

June 10, 2019

To,

**BSE Limited,**  
**Dept. of Corporate Services,**  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai – 400 001  
**Company Code: 505075**

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

Dear Sir,

**Sub: Transcript of Conference Call**

We hereby enclose the transcript of the Conference Call hosted by the Company on Tuesday, June 4, 2019 at 4:00 p.m.

The aforesaid information is also being uploaded on the website of the Company [www.setcoauto.com](http://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**

  
**Chandra Kant Sharma**  
**Company Secretary**





**“Setco Automotive Ltd 4Q-FY19 Earnings  
Conference Call”  
June 04, 2019**



**MANAGEMENT: MR. UDIT SHETH – VICE CHAIRMAN, SETCO  
AUTOMOTIVE LIMITED;  
MR. J.S. GUJRAL – CHIEF EXECUTIVE OFFICER,  
SETCO AUTOMOTIVE LIMITED  
MR. VINAY SHAHANE – CHIEF FINANCIAL OFFICER,  
SETCO AUTOMOTIVE LIMITED.**



*Setco Automotive Limited  
June 4, 2019*

**Moderator:** Ladies and gentlemen, good day and welcome to the Setco Automotive Limited Q4 FY'19 Earning Conference Call hosted by Perfect Relations. As a reminder, all participants' 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 assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ashish Samal from Perfect Relations. Thank you and over to you, sir.

**Ashish Samal:** Thank you. Good afternoon and thank you for joining us on Setco Automotive Q4 FY'19 earnings conference call. Today, we have with us the senior management represented by Mr. Udit Sheth – Vice Chairman; Mr. J.S. Gujral – CEO; Mr. Vinay Shahane – CFO.

Before we begin, I would like to add that some of the statements to be made in today's discussion maybe forward-looking in nature. We will begin the call with the "Opening Remarks from the Management" after which we will have the forum open for "Interactive Q&A Session."

I would now request Mr. Vinay Shahane to make his Opening Remarks.

**Vinay Shahane:** Thank you, Ashish, and good afternoon to everybody. On behalf of our Vice Chairman -- Mr. Udit Sheth and CEO -- Mr. Gujral, I welcome you all to the discussions on Setco's FY'19 financials.

In spite of subdued OEM demand witnessed during Q3 and Q4, strong aftermarket demand has enabled the company to register overall sales at Rs.613 crores, growth of 20% over previous year. Aftermarket sales have registered a substantial growth of around 35% over previous year. This also shows the strength of company's diversified business model having presence in OEM as well as aftermarket which insulates company from the fluctuations in OEM demand. It also enables the company to outperform industry growth rates.

EBITDA and net profits for current year are not on comparable terms to previous year due to expiry of benefits and exemption benefits at company's Uttarakhand unit, net impact of which is around 200 basis points on sales from Uttarakhand unit; however, higher turnover with the growth of 20%, improved operations efficiency, better pricing and better segment mix that offset this advantage and enabled the company to report higher EBITDA at 14.8% for the year which is the highest in last 7-years against 11% in FY'18. In absolute terms, the EBITDA has increased by 61% against the sales growth of 20% which is a good sign of improved efficiency. PBT for the year at Rs.53 crores against last year of Rs.36 crores, registering a growth of 46%. With higher tax provision at Rs.17 crores against Rs.7 crores in the previous year, for current year is at Rs.36 crores compared to Rs.29 crores in FY'18, still a growth of 25%. However, from cash flow point of view, company's tax outgo will be around 21% of

profits with balance liability being set off against MAT credit accumulated over previous years.

We have been discussing the issue of working capital management and management action plans on the same and management focus on working capital management has seen net working capital cycle improving by around 18-days to 77-days in FY'19 against 95-days in FY'18.

Rollout of BS-VI norms from April 2020 enter into tractor plus segment, robust aftermarket demand expected for next two, three years and better exports especially in US markets shall enable the company to register growth of around 25% in FY'20 with resulted improvement in EBITDA margins moving northwards. On consolidated basis, EBITDA is close to century mark at around Rs.97 crores against Rs.61 crores in previous year. Improved efficiencies and better market outlook for Lava Cast and US operations shall contribute to improved performance in current year, that is FY'20.

Board has also approved in the recent meeting the merger of Lava Cast with Setco w.e.f. 1.4.2019. Combined entity benefits by way of increased business potential, improved operating efficiency and better financial strength. This is the summary of our highlight of the operations of the company.

