

February 27, 2017

To,

**Bombay Stock Exchange Limited,
Dept. of Corporate Services,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
Company No. 505075**

**National Stock Exchange of India Ltd,
Listing Department
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai – 400051
Scrip Code: SETCO**

Dear Sir,

Sub: Transcript of Conference Call

We hereby enclose the transcript of the Conference Call hosted by the Company on Wednesday, February 15, 2017 at 5:00 p.m

The aforesaid information is also being uploaded on the website of the Company www.setcoauto.com

We request you to take note of the above on your record and oblige.

Thanking you,

Yours faithfully,
For Setco Automotive Limited


**Bhavesh Shah
Company Secretary**



{Setco Automotive Limited}
{Q3 FY17 Conference Call}
{February 15, 2017}

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q3 FY17 Conference Call of Setco Automotive Limited. We have with us today on the call, Mr. Udit Sheth – Joint Managing Director and Mr. Vinay Shahane – Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Shahane – CFO of Setco Automotive Limited. Thank you and over to you, Mr. Shahane.

Vinay Shahane: Thank you. I welcome on behalf of Setco all the participants who were already logged in the call. Though you have the results snapshot with you, I shall brief you on the highlights of the performance for the quarter ended December 2016, the top line has grown by around 4% and on a cumulative basis for 9-months is up by 2% at Rs.337 crores against last year of Rs.330 crores. Operating EBITDA is high at 13.1% compared to previous year’s YTD 12.9%. Q3 performance was partly impacted by the demonetization policy where we felt certain effect in Independent After Market as well as OEM demand especially in November and December, 2016. There are signs of recovery in volumes in Q4, but Q3 performance could have been better but for these decisions. However, on the positive side, we have started supplies of LCV Clutches to OEM and OE after-market from Q3, also the Leyland Cover Assembly, the new product which we had signed agreement with Leyland earlier last year, the supplies have started in Q3 and the volumes will be picking up slowly and we should be having 100% market share in Q4 perhaps itself. So, that will give a big boost to revenues in Q4 as well as the next financial year where we will see the full year impact of both LCV Clutches and Ashok Leyland’s Cover Assembly.

We have informed you earlier about our entry into Tractor market which is on schedule and we should be introducing it in the market by end of this financial year and the full year impact of which will actually be seen in the next financial year. We should be beginning our US after-market strategy distribution also by this year end which will be full year launch for the US market but for India it will be happening in Q4 FY17.

GST since it has been deferred now to may be July or August from the earlier expectation of April, we feel the general business trend which is witnessed in Q4 will continue and we should have a much better Q4 compared to the earlier three quarters what we have experienced on this front.

Also, the BS IV norms which will be getting implemented from April 2017 can drive the demand before it's pre-implementation in OEM segment and that also will be a positive factor for the company in Q4.

This in brief is a summary of the highlights and way ahead what we look at. We are now open for question-and-answer from the audience.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Apurva Mehta from KSA Shares & Securities. Please go ahead.

Apurva Mehta: Can you just take us to why the margins were impacted in this quarter?

Vinay Shahane: There were certain one-time expenses on a comparable basis with Q3 this year and Q3 earlier year, so the impact of that is felt on quarterly results, but on cumulative if you see the results or the margin improvement is there, EBITDA as I mentioned earlier has improved marginally by 0.2% and at contribution level the improvement is much better at almost 1%, so it is just accounting timing difference but on overall business there is nothing to worry, it is on the positive side.

Apurva Mehta: Can you throw some light on how the growth in Aftermarket is going to be going forward after the GST, can we get some sense of what we will be more competitive and we can see further accelerated growth in after-market?

Udit Sheth: There are 2 ways to look at this, the first aspect of GST is that it is going to obviously provide a level playing field for everybody, so I think the impact for us will be very positive, this coupled with this current demonetization program that took place will also have an impact on some of the people who were doing passing goods under different codes, so, for example, there are certain after-market players who qualify some of these products under the agriculture sector where the taxation is much lower. Now with GST that all will come to a halt and plus cash transactions will be impacted. So, I think there will be a positive push for us. Whether that positive push for us comes through the OES or the Independent After-Market is to be seen. For us it is one pocket to another pocket where we supply to both the aspects quite effectively.

Apurva Mehta: Can you throw some light on the US development what type of growth we can see, what are the challenges over there? I think Q4 we were expecting very good quarter for the US growth from the US part. So, are we on schedule or are we a quarter behind that?

