SETCO AUTOMOTIVE LTD
LIPE CLUTCH
CERTIFIED TS 16949/ISO 14001 EMS OHSAS 18001
CIN No. : L35999GJ1982PLC005203

December 28, 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 Monday, December 4, 2017 at 4:30 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

Vinay Shahane
Vice President – Finance

SETCO AUTOMOTIVE LTD. MUMBAI

CORPORATE OFFICE : 2/A, GROUND FLR., FILM CENTER BLDG., 68, TARDEO RD., TARDEO, MUMBAI - 400 034. INDIA PHONE : +91 22 407 55555 FAX : +91 22 2352 0754
REGISTERD OFFICE : VADODARA GODHRA HIGHWAY, KALOL (PMS) - 389 330 , GUJARAT, INDIA PHONE : +91(0) 2676 - 305600 FAX : +91 (0) 2676 - 235524
WEB : www.setcoauto.com
E-MAIL : contact@setcoauto.com

Setco Automotive Limited
Q2 FY18 Earnings Conference Call
December 4, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY18 Setco Automotive Conference call. On the call today, we have with us Mr. Udit Sheth – Joint Managing Director and Mr. Vinay Shahane – Vice President (Finance) of the company.

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 telephone phone.

I would now like to hand the conference over to Mr. Udit Sheth – Joint Managing Director of Setco Automotive Limited. Thank you and over to you, sir.

Udit Sheth: Good afternoon. This is Udit here and with Mr. Vinay Shahane and welcoming you to the conference call. Happy to discuss our results. It has been quite a seesaw from the previous quarter to this quarter but really has nothing to do with us and more to do with the way this industry is moving and the economic scenario has been defining the growth. And we are really happy to answer your questions. See the presentation we have already posted online.

So the conference is open. I hope you have studied the investor update presentation for the Q2 FY18 Results & Performance Review and we solicit your questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session.

We will take the first question from the line of Himanshu Shukla, an individual investor. Please go ahead.

Himanshu Shukla: I have a question on your forging unit. Can you tell me what is the utilization current in that forging division and when do you plan to breakeven which quarter?

Udit Sheth: That is an excellent question except that a slight correction. We do not manufacture forgings, we manufacture fully machined castings, grey iron and SG iron and we have an installed capacity of about 2,500 tons to 2,600 tons per month. We have managed to scale it up quite a bit now to about I would say 1,800 tons right now but it can go up over the next quarter as the volumes picks up.

We see that in this particular unit at the end of this quarter, we should be able to breakeven broadly and have an operating profit at the end of the fourth quarter. The business is looking very positive because of the increase in Setco's volumes alone and now we are actively soliciting orders from major OEMs as well especially in the areas of brake drums and brake discs and flywheels.

Himanshu Shukla: Sir, second one. So about your US operation, you mentioned in the investor presentation that you are able to manage to supply to contract a few orders. Can you throw what kind of traction we are seeing in our US market and how big the business can get to over the time?

Udit Sheth: We have seen a bit of a slowdown in the past in the US. Now all the products that we have developed for the US market has just started supply. Hoping that in on annualized basis we shall be able to do at least in the first year a supply of may be about 12,000 to 15,000 units in an annualized basis and going up to almost 45,000 units in the third year. In terms of value proposition, you could take that at about $250 a unit.

That is how we see the value proposition for the US business taking up. We have signed up with good distributors over there and the product has achieved all the performance targets in both lab and pre-testing.

Himanshu Shukla: Okay so last question, sir. So I think few years back you had provided a loan to a stadium projects. So anything on that front like in terms if have we got all the money from that project back to the company, can you throw some more insight on that?

Vinay Shahane: Yeah, as it is mentioned in the presentation, we had invested in preference shares of our group investment company an amount of Rs. 42.6 crores and as of today full preference shares have been redeemed.

Moderator: Thank you. We will take the next question from the line of Kushal Shah from Dolat Capital. Please go ahead.

