

June 6, 2018

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

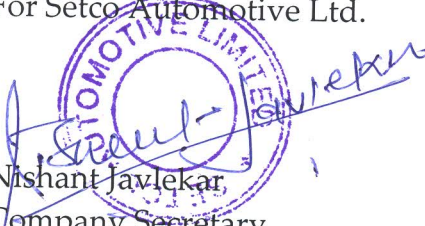
We hereby enclose the transcript of the Conference Call hosted by the Company on Thursday, May 24, 2018 at 2.00 p.m.

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

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

Thanking you,

For Setco Automotive Ltd.


Nishant Javlekar,
Company Secretary
FCS: 8871



“Setco Automotive Limited Q4 FY-18 Earnings Conference Call”

May 24, 2018



MANAGEMENT: **MR. UDIT SHETH – VICE CHAIRMAN, SETCO AUTOMOTIVE LIMITED**
 MR. J. S. GUJRAL – CEO, SETCO AUTOMOTIVE LIMITED
 MR. VINAY SHAHANE – CFO, SETCO AUTOMOTIVE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Setco Automotive Limited Q4 FY18 Earnings Conference Call. 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 ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Neha Patil from Prefect Relations. Thank you and over to you, ma'am.

Neha Patil: Thank you. Good afternoon and thank you for joining us on the Setco Automotive Q4 & FY18 earnings conference call. Today we have with us the senior management represented by Mr. Udit Sheth – Vice Chairman, Mr. J. S. Gujral – CEO, Mr. Vinay Shahane - CFO.

Before we begin, I would like to add that some of the statements to be made in today's discussions maybe forward-looking in nature. We will begin the call with the opening remarks from the management after which we will have the forum open for interactive Q&A session. I would now request Mr. Sheth to make his opening remarks. Thank you.

Udit Sheth: Hello, everyone. Welcoming you to the conference call of Setco to discuss the year '17-'18. The year started in a very challenging manner and after a very tough first quarter, we were able to pick up pace in quarter 2, quarter 3, quarter 4 and are happy to share our results for the entire year with you. We have been able to put together a quite a detailed presentation on where we are, where we plan to go, what the outlook is like and I hope that some of you had a chance to page through it. We are happy to discuss the results and any other questions that you have about the company. Joining me on the call is Mr. Vinay Shahane – our Head of Finance and our Chief Executive Officer, Mr. J.

S. Gujral. Collectively, we will be able to possibly answer all your questions. So we can begin now. Thank you.

Moderator: Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Varun Bakshi from Equirus Securities. Please go ahead.

Varun Bakshi: Can you throw some light on the Lava Cast operations, what kind of revenue and EBITDA losses or PAT they have made?

Vinay Shahane: As we have discussed in the earlier calls also, the Lava Cast operations have progressively improved over the year and the fourth quarter as we had indicated in the earlier December call also, we are the best. The capacity utilization in the fourth quarter was around (+50%) with breakeven EBITDA, This is the second year of operations for Lava Cast and as you would agree for any foundry, the first couple of years is the stabilization process and with capacity utilization of around 50%, breaking even at operating level is a challenging task. But as we see forward with the external customers coming on board and capacity utilization expected to double in FY19, the outlook for FY19 is definitely positive.

Varun Bakshi: Can you share the sales, EBITDA side of breakeven and the PAT loss numbers for fourth quarter just for Lava Cast?

Vinay Shahane: You want quantity or the value? Because all sales were basically captive for Setco Automotive.

Varun Bakshi: Just wanted to say what is the EBITDA and the losses at the PAT level over there, just to figure out how it will pan out next year?

Vinay Shahane: EBITDA margin was around -1%. I will give you the number offline with you.

Varun Bakshi: Sure, but how do you think this operation planning out in FY19, what kind of utilization you expect next year and how would the EBITDA as healthy number should look like?

