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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 November 16, 2016 at 5:00p.m (IST).

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

SETCO AUTOMOTIVE LTD. MUMBAI

Bhautesh Shah
Company Secretary

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{Setco Automotive Limited}
{Q2 FY17 Earnings Conference Call}
{November 16, 2016}

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY17 Earnings Conference Call of Setco Automotive Limited. 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 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. Harish Sheth - Chairman and Managing Director of Setco Automotive Limited. Thank you and over to you sir.

Harish Sheth: Good evening to all of you. Thank you for coming on the line listening to the issues and non-issues. We can start with the highlights. We have just declared the results. Overall, the first half performance compared with the last year, first half is better, but it is not as good as we expected, partly the second quarter in the business OEM, OES and IAM, all three we had a problem with rather the industry. After the growth of first quarter which was around 20% over the previous year, the second quarter showed decline particularly in September month, it was down by about 27% in the vehicle sales and production both.

So, overall the first half turned out to be a very flat - due to extremely heavy rains, OEM or OES, IAM also did not do very well. In OES, which is where we sell the clutches not directly but through the automotive vehicle dealers. Normally, they sell clutches to the first time user in a sense that when the truck comes back for repairs, they normally go to the vehicle dealers to buy the product. 2012-2013 and 2013-2014 are the years of which vehicles would normally come after two years for the change of clutch. These two years, three years and rather 2013-2014, production was half of that of 2011-2012, so that also showed a substantial decline in the demand. So, overall second quarter was not that great and first half remains subdued, but what is good part is that our EBITDA, operating EBITDA improved by 2% because of the various cost controls. Operating profit also went up by 62% compared to the last year's first half. Our profits should have been still much better but for the foreign exchange impact that took place last year the same time in the six months, we had a foreign exchange gain of about 3 crores that is 30 million, against which, we have a foreign exchange loss of about 26 million, overall resulting in exchange loss of about 58 million that is 5.8 crores impacting the PBT and the PAT of the company.

Now, that is the overall analysis of the first half of the results. We can talk about going further. We are seeing a very positive sign now, basically in October production, vehicle production numbers have gone up and I am only restricting myself to medium and heavy commercial vehicle and not necessary LCV and all that. Also Ashok Leyland, one of our major customers, were planning to convert to our clutch about five months back but there was a delay at the line and now they have completely converted which will add on annualized basis at least 40 crores to the topline. Unfortunately, we lost the first six months because of the delay on their side. Our foray into LCV particularly the Ace clutch and all that, that has started and we expect a good demand coming into it.

Going away from the automotive area, we decided to move into the tractor area also. And we started development of the clutches for various vehicles. Very happy to inform you that we have already developed more than 50% of the requirement of various clutch sizes that the market needs. The clutches are under field testing. After extensive lab testing, they have gone for the field testing and since last four or five months, they are at the various levels of testing and so far no failures or problems have been reported. We expect that business to start in the fourth quarter picking up pace in a very big way next year.

Just to share with you, there are about 500,000 tractors today in annual production Out of 500,000 tractors, tractors that will probably use our clutch could be around population of 300,000 and we expect at least 20% to 25% share of the business in the coming year because they will not develop, if you cannot supply more than 30% to them, you must supply minimum 30% so, we expect that to come through.

So overall we are looking, now the GST also. The earlier thought process was on GST, that GST will be 18%. People had thoughts of not buying the truck because savings will be so high, despite that they will have to wait for BS-IV norms which is coming in from 1st April and they decided to defer. The GST rates are not out, but is expected that these will be around 28% .So again the buying has started and from now till March end, we expect very healthier pickup from the OE customers. So, coming six months and the way the economy is moving despite there may be a little set back to the transporters due to current decision from the government on demonetization but I think this is temporarily aberration and it should start getting back to normal by mid-December.

So gentlemen, that is an overall view point of the company, of the scenario. We are open to all the questions.

Moderator: Thank you very much. We will now begin with the question and answer session. We take our first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Sir couple of questions, one is on the growth part. In the past also you have highlighted we had certain ambitions to reach a 1000 crores topline in standalone sales by FY19, so what segments and variables we are banking on?

