Stock Update

Pix Transmissions Ltd.

October 3, 2023

RETAILRESEARCH

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Pix Transmissions Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 1190	Buy in Rs 1180-1205 band and add on dips in Rs 1065-1085 band	Rs 1298	Rs 1401	2-3 quarters

HDFC Scrip Code	PIXTRAEQNR
BSE Code	500333
NSE Code	PIXTRANS
Bloomberg	PIX IN
CMP Sep 29, 2023	1190.2
Equity Capital (Rs cr)	13.6
Face Value (Rs)	10
Equity Share O/S (cr)	1.4
Market Cap (Rs cr)	1628
Book Value (Rs)	318.5
Avg. 52 Wk Volumes	38,000
52 Week High (Rs)	1549.9
52 Week Low (Rs)	702.0

Share holding Pattern % (Jun, 2023)	
Promoters	61.8
Institutions	1.0
Non Institutions	37.2
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Pix Transmission Ltd. (PIX) manufactures a wide range of belts catering to variety of industries some of which have strong growth potential in the coming years. Its products are also exported to over 100 countries. Belts being a critical component in the working of any machinery, a high degree of R&D is required to manufacture strong and durable products. Being fully backward integrated gives the company an edge as it can control product quality and margins. PIX has expanded its capacity and concentrating on value added products to meet the growing global demand for Pix Belts, which would also result in operating leverage and improve margins.

Pass on of earlier raw material inflation, automation efforts and moderate capex requirement should enable the company to post better margins. Recent results have been impacted by exports slowdown and the recovery in western economies could support higher exports.

Valuation & Recommendation:

PIX continues to cater majorly to the industrial segment, with heightened focus on the after-market segment. The increasing pace of capex across the industrial segment, industry's replacement activities of machinery to improve efficiency has led to the growth sustainability for PIX's product in the market. We expect PIX's Revenue/EBITDA/PAT to grow at 8/14/17% CAGR over FY23-FY25E, led by strong domestic demand and recovery in export markets. The company is debt free on net basis with strong cash flows and moderate capex requirement. We believe investors can buy the stock in the band of Rs 1180-1205 and add on dips in Rs 1065-1085 band (16.5x FY25E EPS) for a base case fair value of Rs 1298 (20x FY25E EPS) and bull case fair value of Rs 1401 (21.5x FY25E EPS).

Financial Summary

Particulars (Rs cr)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Operating Income	112	120	-7.1	134	-16.8	449	486	506	571
EBITDA	25	25	0.5	33	-23.1	114	104	114	136
APAT	16	18	-10.5	19	-17.1	69	65	71	89
Diluted EPS (Rs)	11.6	13.0	-10.5	14.0	-17.1	50.5	47.6	52.2	65.1
RoE (%)						20.7	16.6	15.8	17.1
P/E (x)						23.5	25.0	22.8	18.3
EV/EBITDA (x)						14.9	15.7	14.1	11.4

(Source: Company, HDFC sec)

Q1FY24 Result update

The company reported subdued numbers for Q1FY24. Revenue declined 7.1% YoY to Rs 112cr largely due to slowdown in export market on account of de-stocking. However, cooling of raw material prices and lower employee expenses resulted in EBITDA growing marginally to Rs 25cr while EBITDA margin expanded 171bps to 22.6%. PAT was lower by 10.5% to Rs 16cr as other income dipped sharply. PAT margin shrunk 54bps to 14.2%.

