

September 29, 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
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Dear Sir,

Sub: Transcript of Conference Call

We hereby enclose the transcript of the Conference Call hosted by the Company on Tuesday, September 19, 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

Prashant Jhaveri
Authorised Signatory



Setco Automotive Limited
Q1 FY18 Conference Call
September 19, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY18 Conference Call of Setco Automotive Limited. On the call today, we have with us Mr. Udit Sheth – Joint Managing Director; Mr. Vinay Shahane – Vice President, Finance and Mr. J. S. Gujral – CEO of the company. 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. In case 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. Udit Sheth – Joint Managing Director of Setco Automotive Limited. Thank you and over to you, sir.

Udit Sheth: We would like to welcome all of you to our quarterly call. I think the presentation and our performance note has already been circulated to each and every one of you and I hope you had a chance to go through it.

We have experienced quite a tough quarter, but it has not been, I would say, dedicated only to us, but the market as such has gone through quite a change due to many external factors which are way beyond an organization like us. Despite that and the prevailing scenario, I think the right takeaway from all of this is that of course we have not lost our business or our market share as such with the OEMs, but because the OEM performance has not done well in the first quarter, it has had a massive impact on us as a company, but what we promised you earlier when we met the last time, all those things have happened in terms of we have launched our new products and shipped them to the United States. We have started our tractor business. Our foundry is coming on line in a very good way and our subsidiary businesses overseas are turning a profit. So whatever has been within our control as an organization, we have tried to do and more. I think now it is more about how the market and the economy kind of unfolds over the next 6 months which will define us. We are geared up in terms of the component requirement to meet the production standards as well as we are very confident of launching and achieving sales in all the markets which we have gone out to. So I think that is **one thing** that we can use to set the tone for the call and I will be happy to take any questions that you may have to further kind of give you our perspectives. While the results are quite a wet blanket, they are not the only wet things with monsoon, but we can very confidently tell you that the rest of the year is shaping up quite well. So I will be happy to answer your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Arpit Shah as an individual investor. Please go ahead.

Arpit Shah: I just joined the call a little late. I want to just ask you that regarding the GST which we have taken a hit in this quarter, can you just a little bit elaborate that how much hit exactly and by what stance that you say that we had gone for destocking and things that how much of the result has been impacted?

Vinay Shahane: See, generally as we have explained in the performance analysis note in distribution market, all distribution channels, distributor, retailers etc, the tendency was to reduce the stock or to hold minimal stock as on 30th June because the clarity about carry forward of excise duty benefit was not there. Similarly, OEMs also, they were running low on stock than what normally they hold in normal course of business. So maybe we could have lost topline of minimum around 25 crores because of these two accounts. More than 25 crores and if you take a normal contribution level of 28%-30%, it would be impacting the profit by 7-7.5 crores.

Arpit Shah: So even if I take that 20-25 crores, I think I suppose we did some 70 odd crores right this quarter, Q1?

Vinay Shahane: Yes.

Arpit Shah: So still it is little bit down from, I guess other segments also down like OES, IES and everything else. Last year, we did around I think 110-115 crores.

Vinay Shahane: 113 crores, right.

Arpit Shah: So still we are down by I think another 10%-15%. If I account that 25 crores in this impact, right?

Vinay Shahane: See, there are two factors which have affected this quarter performance. One is the GST which affected in June, but first in April itself the OEM segment because of this conversion from BS III to BS IV. So inventory as of March, the OEM players had to convert to BS IV inventory and that affected the OEM production in the month of April. And overall if you see the industry figure for the first quarter, the OEM production is down 42%. So that is not only GST plus the April OEM segment also is there. Secondly on a profit when we were saying as we have mentioned, all price increases for commodity increase witnessed in last quarter of previous year has still not materialized which are taking place in Q2 onwards, though it will be effective beginning of financial year. So that also some impacted there on the margins.

Arpit Shah: And another thing that you have just mentioned on this corporate website that whatever the outstanding amount is there we have given to TransStadia, will be fully repaid by this quarter end?

Vinay Shahane: Yeah.

Arpit Shah: So are we on schedule?

Vinay Shahane: Yeah, we are on schedule.

Arpit Shah: So everything almost will be done except equity, all this thing is being redeemed . All these issues.

Vinay Shahane: Yeah, it will be back in system.

Arpit Shah: And any guidance, I just joined the call late. So any guidance for this year, 15% if I count, you will be doing around 570-580 crores, if I am not wrong?

Vinay Shahane: You are right.

Arpit Shah: So considering the first quarter, which has gone by, so your run rate would be at least for next two quarters considering Q4 is always the heaviest quarter. Will we have to do around 135-140 crores if I am not wrong?

Vinay Shahane: Right.

Arpit Shah: So are we confident of achieving that figure, touching that figure?