Kushal Shah: Sir, if you can help with the taxation numbers for every year. I was seeing like around 20% for PBT. So is this like continuation like the things that you expect?

Vinay Shahane: See the company has been under MAT basically because of the Uttarakhand unit which enjoyed tax holiday. The tax holidays are valid up to March 2018. So for FY18 also the tax rate would be around that 20% to 22% only. From the next year, subject to other tax incentives and calculations, the normal tax rate would apply.

Kushal Shah: And if you can run me with the sales mix for the different kind of units?

Vinay Shahane: I did not get you?

Kushal Shah: For the quarter?

Vinay Shahane: You want the market segment wise or OEM point of view?

Kushal Shah: Volume wise like clutches and everything like in tractors and everything in that segment?

Vinay Shahane: See tractor has just commenced in the first quarter of this year currently with one OEM customer only. We are in talks with other OEM customers also and the volumes will slowly ramp up and the full year impact would be really visible in the next year.

Kushal Shah: And can you just help me with the guidance that you are looking for, for Q3 because I guess as your Q1 was impacted due to the slowdown in the OEM inventories so again this numbers would be including the production inventory that they would be building up. So Q3 would be not as good as Q2 numbers?

Vinay Shahane: No, even as we have mentioned we are looking at the accelerated growth in Q3 and Q4 also and if you look at the industry data for the month of November over last November the production announced by major CV manufacturers year-on-year, they have announced 50% growth by Leyland and 70% growth by Tata Motors And so if this trend has to continue, with predominant market share my OEMs also would be growing in the same proportion. So we are looking at an accelerated growth. The Q2 will be just a launching pad what we believe. Q3, Q4 the growth would be much higher.

Kushal Shah: And if you can help me with the margins like for cost of goods sold margins were at 60% of this so is this what you expect like going forward?

Vinay Shahane: Yes, overall raw material cost has been in the range of 60% subject to minor correction because of depending on the segment wise mix of the sales. But more or less it will be in that range only.

Kushal Shah: And can you explain the composition of the other incomes, it was significantly higher as compared to other quarters?

Vinay Shahane: Other income, major part has been because of the redemption of preference shares as we had mentioned earlier. This is as per IND-AS accounting standards it the adjustment between the present value what we have considered in the balance sheet and the actual value realizations it has been realized before expected time of realization this is the income accounted. This is only accounting entry basically.

Moderator: Thank you. We will take the next question from the line of Karan Thakkar from PM Securities. Please go ahead.

Karan Thakkar: So this is the question just to check if we are in line with our previous quarter's in the conference call for the business that we have started with the LCV clutches for Tata and Ashok Leyland. So we had a visibility of about Rs. 20 crores topline from Tata LCVs in this year and Rs. 40 crores from Ashok Leyland. So is that still in line or is there any further visibility of more business or would we be expecting these numbers?

Vinay Shahane: Actual projections are more or less on line but a correction in what you mentioned about the Ashok Leyland business. It was not out of LCV, it was out of the new product which we started supplies to them in second half of previous year. So it is a new business compared to my earlier figure in business segment. But it was not LCV of Ashok Leyland.

Karan Thakkar: But it was that was MHCV or?

Vinay Shahane: It is MHCV only.

Karan Thakkar: Okay and as far as the US shipments are concerned we were looking at them 15,000 quantum. So what is the status as of now for that how much has been shipped and what is our visibility for that and what is the realization of the clutch that we are making right now?

Udit Sheth: I think in the angular spring design which is primarily used in the US we are in this right now as we speak we are getting into the year end of the US, we are getting into the Christmas season. So on an annualized basis while I would project a 11,000, 12,000 number in the next three to four months as the winter is there and the change over happens in the financial year over there, we do not expect more than 2,000 or 3,000 kits to be sold and that ramp ups are happening the time we start closing our year end in India, it starts picking up over there.

Karan Thakkar: Okay so as of now how many shipments have already happened?