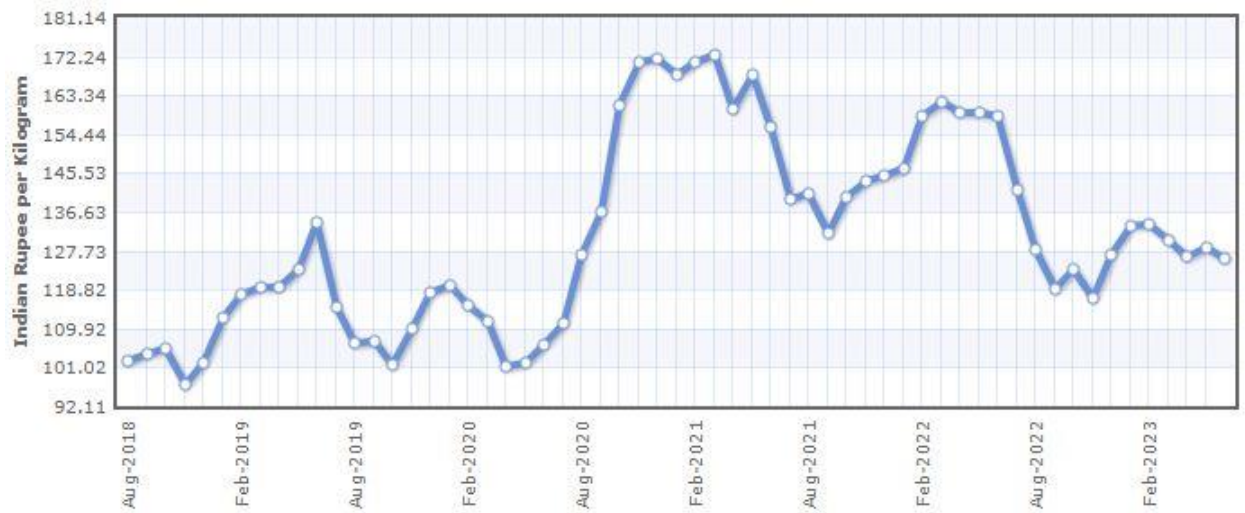
Key Triggers

Cooling raw material prices to aid margin expansion

Natural rubber prices, a key raw material for the company, have corrected sharply from the previous year and are unlikely to increase in the near term, given the declining global demand for the product. The global NR prices are expected to remain weak in 2023 as surplus production is anticipated, which, in turn, is expected to encourage NR imports to India. The Association of Natural Rubber Producing Countries (ANRPC) in its revised outlook early this year has projected NR output to grow 2.7 percent to 14.916 million tonne. It has forecast a contraction in demand by 0.4 percent to 14.912 million tonne.

PIX had taken price increases last year to compensate for the increased raw material costs. However, the management has indicated at the AGM that it won't be reducing prices due to lower raw material costs. This is likely to result in higher gross margins for the company.

Rubber prices have come down



(Source: indexmundi.com, HDFCsec Research)

New products for EVs

Many new 2W EVs are being launched with belt drives. Belt drive have the following advantages over their alternates:

- Belt drive has greater reliability.
- It has less maintenance compared to chain and shaft drives.
- Less noise compared to chain drives.
- Better performance in dusty environments.
- No oiling or greasing is required.
- Higher torque capacity than chain drives (especially for heavy loads)
- Excellent bearing life.
- Belt drives are more flexible and easy to replace.
- lubrication is eliminated as the only maintenance needed is periodic cleaning of the teeth on the gears or shafts.

With increasing penetration of EV 2W, the demand for belt drives have increased. Belts used in 2W are typically made of a composite material, such as rubber or carbon fiber, and are reinforced with other materials, such as carbon strands, to increase strength and durability. Unlike chains, belts do not require lubrication and are less prone to stretching or wearing down over time, making them a low-maintenance alternative.

Currently belt drives are being imported from USA by OEMs. PIX is working on belt drive products and is confident of adding an OEM in the next few months.

Supplying belts to large MNCs for washing machines

According to Statista Market Forecast, the Washing Machines segment in India is projected to grow by 7.46% (2023-2028) resulting in a market volume of US$5.89bn in 2028. PIX has been supplying belts to many of the MNC washing machine players who capture a large share of the Indian market. The increasing penetration of washing machine could be favourable for PIX.

Sufficient spare capacity to meet increased demand over next 2-3 years

PIX has completed its expansion at its MIDC plant in FY23. Post the expansion, the company has sufficient spare capacity to support its growth for the next 2-3 years. Current capacity utilization of the company stood at ~60% and the plants can support revenue of Rs 800-900cr. Consequently, the capex requirement is likely to be moderate in the medium term.

Exports can be a huge game changer

PIX gets ~60% of its revenues through exports. The US market is huge & PIX has made some meaningful inroads there. Although the company has miniscule presence in most of the export markets it is gradually building its brand. It exports to ~100 countries. Apart from US, PIX caters to global customer base across regions. The company has backed its products, by building an impressive support infrastructure in several key markets across the globe, including UK, Germany, and UAE. Each of these location houses has a distribution centre and is equipped to provide technical, commercial, and logistical support. PIX is perhaps the only Indian company in its space to exhibit such high levels of infrastructure support, beyond the domestic region. PIX's largest global competitor is Gates Industrial Corporation plc. (NYSE:GTES) which is much larger than PIX.

Strong financials

PIX has been able to grow its revenues despite the economic slowdown which indicates strong demand for its products. Over the last 5 years from FY18-FY23 its revenue/PAT have grown at CAGR of 13/24% driven by cost optimization measures taken by the company. The company continues to focus on automation which is likely to reduce the number of employees and further increase efficiencies going forward. The overall capital structure of PIX is comfortable as evidenced by the overall gearing of 0.2x in FY23 (0.3x in FY22).

Risks & Concerns

Domestic/Global slowdown

The growth of the company could be impacted due to any prolonged domestic/global slowdown.

Raw material price volatility

Rubber and Rayon are the key raw materials for manufacturing of rubber V-belts constituting a significant chunk of the total raw material costs of PIX. The prices of these commodities remain volatile depending upon demand supply situation.