Harish Sheth: Looking at the first six months, your question is very right but we are fairly confident in the year 2019, if not the 2018-2019; in 2019-2020, we should be able to cross 1000 crores and the growth will come from all segments, the growth will come from current customers. For India to grow at a 7% GDP or 8% GDP, we expect commercial vehicles to grow in double digit way. There are a lot of investments from the government in infrastructure, power sector, the road sector. So, all that will definitely require trucks, then the mines are opening up, so the tippers will be there. Also this year due to good monsoon and expected good rabi crop coming into the winter time, the farmers also have money, so gained the activities of construction and all that, that was at slow down or had come to practically nil from the whole industry in the rural area, semi-urban area . And that cement, steel all that will increase. So generally expectations from the vehicle industries that in the coming 4-5 years, they are expecting a good double digit growth. This along with the growth that is coming out generally from the after-market business will also happen because all these trucks, tippers, clutch will last only for a year. Then, so that is the current basis, then the new areas that we have moved in, LCV, we expect good demand from there, today we have only done for a particular customer. Going forward, we will be working with four more customers on that. Then the tractor, tractor industry is a very large industry. So, that growth will come. So if you take cumulative of that along with the exports, we have recently tied up finally with a very well-known brand name in United States and will be supplying clutches to them. So, we expect a good demand coming from there, unfortunately export demand recently has been subdued partly because in the Middle East, Europe, the markets have been very bad and in USA also. So, general economic condition will allow much space for exports particularly the clutch manufacturers in Europe and America were suffering. And add to that, coming out of Lava Cast which is our new subsidiary, we are very confident of reaching 1000 crores in 2019.

Viraj Kacharia: That is including Lava Cast or excluding Lava Cast?

Harish Sheth: Excluding Lava Cast.

Viraj Kacharia: So, by FY20 we should be able to reach around on 1000 crores?

Harish Sheth: Yeah, absolutely.

Viraj Kacharia: Sir, three questions to what you said. One is if we talk about LCV market, we have been catering to LCV segment and domestic market since last 2 to 3 years, so there is not much success in domestic scaling up. So, what has been the key limitation there?

Harish Sheth: Sorry, we have not really catering much in the LCV market at all. We have gone from the MCV-HCV to ICV market. ICV market would be 8 tonners, 10 tonners, 12 tonners etc. Now, just only about few months back we have developed clutch for ICV. Developing a clutch takes time i.e about two years or one and a half year . First you develop it, then you test, it then you put it into probably for field testing which is another six, eight months. Till you are confident you are not ready to offer it to your customer and now only the first time the LCV is coming in.

Viraj Kacharia: So, basically you talked about us catering into a single customer now we are possibly catering to four additional customers, is that right?

Harish Sheth: We will be catering.

Viraj Kacharia: And how big would the LCV market be in India, the domestic market if you just talk about OE and then after-market separately?

Harish Sheth: LCV market compared to MCV and if you start looking at the numbers, I will just give you an LCV clutch could be selling it for a Rs. 1000 whereas MCV and HCV particular HCV clutch would be going at about Rs. 7,000 to Rs. 8,000. So there is a vast difference in the pricing. Even if the numbers are large, it cannot match in total value.

Viraj Kacharia: And who would be your key customer there?

Harish Sheth: Same people.

Viraj Kacharia: Sorry, key competition?

Harish Sheth: Eicher, Tata motors, Ashok Leyland.

Viraj Kacharia: No, sorry my mistake, what I meant to, who will be a key competitor there?

Harish Sheth: Same clutch manufactures like Ceekay, Valeo, LUK, they are in right now in this sector and they are in tractor segment also.

Viraj Kacharia: And second question was on the tractor market, you said that of the 500,000 market, 300,000 probably an addressable market for us and we targeting 25% market share by FY18?

Harish Sheth: It is not a question of targeting. When you work with an OE generally, unless they feel that you are capable of delivering them 25%-30% of the requirements, they would not develop you. So, that is first hurdle, they have to see your capacity, capability and now with our own diaphragms, we are making plant, our own foundry and foundry is also now TS certified which happened only couple of months back. So, they know that we can deliver the goods.

