



## Pix Transmission Ltd

Current Price: INR 192  
Market Cap: INR 261 cr  
Industry: V Belt

Flash Note

11<sup>th</sup> Oct 2018

AnalyseWise



## Pix Transmission: Niche B2B Biz With Attractive Economics, Long Growth Runway & Moat Characteristics Available at ~6.9x FY19 EPS and 1.3x EV/Sales; Strategic Value Could be ~3-4x Sales

Key Market Metrics ( 10th Oct 2018 )			
Particulars			
Share Price (INR)	191.5		
# Shares (Cr)	1.4		
Market Cap (INR Cr)	260.9		
Enterprise Value	343.5		
Trailing P/E (x)	8.4x		
Trailing EV/EBITDA (x)	5.6x		
Valuation			
Valuation		Average	Current
Trailing	10 Yr	5 Yr	3 Yr
LTM Jun-18			
P/E	11.1x	11.4x	11.9x
EV/EBITDA	5.3x	4.7x	5.5x
P/B	0.8x	0.5x	1.1x
Key Business Metrics (Standalone)			
Income Statement (INR Cr) LTM Jun-18			
Revenue	270.9		
EBITDA	61.1		
PAT	31.1		
EPS (INR)	21.8		
Balance Sheet (INR Cr)		LTM Jun-18	
Shareholders Equity	189.0		
Total Assets	352.9		
Net Debt	82.5		
Revenue Split (%)		FY18	
V Belts	92.5%		
Trading (Pulleys)	7.5%		
Shareholding Pattern			
Shareholders by Category		Jun-18	
Promoters	61.1%		
Institutions	0.0%		
Non- Institutions	38.9%		
<b>Total</b>	<b>100.0%</b>		
Top Shareholders (>1%)		Jun-18	
Non-Promoter Category			
Shirley Paul	1.2%		
Key Management & Auditor			
Key Management & Auditor			
Amarpal Sethi	Ch. & MD		
Sonepal Sethi	Jt. MD		
Rishipal Sethi	Jt. MD		
M/s BL Ajmera & Co.	Auditor		

**Pix Transmission** is a leading manufacturer of V-belts catering to India as well as export markets. It was founded in 1981 by Sethi family who own ~61% of the company. Pix has 3 mfg. units in Nagpur of which one is centralized rubber mixing plant & other two are belt manufacturing units

V-belts are used for mechanical power transmission in machinery for Automotive, Industrial, Agricultural, Lawn & Garden applications. V-Belt are a critical part of the equipment and ensures smooth running of the machine.

In case of belt failure, cost of downtime and / or potential equipment damage is very high relative to cost of V-belt. Therefore V-belts are replaced not only as a result of normal wear & tear, but also preemptively as a part of ongoing maintenance to the broader system leading to strong replacement demand of ~40-50%.

Also, buyers resist to switch to a new supplier as the risk outweighs cost saved. Consequently, market is very concentrated with 7-8 players like Gates, Conti-tech, Fenner, Mitsubishi etc. controlling majority of the global market.

Global market size is USD ~3.2 Bn with ~50% replacement market. Global market is growing at ~2-3%. Estimated Indian mkt. size is ~1,500 crores of which ~700 crore is replacement. Pix is #2 by market share in its target market of non-auto and replacement. Domestically Pix, JK Fenner & ContiTech are the major players in non-Auto business. MNC's that operate in India are focused on Auto OEM biz. which gives them volume & scale advantage. Non-auto segment in India is small today but expected to become bigger with more industrialization and farm mechanization.

In FY18, Pix had revenues of INR 265 Cr which is contributed equally from domestic & exports markets.

- In the domestic markets, ~65% biz. is coming from Industrial Belts (Mkt. Share: ~50-60%); ~25% biz. Is coming from Agriculture (Mkt. Share: ~75%) & remaining ~10% from Automotive & other sectors.
- Similar revenue breakup is for exports markets. Pix exports to over 100 countries and has 250 channel partners worldwide. Pix's biggest market is Europe which contributes 12% of revenues and no other single market exceeds 10% of overall revenues.