Udit Sheth: This is Udit here. I actually play quite an active role in the Lava Cast business. We have completed a full year of operation only last year and during this period of time, we have been able to take the capacity utilization only at half approximately during the entire year. This was predominantly low to start with because of the first quarter aberration because Setco was the only customer. For Lava Cast to be able to get any outside customer, it was important for us to get all our certifications etc. in place which is already done. In the last quarter of this financial year, we are very happy to inform that we have started outside customer business as well and been approved on certain parts with two major OEMs and a couple of tier I organizations. Our budget planning for this coming year is a substantial increase in capacity utilization going up to 70%-80% of the installed capacity. We believe that with this in place, not only will we be breaking into a profit, but we will have a pretty good margin as well going into the business. When we had initially installed capacities in Lava Cast, it was 30,000 tonnes per annum designed for certain type of products. We are a vertically installed casting company and today we can very comfortably say that Setco is not losing any sale because of non-availability of castings which used to be the case in the past. Almost 10%-12% of topline used to be lost. Now with incumbent of outside customers, there is a tremendous opportunity to ramp up and also just to give you a little bit of market feedback, our OEM customers like Tata and Leyland, they normally buy 300,000 tonnes of castings per annum and they buy this from almost 50 to 60 casting manufacturers and machining companies which are either part of the casting company or separate. So overall, they end up dealing with close to about 100 vendors. Now they are in a situation where they need to reduce that

entire foundry base on two accounts. One, they need to have more sustained sources which are compliant with environment standards and number two, foundries need to be of the higher standard in terms of automation as well with machining setup in house. We have both these criteria. So going into the future, we are confident that anywhere from 15,000 to 20,000 tonnes over the next, I would say 12 to 24 months can be achieved by Lava Cast and we are actively pursuing a plan where we may even double the capacity of Lava Cast to be able to take this extra business on board. It is important to state here that when Lava Cast was installed in Phase 1A, we had only taken 30,000 tonnes, but the planning was for 50,000 to 60,000 tonnes. Therefore, our electricity cost, our cost for land, our other overheads were planned for a total amount of 60,000 tonnes. So with coming in phase 1B, we complete the entire capacity installation of Lava Cast which will not only bring much higher profits, but will also be able to manage cost in a much better way. So I hope I am able to capture your question as detailed as possible.

Varun Bakshi: And how much we had invested initially in Lava Cast?

Udit Sheth: Initial investment was 180 crores.

Varun Bakshi: And in standalone operations, what is the utilization level currently?

Udit Sheth: Standalone of Lava Cast?

Varun Bakshi: No, our Clutch operations in domestic Clutch?

Udit Sheth: Clutch operations is about 75%.

Varun Bakshi: So the only investment need you see is in Lava Cast in second phase, there is no other investment need as such.

- Udit Sheth:** We need to invest little bit of CAPEX into the upgradation of Setco Automotive as you know we are single source supplier to all the OEMs. Thus, we have quite a monopoly in this sector, therefore we need to upgrade our systems and processes to continue as we made the demanding norms of those OEMs. Hence, we are planning possibly up to 60 crores of potential CAPEX in the next 12 to 18 months. 30 to 40 crores is normally anyway annual or little bit extra to upgrade certain parts of the plant.
- Moderator:** Thank you. We take the next question from the line of Rajeev Mohan, individual investor. Please go ahead.
- Rajeev Mohan:** My question is can you explain the total debt of the company and how are you going to manage the same?
- Vinay Shahane:** Total debt is close to 375 crores as of March '18 on a consolidated basis. Of that, around 150 crores-175 crores is term loan and balance is the working capital limits at operations for Setco as well as its subsidiaries. Moving forward as Udit had just explained that except for the CAPEX plan in Setco and Phase 1B expansion later in the year for Lava Cast, there are no debt plans to add to the debt burden. Of course, the debt repayments of the existing loans will continue and reduce the debt burden on the company. Similarly, the scope for working capital improvement with increase in operations and economies of scale will further reduce the working capital blockage also and overall, we see the debt burden or debt size going down in coming years.
- Moderator:** Thank you. Next question is from the line of Suchita Dalal, individual investor. Please go ahead.
- Suchita Dalal:** My question to the promoters is in the tractor segment, what are your plans to get more clients on board and how much do you think that will contribute to the sales in coming future?

Vinay Shahane: Suchita, I will let Mr. Jatinder Gujral, Chief Executive Officer answer that question.