Viraj Kacharia: So, we are pretty much confident of having a 20% market share by FY18 itself?

Harish Sheth: Between FY18 around by the time the FY18 reaching will be reaching that level. Not the whole of FY18, you start with 5%, 10%, 25% that is all you reach.

Viraj Kacharia: What would be the average ASP, average of a clutch in a tractor?

Harish Sheth: It could be anything from 4500 to 6000 depending upon the project.

Viraj Kacharia: This is at the OE level, right sir?

Harish Sheth: At the OE level.

Viraj Kacharia: Second question was on the Lava Cast, one is on the CAPEX and second is on the Lava Cast. Given we have excessive growth targets of 1000 crores say by FY19 or FY20, what kind of CAPEX will be needed for us to achieve that and how we going to fund it?

Harish Sheth: You are asking question regarding Lava Cast, you said your question in Lava……

Viraj Kacharia: No, on the overall CAPEX side sir?

Harish Sheth: As far as the Lava Cast is concerned, unless we go in a Phase-II it will not require any further CAPEX. The current CAPEX is adequate except that few crores here or there on an annualized basis in the business on this size, we are not on any major going into 40 crores-50 crores investment in the coming few years unless that is probably may be required if we go into second phase which we have not decided it, when we will do that. As far as the Setco Automotive is concerned, the clutch factory, there we are looking at over a period of three years annually, we normally invest about 25 crores to 30 crores annually. This takes care of sometimes old machines you have to scrap it, you require new tooling's also, expansions also requires to meet certain demand. So, that is an on-going process and that is what we do. We have been doing that except last year because there was no increase in sales much to go in a big way including this year also. CAPEX will start from next year, major CAPEX.

Viraj Kacharia: So, how we intend to fund it because we have a good amount of cap on our balance sheet on Setco Automotive, so one is, if you can just provide how we intend to fund it and second is, if there is any road map in terms of deleveraging over next 3 years?

Harish Sheth: Let me just put it slightly differently your question. If I were to do CAPEX, just to tell you say about 40 crores I am just taking a figure. If I am taking a bank loan, I will have to invest 10 crores and the banks will provide the 30 crores. My annual repayment to the banks today on the past term loans is also around 25 crores to 30 crores. See, even if I go for a bank loan, my repayment takes care that there is no increase in the bank loans needed plus you will have our own profits. So, actually we may not require 30 crores but we may require 20 crores-25 crores. So, that way the debt will start reduction. Is it understood what I am explaining.

Viraj Kacharia: Sir, not clear sir.

Harish Sheth: Alright. Let me tell you again. If I have to make an investment in CAPEX of 40 crores and if I go to the bank due to the experience with us and the past working, they will be more than glad to provide as much loan as we require. So, I will require may be 30 crores of loan and 10 crores of our current investment to have a CAPEX of 40 crores. Now, 30 crores is an increase in debt but at the same time we are repaying the past debt also which on annualized basis is around 30 crores. So, except few crores here and there, our debt will not go up, though we will make a CAPEX. Over and above that, we will have sufficient profit in next 3-4 years where we will not have to borrow that high an amount, we may have to borrow only 15-20 crores. So, the debt will continue to go down, it will not continue to keep going.

Moderator: Thank you. We take our next question from the line of Apurva Mehta from KSA Shares. Please go ahead.

Apurva Mehta: Sir, just wanted to ask about the US market development, so where are we placed and what potential it has and what these few quarters which are left for this year, what contribution we can get from there?

Harish Sheth: Limited contribution in the next two quarters from the US market, will start supplies in the fourth quarter. All that is needed to tie up, testing and everything is almost completed and we start actually supplies from the fourth quarter.

Apurva Mehta: So, can we envisage any turnover from there for the fourth quarter?

Harish Sheth: Yeah, you can envisage, but it will not be very significant.

Apurva Mehta: And on the Lava Cast, sir, what current capacity utilization we must be doing around?

Harish Sheth: As of today, we could be around 30%. By the time the year is over, we could be at about 40% but ready to go to 60%-65% depending upon, we are working with various customers. So, that work will start in a development of patterns and supplying samples, acceptance of sample. So, for Lava Cast, other customers will come on the board by probably March-April of the next year.