May I now request the forum to be open and request participants to seek clarifications, more details on any points, we will be glad to address it. Thank you.

**Moderator:** Sure. Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Apurva Mehta from AM Investments. Please go ahead.

**Apurva Mehta:** Where Lava Cast is currently, and what are your thoughts for next year?

**Udit Sheth:** Lava Cast is an extremely important part of Setco and it was set up with the idea of ensuring that Setco's requirement for casting does not have a fall short because that was having a direct impact. So, in fact, we have taken a few positive steps to ensure that Lava Cast continues to be a very significant part of our business and this year we planned good amount of about 65% of our capacity utilization which is actually there at about 30,000 tons p.a. So, 20,000 tons this year we are expecting to fill up our capacity at the minimum. From a business standpoint, we started all our external customers businesses and a few exports have also started to US and UK to Setco subsidiary. In fact, our confidence in the business continues to grow and we will ensure that we have negotiated rather with our technology partners to buy over there 20% as well as today we have mentioned that to get better operational efficiency as well as to ensure better cash flows over a period of time, better buying power and also to cater to the demand on

the OEMs to reduce your supply of coal, if there is one group, then do not supply unless there is control. We are also going to be merging Lava Cast into Setco Automotive. So, the outlook is extremely positive from a business standpoint and we are going to ensure that all kinds of advantages especially on the raw material purchase side realized apart from manpower related overhead as well. So, it is a positive outlook for the year.

**Apurva Mehta:** If we go in FY'20, what would be captive and what would be sales realized from the other parties?

**Udit Sheth:** We are looking at about 75% or 16,000-17,000 tons of our total turnover to be consumed in-house to Setco, balance we are looking at selling outside.

**Apurva Mehta:** We are talking with lot of telco and we were talking with other. So, you are expecting only 3,000 tons to that other customer, are you ...?

**Udit Sheth:** We are expecting more but from a budgeting standpoint and outlook standpoint, we do not want to give over-expected statement and we are being extremely conservative, we have already started supplying to both Ashok Leyland and Tata Motors as well as some tier-1 company.

**Apurva Mehta:** What is the monthly outgo for maybe Ashok Leyland and Telco put together currently on the Lava Cast front?

**Vinay Shahane:** It keeps varying because the Q4 and the beginning of this quarter has been quite constrained in terms of OE demand. Castings are actually unlike aftermarket majorly OE. So, OE will play a very important role in the way casting also is. It has not been where we expect it to be. Exact numbers we can talk offline.

**Apurva Mehta:** Currently, can you share how is the export for Setco for that Twin Clutch and your outlook for the tractor industry where we currently stand and what is outlook for next year?

**J.S. Gujral:** So, the first question is on Tractor industry. Like all segments, currently there is a little bit of slowdown in tractor industry also but we have seen this industry over the last 30, 40-years, a year or two it was down and then it is back on the growth path. The government is spending lot of money on the agriculture or the farm sector side to get it back on growth. So, we expect the OE volumes to come back to normal levels and the industry to cross 700,000 numbers in FY'21. This year FY'20, the expectation is it will be around 600,000 tractors. So, this is as far as the potential is concerned. Now, we have developed clutches which are the next-generation clutches, the dual and double clutches which are growing at a faster pace than industry and we will be practically the second source in the segment which is currently dominated by one single player who is MNC and the response we have from all the customers is very heartening,

all the products are under-testing and testing cycle in tractors is seasonal, so it goes for at least a year. We are getting two approvals in June from two leading players and then every quarter we will be getting another two and another two, that is how the testing cycle has panned out. We expect this business to ramp up to around Rs.100 crores of our top line within three years.

**Apurva Mehta:**

This year what is our expectation – can we do around 25?

**J.S. Gujral:**

We will do between Rs.10 to Rs.20 crores depending on where industry is headed.

**Apurva Mehta:**

On the export front, what we were trying to export to US, how it has gone through last year and what is your expectation?

**J.S. Gujral:**

We exceeded the market starting from three quarters back and so far the response has been very strong. We have renewed interest from leading chains there for arrangement to source from us and talks are under development in terms of the long-term agreement and so on and so forth. So, with that big breakthrough is a leading truck player in the US, we expect very fast ramp up with volumes but it will be three quarters away before the volume start sinking in. As far as our sales in our own brand is concerned, we are selectively expanding in US geography-by-geography and we are expecting this year to hit around 3,000 units of sale of this product as against 1,000 units last year.