Udit Sheth: Shipment from India has happened but the way we look at is that we have sold to our subsidiary. we actually need to sell it onwards to the customer. And that is the important aspect. Those shipments will start now.

Karan Thakkar: Okay and right now we had gotten some distributors in the US for the national distribution. So that point in time last quarter we were not given the name so is it possible who is the distributor that you have empanelled right now in the US who is doing the distribution for these clutches?

Udit Sheth: There are a bunch of them, there is not just any one. For example, there are very large distributors like FleetPride who are very keen and are already started taking some pieces from us. And we are further consolidating that with some other bigger names which are Tier-1 companies. We are still negotiating prices with them because with the larger distribution network, they do put a lot of pressure on us and we want to make sure that we also work out with some kind of a healthy margin.

Karan Thakkar: So Mr. Udit, one thing in the US if we have signed this clutches predominantly besides that are we looking at replacing certain brands who are already present in the same clutch segment or is it just a price competitiveness?

Udit Sheth: So I think you have actually kind of answered the question. We are basically going to be replacing some existing players who are very dominant in the market. Our key USP is going to obviously one is going to be price but the second is performance. We are as good or better in performance than the existing player because we go in with our own friction material configuration and unlike any other clutch manufactures.

So for example there are Eaton clutches in North America as the predominant player. Some of the other players, they import clutches from China. Now unless and until you have a local service base you do not succeed in the clutch market and that is our advantage because we already have a network not only to sell but also to service these products.

Karan Thakkar: Okay and these clutches are sold in the brand name of Lipe in US?

Udit Sheth: Yes.

Karan Thakkar: So is there any sort of recognition of Lipe or did Lipe before Setco took it over did the American Lipe sell it to some OEs like in the Indian aftermarket what Mr. Vinay had told when we met is that the clutch that is put in an truck has Lipe clutch written on it and when you go to the aftermarket when you get a clutch saying Setco Lipe. So is there a recognition of Lipe in US?

Udit Sheth: Yes.

Karan Thakkar: Lipe has been selling for how many years in the US?

Udit Sheth: It is over a 90 year old heritage brand and they used to sell in quite a large volume till the market shifted over to the angular spring design. Nonetheless some of the heavy logging industry markets and mining industry continued using the legacy design which was more durable and to taking stresses of the market. But as the market shifted over, Lipe under its previous owner was not able to change the technology. Once we have taken over, we have upgraded that technology and we are now not only got the previous design but we have also got the new design and both are available on offer in the market.

Karan Thakkar: Okay so right now for the US picture we are looking at some 2,000, 3,000 clutches until the end of this financial year and 11,000, 12,000 annualized from today, right?

Udit Sheth: Yes.

Karan Thakkar: Okay and years down the line do you see any number that you can put to the visibility of this business?

Udit Sheth: We are looking at a third year full year operation of about 40,000 to 45,000 sets.

Karan Thakkar: And right now all the distributors that you have been working with the current distributors what is your margin left in hand in US EBITDA level?

Vinay Shahane: At EBITDA level at our US entity the EBITDA could be around 10% to 15%. But basically what we have to really look at is not on what the US operations will earn. It is at a group level whatever we are selling to the US subsidiary because of the arm's length pricing have an average contribution of around (+30%) on my billing to US subsidiary. So it is at total group level if you look at it, it will be around 40%, (+45%) margin.

Karan Thakkar: Right that is what I was because**…..**

Vinay Shahane: Yeah, so at a group level we need to speak rather than individual company level.

Karan Thakkar: So Setco is selling to the subsidiary at 30% EBITDA, correct?

Vinay Shahane: Yeah, 30% contribution I am saying not EBITDA. (+30%) contribution and US subsidiary we will have another EBITDA of 10% to 15%.

Karan Thakkar: And as of now what is the picture on the tractor business, is there any further progress on tractor business?

