



**HIDDEN GEMS**

**UNEXPLORED MULTIBAGGER SMALL CAP STOCKS**

**EQUITY RESEARCH REPORT**

<b>PIX TRANSMISSION LTD.</b>	BSE CODE: 500333
Industry: Rubber Products	CMP: Rs. 441.30 (23/05/2021)
Market Cap: 601 (INR in Crore)	Target Price: Rs. 800.00
Date: May 23, 2021	Time Period: 12 – 24 months



**Saral Gyan Capital Services**

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**An Independent Equity Research Firm**

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## 1. Company Background



Incorporated in July, 1981, Pix Transmission Limited is a public limited company promoted by Mr. Amarpal S Sethi (Chairman and Managing Director) and is engaged in the manufacturing of mechanical power

transmission solutions like rubber V-belts, cut edge belts, ribbed belts, synchronous belts, timing belts etc.

Pix Transmission is among the most reliable manufacturers in the global Mechanical Power Transmission industry with an extensive range of high-performance V-Belts, Timing and Poly-V belts to suit a wide array of Industrial, Agricultural, Lawn & Garden and Automotive applications. The company has state-of-the-art development, manufacturing & testing facilities to ensure highly reliable solutions for almost all applications involving Rubber Transmissions Belts, in compliance with all international standards and a host of Global Quality Certifications.

The global credentials of the company are evident by its operations in India, Europe and the Middle-East, in addition to over 250 committed Channel Partners in over 100 countries worldwide.



Considering its global customer base, Pix Transmission has backed its products by building an impressive support infrastructure in several key markets across the globe including the UK, Germany, and UAE. Each of these locations houses a Distribution Centre and is equipped to provide technical, commercial, and logistical support. PIX is perhaps among a few global companies in its Industry to feature a high level of infrastructure outside the home country.

Pix Transmission is promoted by Mr. Amarpal S Sethi (Chairman and Managing Director). He has five decades of experience in the mechanical power transmissions space. There are two manufacturing units of the company located at Hingna and Nagalwadi & an automated rubber mixing facility at Nagalwadi in Nagpur, Maharashtra. Under his able guidance, Pix Transmission 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. Sonopal S. Sethi (Joint Managing Director) having vast experience in the V-belt industry.

**Pix Product Range:**

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



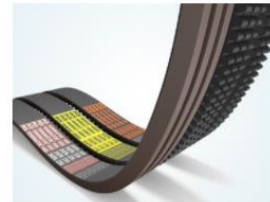
V-Belts



Ribbed / Poly-V Belts



Timing / Synchronous Belts



Banded Belts



Special Belts



Automotive Belts



PowerWare Products



Accessories

**Application Industries:**

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



## 2. Recent Development

### i) Pix Transmission kicks off major expansion for capacity enhancement – Apr 2021

The company is expanding its value added product range and plans to significantly enhance manufacturing capacity for the same with a view to meet market demand for the foreseeable future.

Pix Transmission has commenced the first phase of its belt capacity expansion at its Nagpur facility. The capacity expansion would not only help meet the growing global demand for Pix Belts, but also results in improved efficiency while leveraging advanced manufacturing technology to achieve the company's long term development goals.

### ii) Pix Transmission adds PIX-PowerWare Pulleys to its Product Portfolio – Apr 2021

To provide a complete power transmission solution to its customers, Pix Transmission has added PIX PowerWare Pulleys to its product portfolio.

**PIX-Powerware®**  
(Dual-duty Taper Pulleys & Bush)



It will help users in getting a complete power transmission solution comprising of Pulleys and Belts from the same manufacturer, thus compatibility of all components is ensured. PIX PowerWare Pulleys are made as per international standards and follow a strict manufacturing procedure in accordance with the ISO standards.

### iii) Pix Transmission steps up presence in automotive segment with 'PIX Force' range of belts – Jan 2021

Pix Transmissions has launched belts meant especially for the automotive industry. Pix Force automotive belts have been designed to withstand the most extreme conditions encountered in automobile applications and are available for a full range of vehicle applications including two-wheelers, cars, vans, trucks, buses, heavy and light-duty vehicles, suitable for almost all engine options across different segments