Udit Sheth: I think we are about 1 -month behind on that schedule and the primary call is not from the supplier end of it, we are ready to ship actually, we are sending out our first shipment in February end and a larger shipment in March, so I could say we were behind by a month, to conclude the branding and the packaging that was required which now we are ready with. So now the programs for training development, etc., will start in the US with our distribution tie-up. From a product standpoint view, we are absolutely ready, we have successfully passed all field as well as lab testing.

Apurva Mehta: Next year what is your target you will be satisfied if we have such type of sales?

Udit Sheth: So, we are looking at about 15,000 sets of dual discs in the next financial year in India, for example, in our existing trucks we supply a single plate, over there it is all twin and that means it will have 2 clutches per cover assembly plus inner plate, so the realization is much higher and we see a good starting point of about 15,000 pieces in the first year, going up to about 40,000-45,000 pieces in the third year.

Apurva Mehta: What will be your said costing around in dollar terms?

Udit Sheth: We have priced it anywhere between \$270 to \$350 a set.

Apurva Mehta: What are the margins? It is a much better margin than our after-market and domestic whatever we have?

Udit Sheth: We need to look at it from two ways; one because you are supplying to the US market from here, there is a certain payment cycle which is varied because of course you are going to maintain some stocks, you are going to build some shipping time, etc., So, that is the down side of it. There is some capital going in that, but keeping in mind that we will be quite efficient, I believe that the margins are going to be at least 10% to 15% higher than the existing Independent After-Market margins.

Apurva Mehta: So EBITDA will be in the tune of +20%?

Udit Sheth: Yes.

Apurva Mehta: On the domestic front, how do you see the Q4 spanning up to be, last year we did a turnover of around Rs.175 crores of Q4, because one and half months is already over, can we expect from that, that will be like 15% type of a growth?

Udit Sheth: No, I do not think you are going to get your hockey stick kind of growth numbers in the 4th quarter, we actually see just doing possibly marginally better, but very marginally the reasons are apparent for all of us kind of numbers. The important thing I think over here to take on board is that keeping in mind the market environment, our share of business has not only been maintained but has been improved as Mr. Shahane put forth. So from a company standpoint,

we are still on an extremely strong footing. It is in the market which has to now pick and give us that. The advantage we see is that in this 4th quarter we will be starting to see the American market and the farm equipment sector. So starting next financial year we should see some good robust growth in both the sectors.

Apurva Mehta: On the Farm Equipment sector, we are going to supply to OE or we are going to supply to after-market?

Udit Sheth: Both, we have right now completed field and lab testing, we are in the last stages of getting the Purchase Orders from the OEM, and in the meantime we are confident that, that supply can already start into the Independent After-Market.

Apurva Mehta: Which we are going to supply will start from next year or this quarter?

Udit Sheth: First quarter next financial year.

Apurva Mehta: On the Lava Cast, can you throw some light what are the new developments, have you received some good clients, when can we commercialize on that thing?

Udit Sheth: We have a very strong plan to ramp up our pouring capacity in the coming year and hitting may be close to about 20,000 tonnes per annum. We have been discussing with various outside companies to give us some of their orders, but the situation is such that they have all come, done audit, they have approved us, but orders will come once the market starts picking up which so far has not happened. So, once we actually see the real growth in the market, I am sure that those orders will start coming towards Lava Cast as well, in fact, our international partners have also approached a few of their clients to source from India, we have given the quotations, we also expect that in the following year.

Apurva Mehta: So, everything will come next year only, what we can predict is everything whatever the orders will be? What capacity utilization we expect next year?

Udit Sheth: It will be about 66% actually. But important thing to know is that this financial year, we have already ramped up our pouring capacity to almost close 1200 to 1500 tonnes per month and that is only going to grow.

Apurva Mehta: Going forward can you breakeven in that next year PAT-positive or something like that?

Udit Sheth: We may just breakeven in the coming year.

Moderator: Thank you. The next question is from the line of Rohit Chawla from Axis Securities. Please go ahead.

Rohit Chawla: Sir, wanted to understand the market of the Farm Equipment, so how big is the market, and who are the other players and how do we compete against them?