Apurva Mehta: So, by next year, can we expect 75% for Lava Cast?

Harish Sheth: This is not a chemical factory, it is an engineering factory. In an engineering factory, it takes time to reach and in this particular engineering line, it is a little bit of the sand mix, this mix, that mix, all those things come in. So, we expect about may be 60% capacity reach next year.

Apurva Mehta: Sir, what turnover we can get from this tractor clutches approximately what you have envisaged next year about by the total, what amount of turnover ….?

Harish Sheth: We are looking it anything from 40 to 60 crores.

Apurva Mehta: So, 40-60 crores from there and 40 crores from Ashok Leyland which we are expecting. So, 100 crores of turnover from these two new things we can get?

Harish Sheth: And also ACE of Tata another 20 crores.

Apurva Mehta: And the US market will be approximated if you just have a ballpark figure of yourself?

Harish Sheth: It is difficult, we have to first enter in. We have all projects on some paper but not a very good edge to spell out everything.

Apurva Mehta: And sir, what will be this GST new initial norms coming in, so your price per clutch will go up definitely for new trucks which are going to come, or is it, it will go up or it will remain the same?

Harish Sheth: There is no clarity on what GST will be on auto component. It may remain same as the vehicles, it may go below so that people can have a little cheaper product but at the same time, at the end of the day GST will have a very positive impact for us because it will get rid of lot of people who do small things do not pay excise, do not pay sales tax and they account almost 20%-25% of the market. So, those people lot of them will be out of business. But India, we have lots of intelligent people, they know how to circumvent government rules. We do not know.

Apurva Mehta: Sir, on the new emission norms, what changes we do in clutches or there will be any…?

Harish Sheth: BS-IV norms do not require any change in the clutch. BS-VI norms are coming in 2020 that will require some changes and we are working on that.

Moderator: Thank you. We take our next question from the line of Deep Shah from SBICAP Securities. Please go ahead.

Deep Shah: Sir, first question is for Mr. Vinay. Sir, in the presentation that you have said, EBITDA number which you have said is 127 million, excluding other income and the calculation if I do on the BSE filings number coming at 110. So, what adjustments you have done there?

Vinay Shahane: So, it is basically the foreign exchange loss like it was covered in the original remarks. The foreign exchange loss if you make it as per the stock exchange filing format, we have to include it in other expenses and so, automatically it comes under EBITDA calculation but what we are comparing in the presentation is the really operating performance and that is why if you are seeing the presentation, foreign exchange loss of 16 it shown below the line after EBITDA. So, that is the only adjustment, no other adjustment.

Deep Shah: So, let's say if I keep it aside this adjustment, then if I compare quarter one to quarter two, your mix has improved, what I mean is the contribution of replacement market has gone up from Q1 to Q2. So but then if I exclude these Forex adjustments, then their EBITDA is just 10.8 versus 12.8, it has shrunk, so what explains that?

Vinay Shahane: See, basically okay the compositions had slightly improved as you say right but at the same time you have to remember first quarter my turnover, total volume was 113 crores and again that, this quarter volume is around 103 crores. So, at the lower sales of around 10 crores, the contribution on that is basically a loss if you compare quarter-to-quarter, that much reduction in contribution will directly impact the EBITDA for the quarter. Actually if you look on the operating cost parameters in percentage to sales-realization, there is an improvement but naturally because of the lower volumes, yes your margin above breakeven point has got reduced and so the EBITDA is reduced.

Deep Shah: So, the second question is on the M&HCV side. Q2 was little bit muted for the industry, Q3 started on a good note but due to this cash crunch and everything, general perception in the industry is that in the next two months for this quarter would be really bad because trucks, I mean, fleet operators are not buying trucks, new trucks and so on and so forth.

Harish Sheth: That is not the information we still have. We are in a very continuous touch with our OE customers, we have to monitor our production very closely particularly considering that we are the only source to all the truck manufactures in India.

Deep Shah: So, basically there is no cut back in production or whatever that you are hearing?

Harish Sheth: Not yet. But you never know. If it happens, we will make it up in January, February and March.

Deep Shah: And the third question is related to Lava Cast, have you added any of the customers on concrete kind of a contract for any of the customers so far?