Vinay Shahane: Q2 specific figures, though I cannot tell you, Q2 as you have said, the first quarter reversals have been taken care and the signs of July, August, the industry figures are also available have shown quite robust growth if you compare to Q2 of previous financial year. Similarly, we have mentioned in the note, new products supply to Leyland and LCV Clutches which began in second half of previous year will be additional revenue during this half year, first half. We have also started supplies of tractor clutches from this year from July onwards. So that will be an incremental revenue when you compare we are not considering the growth over the previous year. So overall as you had mentioned OEM sales, though industry expectation is high, single digit growth on annualized basis, we expect our OE sales to grow around 18% to 20% year-on-year. So that should be OEM. OES and IM sales, we are expecting a decent growth of around 10% to 12%, partly supported by GST. It will impact the unorganized segment, tax avoidance will be difficult and in the user preference will be to the branded products and we should get the market share in after market segment.

Arpit Shah: About the margins, will we be able to touch in the mid 15s?

Vinay Shahane: We are aiming around 15%, we are looking at 200 basis points improvement over previous year.

Arpit Shah: And sir my last question regarding the reduction of debt. Any plans for your future for reduction of debt going forward, can we see that?

Vinay Shahane: Debt would be going down year-on-year. It is just we have taken debt only for the business CAPEX purposes. So as per the repayment schedule it will go down and tightening of working capital. The aim is necessarily to control it, reduce it or maintain it at least to same level for higher volume of business.

Moderator: Thank you.

Udit Sheth: If it is okay for you, we can just one more time, I would like to reiterate over here that all the various seeds that we have planted, they are fruiting as an organization. Our foundry business has come on line quite well. We are able to substantially improve its operations and subsidiaries are doing well. Our new products have been launched which is in the farm sector segment as well as in our export business and our diaphragm spring production is also coming on line quite well. All said and done it is having a very positive impact. As soon as the market scenario starts picking up and I think with a good monsoon, we are very confident that the GST and the BS III, BS IV transition, all of that are behind us, I think there is a good festive season to kind of look forward to which will carry the momentum towards the year end and I think with this, we are quite confident that overall what Mr. Shahane has indicated and what is in the presentation, we stand by those figures and we only hope to better them.

Moderator: Thank you. We have the next question from the line of Sherwin Fernandes from Natwarlal & Sons Stock Brokers. Please go ahead.

Sherwin Fernandes: Udit, could you just talk us through what has been the inroads that you made in the farm equipment space in terms of the market share because I believe from the last few concalls, you mentioned somewhere taking around 5%-7% kind of market share from clutch auto and correct me if I am wrong. So if you could just tell me where exactly do we stand and how do we envisage the years to come going forward?

Udit Sheth: Sherwin, I am going to let Mr. Gujral, our Chief Executive Officer take this question as he has worked very hard on breaking into this market. He will answer this.

J. S. Gujral: Market is approximately 600,000 tractors per year.

Sherwin Fernandes: Sir, what has been our market share till date?

J. S. Gujral: I am just explaining. Our chosen segment is the new evolving segment of dual, double clutches which are higher value-added clutches because the market is shifting from single

clutch to dual or double. This is dictated by lack of available labor and more mechanization needed for various operations on the farm. So you need to run different implements. You put them in the front, you put them in the rear etc. and for that you need a dual clutch, right. The dual clutch market as of last year was around 20% and just to correct you the lead player there is LuK of Germany, not Clutch Auto.

Sherwin Fernandes: No, Clutch Auto is now a dormant player, I believe now.

J. S. Gujral: Yeah. So in our segment, the one which we are focusing on, the lead player is LuK and this segment is expected to grow by at least 30% to 40% year-on-year and go to as high as 60% of the total market, right. So this is as far as the potential is concerned. Now coming to our foray with the third largest tractor manufacturer in the country, we have already got a 20% share of business, and similarly we are in talks with everyone else and it is at various stages of approval. So over the next two quarters, we will add another 3 customers and anyone who gives us a share would give us at least 20% to start with, alright? Otherwise it doesn't make sense for them. So if you do the reverse math on a 600,000 market size and 50% or 60% being dual or double and 20% of that and we are looking at what we had indicated in the last conference this to be a 100 plus crore business in the next 24 months, okay. Now specifically Clutch Auto has been in the single disc, lower size, less value added products, while we are happy to cater to those as part of the overall packets, we don't want to focus on that and miss out the other opportunity which is an evolving side which is a **next generation** of clutches which is where the business is going to be in the next 5-7 years. And whatever space Clutch Auto has vacated has also been taken over by other smaller player because it is a dying segment. So no one is really putting too much of effort in capacity on that side. And you know per unit realizations etc. also are there for long.

Sherwin Fernandes: Correct sir. Sir, what would be the realization per clutch?

J. S. Gujral: See, realization per clutch typically would be around Rs 5,000 to 6,000 depending upon the size for a dual clutch compared to around half of that for a single disc clutch. So obviously the margins are better.