Udit Sheth: So, if you see the annual production of Tractors it is close to about 600,000 Tractors per annum. Other dominant player in this field is only LUK of Germany. Now, there is a small amount of manufacturing and supplies done by a company called Clutch Auto, but that does not now come into the OEM sector, which is why they are very happy to introduce another source, and we believe that even to crawl into this segment OE to OE if they give us 20%-25% order as part of the share of business, though we believe it will be higher, it will have a very positive impact for us to sell the same product in the after-market. Another important thing to take note of in this sector is that all the clutches are going towards Dual Clutch technology now, just like it is in the commercial vehicles market in North America, they are using two clutches; one for engine, one for the PTO. So, we have both the single and the Dual Clutch available in our portfolio now. So I think that to be able to get into that segment in the coming year and possibly get a sale of may be a couple of 100,000 pieces is not too hard a task to look at.

Rohit Chawla: Sir, what kind of cost structure and what is the margin expected in this set of business of Farm Equipment Clutches?

Udit Sheth: I think it is similar to the commercial vehicles segment as far as we are concerned, there is not too much of a difference, which is the reason we got into it, because if we go into car segment, for example, the Clutch is smaller and hardly comes up for replacement, and therefore your realization per Clutch and your after-market presence is very limited. But in a Farm Tractor, like in a commercial vehicle, the usage is in terms of hours, like it is in deep mining, so there is a lot of abuse, lot of replacement that is required. So the rational is that we got into the segment because of the ability to grow, quickly through after-market and OES and then OEM.

Moderator: Thank you. Next question is from the line of Karan Thakkar from PM Securities. Please go ahead.

Karan Thakkar: Sir, I have three questions; first, I am just trying to envisage our revenue growth for the next year. So, as I see US we are envisaging about \$300 average price for 15,000 Clutches, at Rs.67 we get a top line of Rs.30 crores. Is that correct?

Udit Sheth: In that range.

Karan Thakkar: Ashok Leyland LCV revenues should be about Rs.40 crores. As per our last concall we are expecting 400 million to 500 million revenue growth from Ashok Leyland, LCV business, is that correct?

Udit Sheth: It is not LCV business, it is a MHCV new product we have introduced in Leyland, it is not LCV with Ashok Leyland.

Karan Thakkar: Lava Cast which was at 30% utilization in the last quarter when we had a call, was expected to ramp up to 60% and right now what you said 66% by the Q1 next financial year. So, right now what is the position on Lava Cast utilization level?

Vinay Shahane: Lava Cast current utilization level they have already reached around 50%, the next year utilization what we are expecting around 65%-66% is on an annualized basis, if not in Q1 will definitely will be touching 66% on an the annualized capacity utilization what we are mentioning about.

Karan Thakkar: So, Lava Cast then should be contributing about Rs.40 crores to Rs.60 crores with that utilization levels by the end of the year?

Vinay Shahane: Consolidated levels they would be contributing around that.

Karan Thakkar: Sir the TATA business for the LCV Clutch supply has started this quarter or is it only Ashok Leyland?

Vinay Shahane: No, LCV we have started with TATA Motors in December quarter.

Karan Thakkar: Is it 100% share in TATA or is it going to take a while to be 100% in TATA LCV?

Vinay Shahane: It will not be 100% market share because we are a second source supplier. We already mentioned there is other supplier who is prevalent, the vacuum created by the Clutch Auto or other competitors is being filled by Setco. So, in LCV we will not have 100% market share, may be about 30%, 40%, 50%, but not definitely 100%. But the OE business will give me the opportunity to the after-market which is much bigger in size and where the margins are also better than OEM.

Karan Thakkar: So, you mentioned to the previous participant that you will see 10% to 15% more margins from the US business. So, did you mean if we have 16% margins in India you will have 1.6% addition or do you mean we will have 26% EBITDA margin?

Vinay Shahane: Could be around 24%-26%, you are right.

Karan Thakkar: Dilution of stake for second phase of Lava Cast which was expected for about Rs.100 crores. So, is there any clarity on that, are we planning to raise that money soon for the second phase?

Vinay Shahane: No, we just mentioned, next year utilization may be around 65%, we will reach peak capacity in next financial year, that is, FY18-FY19, and that will be the time depending on the market scenario, the customer base what we have, we will have to take a call about the future expansion.

Moderator: Thank you. Next we have a follow-up question from the line of Apurva Mehta from KSA Shares and Securities. Please go ahead.

Apurva Mehta: Sir any update on scrapping of the trucks which were going to happen?

Udit Sheth: We do not have any information on that.

Apurva Mehta: Sir, if it comes what type of demand can be created, can you just quantify that?