Harish Sheth: Fairly close to the same customers that we have in Setco Automotive with Tatas, Ashok Leyland, Eicher, Daimler is largest consumer of castings among the automotive industry and followed by tractor because tractor also, most of the parts in the tractor are made of casting. So, the tractors are another one, so we are fairly confident. On the contrary, having a foundry, we have not envisaged earlier to supply our customers, clutch along with the flywheel which is casting along with the clutch housing which is again a casting. So, it will make our presence much stronger because it is not only the clutch but we are one of the casting suppliers to them and we are very close to signing some of the deals.

Moderator: Thank you. We take our next question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: In your presentation where you have shown after-market being 57% of revenue, how much of that is routed through the OEM and how much is the direct after-market channel?

Harish Sheth: Our proportion is between OES and IAM is about 60:40 ratio.

Basudeb Banerjee: And as per our last interaction, you have been saying that the non-OES segment you are more emphasizing now and directly retailing into the after-market, what has been the progress over last couple of quarters?

Harish Sheth: Let's put it this way. In a span of two years from zero when we started, we crossed 100 crores last year, in two years to cross the turnover of 100 crores is a big achievement from my team.

Basudeb Banerjee: So 100 crores of direct after-market, so within..?

Harish Sheth: That was last year when we did that.

Basudeb Banerjee: So 40% you meant is soon after this.

Harish Sheth: Between 35% to 40% of the total after-market business directly we do is around 35%-40%, the balance is done by the OES.

Basudeb Banerjee: Yeah, so almost 60% is….

Harish Sheth: And the time goes by, that will keep increasing.

Basudeb Banerjee: So basically I was trying to understand the impact of this demonetization, so if you are…

Harish Sheth: There will be an impact, yes.

Basudeb Banerjee: So if your impact through the direct OEM replacement route remains high, then there will be limited impact or there can be a higher impact in the short term?

Harish Sheth: See, this demonetization is going to impact all kinds of business and everywhere because it will take people a month or two to straighten things.

Basudeb Banerjee: See a multi-brand retail outlet where they are selling your clutches plus many other auto parts, so what percentage of such say micro market dealers like dealing full cash and do not pay taxes or paying tax kind of?

Harish Sheth: All will change the way of working na?

Basudeb Banerjee: Yeah, but at present what is the situation?

Harish Sheth: Everybody will have to get away from the cash business, otherwise they would not get a tax benefit. If they continue on cash and there is other big dealer, he is getting the cash benefit whatever tax we are charging is again taking an overdue, call it a set-off. That set-off will be difficult. So, no other alternative to change it and people who will not change and there will be some manufacturers always and they will suffer in the long run.

Basudeb Banerjee: Yeah, so basically somebody who has been doing business for ages, decades and now transitioning to a tax paying regime.

Harish Sheth: It takes time and we will do it.

Basudeb Banerjee: So that transition period will also impact the players like you who are routing your business through such channel.

Harish Sheth: Say more than that because ultimately, if there is a crop, crop has to move, it cannot remain on the field. Similarly, cement and steel if there is a housing demand that has to move**.** So all for moving that the trucks will have to move. So the truck user will not wait for the cash or a cheque and everything he will go ahead and buy that. So profitability and other things he will have to start looking into it, but that is everybody is not doing right now. So much of impact is there and we Indians have a generally very interesting fertile mind. So let us see what comes of it.

Basudeb Banerjee: So you said OES is 35%-40% as of now broadly.

Vinay Shahane: No, the reverse actually.

Basudeb Banerjee: OES is 55%-60% and…

Harish Sheth: All that total after-market.

Basudeb Banerjee: And independent after-market is 35-40.

Harish Sheth: Yeah, both that.

Moderator: Thank you. We take our next question from the line of Mahesh Bendre from Way2wealth. Please go ahead.

Mahesh Bendre: Sir, in the first half of this financial year, we have reported EBITDA margins of 13.1%. So do you think this kind of margin sustainable going forward or there is a scope for improvement in FY18?