Vinay Shahane: No, we have started as we have told in earlier call with the supplies to one OEM customer. Other proposals are under active consideration and advance stage. And hopefully by the year end we should be having those customers also on board. Those volumes will slowly ramp up.

Karan Thakkar: So right now there is no OE which has been already there?

Vinay Shahane: There is one OE customer as I told you.

Karan Thakkar: Okay and what is the volume that we are expecting from this one OE assuming no other OEs are added what is the volume that we are making on the tractor business?

Udit Sheth: You can take about 25% to 30% market share.

Vinay Shahane: See in the long run may be one year or second year of operation when I have this four or five customers on board I should be looking at a market share of 20% to 25%.

Karan Thakkar: Okay and who is this OE entity as of now?

Vinay Shahane: Currently we are supplying to Sonalika.

Karan Thakkar: And in Sonalika our supply would be about 20% to 25% I think?

Vinay Shahane: Currently it is just a ramp up of operations. Slowly the market share with all customers will be 20%, 25% individually.

Karan Thakkar: Okay so what I am asking is right now in Sonalika how many vendors are there and out of that what is the share of ours?

Udit Sheth: We are looking at an annualized share of business at this stage where we have just started the supplies at about 25% to 30% share of business which gives us a pretty large upside in the aftermarket because the minute you get it into the OEMs aftermarket also takes up but we have been assured that we will at least get half the business over the next couple of years if the performance of our clutches are sustained with the right kind of deliveries and consistency in supply. I think the other supplier to them could be LuK if I am not mistaken, LuK Clutches which is the predominant brand in the farm equipment sector in India.

Karan Thakkar: It is Germany, right?

Udit Sheth: Yeah.

Karan Thakkar: And this is my last question on Lava cast. So as of now what would, you did mentioned but there were little confusion on my part. What you said is we have 2,000 to 2,500 monthly capacity of production but we are doing 1,800 right now. Is that correct?

Udit Sheth: No, we have 2,500 monthly capacity only not 2,000 to 2,500 which can go up to 2,700 or 2,800 depending on the product type and currently we are ramping up to about 1,800 tons per month.

Karan Thakkar: Okay so we are already doing 1,800 tons a month?

Udit Sheth: Yes.

Karan Thakkar: And out of this 1,800 tons on an annualized monthly what will be Setco's consumption out of this?

Udit Sheth: We are looking at about 1,100 to 1,200 tons at Setco going up to may be 1,500 tons. The rest is for some outside customers which we have already started some trials and orders with.

Karan Thakkar: So it is phase of the left out capacity has already started or is it being held on as an inventory or how is it going right now?

Udit Sheth: I do not understand your question.

Karan Thakkar: If we are manufacturing 1,800 and using up to 1,500 in Setco the rest 300 which is being sold right now the entire 300 tonnes sold right now?

Udit Sheth: No, because what has happened right now is that we have just ramped it up in the last month. So it is too early to answer your question on what we are doing with that. That excess capacity we are right now sending out samples, we are sending out some aftermarket components. It will start getting accounted in this quarter and going into the next quarter.

Karan Thakkar: Okay and what would be the margins on the sales of these left out production?

Udit Sheth: The margins are healthier than that of what Setco gives.

Karan Thakkar: Okay and this quarter onwards definitely we will see a sustainable growth in EBITDA, right because of all the supply being met by Lava Cast already?

Udit Sheth: Yes.

Karan Thakkar: So are you seeing about 2%, 2.5% may be 2% on a realistic note in the next two, three years where you would grown EBITDA level, I mean margins?

Vinay Shahane: Yeah, over a period next 2 to 3 years we should see an improvement in EBITDA by 200 to 250 basis points.

Karan Thakkar: And right now the steel prices being higher as I understand it could be a total pass on clause. So if I am not wrong, correct me if I am wrong, so if there is a total pass on clause does the time lags keep impacting us or is it a day-to-day pass on?

Vinay Shahane: It is not a day-to-day pass on. Periodically the price benchmark prices are reviewed and the call is taken. Generally these are done on an annualized basis but in case of abnormal prices though it is considered during the year also.

