

JANUARY 22, 2015

CARE REAFFIRMS THE RATING ASSIGNED TO THE BANK FACILITIES OF SETCO AUTOMOTIVE LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	291.52 (Enhanced from 243.90)	CARE BBB (Triple B)	Reaffirmed
Short term Bank Facilities	2	CARE A3 (A Three)	Reaffirmed
Total Facilities	293.52		

Rating Rationale

The reaffirmation of the ratings assigned to the bank facilities of Setco Automotive Limited (SAL) take into account the recovery in operational and financial performance from H1FY15 (refers to the period April 1 to September 30) led by an increase in sales through replacement market after continuous decline in demand from the Medium and Heavy Commercial Vehicle (MHCV) segment till FY14 (refers to the period April 1 to March 31). The ratings continue to derive comfort from the established track record of SAL in clutch manufacturing, its long-standing relationship with Tata Motors Limited (TML, rated CARE AA+), its status as an approved Tier -1 supplier to various domestic and International Original Equipment Manufacturers (OEMs) and positive outlook from the MHCV segment.

However, the rating strengths continue to be tempered by SAL's moderate sub-sectoral and geographical diversity, substantial dependence on TML, debt-funded expansion plan, significant exposure to the subsidiaries/affiliates, moderate debt coverage indicators and liquidity profile; combined with inherent cyclicity associated with the auto industry.

The ability of SAL to diversify sub-sectoral exposure with sustainable profitability margins, timely execution of the expansion project and reduction in the exposure to subsidiaries/affiliates shall remain the key rating sensitivities.

Background

Setco Automotive Limited (SAL) promoted by the Sheth family, commenced its commercial operations in 1984 with the manufacturing of clutch plate and clutch assemblies for commercial vehicles. SAL is the largest manufacturer of commercial vehicle clutches in India under the brand 'Lipe'. The company has a presence in both the OEM (Original Equipment Manufacturer) market and the replacement market. As on March 31, 2014, SAL on a consolidated basis, has four manufacturing facilities, out of which two are in India (Vadodara, in Gujarat and Sitarganj, in Uttarakhand) and one each in the United States of America and United Kingdom operating under subsidiaries, Setco automotive NA Inc (Setco USA) and Setco Automotive UK Ltd (Setco UK), respectively. Tata Motors Limited (TML) continues to be the major customer of SAL contributing 68%-70% (by TML-OEM and replacement market through TML) of total revenue during FY13-14. SAL mainly caters to the M&HCV and LCV segments of TML and is a single source supplier to M&HCV categories of TML and various other OEMs namely Mahindra and Mahindra [M&M, rated CARE AAA], Ashok Leyland, Asia Motor Works, Daimler and Volvo-Eicher.

On a standalone basis, during FY14, SAL posted PAT (after deferred tax) of Rs.23.20 crore (FY13 – Rs. 27.34 crore) on a total income of Rs.345.88 crore (FY13 – Rs. 353.92 crore). During H1FY15, SAL posted a PAT of Rs.14.45 crore on a total income of Rs.221.21 crore.

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

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