Pix Transmission Ltd

1. Pix started biz. in 1982 and from 1982 to 1989, it was basically an EOU and were producing agricultural belts
2. Pix produce belts for NTPC which are 60 mtrs long, only company in India to produce those belts. With one power unit running on 30 of those belts.
3. It's a critical component and mgmt. calls the biz recession proof. For arguments sake, take for example no new power plants sets up in India even then the existing power plants will need replacement of belts as per maintenance schedule
4. Take example of Cement Industry
    a. So, your raw material is mined from quarry and from there it goes to multiple crushers on multiple conveyor belts. The cement companies operate at 110% capacities which means there is zero downtime and for that they need to ensure that the equipment also does not fail. The most vulnerable piece of the equipment is belts
    b. So, these crushers use multiple belts and have compulsory replacement based on maintenance cycle say after 8 months irrespective of the belt condition as they cannot have downtime.
    c. If the crusher stops due to breaking of belts, it's not easy to replace belts as you are looking at belts of average lengths 4.5 to 5.0 mtrs and 36 of them are used at one time in one engine in a crusher. It will take a lot of time to replace those belts as you need to tension them by the time they are replaced minimum 2 shifts would be gone. Due to this the loss that the cement plant will face will far outweigh the cost of these belts
    d. This same goes for the iron & steel industry, power plants, rolling mills. The downside is if you don't meet those norms, irrespective of the price they won't buy as the loss is too high.
    e. Suppose if other companies' products are equally good like Pix's product. So, these companies cement, steel do not test the products. The judgment/call is made by the procurement guy so if they buy an unknown companies' product if anything bad happens this guy will lose his job
    f. So, the process of getting into these industries is probably 3 to 5 years. You have to convince them to give you one crusher and run it one crusher free of cost for couple of years. If normal maintenance cycle is 9 months, they will run it for 15 months to be extra sure.
        i. After that they will say you one set is OK, I want to test one more set
    g. All these companies don't take one company as sole supplier, since these are big belts there are probably two players (Pix & Fenner) who manufactures these belts
        i. We have probably 60-70% market share as we are more into heavier and longer belts and Fenner would be having 30-40% share. In some case it would be 50-50 market share
        ii. Other can't do that because they don't have the capability
    h. **Warranty:** We have to meet the maintenance cycle, if the belt breaks before the maintenance cycle, Pix has to replace the belt free of cost

5. Pix specializes in Industrial & Agricultural side. Agricultural side is growing in India for past couple of years with corporates entering into the scene. Pix has focused on agricultural side as overseas it was a big biz. and competition even there was less, India was far behind and the technology was developed for Europe & USA and other parts of the world. In India we are seeing the change with farm sizes

increasing, mechanization happening with corporates coming over the last 5 years but we are still behind compared to western countries. But it is still limited to few states Punjab, Haryana, Telangana, parts of Andhra

   a. Companies like Sonalika they were making 100 harvester machines in a year, 18 years back to today they are making 6000 machines a year. It is majorly owned by Goldman Sachs. They have invested 3000 Cr in a new plant. Other companies like Escorts, John Deere, Claas all have invested in increasing their capacities. **Pix has 70-75% market share in Agri space- In Harvester Pix has 90% market share**. The reason we don't have balance is still some share is held by unorganized players
   b. Competition from unorganized sector is there in tractors which are there in Indians market for long time but that again is limited to less than 200 HP tractors. If we go above that then competition from unorganized is not there as still they lack the technology and it requires heavier belts. The market is very small for these bigger tractors but compared to 5 years back it was zero and 5 years down the line it would be big market
   c. Agri Replacement cycle globally, it depends on no. of seasons a country has. On an average a country has two seasons. Normally in advanced countries when you buy a new machine, every part is warrantied for two seasons if at all there is a problem. After that period when you come to non-warrantied period, the customer would hope that it works for two more seasons. In third year, Pix comes into the picture. At the start of every season they will have the critical component changes when machine goes for maintenance as cost of downtime on a avg. field of 1500 acres during season time is huge. Everywhere in the world once the machine is 3 years old they change the belts every season.
      i. In India people let the machine fail on the field. In India we still do not have the concept of preventive maintenance but now things are changing.

6. Three main segments of our biz: Agriculture, Industrial & Automobile.
   a. Automobile biz. has not been of interest due to following reasons
      i. Has low value. Pix don't do any Auto OEM biz and has never done also. We just offer it as a range to our automotive dealership network as after market biz. In terms of revenues it contributes 6-7%. Since we are a major player in this industry we have to be there for presence but it is not focus areas for Pix. All Auto OEMs come to us, we quote a price at which they don't want to do biz. with us.
      ii. Belt sizes are very small in automobiles. Pix's plant are not designed for these small size belts. For cars the belt size is 8", 12". It is high volume, low value, low margin biz.
   b. Industrial Biz: ~65%. Globally also pattern is same
      i. In industrial Pix can make the largest, heaviest & longest belt in the world.
   c. Agriculture Biz: ~25% Globally also patter is same
      i.
7. Pix currently has 25000 product type and their investment in tooling is significant. By next year it will be 32000 products. No other players in India does it.
   a. Pix has developed a new product for washing machines which is elastic belts. It is the first company in India to mfg. it and it is a niche product. The problem with the normal belt is suppose a machine is designed for 10 kg load, then even if one single cloth is put in, the machine will use the power for whole capacity which is not efficient. This problem we have solved with this elastic belt. This line costed INR ~6.5 Cr. Crucial part is assimilating the

technology which took two and half years to develop. Pix has started commercial supplies to whirlpool.

   i. Currently started with one line. In future will add more line which require more tools which Pix is developing. Next year target is to supply 6-7 major companies of the world.
   ii. By next year they will be investing in tools for which capex would be somewhere around INR 4-5 Cr. This will translate into at least 20 Cr of biz. by next year.