**Apurva Mehta:**

That will turn into what kind of turnover with the units?

**J.S. Gujral:**

Approximately it is around \$300 per unit.

**Apurva Mehta:**

What is your outlook for the OEs for medium and heavy for the current year?

**J.S. Gujral:**

Like our CFO, Vinay outlined, dependence is around 40% of our turnover and depending upon how that segment grows, we grow a bit faster or we grow a bit slower. Our real business is the aftermarket which in Q4 was as high as 57% of our turnover. That continues to grow at a healthy 25% plus growth. And we see this trend for the next three years because lot of trucks which were sold in the upcycle over the last three years will come one-by-one for replacement in the next three years, particularly, as far as OE is concerned, we all know we are migrating to BS-VI. In all previous migrations there has been a huge pre-buy and therefore the market is expected to pick up from Q2 and peak in the Q3, Q4 would be higher than last year because this year we had bad Q4 but because of the new regulations no one would want to carry any stocks. So, the production in Q4 would mainly be for BS-VI vehicles. That is the indication we have. Our estimate is the market will grow between 7-9% depending upon the extent of pre-buy.

- Apurva Mehta:** So, you have guided for the overall growth of 25%. Can you break up how you tend to achieve because OE will grow at 7-9%?
- J.S. Gujral:** For the last three quarters, our aftermarket growth is 35%. We are giving a guidance of 25% plus but there is enough scope and headroom in the aftermarket to grow further both in our own brand as well as through our spare parts and exports we have spoken, so that also will grow at a higher pace on a smaller base.
- Apurva Mehta:** But that is at around what you are doing 3,000 sets. That would be hardly any turnover from there for exports?
- J.S. Gujral:** If you do the numbers, you will see it because 35% on 57% and 12% on 40% plus there is tractors and then there is exports which the numbers are close to double. So, all that will total up to 25% average.
- Moderator:** Thank you. The next question is from the line of Ashish Sood from Vishudh Capital. Please go ahead.
- Ashish Sood:** I want to ask that where are we standing with regards to the pledge ratio, so how much years are pledged and has management released any pressure? My second question is regarding today's press release. There is inter-transfer of shares from promoters to the company. So, any specific reason for the same?
- Vinay Shahane:** At present the pledge ratio is around 77% of the promoters holding and it is expected to come down to around 40% within next two to three months, some actions already planned in pipeline.
- Ashish Sood:** Today, there was a press release around 12, there was a transfer of shares holding from Mr. Udit Sheth to the Setco Automotive Holding, any specific reason?
- Vinay Shahane:** It was not to Setco Automotive. It was inter say promoter group transfers which have taken place. There is nothing to read much into that.
- Moderator:** Thank you. The next question is from the line of Harshil Shah from Anvil Research. Please go ahead.
- Harshil Shah:** Can you explain me the rational for giving out dividend when you yourself are looking outside for funds?
- Udit Sheth:** That is a good question and this is something that we have discussed and company is very clear that we would like to maintain a dividend policy which will showcase the positive outlook of the growth of the company and profitability over a period of time. Promoters at



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some point will make its own arrangement to raise capital at promoter level and that is not a problem. We see positive outlook going into the future for the organization and at a personal level as well and maybe over the next 90 to 120-days we will be seeing positive change in that direction.

**Moderator:** Thank you. That seems to be the last question for today. I would now like to hand the conference back to the management for closing comments.

**Udit Sheth:** Before Mr. Shahane sign off, just to reflect a little further on the dividend policy question that was asked earlier, the company also reserves a certain amount to be infused back into the growth of the company year-on-year, that is also something we need to balance while keeping the dividend policy constant, hence that was one of the additional reasons that we did not mention.

**Vinay Shahane:** Thank you all the participants and we hope to continue our interaction on a regular basis with the investing community. On behalf of Setco Automotive management, we now conclude this conference. But before I conclude formally, we emphasize our welcome to all of you visit to Setco's factory at Kalol in Gujarat. At any point of time we can arrange the visit at a mutually convenient time. Thank you again for joining us and we may now close the call formally.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Setco Automotive Limited we conclude today's conference. Thank you for joining. You may disconnect your lines now.