Karan Thakkar: Okay so is it annualized, so right now in the recent volatility of steel has it been?

Vinay Shahane: May be for last couple of months steel prices have been rising but are not expected to be really continuing in the same trend or expected to slow down a bit. So we have to take a call on a long term basis.

Karan Thakkar: But generally it is all annualized contracts and only in abnormal cases if?

Vinay Shahane: Yeah, you are right.

Moderator: Thank you. We will take the next question from the line of Himanshu Shukla, an individual investor. Please go ahead.

Himanshu Shukla: Sir, can you just share me about your debt position and what are your plan for debt reduction in this year and coming few years?

Vinay Shahane: See the debt position as of now as on balance sheet which is also published, total debt is around Rs. 220 crores short term as well as long term. But since last couple of years as you know the company has been continuing its plans to invest in capacity expansion and modernization, the business volumes were not commensurate with that investment. But the future growth what is coming will not really require that much additional CAPEX and those additional returns will definitely result in reduction in debt.

Himanshu Shukla: So have you set any target I mean any for debt reduction anything you have set, you want to reduce the debt by some x amount of percentage?

Vinay Shahane: We are working on some internal targets definitely. But well, let us achieve it first and then talk about it.

Himanshu Shukla: So in your aftermarket right have you seen because of GST lot of we are seeing another area right unorganized markets are getting impacted and things are moving to organized market. So are you seeing any kind of shift in aftermarket due to GST?

Vinay Shahane: Well, the signals are visible but I would not say really a substantial shift. As of now there is only three months, four months in to GST. The shift is not means okay visible but not substantial as of now.

Himanshu Shukla: And I think today you gave one media report about your Rs. 1,000 crores target for next three years so means can you just broadly will summarize like which area are you targeting to achieve that Rs. 1,000 crores in next three years?

Udit Sheth: Basically we have seen a major delay of almost one whole entire financial year in our performance. This delay I will give you some background and it is a good question. I had mentioned a similar figure last year which I wanted to achieve by the end of 2019. Unfortunately because of the slowdown which was on the back of the demonetization quickly followed by the change in emission standards and by GST there was a lot of inventory challenges with the industry went through and we were unable to not only register a growth but we went through quite a tough periods in the previous quarter.

This quarter of course is a lot different. We continue seeing a robust growth coming out of both the MHCV segment and also the farm equipment segment. We are seeing a 15% to 18% year-on-year growth in these markets and a healthy growth in the independent aftermarket and we are aspiring to ensure that the international business at least contributes to 20% of our increased growth rates.

We have no major CAPEX which we have planned now. All our integration vertically whether it is foundry or our spring plant is in place. Our assembly line also can ramp up its production capacity. So mainly it is about ensuring our Tier-2 manufacturers actually supply to us. So that is how we believe that the buildup will happen reaching a Rs. 1,000 crores turnover in the next three years.

Himanshu Shukla: And the last question on UK subsidiary. That is still loss making so any plan to turnaround that UK subsidiary?

Udit Sheth: We do not envisage too much of positive impact because lot of the profits as Mr. Shahane has mentioned are retained over here in India. At the entity level we will be continuing to forecast and aspire for only a breakeven.

Moderator: Thank you. We will take a follow up question from the line of Arpit Shah, an individual investor. Please go ahead.

Arpit Shah: I have two questions. The first question I have regarding the margin breakup. Can you give the breakup for each four verticals that is OEM, OES, IM and Exports for the current quarter?

Vinay Shahane: Generally the OEM margins are low single digit numbers. In OES that is the aftermarket through OEM channels the margins are higher at a premium at 5% to 7%. But these are the pricing which is 5% higher. So in margin terms if you look at it, it is 50% higher margin roughly. Direct aftermarket is another 3% to 5% higher than OES and exports is at the top end of the margin levels.

Arpit Shah: And what are the export markets?

