Pix Transmissions Limited

March 24, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	52.65 (Enhanced from 12.84)	**CARE A; Stable** (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	80.00	**CARE A; Stable / CARE A1** (Single A; Outlook: Stable/ A One)	Reaffirmed
Short Term Bank Facilities	26.50 (Enhanced from 23.85)	**CARE A1** (A One)	Reaffirmed
Total Bank Facilities	**159.15 (Rs. One Hundred Fifty-Nine Crore and Fifteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PTL continues to derive strength from the experienced promoters in the V-belt industry, supported by professional management, consistent growth in top-line with improvement in operating performance for FY21 and 9MFY22, diversified clientele as well as geographical presence, established product range and distributor network, comfortable capital structure and debt coverage indicators.

The ratings, however, are constrained by the working capital-intensive nature of operations, exposure to raw material price fluctuations and foreign exchange risk associated with export orders and project risk associated with capex undertaken by the company.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations above Rs.550 crore on a sustained basis.
- Improvement in operating cycle below 100 days on a sustained basis.
- Improvement in overall gearing below 0.1x on a sustained basis.

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in capital structure with overall gearing above 0.65x.
- Decline in scale of operations below Rs.300 crore.
- Decline in operating margin below 18% on a sustained basis.
- Deterioration in operating cycle above 180 days on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record

PTL is promoted by Mr Amarpal S Sethi (Chairman and Managing Director), and is engaged in the manufacturing of rubber V-belts. Mr Amarpal S Sethi has over four decades of experience in the manufacturing of rubber V-belts and hoses. The company has two manufacturing units, located at Hingna and Nagalwadi, in Nagpur, Maharashtra. PTL also has an automated rubber mixing facility at Nagalwadi. 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).

Consistent growth in top-line; significant improvement in operational performance in FY21 and 9MFY22

For the period FY17-FY21, PTL registered consistent growth with a CAGR at 10.44%. On a year-on-year basis, PTL's total operating income (TOI) registered a growth of around 24% for FY21 to Rs.404 crore. The company has been reporting PBILDT margins of over 20% since the past few years. However, during FY20-FY21, the company had undertaken efficiency improvement measures for its manufacturing lines as well as a one-time cost cutting measures on account of the COVID-19 pandemic. PTL's operating margin stood at 29.06% for FY21 (PY: 21.17%). Furthermore, the PAT margin improved to 16.05% in FY21, from 9.26% in FY20. However, with normalisation in business operations, the company's operating expenses are also expected to go up. Despite the same, PTL is expected to report an operating margin above 25% on a sustained basis for the near term.

The 9MFY22 performance of the company remains robust, with a TOI of Rs.344 crore vis-à-vis a TOI of Rs.273 crore in 9MFY21. Furthermore, the operating margins has moderated marginally, from 28.94% for 9MFY21 to 26.53% for 9MFY22, due to significant rise in raw material prices as well as rise in operating expenses of the company. Going forward, PTL is expected to deliver operating margins above 25%, backed by improvement in manufacturing processes and upgradation of machinery.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified geographical presence and low customer concentration risk
PTL's revenue base is diversified, with 50% of revenue coming from the exports market during FY21. PTL mainly exports to European countries and the US. Furthermore, PTL has a diversified customer profile with low customer concentration risk, considering the top five customers (excluding sales to subsidiaries) contributed to 16% in net sales for FY21, as against 19% contribution to net sales in FY20.

Comfortable capital structure and financial risk profile; capital structure to remain comfortable going forward despite partially debt-funded capex
PTL's capital structure remains satisfactory, with overall gearing (including acceptance on LC) at 0.30x as on March 31, 2021 (PY: 0.48x). Going forward, PTL's capital structure is expected to show modest decline due to the partially debt-funded capex, although it is expected to remain at a comfortable level. As on March 31, 2021, PTL's debt profile consisted of term loans from banks, unsecured loans from directors, and working capital limits of Rs.80 crore.
The debt coverage indicators are showing an improving trend over the past few years due to improvement in operating performance and accretion of profits to reserves. The total debt to cash accruals ratio improved significantly, to 0.86x for FY21 (PY: 2.14x). The interest coverage improved to 12.85x for FY21 vis-à-vis 5.80x for FY21, led by improvement in operating margin. For H1FY22, the interest coverage stood at 18.35x. Going forward, the interest coverage is expected to remain healthy, above 15x.

Key Rating Weaknesses
Working capital-intensive operations; however, liquidity position remains strong
PTL's operations are working capital-intensive. The operating cycle of the company remained high, at 158 days in FY21 (162 days in FY20), driven by the high inventory-holding period and high receivable days. The average collection period of PTL improved marginally, from 76 days in FY20, to 67 days in FY21. The average inventory-holding period deteriorated slightly, from 114 days in FY20, to 123 days in FY21. The working capital utilisation for the last 12-months ending in December 2021 has been moderate, at 50%. The utilisation remains moderate as the company also uses its internal accruals to meet working capital requirements.

