

Setco Automotive Ltd.

September 22, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term - Fund based	109.18	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Long Term - Fund based Facilities	174.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Short Term – Non-Fund based Facilities	2.00	CARE A3 (A Three)	Reaffirmed
Total	285.18 (Rupees Two hundred and eighty five crores and eighteen lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to Setco Automotive Ltd. (SAL) factors the deterioration in the financial performance of the company on consolidated basis characterized by flat revenue, decline in operating profit margins and net losses, resulting in moderation in debt protection metrics.

The ratings continue to derive strength from the established track record of SAL in clutch manufacturing for MHCVs, its long-standing relationship with various domestic and international Original Equipment Manufacturers (OEMs) and sales through diversified market channels reducing revenue concentration risk.

However, the rating strengths continue to be tempered by SAL's moderate sub-sectoral diversification, leveraged capital structure and inherent cyclicity associated with the auto industry.

The ability of SAL to scale up its operations and improve operating margins through synergies to be derived from the backward integration in the backdrop of subdued industry scenario, along with improvement in debt coverage indicators shall remain the key rating sensitivities.

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and experienced promoter

SAL was jointly promoted by 'Sheth Family' and Government of Gujarat who divested their stake in the year 2001. SAL the flagship company of the 'Sheth Group' is led by Mr. Harish Sheth. At present, SAL caters about 85% of MHCV Original Equipment (OEM) demand in India and it is an exclusive supplier to Tata Motors Limited' CV and MHCV segment.

Sales through diversified market channels reduces concentration risk

SAL has long standing relationship with OEM's and act as supplier to leading supplier of clutches to commercial vehicle manufacturers in India. Its clientele includes, Ashok Leyland, AMW, Daimler India Commercial Vehicles, Tata Motors, Volvo- Eicher Commercial Vehicles. Sales to OEM's and replacement market contributed around 35% and 60% respectively to the total revenue for FY17.

In addition to presence in OES and IAM market SAL exports LIPE clutches to North America, Europe and Asia Pacific region. In FY17, revenues from exports declined due to the commodity deflations and larger time for field testing approvals for the US after-market.

Key Rating Weakness

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

Deterioration in Financial Performance in FY17 (refers to period from April 1 to March 31) and Q1FY18

The overall sales during FY17 remain flat as that of previous year FY16, as production of MHCV trucks was impacted by demonetization and then continued uncertainty on sale & registration of BS III vehicles beyond March 31, 2017. The company incurred net losses at consolidated level in FY17 as against a profit of Rs.22.9 crore in FY16. The decline in margins was mainly on account of increase in raw material prices, foreign exchange loss and higher operational costs of Lava Cast Pvt Ltd, given first year of operations and reduced dividend income from its preference share investment in holding company. In Q1FY18 (refers to period from April 1 to June 30) SAL reported turnover of Rs.76.43 crore on standalone basis and operating loss due to GST implementation and lower demand from OEM segment on account of modification of BSIII compliant vehicles to BSIV. Thus culminating in deterioration of the debt coverage indicators. In Q1FY18, the company redeemed preference shares issued by its holding company.

Moderate Sub Sectorial diversification

The auto component industry is impacted by the cyclical nature of the automobile industry. The diversification of auto component players across different segments like passenger vehicles, commercial vehicles, 2/3 wheeler, farm helps to overcome the impact of cyclical nature of the industry. SAL has its major share of revenue from MHCV segment. This exposes SAL to segment concentration. However, going ahead, SAL is making efforts to expand in farm and LCV segment.

Leveraged Capital Structure and moderate liquidity profile

SAL was in capex mode for the past few years which mainly includes the backward integration casting project under its subsidiary Lava Cast Private Limited. The group has set up a project in SE Transstadia Pvt. Ltd. for which promoters shares have been pledged (30.97% as on June 30, 2017) and thus reducing financial flexibility. On a consolidated basis, overall gearing deteriorated to 2.83x as on March 31, 2017. The company has a moderate liquidity profile with long operating cycle of around 4 months mainly due to the finished goods inventory to be maintained. The stretched working capital cycle led to limited cushion in working capital bank lines, which were utilized at an average of 95% for 12 months ended May 2017.

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 Setco Automotive UK Limited (SAUL) and Lava Cast Private Limited (LCPL).

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating methodology: Manufacturing companies](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

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 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, 2017. 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.

Consolidated Brief Financials (Rs. crore)	FY17 (A)	FY16 (A)
Total operating income	569.85	569.76
PBILDT	62.14	81.02
PAT	(12.78)	22.90
Overall gearing (times)	2.83	2.47
Interest coverage (times)	1.19	2.43

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: 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.

Analyst Contact:

Name: Ankita Sehgal

Tel: 022-67543697

Email: ankita.sehgal@careratings.com

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

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

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	-	-	-	109.18	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	174.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A3

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	109.18	CARE BBB-; Stable	-	1)CARE BBB; Negative (20-Mar-17)	1)CARE BBB (10-Mar-16) 2)CARE BBB (08-Feb-16)	1)CARE BBB (22-Jan-15)
2.	Fund-based - LT-Cash Credit	LT	174.00	CARE BBB-; Stable	-	1)CARE BBB; Negative (20-Mar-17)	1)CARE BBB (10-Mar-16) 2)CARE BBB (08-Feb-16)	1)CARE BBB (22-Jan-15)
3.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3	-	1)CARE A3 (20-Mar-17)	1)CARE A3 (10-Mar-16) 2)CARE A3 (08-Feb-16)	1)CARE A3 (22-Jan-15)

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

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. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: anand.jha@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. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@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. Pratim Banerjee

9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691