Sherwin Fernandes: Okay. Sir, and when you say we will be adding 3 more customers, do we already have the top producing or manufacturing farm producer in terms of the equipment?

J. S. Gujral: We are talking to all the OEMs. All of them are very keen. With each one of them, it is at various stages starting from let us say our having the range and doing our field testing, lab testing that is when we go to the customers. Then we do the commercials with him and he does his validation, then we will give samples, right? And then there is a pilot load and then there is a share of business. So we are at, let us say, if share of business is last stage, we are at two stages behind, one stage behind, three stages behind with different customers.

Sherwin Fernandes: Got that sir. Sir, what I was trying to get to is, since M&M is there and you have...

J. S. Gujral: So we are in discussion and specifically if you are asking we are in discussion with both M&M and Swara as well as Eicher and TAFE as well as Escorts and CNH.

Sherwin Fernandes: So this would be at various stages you are mentioning, correct?

J. S. Gujral: Absolutely.

Sherwin Fernandes: Okay, fair enough sir. Got that. Sir, just one more question to Udit, what are the kind of revenues that we are expecting because I believe for the foundry unit that is Lava Cast for FY19 around that year, and what is the current utilization if you could tell me for Lava Cast?

Udit Sheth: So in FY19 I think we are looking at about Rs 150-170 Cr as our total annualized turnover. A lot of that volume about half of that would be something that Setco would consume. The other half is what we expect the market to pick up. We have already got inquiries from major automotive players, both at a tier I as well as OEM levels. Our quality of product has been appreciated and more importantly for lot of these international companies who are now coming to us, the cleanliness of our process and the modernized equipment that we are using which is environmentally very good is a very very positive play and in fact major OEMs are also trying to declutter all the small foundry manufacturers where either they are not able to ramp up the volume or they are not meeting environment standards because government also is coming down very hard on policy front, when it comes to the environment standards. All of this is working in our favor and so to go back to your question about 150 crores, 160 crores is something we are quite comfortable talking about.

Sherwin Fernandes: FY19 you are saying?

Udit Sheth: Yeah.

Sherwin Fernandes: And what would be the utilization there, this would be up to full utilization?

Udit Sheth: No. See utilization is going to take some time because what has happened is that, see we are a vertical molding line which is fully automated and right now because it is the starting period for us, we are also working out how to change over from one component run to another component run. So even in FY19 we expect that anywhere between 70%-73% is what our utilization will be. But at a good time, at a very effective time I don't think the foundry operation will ever be able to cross 80%-85% in terms of up time. So this is important. Just to add some, because topline is really for vanity, it is the bottomline that we look at for sanity. So one of the good learning we have is from our technology partners from Spain where they are helping us with pattern design, with quality upkeep, with using the right input metals, the composition of the metal in the furnace, all of this is helping us control our power cost, our

rejection cost and I think at this time between now and 2020 controlling those cost parameters are probably for us more important than trying to see whether we are pouring 27,000 tonnes or 28,000 tonnes.

Sherwin Fernandes: But just going one step ahead, I mean the captive consumption I thought was anywhere between 30%-40% and the remaining would be exported.

Udit Sheth: If you see the requirement which we are currently getting for Setco, we are expecting anywhere between 14,000 tonnes to 16,000 tonnes to be consumed in-house. Now that could go up, that could come down and this is after keeping a two supplier policy where we are going to continue buying some castings from outside because say something untoward ever happens to us, that line is and that business is never affected. So we are very conscious of that as well and our idea is that we should because finally internally our own group company is not going to give us the best profits. So we have to look out for outside business to get higher realization of margins where not only we are pouring the right amount but also the good machining business comes with it.

Sherwin Fernandes: So you believe FY19 and further would be a better way to look at this business for especially the exports of the foundry?

Udit Sheth: Yes, because lot of our exports will be routed through our technology partners and once we are very confidently supplying seamlessly into the local market, then they will also start replacing some of that manufacturing with us.

Sherwin Fernandes: And you believe the permeation is easy with your foundry?

Udit Sheth: See, after getting our quality certification and getting all our NCRs closed, nonconformance reports, some of the leading tier 1 manufacturers from Europe have actually rated us quite highly as a foundry, maybe by the last quarter we should be able to see profits in this foundry.

Sherwin Fernandes: Okay, so you are saying early Q1 2019 we could start seeing profits also.

Udit Sheth: Q4 2017-2018.

Moderator: Thank you.

Udit Sheth: In case anyone wants to connect with us also at a later time, we are open for them to email us and we will be happy to reply or get on a call with them.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for their closing comments. Thank you and over to you.

Udit Sheth: As such, I think we have actually communicated everything that we have had to as stated earlier, we are also happy to invite people over to our facilities and kind of have an immersive tour of how we actually go from design all the way to shipping stage and share more of our working with you. So I think otherwise we will get on with second half performance.

Moderator: Thank you very much.

Udit Sheth: Thank you. We really appreciate everyone participating on this call and look forward to a lot more interactions.

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