Vinay Shahane: Export market could be around 25%.

Arpit Shah: And you just said that in the last question someone asked that you are probably going forward would contribute 20% of the total revenue then we reach Rs. 1,000 crores, that is our main priority?

Vinay Shahane: Right.

Arpit Shah: So there is no other scope for improvement for EBITDA levels the moment we hit or we improve the volumes going forward?

Vinay Shahane: Yeah, I agree with you.

Arpit Shah: Can you share me the market share for MHCV and IM, market share?

Vinay Shahane: Sorry, I did not get you correctly?

Arpit Shah: Market share for MHCV, whether it is OEMs and IMs, current market share independent aftermarket and MHCV?

Vinay Shahane: Yeah, see it is MHCV is a type of clutch which basically contributes almost 100% of the revenue. Revenue of the company is divided into three segments i.e OEM, aftermarket and exports. OEM generally constitutes around 32% to 35% of the revenues. The total aftermarket contributes around 60% and currently exports are at single digit 5% to 6% business share.

Arpit Shah: Okay and can you just elaborate our market share in independent aftermarket if you have any numbers?

Vinay Shahane: There is no structured database available but our market share could be around 50% to 60%.

Arpit Shah: Okay so after and possibly in future if GST settles down this market share can increase because it is a very higher margin business and we have a lot of improvement going forward that we can achieve?

Vinay Shahane: Yeah, right.

Arpit Shah: And on the last question that you have mentioned in the investor presentation that you will be able to achieve 200 bps increase in second half of this current year. So can you throw some light how we will be able to achieve that or you still have this few this thing….

Vinay Shahane: See we generally means with that level of turnover been higher in second half as a tradition if you also see H2 turnover is around 60% of the annualized turnover and H1 accounts for 40% I mean the growth guidance what we have indicated in the investor presentation, the H2 volume itself and with a better mix our aftermarket and exports also will increase their share out of total revenues. So the EBITDA should be looking upwards only.

Arpit Shah: So as you said early this is going to be the benchmark because 2017-18 is going to be benchmark for the future group for that quarter?

Vinay Shahane: We have achieved it these EBIDTA levels in the past. So it is nothing difficult.

Moderator: Thank you. We will take the next question from the line of Sherwin Fernandes from Natverlal & Sons Stockbrokers. Please go ahead.

Sherwin Fernandes: Just one question and this is directed to Udit. Udit, you talked about distribution of the product in the US market and you plan to displace a dominant player. If you can just reiterate how you are going to do it? You talked about performance and serviceability but my query is cannot that be replicated by the existing dominant players in the US?

Udit Sheth: Actually we do not want to displace the dominant player, we want to aspire to get may be 10% of the market which is there is plenty of room because there are other unorganized players who are importing clutches from markets other than America and those people are not obviously offering on ground services or warranty and the clutch product, clutch is quite a complex product where you have to every few thousand kilometers service the product and when the change happens it is almost 10 hour schedule to change the product.

So not only are we going to be competing on price very, very successfully but we also have an on ground team who will actively handle calls and warranties. For example in India, if one was to bring in a Chinese clutch and OEM or an aftermarket player will be very I would say careful before putting that clutch into the truck because if there is a failure who is they going to go back to. But if you have an on ground presence, on ground team and on ground service network then they are very comfortable that yeah, if these guys are here to stay they are not fly by night operators who are just selling cheap products.

So that is how we believe that we are going to create a small niche for our service in the market where there is already a dominant player who is supplying not only clutches but with that a transmission but a lot of people also having said that do not like to be tied down to actually being forced to use the same clutch and same transmission they like to have their own variety in the American market and again that is where we believe we can create a good niche for ourselves.

Sherwin Fernandes: But Udit, again when you say the unorganized market, would not that also be addressed by the player that is successively supplying the clutch and the other kind of products to the OEs there?

Udit Sheth: Unfortunately they have about I would say 80% to 85% market share right now and there are other players who are there and we are actively going after all of them.