Udit Sheth: We will do it in a stage wise, so I do not believe that there is possibility of more than 200,000 trucks annually at best, so that much demand pool can come, but that too not so immediately because the newer vehicles are also having better engine horse power, better power, so they will possibly first rely on fleet efficiency before they get into adding new vehicles into the fleet. I think all of this takes a little bit of adjustments before it kicks the demand in.

Apurva Mehta: Sir, can we see any rush of booking before the GST happening?

Udit Sheth: There are 2-3 things which is impacting the growth, it is the implementation of GST, but there is still no clarity on that, they keep bringing out clarity, they are still under volatile kind of scenario, when you talk about demonetization these trucks which ply from one place to another they still have to pay those fees when they cross state borders and those cash transactions are still happening, so, they are not able to crack down on those, there is a lot of chat which goes on in the market about introducing the new vehicle emission standards, those new emission standards come in, the precious emission standards have to be scrapped, so what will be the last date of production for that be. So these things we keep hearing, but I do not think there is any definitive indicator from the market. So, everybody is kind of in a motion but they do not really know what will transpire, looking positive demand has been created, but all these things still remain to be unanswered.

Apurva Mehta: Sir, on UK subsidiary, how it is doing now?

Udit Sheth: We have managed to do a few restructuring exercises over there, we believe that it is on the path to revival over there, and I think we should be able to possibly show a kind of no profit/no loss scenario over there in the coming financial year.

Apurva Mehta: So, this year there will be a loss or this year we can breakeven something?

Vinay Shahane: Apurva, this year there would be a loss because like earlier calls also we had discussed, under the income tax transfer pricing provisions in India, we have to charge them interest on the funding done by the parent company. Because on consolidated basis anyway it is netted-off then they will be positive cash profit, if you exclude this interest. Perhaps next year also marginal cash loss.

Moderator: Thank you. The next question is from the line of Ketan Chaphalkar from Zephyr Financial Publishers Private Limited. Please go ahead.

Ketan Chaphalkar: My question basically is regarding this after-market sales which you mention which you got impacted due to the lower volume because you have had a slowdown in OEM sales in FY13 and FY14. So, do you think actually this has bottomed out now and this actually would revive in the next few years?

Vinay Shahane: The demonetization impact of this thing was basically like a short term shock what we have the business mechanism got basically into. We see in day-to-day life also, we are getting used to the new scenario perhaps the e-mode of payments and businesses - people are getting used to it. What will affect is like was mentioned earlier in the call, the unorganized or who are not really complying with all the regulations of business requirements, that business will be more impacted and basically just organized business will gain at their cost. So, in the long run and with GST coming also, the after-market business for the company will definitely get a boost.

Ketan Chaphalkar: Sir regarding this replacement cycle which actually had a slowdown because of the lower sales in FY13 and FY14, do you think there is expected to be revival in the next FY18 because there is increase in sales in M&HCV?

Vinay Shahane: Yes, I agree with you, we have already seen some kind of a positive upward trend and FY18 should really see that full year impact of that.

Karan Thakkar: This is Karan again. As far as tractors is concerned we were in some testing say in the last quarter. So right now what is the progress on that, do we have any revenue target for the next year?

Vinay Shahane: The testing and everything is a long-term process, the testing has been completed in some cases, for different varieties with different customers is ongoing exercise till the full range is deployed in the market. Of course we have our internal targets of the share of business to achieve but ultimately depends with each OE player, how do we really close the deal and how much market share do we start with, it will be initially the slow market share, which will slowly get ramped up. So though we have our own internal target perhaps may not be really prudent to put a number to it in a public domain.

Karan Thakkar: Sir, what all OEs are we talking to and have we sealed any contracts on the tractor front, any progress on that side?

Vinay Shahane: With all leading OE players we are in dialogues with them at different stages of commercial negotiations. As and when it is signed off, of course naturally it will be made public.

Karan Thakkar: I am not asking for a number or any sort but by what time will you get one or two OEs probably start the Tractor business at least, do you have any visibilities?

Vinay Shahane: By the first quarter next financial year, as we said we will be starting the supply, so naturally those OE players will be on board by then, starting the supply of Tractor Clutches.

Moderator: Thank you. The next question is from the line of Shrenik Mehta from Piramal Finance. Please go ahead.

Shrenik Mehta: Just wanted to know what is the size of this TATA LCV order on annualized basis for FY18 what is the potential revenue generation?

Vinay Shahane: In the range of may be between Rs.15 crores to Rs.20 crores total.

