion to reserves and repayment of term loans. Total Debt to GCA also improved to 4.31x in FY17 as compared to 6.11x in FY16. Further, PTL has comfortable liquidity position with cash and bank balance including liquid investments (mutual fund and free cash) to the tune of Rs.43.65 crore as on March 31, 2017 (Rs.35.67 crore as on March 31, 2016) and at Rs.34.75 crore as on September 30, 2017. Going forward, CARE Ratings expects the company to maintain the liquid investments (including cash and bank balance) at comfortable levels.

Key Rating weaknesses

Working capital intensive operations

PTL's operations are working capital intensive. Operating cycle of the company remained high at 135 days in FY17 (148 days in FY16) driven by the high inventory 91 days in FY 17 (102 days in FY16) and high receivable 81 days in FY17 (78 days in FY16) on account of extended credit terms extended to distributors.

This has led to moderate average working capital utilization for the past 12 months (Oct-16 to Sep-17) to 74%. However, the company has comfortable liquidity supported by liquid investments (mutual fund and free cash) to the tune of Rs. 43.65 Cr (as on March 31, 2017).

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 55 to 60 percent 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, the company is into exports and is net exporter of goods with approximately 30% of the raw materials purchases being imported and 50% of the total sales being exports. The company imports less than one-third of the exports. To mitigate impact of forex volatility the company takes forward cover on export bills discounting which helps in mitigating forex risk to certain extent

Analytical approach:

Consolidated

Applicable Criteria[Criteria on assigning Outlook to Credit Ratings](#)[CARE's Policy on Default Recognition](#)[Criteria for Short Term Instruments](#)[Rating Methodology-Manufacturing Companies](#)[Financial ratios – Non-Financial Sector](#)[Rating Methodology: Factoring Linkages in Ratings](#)**About the Company**

Pix Transmission Limited (PTL) incorporated in July, 1981, is a public limited company promoted by Mr. Amarpal S Sethi (Chairman and Managing Director), involved into 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 finds application in several end user segments such as industrial, agricultural, horticulture, special application belts, taper pulleys, bush and couplings and automotive segment. 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.

As on March 31, 2017, PTL has two direct subsidiary companies and two step down subsidiaries engaged in the marketing of its products. These are – Pix Middle East FZC UAE, Pix Transmission (Europe) Ltd (based out of England), Pix Middle East Trading LLC (100% owned by Pix Middle East FZC UAE) and Pix Germany GMBH (100% owned by Pix Transmission (Europe) Ltd). Besides, the company also has a JV in place under the name of PIX QCS Ltd Ireland. The company has 50% share in the JV with an Irish company Deacons owing the remaining 50% share in JV. The subsidiaries are formed to carry out the trading activities of the products in those respective countries.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	237.38	256.24
PBILDT	41.34	51.94
PAT	6.54	14.96
Overall gearing (times)	0.84	0.79
Interest coverage (times)	2.23	3.27

A: Audited

Status of non-cooperation with previous CRA: NA**Any other information:** NA**Rating History for last three years:** Please refer Annexure-2

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. 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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	41.14	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BBB+; Positive
Fund-based - ST-EPC/PSC	-	-	-	55.00	CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	22.89	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	41.14	CARE BBB+; Positive	-	1)CARE BBB (23-Sep-16)	1)CARE BBB- (14-Oct-15)	1)CARE BBB- (05-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB+; Positive	-	1)CARE BBB (23-Sep-16)	1)CARE BBB- (14-Oct-15)	1)CARE BBB- (05-Dec-14)
3.	Fund-based - ST-EPC/PSC	ST	55.00	CARE A2+	-	1)CARE A3+ (23-Sep-16)	1)CARE A3 (14-Oct-15)	1)CARE A3 (05-Dec-14)
4.	Non-fund-based - ST-BG/LC	ST	22.89	CARE A2+	-	1)CARE A3+ (23-Sep-16)	1)CARE A3 (14-Oct-15)	1)CARE A3 (05-Dec-14)

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