FEBRUARY 08, 2016

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

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Banking facilities	286.58 (Reduced from 291.52)	CARE BBB (Triple B)	Reaffirmed
Short-term Banking facilities	2.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	**288.58 (Rs. Two Hundred and Eighty Eight Crore and Fifty Eight Lakhs Only)**		

Rating Rationale

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), sales through diversified market channels reducing revenue concentration risk, improved operational performance in FY15 and positive outlook for Medium/Heavy Commercial Vehicles (MHCV) segment. The rating also considers the expected benefits to be derived from the backward integration project once fully operational.

However, the rating strengths continue to be tempered by SAL's moderate sub-sectoral diversification, significant exposure to subsidiaries and related entities, debt-funded expansion plans, leveraged capital structure, moderate debt coverage indicators & liquidity profile and inherent cyclicality associated with the auto industry.

The ability of SAL to improve operating margins through synergies to be derived from the backward integration and reduction in the exposure to subsidiaries/affiliates shall remain the key rating sensitivity.

Analytical Approach

Consolidated view on Setco Automotive Limited and all its subsidiaries has been taken for arriving at the ratings as the entities are under a common management, have similar line of business and financial linkages. Further SAL has provided corporate guarantee to the facilities availed by two of its subsidiaries SAUL and LCPL.

Background

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

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

company of the ‘Sheth Group’. Incorporated in 1982, SAL has 5 manufacturing facilities 3 in India (Kalol, Alindra -Gujarat, Sitarganj - Uttarakhand,), 1 in United Kingdom (Haslingden - Lancashire) and 1 in USA (Paris – Tennessee) as on March 31, 2015. The overseas facilities of SAL act as assembling units. At present, SAL meets about 85% 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.

During FY15 on a consolidated basis (refers to the period April 1 to March 31), the company reported a PAT of Rs.20.61 crore (PY: Rs.18.23 crore) on a total operating income of Rs.527.93 crore (PY: Rs.399.03 crore). Furthermore, during H1FY16, SAL on a standalone basis reported net profit of Rs.9.75 crore on a total operating income of Rs.224.27 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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