Harish Sheth: I will think that this is no question of sustainability, this is probably one of the lowest margins that is in last five years if you go through every our quarter, 12%-13% margin is normally not there, we are always much higher than that and we are very confident that EBITDA margins have to improve at the sales and production starts going up. So at lower sales EBITDA, margin drops; at higher sales, they improve that is normally the principle in engineering industry. If you look at our profit and loss or annual report, you will find the contribution that is variable cost is anything from 69 to 71. So, every increase in a Rupee had stood the bottom line considerably.

Mahesh Bendre: So, when we mentioned that we want to achieve a milestone of 1000 crores by 2019 or 2020, what kind of margin we are expecting at that point of time?

Harish Sheth: Much better.

Mahesh Bendre: Will be in excess of 17%-18%?

Harish Sheth: I should hope so.

Mahesh Bendre: And sir, another question is the interest cost overall is very high. In the first half, we paid around 15 crores of interest cost and we earned EBITDA of 28 crores, so whatever we are earning through our operating performance is basically we are paying for the banks, so next two, three years do you think that we will come down?

Harish Sheth: No, it is considerable. While we started the year or last year, we were looking at a much higher turnover without increasing the debt from the banks either working capital or term loans are much, unfortunately that has not happened but the other area remained more or less straight. Now, going into future years, the profits will be, EBITDA will be as suppose if we are working on EBITDA 16%-17% and as I said earlier we do not expect debt to grow, then our interest margin will remain constant will start coming down whereas the higher EBITDA has to push into us.

Moderator: Thank you. We take a follow up question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just had two more questions. If you see cumulatively, we have made advances and investments of 85 to 90 crores in the parent and other non-core ventures in last 2-3 years, so what is the money which has been invested for what activities and by when do we expect to recoup our investment in these group entities back?

Harish Sheth: See, Lava Cast is a subsidiary of Setco Auto.

Viraj Kacharia: No, sir I am not talking Lava Cast, I am talking about Setco Engineering?

Harish Sheth: You said group associate company subsidiary and other things, I am just taking a larger review part, I am just taking through everything. As far as Lava Cast is concerned, already 45 crores is made and we will be meeting another 10 crores also the investment in that company during the course of this year. As far as US and UK companies are concerned, we have to sustain them at somewhere and some CAPEX or some investment will be required. So that is again our 100 % subsidiary and these subsidiaries play a very important role in more than one way, so that will be done. Then there is another investment that was done through preference share route about 40-42 crores. Out of which, 8 crores have already come back, we expect more money to come back before the end of the year and in next two years, that 40 crores will completely come back to the company.

Viraj Kacharia: So, by FY18 we should have been expecting to get all the 42 crores back from the parent?

Harish Sheth: FY19.

Viraj Kacharia: And what about another 20 crores, the investments which we have made to TransStadia?

Harish Sheth: That is an equity investment again.

Viraj Kacharia: So, we do not intend to monetize that?

Harish Sheth: present income, other income or may be with we will buy out also.

Viraj Kacharia: So, on broadly I understand that investments in Lava Cast and US and UK subsidiaries are more towards building a competitiveness in our core business, what is the thought process on investments with the advances given to the parent or the TransStadia. So, what is the thought process of similar investments, how do we look at similar investments in the future?

Harish Sheth: It will not happen.

Viraj Kacharia: And couple of months back, we had showed a resolution for issue of further securities, so what is the thought process there?

Harish Sheth: We are looking at it. This is not the right time, first we need to come out with little better results.

Viraj Kacharia: And what is the extent of valuation we are looking at roughly?

Harish Sheth: We have not worked on it yet, we have just applied our mind, started thinking about it now.

Moderator: Thank you. We have a question from the line of Karan Thakkar from PM Securities. Please go ahead.

Karan Thakkar: Just a quick question. As per the question of the last participant, sir what is the kind of dilution we are looking at post we come out with good result and when is that expected and what is the requirement of that funds, where is it going to be employed?

Harish Sheth: We have not worked out all the details at the moment, soon to tell you**.** We are working on various options and various opportunities. Right now, we also need to augment our working capital also.

Karan Thakkar: But we are thinking of a dilution right? So, if we are thinking of a dilution, we should have a requirement of fund, there should be a reason right why we required that fund?