High working capital needs

PIX supplies to a diversified set of industries where each industry has its own specifications. As a result, it has almost 30,000 SKUs and has to keep high amount of inventory.

Technology obsolescence

With improving technologies many companies are trying to reduce moving parts and depend more on computer technology. This could impact the overall demand for belts. There is a possibility that newer models of some machines may do away with v-belts altogether and replace that by a coupling (cup link). This may impact the demand for the products of the company. However, PIX makes couplings in some ranges.

Machines using V-belts are cheaper to buy but need opex for replacing belts while other machines are expensive to buy but need lower opex as no replacement is needed.

Forex fluctuations

The company derives ~60% of its revenues from export markets and is exposed to the vagaries of forex fluctuations. However, PIX is a net exporter of goods with approximately 40% of the raw materials purchases being imported and hence has partial natural hedge.

Company Background:

Incorporated in the year 1981, Pix Transmissions Ltd. (PIX) is one of the eminent entities engaged in manufacturing, exporting and supplying a wide assortment of belts and related mechanical transmission products like rubber V-belts, cut edge belts, Ribbed belts, synchronous belts, timing belts etc. PIX is primarily into making synthetic rubber based belts for various end industries. JK Fenner India is the main local competitor for PIX while there are some small regional players. PIX has a large market share in agri related belts.

PIX has state-of-the-art belt manufacturing units as well as a completely automated rubber mixing facility in and around Nagpur (4 units). It enjoys significant brand equity in the Power Transmission industry, with strong local as well global presence. The company has overseas subsidiary operations in Europe, and Middle-East, in addition to over 250 committed channel partners in over 100 countries worldwide.

The offered products are Industrial Belts, Automotive Belts, Agricultural Belts. These products are manufactured in compliance with international quality standards using best grade raw material. These products are highly utilized in various industrial applications. PIX also provides the customization of products as per clients' requirement. Keeping its overseas customers in mind, PIX has backed its products by building an impressive support infrastructure in several key markets across the globe including UK, Germany, and UAE.

PIX manufactures an extensive range of Industrial V-Belts, Automotive Belts, Agricultural Belts, Special Construction Belts, Taper Lock Pulleys, Bushes & Couplings to suit a wide array of applications.

PIX Middle East FZC incorporated to carry on business of PIX Products in the market of Middle East Countries. PIX Transmissions Europe Limited incorporated to carry on business of PIX Products and other products in the market of European countries. PIX Middle East Trading LLC, UAE is subsidiary of PIX Middle East FZC established to carry on business of PIX Products in the market of Middle East Countries. PIX Germany GmbH, Germany PIX Germany GmbH, Germany is subsidiary of PIX Transmissions Europe Limited incorporated to carry on business of PIX Products and other products in the market of European Countries.

Pix Transmissions Ltd.

Product Range	*Application Industries*

Product Range

- V-Belts
- Ribbed / Poly-V Belts
- Timing / Synchronous
- Banded Belts
- Special Belts
- Automotive Belts
- Industrial Belts
- Agriculture Belts
- Lawn & Garden Belts
- PowerWare Products
- Accessories

Application Industries

- Industrial
- Ceramic
- Cement
- Oil & Gas
- Power Plant
- Wood
- Automotive
- Cold Storage
- Leisure & Sport
- Packaging
- Rice / Flour Mill
- Buildings & Construction
- Agriculture
- Food Processing
- Machine Tools
- Paper & Pulp
- Steel
- Lawn & Garden
- Domestic Appliance
- Mineral Ore Mining
- Pharmaceutical
- Textile

Financials

Income Statement

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**380**	**449**	**486**	**506**	**571**
Growth (%)	***19.4***	***18.1***	***8.2***	***4.0***	***12.9***
Operating Expenses	270	335	382	392	435
EBITDA	**111**	**114**	**104**	**114**	**136**
Growth (%)	***86.2***	***3.1***	***-9.1***	***9.6***	***19.4***
EBITDA Margin (%)	***29.1***	***25.4***	***21.4***	***22.5***	***23.8***
Depreciation	20	21	23	24	25
Other Income	5	8	14	10	11
EBIT	**96**	**102**	**94**	**100**	**122**
Interest expenses	8	7	7	5	4
PBT	**87**	**95**	**87**	**95**	**118**
Tax	22	26	22	24	30
PAT	**65**	**69**	**65**	**71**	**89**
Adj. PAT	**65**	**69**	**65**	**71**	**89**
Growth (%)	***114.8***	***6.0***	***-5.8***	***9.7***	***24.6***
EPS	47.7	50.5	47.6	52.2	65.1

