

## Setco Automotive Limited

November 10, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	257.18	CARE D (Single D)	Revised from CARE C; Negative (Single C; Outlook: Negative)
Short term Bank Facilities	2.00	CARE D (Single D)	Revised from CARE A4 (A Four)
<b>Total</b>	<b>259.18</b> <b>(Rupees Two hundred and fifty nine crore eighteen lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Setco Automotive Limited (SAL) takes into account the on-going delays in servicing of its debt obligations [towards Working Capital Demand Loan (WC DL)] on the back of poor liquidity due to the slowdown faced by the automotive industry especially Medium and Heavy Commercial Vehicle (MHC V) 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 WC DL) 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. SAL had also availed moratorium up to August 31, 2020.

#### **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](#)

[Rating Methodology: Consolidation](#)

[Criteria for Short Term Instruments](#)

[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 (MHC V) 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 MHC V 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 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.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)
Total operating income	685.30	475.01	41.35
PBILDT	101.91	40.71	(9.54)
PAT	(0.54)	(49.56)	-
Overall gearing (times)	2.83	*	-
Interest coverage (times)	1.94	0.71	(1.17)

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	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 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 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 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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

## 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](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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