Setco Automotive Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	257.18	**CARE D (Single D)**	**Reaffirmed**
Short term Bank Facilities	2.00	**CARE D (Single D)**	**Reaffirmed**
Total	**259.18 (Rupees Two hundred and fifty nine crore eighteen lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Setco Automotive Limited (SAL) take into account the on-going delays in servicing of its debt obligations [Working Capital Demand Loan (WCDL)] on the back of poor liquidity due to the slowdown faced by the automotive industry especially Medium and Heavy Commercial Vehicle (MHCV) industry which was further exacerbated by the COVID-19 pandemic.

Rating Sensitivities

Positive Factors

- *Establishing track record of timely debt servicing of debt obligations for a continuous period of 90 days*
- *Revival of business operations and improvement in liquidity position of the company*

Detailed description of the key rating drivers

Key Rating Weaknesses

Ongoing delays in debt servicing:

The debt servicing of SAL is irregular in recent past as reflected by delays in servicing of its debt obligations (towards WCDL) on the back of poor liquidity.

Liquidity: Poor

Liquidity position of SAL is poor as evinced by its inability to service its debt obligations in a timely manner.

Analytical approach: Consolidated

CARE has taken a consolidated view on Setco Automotive Limited and all its subsidiaries for arriving at the ratings as the entities are under a common management, have similar line of business and financial linkages. List of subsidiaries which are consolidated is presented in Annexure 5.

Applicable Criteria

CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Manufacturing Companies
Rating Methodology - Auto Ancillary Companies
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Setco Automotive Limited (SAL) is engaged in manufacture of clutches for Medium and Heavy Commercial Vehicles (MHCV) and markets it under brand name '*LIPE Clutches*'. SAL led by Mr. Harish Sheth, is the flagship company of the 'Sheth Group'. Incorporated in 1982, SAL has 4 manufacturing facilities: 2 in India (Kalol - Gujarat, Sitarganj - Uttarakhand), 1 in United Kingdom (Haslingden - Lancashire) and 1 in USA (Paris – Tennessee). The overseas facilities of SAL act as assembling units. SAL meets major portion of MHCV Original Equipment (OEM) demand in India. The product line of SAL also includes supply of hydraulics (pressure converters) and fully machined ferrous castings. SAL also set up ferrous foundry through subsidiary Lava Cast Pvt Ltd (LCPL) (JV between SAL and Lingotes Especiales (LE) of Spain) to produce fully machined ferrous castings. SAL is currently in the

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

process of acquiring 100% stake in LCPL. In addition to LCPL, SAL has also set up a unit to manufacture diaphragm springs which it used to earlier source from Germany.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	685.30	475.01	230.34
PBILDT	101.91	40.71	34.22
PAT	(0.54)	(49.56)	(14.20)
Overall gearing (times)	2.83	*	-
Interest coverage (times)	1.94	0.71	1.00

*A: Audited, UA: Unaudited *Detailed debt break-up is 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	-	-	-	Q4FY21	73.18	CARE D
Fund-based - LT-Cash Credit	-	-	-	-	184.00	CARE D
Non-fund-based - ST-BG/LC	-	-	-	-	2.00	CARE D

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	73.18	CARE D	1)CARE D (10-Nov-20)	1)CARE C; Negative (07-Feb-20) 2)CARE B; Negative (25-Nov-19) 3)CARE BB; Negative (12-Aug-19) 4)CARE BBB-; Stable (10-Jun-19)	1)CARE BBB-; Positive (17-Sep-18)	1)CARE BBB-; Stable (18-Oct-17) 2)CARE BBB-; Stable (22-Sep-17)
2.	Fund-based - LT-Cash Credit	LT	184.00	CARE D	1)CARE D (10-Nov-20)	1)CARE C; Negative (07-Feb-20) 2)CARE B; Negative (25-Nov-19) 3)CARE BB; Negative (12-Aug-19) 4)CARE BBB-; Stable (10-Jun-19)	1)CARE BBB-; Positive (17-Sep-18)	1)CARE BBB-; Stable (18-Oct-17) 2)CARE BBB-; Stable (22-Sep-17)
3.	Non-fund-based - ST-BG/LC	ST	2.00	CARE D	1)CARE D (10-Nov-20)	1)CARE A4 (07-Feb-20) 2)CARE A4 (25-Nov-19) 3)CARE A4 (12-Aug-19) 4)CARE A3 (10-Jun-19)	1)CARE A3 (17-Sep-18)	1)CARE A3 (18-Oct-17) 2)CARE A3 (22-Sep-17)

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

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

Annexure 5: List of subsidiaries which are consolidated

Sr. No.	Name of the company	Percentage holding of SAL
1.	Lava Cast Private Limited	87.24%
2.	Setco Automotive (UK) Limited	100%*
3.	Setco Automotive (NA) Inc.	100%
4.	WEW Holdings Limited	100%
5.	Setco MEA DMCC	100%

**The share capital of Setco Automotive (UK) Ltd is held 20% by Setco Automotive Limited and 80% by WEW Holding Limited.*

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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