Balance Sheet

As at March (Rs cr)	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	14	14	14	14	14
Reserves & Surplus	286	351	404	467	544
Shareholders' Funds	**300**	**365**	**418**	**480**	**558**
Minority Interest	0	0	0	0	0
Total Debt	71	117	68	45	22
Net Deferred Taxes	11	12	8	8	8
Total Sources of Funds	**382**	**494**	**494**	**533**	**588**
APPLICATION OF FUNDS					
Net Block & Goodwill	225	259	273	279	289
CWIP	0	0	1	1	1
Investments	4	5	5	20	35
Other Non-Curr. Assets	9	21	6	14	17
Total Non Current Assets	**238**	**284**	**286**	**314**	**342**
Inventories	97	125	105	118	125
Debtors	82	95	105	108	123
Cash & Equivalents	15	32	53	44	58
Other Current Assets	8	18	26	25	27
Total Current Assets	**201**	**270**	**289**	**296**	**333**
Creditors	29	27	24	31	33
Other Current Liab & Provisions	29	34	57	45	54
Total Current Liabilities	**58**	**61**	**81**	**76**	**86**
Net Current Assets	143	209	208	219	246
Total Application of Funds	**382**	**494**	**494**	**533**	**588**

Cash Flow Statement

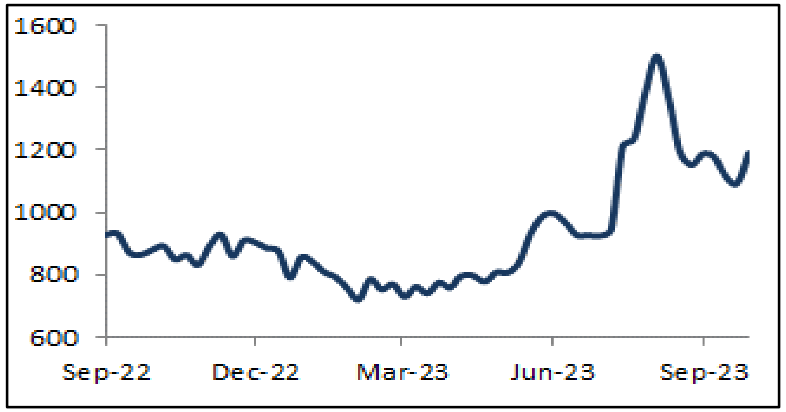
(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
PBT	87	95	87	95	118
Non-operating & EO items	2	1	3	-8	-3
Interest Expenses	7	7	7	5	4
Depreciation	20	21	23	24	25
Working Capital Change	-58	-45	16	-19	-13
Tax Paid	-23	-23	-23	-24	-30
OPERATING CASH FLOW (a)	**35**	**55**	**112**	**73**	**101**
Capex	-25	-71	-24	-30	-35
Free Cash Flow	10	-16	88	43	66
Investments	0	0	0	-15	-15
Non-operating income	2	-2	1	0	0
INVESTING CASH FLOW (b)	**-22**	**-72**	**-23**	**-45**	**-50**
Debt Issuance / (Repaid)	-6	48	-52	-23	-23
Interest Expenses	-8	-7	-7	-5	-4
FCFE	-1	23	29	0	25
Share Capital Issuance	0	0	0	0	0
Dividend	-3	-7	-8	-9	-11
Others	0	-2	-1	0	0
FINANCING CASH FLOW (c)	**-17**	**32**	**-69**	**-36**	**-38**
NET CASH FLOW (a+b+c)	**-4**	**14**	**20**	**-8**	**14**

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	29.1	25.4	21.4	22.5	23.8
EBIT Margin	25.2	22.6	19.3	19.7	21.4
APAT Margin	17.1	15.3	13.3	14.1	15.5
RoE	24.2	20.7	16.6	15.8	17.1
RoCE	27.0	23.8	19.4	19.7	22.1
Solvency Ratio (x)					
Net Debt/EBITDA	0.5	0.7	0.2	0.0	-0.3
Net D/E	0.2	0.2	0.0	0.0	-0.1
PER SHARE DATA (Rs)					
EPS	47.7	50.5	47.6	52.2	65.1
CEPS	62.3	65.8	64.7	70.0	83.5
BV	219.9	267.8	306.9	352.6	409.7
Dividend	5.0	6.0	6.0	6.5	8.0
Turnover Ratios (days)					
Inventory	72	72	75	77	74
Debtor	81	90	86	81	78
Creditors	24	23	19	20	20
VALUATION (x)					
P/E	25.0	23.5	25.0	22.8	18.3
P/BV	5.4	4.4	3.9	3.4	2.9
EV/EBITDA	15.1	14.9	15.7	14.1	11.4
EV/Revenues	4.4	3.8	3.4	3.2	2.7
Dividend Yield (%)	0.4	0.5	0.5	0.5	0.7
Dividend Payout (%)	10.5	11.9	12.6	12.5	12.3

(Source: Company, HDFC sec)

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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