Pix's competitive advantage comes from

- **Diverse Product Offering:** Pix has 25,000 SKU's (as of 31<sup>st</sup> Mar-18) – highest for any company in India. Pix has the capability to manufacture belts from 10" to 10,000" which is highest in the world. Pix has focused its effort in producing longer & heavier belts where competition from unorganized players is not present and are more margin accretive. Also, developing 25,000 SKU's entails high tooling cost. Development of tools is expensive and time-consuming process. This becomes a strong & widening moat for Pix as its product offering grows.
- **Product Approvals from Customers:** V-belt being a critical component of a machine, customers in core & heavy industries (Cement, Steel, Power, Mining etc.) first tests the products on multiple maintenance cycles before approving the products which takes at least 18-24 months for a product. Being in this biz. for more than two decades, Pix already has forged long standing relationship with customers which will be a strong entry barrier for a new player
- **Strong R&D:** Pix has developed all its product inhouse and quality of products can be gauged from its acceptance in developed US & European markets. In FY18, Pix developed a new product—an elastic belt which is used in washing machines. This is an import replacement and Pix is the only company in India to manufacture the same.
- **Distribution Network:** Pix exports to over 100 countries and has 250 channel partners worldwide. In India, Pix has 40 master distributors and average relationship is 10-12 yrs. old.

Pix's growth in domestic market is linked to capex cycle for its industrial segment and increased farm mechanization for its Agri segment. Pix should benefit exponentially with mechanization in agriculture as it has already developed and marketed its products in developed Agri market.

Pix invested heavily in automating its operations and improving production efficiencies over the last 4 yrs. due to which PAT margins were negligible in spite of 65% plus gross margins & continuously improving EBITDA margins from 16.8% in FY15 to 21.8% in FY18. Due to this, the historic ROCE & ROE of the company looks depressed. **Pix's last three quarters yoy revenues grew in high double digits which was not seen in the previous 12 quarters driven by uptick in industrial activity and market share gain from unorganized players post GST.** This growth has led to expansion in EBITDA margins with LTM Jun-18 EBITDA margins at 22.6%. We believe on steady state basis, Pix's can achieve 24-25% EBITDA margins and 12-14% PAT margins. This will boost the pretax ROCE's & ROE's from FY18 mid-teens levels to 20% plus which can potentially lead to re-rating of Pix.

De-leveraging is another lever which can add to earnings growth of the company. **As of Jun-18, Pix's debt to EBITDA multiple is just 1.4x. In the current macro situation of rising interest rate & INR depreciation, Pix offers high margin of safety with low debt on books & being net exporter (~50% of Revenues-INR depreciation would lead to expansion in margins).** With V-belt being a recurring consumable, it makes Pix's revenues defensive & less volatile.

Pix has been a regular dividend paying company with FY18's dividend per share of INR 2.5 which translates into dividend yield of 1.3% at current price levels

**As per our earnings estimates, Pix can report INR ~38 Cr PAT for FY19 and assigning 12x PE multiple lead to Market Cap of INR 456 cr (Share Price INR 335) which gives potential upside of 75% within one year.** Based on our interaction with industry people, we believe the strategic value of the biz. can be INR ~950 Cr (3.5x Revenues). In the past, Pix sold its Hydraulic Hose biz. in FY13 to M/s Parker Hannifin for INR ~242 Cr at 4x revenue multiple.

**At current price of INR 192, Pix Transmission trades at 8.4x LTM PE and 5.6x LTM EV/EBITDA. We believe Pix Transmission is undervalued on an absolute basis, for a company which operates in a niche B2B segment of V-belts in which it is second largest manufacturer in India (Non-Auto & Replacement) with widest product offering.**

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**HOLD:** Where stock is expected to deliver 10% to 15% returns compounded over the next 3 years

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