Sherwin Fernandes: Right so ideally you would want to capture may be 5%, 7% and then see the trajectory move to 10%, 15%?

Udit Sheth: That is right.

Sherwin Fernandes: Any kind of growth aspirations that you have for FY21 because everything seems to be in place, CAPEX seems to be in place, casting you already have started out something, for your OEs you are already in place in the India business and also exports you expect to pick up and also anything may be farfetched for FY21 some kind of CAGR number on the topline that you have envisaged or that the company there must have been some kind of discussions because everything seems to be in place and now you all plan to even low your debt and also I mean what is the idea now or what is the strategy going forward?

Udit Sheth: To ensure that we meet the market requirement targets and ensure that we also improve our overall operations in terms of EBITDA margins and contributions. I think that is where the success is. In the past calls I have been amply clear that we have already invested for the future. Our team is in place. We do not need to spend more money on manpower. We do not need to spend more money on setting up of the distribution networks. We do not need more money of CAPEX except we have routine upgrades in some tools or some factory areas or whatever which is ongoing.

So I think we are just I think our entire focus now is on operations and ensuring that we get the right targets and we get to this Rs. 1,000 crores figure in the next three years because that is a good mental hurdle to get over to be moving from a small to medium to a proper medium sized organization. There has been a 17% to 20% EBITDA in the next three years is a good EBITDA margin to aspire for.

Moderator: Thank you. We will take the next question from the line of Nitin Gandhi from KIFS Shares Capital. Please go ahead.

Nitin Gandhi: Can you share what is the cost of current Rs. 220 crores debt?

Vinay Shahane: Average cost is around 10.5%.

Nitin Gandhi: And it is likely to go by 1%?

Vinay Shahane: Sorry?

Nitin Gandhi: It is likely to go down by 100 bps?

Vinay Shahane: Yeah, we will be always looking at optimizing the cost and it may not be 100 bps immediately-100% over the next year should a realistic target.

Nitin Gandhi: And you mentioned 6% reduction that is for H2, right?

Vinay Shahane: Sorry, I did not get you, 6% reduction in?

Nitin Gandhi: Finance cost which has been mentioned in our presentation?

Vinay Shahane: Yeah, right.

Nitin Gandhi: Then this other income if you exclude preferential capital gains then that means it is fallen from Rs. 2.6 crores to Rs. 1.3 odd crores, right, there is a decrease in other income?

Vinay Shahane: There is not really a decrease in other income. Of course as I told you around Rs. 4 crores is on the redemption if you are looking for a quarterly figure. So other income basically is the interest charged to subsidiaries and foreign exchange gain which is on mark-to-market basis which have to recognize at every quarter end. So these are the only other income items. There is no other element to it.

Nitin Gandhi: And you mentioned there is a 2% increase in EBITDA so that is over H1 or is it over Q2?

Vinay Shahane: Over Q2.

Nitin Gandhi: Q2 EBITDA is 14%?

Vinay Shahane: Q2 EBITDA is around 13.9%. So we are looking at H2 EBITDA, not annualized EBITDA H2 EBITDA improvement of 200 basis points.

Nitin Gandhi: And just last one question. What is the total investment in US and UK subsidiaries? Can you give it separately if possible?

Vinay Shahane: Okay sure, I can touch base separately. I can share the information, yeah.

Udit Sheth: So I think it is fine to thank everybody now for their active participation. If there is any question we can answer even later or on one-on-one. Please do not hesitate to get in touch with us. I yet again take this opportunity to invite you to schedule a visit to our plant. I think seeing is really something that will make you understand our operation better, our foundry setup, our R&D center, our operations and we would be able to really show you and share with you the intricacies behind our business.

So you are always welcome to our facilities in Gujarat which are far easier to reach than the ones in Uttarakhand. You are welcome to Uttarakhand as well if you want to take a two day holiday which you can plan along with the trip. So thank you once again and feel free to be in touch with us.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Setco Automotive Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.