MARCH 10, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF SETCO AUTOMOTIVE LIMITED: RATED AMOUNT ENHANCED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Banking facilities	309.08 (Enhanced from 286.58)	CARE BBB (Triple B)	Reaffirmed
Short-term Banking facilities	2.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	**311.08** **(Rs. Three hundred and eleven crore and 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 from the 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 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.

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

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 9MFY16, SAL on a standalone basis reported net profit of Rs.15.70 crore on a total operating income of Rs.329.94 crore.

Analyst Contact
Name: Mr Arunava Paul
Tel: 022- 6754 3667
Email: Arunava.paul@careratings.com

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

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

CONTACT

Head Office Mumbai

Mr. Sanjay Kumar Agarwal
Mobile: + 91 8108007676
E-mail: sanjay.agarwal@careratings.com

Mr. Amod Khanorkar
Mobile: + 91 9819084000
E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 9820998779
Tel: +91-40-4010 2030
E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-78754 33355
Tel: +91-20- 4000 9000
E-mail:rahul.patni@careratings.com

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