Shrenik Mehta: Next is this Lava Cast, you said around Rs.40 crores to 60 crores in FY18, so currently I assume that Lava Cast has been used for internal consumption. So are we forecasting any external client for Lava Cast in FY18 and this Rs.40 crores to Rs.60 crores is from the external clients?

Vinay Shahane: We are in talks with various OE players for the foundry business for Lava Cast, these are at different stages of development because it is a long-term process of process audit, quality audit, testing everything. So, it is at different stages of development. So, we should definitely be adding new players in the next financial year, that will add to this top line what we have mentioned about.

Shrenik Mehta: What is the current outstanding equity investment in TransStadia, in FY16 it was Rs.15.35 crores, so has that gone up, gone down as of date?

Vinay Shahane: It is the same amount, there is no change.

Shrenik Mehta: Preferential investment by Setco into SEPL, what is the current preference share investment, has that gone up/down?

Vinay Shahane: We have actually reduced it in first half and we have plans to reduce it further by the end of this year and next year also.

Shrenik Mehta: So, in 2-years you are expecting the whole amount to be redeemed?

Vinay Shahane: May be FY'19.

Karan Thakkar: This is Karan. Sir, as finance costs are concerned in this quarter we have seen a jump of about 1%. What is this money being raised for?

Vinay Shahane: One is with the Q4 normal business escalation, one is the extra borrowing on the working capital front, and there are some one-time cost of bank charges when the limits are processed annually which are charged. So, that incident has come in Q3, but otherwise on a regular basis the interest cost is on track and under control.

Karan Thakkar: So, now the rates might even reduce right, so we can see a good...?

Vinay Shahane: Yes, like based on the government and RBI policy whatever the banks are passing on, that benefit naturally will come automatically.

Karan Thakkar: Other expenses we have a good jump of about 2%, from Rs.19 crores has gone up to Rs.2.2 crores, so about Rs.3 crores as good as our PAT, there is a growth in other expenses. So what is that Rs.3 crores?

Vinay Shahane: Earlier in the call I mentioned about this Q3 profitability comparisons where certain one-time expenses of the accounting treatment peculiarly has shown the Q3 results perhaps in a little lopsided view. But if you really look at 9-months cost, they are much more in a reasonable level of activity.

Karan Thakkar: This you are saying because of the change in the accounting standards ...?

Vinay Shahane: These are accounting requirements quarterly when we look at it and compare with annual generally they do not follow the trend, sometime there can be ups and downs on a quarterly basis.

Karan Thakkar: But there is nothing specific that is what I just want to ask?

Vinay Shahane: Nothing specific, it will be going up similarly in Q4.

Moderator: Thank you. Next we have a follow-up question from the line of Shrenik Mehta from Piramal Finance. Please go ahead.

Shrenik Mehta: I just wanted to understand that impact of depreciation and interest in this year, because last year I guess most of the fixed assets were in CWIP and interest you might be capitalizing. So what is the impact of depreciation, are we charging it fully this year in FY17 on a consol basis?

Vinay Shahane: The depreciation is charged for each individual asset from the date of commissioning. So this is not like a project expenditure where full project of a big size is being implemented and is commissioned at a peculiar date. So this CAPEX is going through throughout the year and as and when each machinery or each CAPEX item is installed or commissioned the depreciation is charged from the debt as per accounting requirements. But in some cases it could be for full year depreciation also.

Shrenik Mehta: So, there might be a big jump in depreciation in FY17 and...?

Vinay Shahane: Every year the same phenomenon will continue because we are continually investing in the fixed assets year after year on standard policy, so that depreciation phenomena will be also common.

Moderator: Thank you. As there are no further questions, I would like to hand the conference back to the management for any closing comments.

Udit Sheth: I just would like to thank everyone for their questions and patience to understand our company and performance. We are focused towards improving both our growth and our adding more market that means to the company's portfolio. One of the things that I would like to highlight is that our focus while the markets have not taken off and we are adding new segments is that we are continuing to be very cost conscious both from an inventory standpoint as well as controlling our manufacturing cost and looking very strongly at our purchasing. We do believe that there are several areas we can improve upon and believe that in the coming financial year we should be able to achieve around 16% to 20% EBITDA margin for the company. So lot of focus has been on cost control and it will continue to be in that direction. If you have any other questions, please feel free to e-mail us and we would be more than happy to get back to you. Thank you very much.

Moderator: Thank you. On behalf of Setco Automotive Limited, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.