Harish Sheth: As we grow quite a bit, we will require money in the working capital margin, may be something in investments where we are doing in capital expenses, we may require to put money also on the Phase II of the Lava Cast once the Phase I does. So all these requirements is there. It is the matter of timing.

Karan Thakkar: Next 2 years, do you expect this dilution to happen or it will happen after that?

Harish Sheth: It will happen within next 2 years.

Moderator: Thank you. We take a followup question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: You talked about probably an investment towards Phase of Lava Cast, so we just talked about Phase I, what is the kind of sustainable margins and ROC do we expect in this business from Lava Cast point of view?

Harish Sheth: In this year you are coming about or in the coming years?

Viraj Kacharia: On a sustainable basis, sustainable margins and ROC.

Harish Sheth: Fairly good. Margins normally in a foundry units with machine shop the EBITDA around could be 15% plus, so the ROC will be good. It takes a little time to settle down. We are here to make the brand for first 2 years and we expect foundry pieces tremendously in the coming years because that is going to be a shortage commodity not only in India, but in international market.

Viraj Kacharia: And what kind of ROC do we expect there?

Harish Sheth: In the range of 20 plus.

Viraj Kacharia: So by FY19, should we expect this kind of..

Harish Sheth: Yes.

Moderator: Thank you. We take our next question from the line of Apurva Shah from Phillip Capital. Please go ahead.

Apurva Shah: Sir just two quick questions like you mentioned about CAPEX, what will be our total standalone CAPEX requirement and for Lava Cast, how much we have spent in Phase I?

Harish Sheth: Answering your last one, in Lava Cast we have spent about 45 crores already in Phase I. You are talking about project cost or you are talking about investment?

Apurva Shah: Both.

Harish Sheth: Project cost is around 175-180 crores.

Apurva Shah: So 180 crores we already spent for Phase I?

Harish Sheth: Yes.

Apurva Shah: And what will be the requirement for Phase II?

Harish Sheth: Phase II will be almost about we can double the production with an investment of 100 crores.

Apurva Shah: So from 30 to 60, you need to require only 100 crores because you have the basic infrastructure.

Harish Sheth: Yes.

Apurva Shah: And sir what will be the breakeven capacity utilization because we are looking for 15% margin, so beyond 50% capacity utilization..

Harish Sheth: There, we are looking at 70% breakeven point on the first phase. Originally, we were to start both phases together, 50,000 tonnes and we decided that rest will be lot of learning process, so let us divide into two, let us not invest everything and pick the margins. So if you really look at, 50,000 is the capacity, then the breakeven would not be 70%, it will be much less. And the quantity of this size, when you want to go it, you need to have a scalable production and all that investment kind of thing.

Apurva Shah: And sir when will you take decision for Phase II?

Harish Sheth: We have to do it. It is a question as soon as we go about 70% of our capacity, we will start opening it.

Apurva Shah: For first question, what is our standalone CAPEX requirement for next 2 years?

Harish Sheth: As I mentioned earlier, on an average about 30 to 40 crores per year is what we normally do. So next 2 years, you can just calculate it accordingly.

Apurva Shah: So mainly for QIP, our main requirement will be to fund the Phase II of Lava Cast, right?

Vinay Shahane: It could be multiple. The QIP resolution, just the enabling power we have taken, we have taken it last year also. So it is basically enabling power. As the time comes and the opportunity arises, we will take a call on the sourcing, time pricing and application of funds.

Moderator: Thank you. We take our next question from the line of Sushil Bhojwani from Elara Capital. Please go ahead.

Sushil Bhojwani: Sir, just wanted to understand given the current situation of the demonetization thing happening and you are seeing some impact, what would be the growth you are looking at on the topline level and to the current year and do you see any impact going into FY18 as well?

Harish Sheth: In the current year, we will be growing more than the last year. So in second half, there is always we get a growth.

Sushil Bhojwani: Last call, we were talking about around 20%-25% growth in FY17, so do we kind of see such kind of growth or we see that number kind of coming down to around 15% or something like that.

Harish Sheth: Around 10% to 15%, something like that, not beyond that. Overall, FY17 over FY16, you are asking, am I right?

