Pix Transmissions Ltd

January 04, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	33.73	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)
Short term Bank Facilities	20.85	**CARE A2+ (A Two Plus)**	Reaffirmed
Long-term/Short-term Bank Facilities	60.00	**CARE A-; Stable /CARE A2+ (Single A Minus; Outlook: Stable /A Two Plus)**	Reclassified from LT to LT/ST LT ratings revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive) and ST ratings reaffirmed
Long-term/Short-term Bank Facilities	20.00	**CARE A-; Stable /CARE A2+ (Single A Minus; Outlook: Stable /A Two Plus)**	Reclassified from ST to LT/ST LT ratings revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive) and ST ratings reaffirmed
Total	**134.58 (Rs. One hundred and Thirty Four crore and Fifty Eight lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to bank facilities of PIX Transmission Limited (PTL) factors in the improvement in the credit risk profile characterised by steady growth in revenues along with improvement in the profitability margins, comfortable capital structure and debt coverage indicators supported with comfortable liquidity position in FY18 (refers to the period April 1 to March 31) and H1FY19. The ratings further factor in the experienced and professional management team in the rubber V-belt industry, well-established and strong distribution network catering to various segments.

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

Going forward, PTL's ability to continue to improve its scale of operations while maintaining profit margins and comfortable gearing levels as well as liquidity position and effective management of operating cycle would be key rating sensitivities.

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 into manufacturing of rubber V-belts. Mr. Amarpal S Sethi has over four decades of experience in manufacturing of rubber V-belts. 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. Sonepal 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 50% of its revenues from domestic and remaining from export market. Over the years, the company has developed a strong distribution network as it has presence in around 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.

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

Consistent growth in revenues coupled with improvement in margins

During FY16-FY18 period, PTL has exhibited growth in the total operating income at a CAGR of 24.64%. Further, during FY18, the company registered around 5.10% growth in total operating income. This is owing to improved demand in the industrial, agriculture and auto industries which are the main end user segments of the products manufactured by PTL. During FY18, the operating margin improved to 23.45% as compared to 20.74% in FY17 due to cost optimization measures initiated by PTL. Besides, during H1FY19 (refers to the period from April 01 to September 30), the company reported increase in total operating income by around 40% on a y-o-y basis owing to better demand for its products. The profit margins of the company further improved as a result of better economies of scale.

Comfortable financial risk profile

The overall capital structure of PTL is considered to be comfortable at 0.63x as at March 31, 2018 as compared to 0.84x as on March 31st 2017 due to accretion to reserves and repayment of term loans. Total Debt to GCA also improved to 3.02x in FY18 as compared to 4.56x in FY17. Further, PTL has comfortable liquidity position with cash and bank balance including liquid investments (mutual fund and free cash) to the tune of Rs.18.99 crore as on March 31, 2018 and to Rs.19.82 crore as on September 30, 2018. Besides, the bank lines were utilized to the extent of 68% over the past 12 months ending October 2018 thereby giving access to around 32% of sanctioned limits which remain un-utilised and can be used by the company for its operations in case of any exigency. 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

The operating cycle of the company remained high at 159 days in FY18 (136 days in FY17) driven by the high inventory of around 110 days (92 days in FY17) and receivable days of around 85 days (81 days in FY17). PTL's operations are working capital intensive as the company derives around 50% of its revenues from 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 majority of 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 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 a certain extent

Analytical approach: Consolidated

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 (100% owned by PTL), PIX Transmission (Europe) Ltd (100% owned by PTL), PIX Middle East Trading LLC (100% owned by PIX Middle East FZC UAE) and PIX Germany GMBH (100% owned by PIX Transmission (Europe) ltd).

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. The company operates two manufacturing units 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)	FY17 (A)	FY18 (A)
Total operating income	257.05	270.18
PBILDT	53.30	63.35
PAT	16.25	22.55
Overall gearing (times)	0.84	0.63
Interest coverage (times)	3.35	4.36

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
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.*

Analyst Contact:
Name: Vikash Agarwal
Tel: 022 - 6754 3405
Email: vikash.agarwal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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	-	-	December 2022	33.73	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	33.73	CARE A-; Stable	-	1)CARE BBB+; Positive (03-Jan-18)	1)CARE BBB (23-Sep-16)	1)CARE BBB- (14-Oct-15)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	60.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Positive (03-Jan-18)	1)CARE BBB (23-Sep-16)	1)CARE BBB- (14-Oct-15)
3.	Fund-based - LT/ ST-EPC/PSC	LT/ST	20.00	CARE A-; Stable / CARE A2+	-	1)CARE A2+ (03-Jan-18)	1)CARE A3+ (23-Sep-16)	1)CARE A3 (14-Oct-15)
4.	Non-fund-based - ST-BG/LC	ST	20.85	CARE A2+	-	1)CARE A2+ (03-Jan-18)	1)CARE A3+ (23-Sep-16)	1)CARE A3 (14-Oct-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691