### 3. Financial Performance

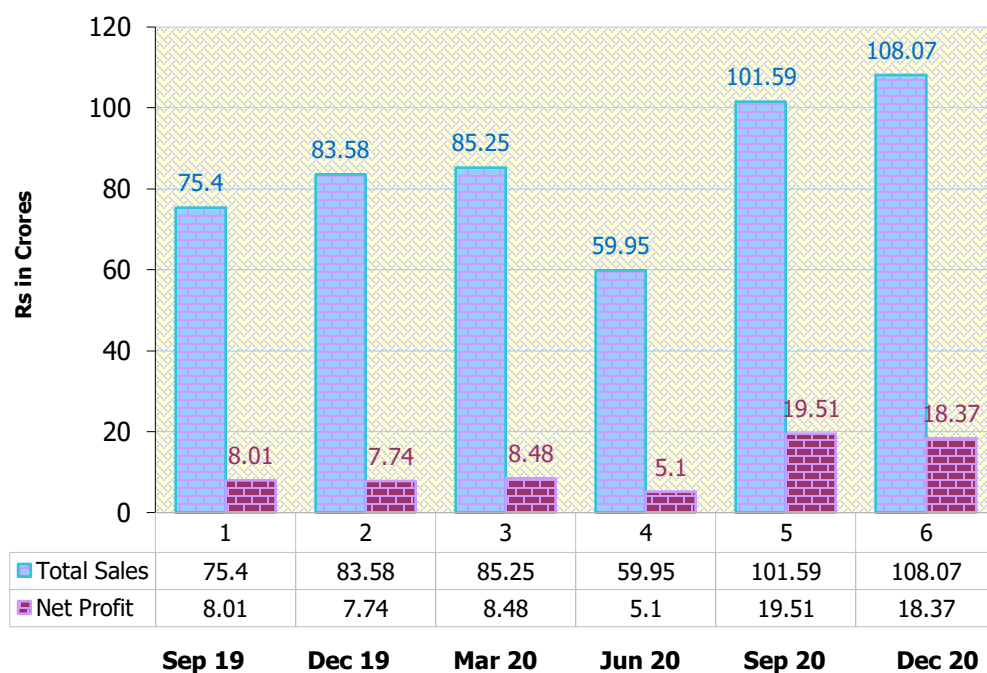
#### Pix Transmission net profits rises 137.34% in the Dec 2020 quarter

Net profit of Pix Transmission rose 137.34% to Rs 18.37 crore in the quarter ended Dec 2020 as against Rs 7.74 crore during the previous quarter ended Dec 2019. Sales rose 26.77% to Rs 108.07 crore in the quarter ended Dec 2020 as against Rs 83.58 crore during the previous quarter ended Dec 2019.

#### Pix Transmission net profits rises 143.57% in the Sept 2020 quarter

Net profit of Pix Transmission rose 143.57% to Rs 19.51 crore in the quarter ended Sept 2020 as against Rs 8.01 crore during the previous quarter ended Sept 2019. Sales rose 34.73% to Rs 101.59 crore in the quarter ended Sept 2020 as against Rs 75.40 crore during the previous quarter ended Sept 2019

#### Last 6 Quarters Net Sales & Profit



## 4. Peer Group Comparison






PEER GROUP	PIX TRANSMISSION	INDAG RUBBER	APCOTEX INDUSTRIES	RUBFILA INTERNATIONAL
CMP	441.30	88.10	362.70	86.80
52 W H/L	487.30/91.40	113.90/50.00	384.75/95.00	87.50/26.45
Market Cap	601	231	1880	471
<b>Results (in Crores)</b>	<b>Dec-20</b>	<b>Mar-21</b>	<b>Mar-21</b>	<b>Dec-20</b>
Sales	108.07	45.74	186.92	71.01
PAT	18.37	1.62	22.60	9.80
Equity	1.36	5.25	10.37	26.01
EPS (TTM)	37.76	0.97	8.52	4.23
P/E	11.69	83.79	42.58	20.51

Note: There is no other listed player which offers similar products (rubber belts) like Pix Transmission. Hence, we did a comparison with companies dealing in natural / synthetic rubber products. This may have low relevance considering difference in nature of business.

## 5. Key Concerns / Risks

- Rubber and Rayon are the key raw materials for manufacturing of rubber V-belts constituting a significant chunk of the total raw material purchases of the company. The prices of these commodities remain volatile depending upon demand supply situation. Pix Transmission is thus exposed to a certain extent to such fluctuation in prices.
- Pix Transmission operations are working capital intensive as the company derives around 50% of its revenues from the export market which entails a higher transit period and higher credit terms extended to distributors.

