6TH OCT 2023

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

PIX TRANSMISSION LTD

WHAT WE LIKE

STRONG MARKET POSITIONING

The company is the market leader in conveyor- V Belts & is led by a strong management group with experience of close to 5 decades. The company through its network of approximately **350** distributors and channel partners spread across 100 countries has a presence across the globe with its subsidiaries in countries like UK, Germany & Middle-east.

DIVERSIFIED REVENUE PROFILE

The company has a strong mix of exports & domestic which provides robustness to its operating performance by reducing the geographical concentration risk while its products find application in several industries thus derisking the business model.. Further, the Top 10 customers contribute only around **15-20%** of overall revenues thus ensuring lower client concentration risk.

GROWTH TRIGGERS

- Fall in rubber prices to aid margins: While the costs of raw materials are falling owing to lower demand globally (led by a slowdown in China) coupled with higher production, management in the latest AGM has indicated that it won't reduce the prices of its products which will lead to higher gross margins.
- New products: The company is developing belt drives for **2W EV** vehicles which are imported from the USA leading to good import substitution opportunities.
- New capex: The company post its capex has utilization levels of only **60%** & has a revenue potential of **800-900 Cr** which will reduce the requirements of any new capex to support the growth, which is a big benefit considering the current inflationary environment.
- Long runway for growth: The company's largest competitor is Gates Industrial Corp which is a $3Bn NYSE listed entity. Given the company's current size & strong backward integration coupled with its ambitious export plans, there is good room to grow especially in the exports segment (**appx. 60% of FY23** revenues)

STRONG OPERATING MARGINS & RETURN METRICS

- The company has taken several measures like a Waste heat recovery system, automation of belt lines, and change from furnace oil to biomass among others to reduce its water electricity & fuel costs.
- It also has a modern rubber mixing plant coupled with an R&D unit which allows it to maintain high margins owing to backward integration.
- Owing to the High share of the Aftermarket segment as well as the 'High Performance / Price Ratio' (wherein the value provided >> price charged) thus allowing the company to **display pricing power** leading to an **ROCE>15%** for an extended period of time.

Compounded Sales Growth	
10 Years:	8%
5 Years:	14%
3 Years:	17%
TTM:	2%

Compounded Profit Growth	
10 Years:	24%
5 Years:	23%
3 Years:	28%
TTM:	-10%

Stock Price CAGR	
10 Years:	43%
5 Years:	42%
3 Years:	107%
1 Year:	38%

Return on Equity	
10 Years:	14%
5 Years:	18%
3 Years:	20%
Last Year:	17%

WHAT WE DON'T LIKE

MEDIOCRE GROWTH PROSPECTS

The company's revenues have grown at a slow CAGR of 8% in the past decade & **14%** in the past 5 years despite its small scale of operations. Now, although it has grown its profits at a strong **24% CAGR** for the past decade, it has been primarily led by improving operating margins from **17%** in FY13 to **30%** in FY21. The operating margins have moderated in the past few years to **20-22%** levels & we expect them to remain in the range of **20-25%**. Therefore, in the long run, we expect profits to grow in the line of revenues which might not grow at the historical rate.

ELONGATED WORKING CAPITAL REQUIREMENTS

The company owing to its nature of operations (different industry groups **+30,000-40,000 SKUs**) is required to maintain a very high inventory leading to a stretched working capital cycle. While the company has been making efforts to reduce its receivable days & we believe that higher inventory days can act as a barrier to entry for new entrants, it remains a key metric to track in the future.

	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023
Debtor Days	72	94	103	84	86	93	94	84	81	78	78	79
Inventory Days	254	171	214	282	178	246	284	238	255	262	264	200
Days Payable	156	81	164	72	85	111	92	65	75	81	58	45
Cash Conversion Cycle	**170**	**185**	**153**	**294**	**179**	**228**	**285**	**257**	**260**	**259**	**284**	**234**
Working Capital Days	134	126	66	150	118	128	142	138	125	136	154	134
ROCE %	11%	12%	9%	10%	10%	14%	16%	16%	15%	27%	24%	20%

RAW MATERIAL VOLATILITY RISKS

Since Rubber and rayon are the key raw materials forming **60%-65%** of the total raw material costs, volatility in their prices remains a major risk to its overall margin profile. Although the company has showcased pricing power visible from its stable margins, this remains a major risk.

EXPOSURE TO THE AGRICULTURE SECTOR

It is fairly dependent on the agricultural sector for the offtake of its products, being one of its key market segments, this can significantly impact its top and bottom line.

EXPORTS &FOREX FLUCTUATION RISKS

The company showed slow growth in FY23 & Q1FY24 owing to a slowdown in exports due to the de-stocking trend & this can keep revenue growth depressed in the short term. Further, this also exposes the company to forex fluctuations risks. However, due to a natural hedge (40% of raw materials are imported + foreign currency loans) this risk is partly mitigated.