8. In Pix's biz. The biggest factor for anyone to come in is tooling. If someone wants to develop 25000 products, for developing tool for those products will take 20 yrs. So, it's not a question of money but question of time. Tools are very complicated, so its not done inhouse. Many are made in Germany, China, India
9. Pix make belts from 11" in diameter to 10000" in diameter and load changes depending on the time of the season. So, during the agricultural season tonnage goes up and volume goes down i.e. around 4-5 months of the year.
10. The v-belt industry has not faced problem of imports from say China as on an average an Indian customer (Dealer who sells products) keeps 400-500 different products and amongst them some products sells more and some less so if a person wants to import then he doesn't know which belts to import.
11. Indian Market is essentially supplied by Pix & Fenner except in Automotive. As per Mgmt. In India pre-GST Organized was 65% which is now post-GST moved to say 75-80%
    a. Removing Automotive, the industrial, agricultural market is shared by Pix, Fenner & Continental (small factory in north-10% market share).
    b. Pix has export presence which fenner doesn't have. Fenner always had focus on Automotive side which Pix consciously stayed away as when India opens up for MNC which it did MNC automobile companies did come and with them their global suppliers. In the last 3-4 years Fenner is not able to compete with these players as it's the global pricing which they are doing. However, they will give certain share to the local player but then they will ask to supply at the global pricing at which the MNC player is supplying. Major players are American, Japanese, German & Korean Suppliers. Gates is the largest belt manufacturer in the world but in India it is majorly only into automotive.
       i. Auto OEM is easy. You setup the facility as per the requirement of OEM. The entire Indian Auto replacement market is 30 sizes.
       ii. On Industrial side alone in India you have 4000-5000 sizes.
12. **Pix's Strategy in USA Market:** US market margins are very big and there customer are not price conscious. Gates has 40% share in the north American market, which is biggest market in the world. Pix's strategy was to go to the distributors of Gates. There they got everything on the system, so Pix asked them give them the slot which are discontinued or are empty. So, it made commercial sense for the distributor also and this gave Pix a market. Only after market sales of Gates in North America is $270 million. Their one distributor who got 4000 stores do $110 million sales. Pix is there in about 1800 stores of this distributor
    a. **Product Liability Insurance:** For US markets Pix has product liability insurance of $5 million. Till this day no claim has arisen. In US it is mandatory to take product liability insurance.
13. This industry is labour intensive industry and historically the industry has moved from west to east. The reason why this industry is labour intensive as it's not like plastics industry where in you put in

raw material and output comes, belts are built up product. Gates biggest plant is in Mexico. The labour advantage in India is not going to be there continuously so during the last 2-3 years Pix has invested heavily in terms of modernizing & automating their plants. Pix has been able to increase the production by 20% and at the same time reduce the labour requirement by 20%. The current wage bill of 55 Cr should come down by 10% going forward.

14. Pix measures its capacity in terms of units. By Dec'18, Pix's plant would be able to produce 70,000 units per day and by Mar'19 it would 80,000 units per day. The target is to produce high value units than lower value units. Second Half is better than first half.
    a. Capacity utilization on average has been 80-85%. Pix keep certain room for spare capacity to serve urgent demands from customer who face breakdowns. Tool change takes time.
15. Pix is supplying to 70 countries across the globe. Biggest market for Pix is European market which accounts for about 12% of overall sales. Target is to diversify and not dependent on any single market and keep individual markets size at 10-12% at max.
16. **Margins:** Target is to achieve 25% EBITDA margins & then pricing is decided by working backward. Net Margins target is to reach 12-14%
    a. After market margins are 10-15% better than OEM
17. **Hedging:** 50% is open and 50% is plain forward. Export & Domestic market mix to remain at 50:50
18. **Visibility:**
    a. OEM's give 80:20 schedule, 80% guaranteed & 20% we don't know
    b. After market depends on the past trends and assessment. Pix gives commitment to supply to overseas customer within 6 weeks.
19. **Distributors**
    a. In Automotive Pix has 100 dealers. It is fragmented
    b. **In Industrial & Agri Pix has 40 master distributors in India. Avg. Relationship is 10-12 years. They make 25-30% margins**
        i. **All master distributors get products at the same rate across the country.**
        ii. **Distributors are state based and bigger states like UP, Maharashtra, Gujrat have multiple distributors**

20. **Raw Material**
    a. **Major raw material is synthetic rubber. Pix use natural rubber also. Certain grades are not available in India which Pix imports. In India it procures from Reliance.**
    b. **Cotton/Polyester fabric is used not rayon as it absorbs water**
21. **Human Resource**
    a. **Pix run 3 shifts and employs around 800 people, which is down from 960 and want to bring it down to 700 people next year. 100% of workers are unionized and Nitin Gadkari is the union leader**
22. **Trading Revenues**
    a. **Trading revenues are Power Ware products which are metals products. It is not a focus area but done to service customers**
23. **Working Capital & Receivables**
    a. **Exports: credit days are up to 120 days**
    b. **Domestic: Credit days ranges between 60-90 days**
    c. **Working Capital to remain in this range i.e. ~40% of Revenues**