Sushil Bhojwani: Yes.

Harish Sheth: It could be anything from 8%-12%.

Sushil Bhojwani: Do we see any spillover in FY18 because of this impact?

Harish Sheth: When you say spillover, what exactly is it?

Sushil Bhojwani: I mean the demonetization impact.

Harish Sheth: No negativeness.

Sushil Bhojwani: And sir I am sorry, I just missed out on the part when you said it you are actually continuously in talks with all your customers, so there is no rescheduling of orders as of now.

Harish Sheth: At the moment, no. They have not done it, but you never know. But as of right now, there is no sign.

Moderator: Thank you. We take a follow up question from the line of Apurva Shah from Phillip Capital. Please go ahead.

Apurva Shah: Just a follow up, for Lava Cast like we will be catering internal requirement as well. So what is our total internal requirement?

Harish Sheth: We will be at a full production level of Lava Cast, so Setco will be taking probably consuming 40%-45%.

Apurva Shah: So that is considering both the phases.

Harish Sheth: First phase.

Apurva Shah: First phase only.

Moderator: Thank you. We take our next question from the line of Arpit Shah, an individual investor. Please go ahead.

Arpit Shah: Sir just question is regarding TransStadia. First of all, congratulations for hosting successful Kabaddi World Cup, I just wanted to know did I hear it correctly that no further investments would be made for the future projects in TransStadia.

Harish Sheth: Not from Setco Automotive.

Arpit Shah: Because I just read some article that Mr. Udit is going to expand after the successful grid.

Harish Sheth: Every business requires continuous expansion. Lot of enquiries that are coming, but no investment will take place from Setco Automotive Limited.

Arpit Shah: So the only thing that we will be recovering the money and no further investments will be made.

Harish Sheth: Not in TransStadia, no.

Arpit Shah: And may I ask to you the last question that how many memberships up till now we have sold in TransStadia?

Harish Sheth: It does not matter. Let me put it this way that club has not started yet and membership numbers have crossed all over 400-500 people.

Moderator: Thank you. We take a follow up question from the line of Karan Thakkar from PM Securities. Please go ahead.

Karan Thakkar: Sir this question is again on Lava Cast internal consumption on Setco, has Lava Cast started clarifying all the conventional requirement for Setco and is that the reason why we have seen a margin improvement and what would be the scope of margin expansion because of Lava Cast being the supplier of raw materials?

Harish Sheth: Lava Cast has not yet made much impact on the margin improvement of Setco Automotive because Lava Cast is settling down, production is naturally will be higher till it settles down in terms of its foundry items, machinery items. So, there is no impact, but going into the future once it settle down which I think may be in another few months, it will be good way to the bottom line.

Karan Thakkar: So what would be a number on EBITDA margins that could be expanded due to this internal consumption, could it be 2%-2.5% or it will be North or South of that?

Harish Sheth: Little South of that.

Karan Thakkar: So 1.5%-2% can be expected.

Harish Sheth: Yes. See what happens, there is something called arm's length pricing. We are buying castings from other people also. So, we cannot go ahead and give them additional price, auditors will question it. So everything has to work on, but where it will really come that today we sell our scrap to the traders in the market. Literally, you have less price. Selling our scrap to Lava Cast which is a consumer, look at the consumer's price which is always better. Factories are across, so I do not have a transport cost. I do not have to have an inventory maintaining on the foundry items in our factory in Setco Automotive because it will come. So these are implicit benefits would be tremendous.

Karan Thakkar: And this time the 2%-2.5% is what cross benefit that we have got?

Harish Sheth: If you see, it is viable, little improvement on the material cost, improvement on the production cost. So each one of that area, there has been an improvement and that totally has resulted about 2% into that.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Harish Sheth: Thank you very much for participating into this conference. I appreciate the time that you have given for this and all of you are welcome for a plant visit as and when you like it. Whenever is comfortable, come and see both the plants. If you guys want to visit TransStadia, it is not too far from the plant either. So that can be done also, so anytime please be in touch with Mr. Vinay Shahane or Mr. Prashant Jhaveri from the company and they will guide you through. We are all looking forward to good coming years that you must be reassured of as India can grow.

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

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