## 6. Saral Gyan Recommendation

-  Global market size of rubber belts is around USD 4 billion with around 50% replacement market. Estimated Indian market size is around 1,500 crores of which 700 crore is replacement market. As per management, organised players have around 80% market share and 20% is unorganised. The Industrial and Agricultural market is shared by companies like Pix Transmission, Fenner and Continental which are major players in non- auto business.
-  Pix Transmission has been consistently modernizing its plants. The company plants are largely automated, and are also backward integrated with a fully automated rubber mixing plant to ensure product consistency. The company exports its products to over 100 countries which generates nearly 50 percent of its revenue. Anticipating robust demand going forward with revival in capex cycle, management has announced capex to expand manufacturing capacity by 150% and expect to complete the capex by end of FY22.
-  Pix Transmission specializes in Industrial & Agricultural belts. The company has the capability to manufacture belts from 10" to 10,000" offering more than 32,000 SKUs. Pix produce belts for NTPC which are 60 meters long, Pix Transmission is the only company in India to produce those belts with one power unit running on 30 of those belts. Pix Transmission has focused its effort in producing longer & heavier belts where competition from unorganized players is limited and business is more margin accretive. Also, developing more than 32,000 SKU's involves high tooling cost. Development of tools is expensive and also consumes lot of time. Being it difficult and time consuming to develop similar product range like that of Pix Transmission, the company may face limited competition going forward.
-  Rubber products is considered as a commodity business. However, Pix Transmission manufactures the belts which requires high degree of engineering. The company developed elastic belts for washing machines. The problem with the normal belt was related to load factor, if a washing machine is designed for 10 kg load and if one single cloth is washed, the machine will use the power for whole capacity which is not efficient. Pix Transmission solved this problem in FY18 by developing elastic belt for washing machines manufacturers. Crucial part was assimilating the technology which took two and half years to develop. Post development of elastic belt, Pix started commercial supplies to whirlpool and also added other clients later.
-  Pix Transmission has developed all its product inhouse and offer world class quality products which are well accepted in developed US & European markets. There is significant scope of growth for the company in domestic market considering increase in farm mechanization and broadening of industrial capex cycle in the country going forward.

- As on March'21, promoter's shareholding in the company is 61.73% without any share being pledged. Promoters have increased their shareholding in the company from 61.12% to 61.73% over last 2 years. Foreign institutions do not hold any shares in the company and DIIs holding is negligible at 0.02%. Pix Transmission have registered sales CAGR of 8%, profit CAGR of 51% with ROE of 11% over last 5 years and looks attractive at current valuations considering increase in demand of its product with start of wider capex cycle in the country.

KEY FINANCIALS	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020
Return on Equity (%)	4.34	8.91	11.58	12.41	11.88
ROCE (%)	6.97	8.85	10.54	10.87	10.56
Operating Profit Margin (%)	16.29	19.00	22.07	19.21	19.24
Net Profit Margin (%)	2.79	5.70	7.88	8.08	8.39
Debt to Equity (%)	0.83	0.75	0.55	0.53	0.43

- Management is rewarding shareholders by paying consistent dividend since 2011. Company has been maintaining dividend payout between 10% to 20%. Considering company's ongoing expansion plans, we believe 10% dividend payout is adequate. Dividend yield at current market price is 0.45%

YEAR	Mar'16	Mar'17	Mar'18	Mar'19	Mar'20
EPS	4.80	11.93	16.56	20.97	22.19
Dividend / Share (In Rs)	1.50	2.00	2.50	2.575	2.00
Dividend Payout Ratio	31.3%	16.8%	15.1%	12.3%	9.0%

- As per our estimates, Pix Transmission can deliver net profit of Rs. 82 crores in FY 2022-23 with annualized EPS of Rs. 60.15. At current price of 441.30, stock is available at forward P/E multiple of 7.3X based on FY22-23 earnings.
- On equity of Rs. 1.36 crore, the estimated annualized EPS for FY 22-23 works out to Rs. 60.15 and the Book Value per share is Rs. 192. At current market price of Rs. 441.30, stock price to book value is 2.3.

Considering expected revival in industrial capex cycle and increase in farm mechanization in the country, company's planned capacity addition, diverse product offering with more than 32,000 SKUs, and its attractive valuation, Saral Gyan team recommends **"Buy"** on **Pix Transmission Ltd** at current price of Rs. 441.30 for target of Rs. 800 over a period of 12 to 24 months.

#### Buying Strategy:

- 50% at current market price of Rs. 441.30
- 50% at price range of Rs. 240 – 300 (in case of correction in stock price)

**Portfolio Allocation: 3% of your equity portfolio**

## 7. Disclaimer

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- Buy at lower price:** This means that the investor should wait for some correction in the market price so that the stock can be bought at more attractive valuations keeping in mind the tenure and the objective of the service.
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