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 60-65% of the 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, PTL is a net exporter of goods, with approximately 40% of the raw material purchases being imported and around 55% of the total sales comprising exports. Furthermore, the company has moved away from the bill discounting mechanism to hedge its forex exposure. The company has availed a foreign currency term loan, which provides natural hedge for balance receivables for exports. Hence, the risk of foreign exchange volatility is partially mitigated.

Capex plan to enhance capacity and streamline operations
In FY21, the company had undertaken capex to the tune of around Rs.25 crore, which was mainly towards technology upgradation. As per the management, improvement in technology has led the company to phase-out older machinery with latest technologies. The company is undertaking this transformation in a phased manner, without disrupting overall operations. For FY22, the company is undertaking a capex of around Rs.60 crore (with debt-equity ratio of 3:1) to streamline operations and increase the capacity to meet market demand as well as to launch new products. PTL is in the final stage of completing the capex. As per the management, the entire project is expected to be completed by Q1FY23. Hence, project risk associated with the current year's capex is partially mitigated.
The capex for FY23-FY24 is still under consideration stage and will focus mainly on upgrading machinery and equipment for meeting market demand as well as introducing new products to make PTL a one-stop-shop for its industrial customers. The company would assess the demand situation, and accordingly, decide on the capex. The capex for FY23-24 is expected to be funded through internal accruals, owing to strong cash-generation ability of the company.
With regard to the capex for the above-mentioned period, although the company is exposed to execution risk, the same is mitigated to an extent, as the capex is for expansion of the existing capacities and upgradation of technologies. Furthermore, the company has successfully implemented capex in the past, which has resulted into incremental revenue over the years.

Liquidity: Strong
PTL's liquidity profile is marked by healthy cash balance of Rs.10.07 crore and current ratio at 2.54x, as on March 31, 2021. The average working capital utilization remains around 50% for the 12-months period ending in December 2021, providing sufficient headroom for meeting incremental working capital needs through existing credit line as well as from internal accruals. During FY22, PTL has a term loan repayment of Rs.4.84 crore against expected cash accruals of Rs.95 crore. Until January 31, 2022, PTL has repaid Rs.3.74 crore out of its gross repayment obligations for the year. The company is also undertaking capex of Rs.60 crore, funded through debt-equity ratio of 3:1. Considering the above, PTL's liquidity profile remains strong.

Analytical approach: Consolidated
CARE Ratings has 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. These subsidiaries are not engaged in manufacturing activities and are marketing arms.
The following subsidiaries have been consolidated:

Name of the subsidiary	Percentage holding in subsidiary	Country
PIX Middle East FZC	100%	UAE
PIX Transmissions (Europe) Limited	100%	UK
PIX Middle East Trading LLC	100% shares held by PIX Middle East FZC, UAE	UAE
PIX Germany GmbH	100% shares held by PIX Transmissions (Europe) Limited, England	Germany

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Incorporated in July 1981, Pix Transmission Limited (PTL) is a public limited company promoted by Mr Amarpal S Sethi (Chairman and Managing Director), and is involved in the 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 find application in several end-user segments, such as industrial, agricultural, horticulture, special application belts, taper pulleys, bush and couplings, and the 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 extensive network of committed channel partners across verticals, ably supported by robust infrastructure/systems. There are two manufacturing units of the company, located at Hingna, Nagpur, and an automated rubber-mixing facility at Nagalwadi, in Nagpur. 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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	326.46	404.43	344.95
PBILDT	69.10	117.51	91.52
PAT	30.23	64.90	53.38
Overall gearing (times)	0.48	0.30	NA
Interest coverage (times)	5.80	12.85	18.02

A: Audited, UA: Unaudited, NA: 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

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

Complexity level of various instruments rated for this company: Annexure 4

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	-	-	-	March, 2027	52.65	CARE A; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	55.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	25.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	26.50	CARE A1

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	52.65	CARE A; Stable	1)CARE A; Stable (28-Feb-22)	1)CARE A-; Positive (19-Mar-21)	1)CARE A-; Stable (19-Feb-20)	1)CARE A-; Stable (04-Jan-19)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	55.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (28-Feb-22)	1)CARE A-; Positive / CARE A2+ (19-Mar-21)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)	1)CARE A-; Stable / CARE A2+ (04-Jan-19)
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	25.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (28-Feb-22)	1)CARE A-; Positive / CARE A2+ (19-Mar-21)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)	1)CARE A-; Stable / CARE A2+ (04-Jan-19)
4	Non-fund-based - ST-BG/LC	ST	26.50	CARE A1	1)CARE A1 (28-Feb-22)	1)CARE A2+ (19-Mar-21)	1)CARE A2+ (19-Feb-20)	1)CARE A2+ (04-Jan-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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