Jatinder Gujral: Suchita, that is a very pertinent question and what I would like to state is that all of us know that India is a largest manufacturing hub for tractors, over 700,000 get made every year. We also know there is a labor scarcity happening in the rural space and tractors are being put to lot of different uses than what they were traditionally doing because labor is no longer available for most of the farm operations. This throws up an interesting opportunity for a technology play for a clutch which can operate the transmission and the power takeoff either together or individually as the farm operation requires. And we have invested in this technology in developing a range of products to suite all the Indian OEMs. There are around 34 variants of these products which have been developed, tested, validated. We already have one approval from a leading OEM manufacturer and this segment of the clutches will grow faster than the CAGR of tractors which anyway is double digit because more and more tractors are now switching towards dual or double clutch. The incumbent player in this segment is a German MNC which has close to 100% market share and as is the norm in this business, second source would get between 20%-30% to start with. So if we add up the numbers, we are looking the segment to grow into 3 digit 100 crore business over the next 24-36 months.

Moderator: Thank you. We take the next question from the line of Jayesh Chandra Gupta from JM Financial. Please go ahead.

Jayesh Chandra Gupta: What is the margin differential between coil plate clutches and pressure plate clutches?

Jatinder Gujral: Let me take this and just kind of rephrase your question. I think what you would like to know is what is the difference between a pressure plate and a clutch disc or between a coil spring pressure plate and a

diaphragm spring pressure plate because that is the possibly right way to phrase both the questions. So you want to know the price difference between the disc and the cover?

Jayesh Chandra Gupta: Yeah, indeed sir.

Jatinder Gujral: So typically 60% is the cover assembly and 40% is the disc assembly, but these are indicative figures. It could be plus minus 5 depending upon the customer size etc.

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

Mithul Shah: Sir, my first question is on the revenue. Even though the CV market is growing, why our revenue for this year is flat that is my first question.

Vinay Shahane: For the quarter, right. You are saying for the fourth quarter the revenues are at around 175 crores same as last in Q4.

Mithul Shah: Yeah, 184 crores and for the whole year that was due to GST for the quarter one. For the quarter 4, what was the issue?

Vinay Shahane: As you rightly said, the OEM segment has seen quite an upward trend from second quarter after GST blues were over; however, with the increase demand, suddenly from OE as well as from tier I manufacturers, the tier 2 and tier 3 supply chain agents have not been able to cope up with the increased demand and so there were supply chain constraints especially faced by the company in the second half of the year which had affected my ability to serve the aftermarket because OEM is of course the top priority, business priority for the company. So if you look at a segment wise growth, the OEM growth during the quarter is 35% whereas it is at the cost of aftermarket. Basically if you look on quarter on quarter, it is at the cost of aftermarket and perhaps

in the second half, company has perhaps suffered a loss of sale of around 40 crores due to the supply chain issues.

Mithul Shah: Do we have now the capacity for the increased demand?

Vinay Shahane: Yeah, we have initiated various steps including second sourcing, rationalization of supply chain practices also and this year we are confident we should not face any such constraints

Mithul Shah: And my second question is regarding to TransStadia. Why we are still in a loss in TransStadia?

Vinay Shahane: TransStadia figures are not reflected in our financials. It is a totally different group venture.

Mithul Shah: But still even though we have invested 15 crores and yet the loss for last year was 12 crores and this year it is 5 crores more. So what is happening there? I wanted to know that.

Udit Sheth: Kindly hold the line, we are answering the question. We were just discussing the relevance of that to the results of the Setco organization because as far as the organization is concerned, it has a completely different management and a management professional CEO and that question would be best answered by the management of the company

Mithul Shah: General I am asking, in not that way I am asking, is just we have invested in Lava, we have invested in TransStadia. That is why I have asked this because in the consolidated even though but the money has been invested by us, that is why I have asked that what is happening because I myself is living in Ahmedabad and we are seeing the TransStadia is doing actually very good. So what is happening there, why is in the loss? That was my reason to ask.

Udit Sheth: So in an infrastructure space, the investment is upfront. The realizations balloon over a period of 6 to 7 year period. TransStadia is already on an upward trend because the difficult time is already out of the way and as you said, it is doing well, but that will be reflected in the coming years numbers and possibly we will see a very positive takeoff in this coming year.

Moderator: Thank you. Next question is from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.

Rukun Tarachandani: The consolidated results are quite different in terms of profitability vis-à-vis the standalone results. So apart from Lava, if you comment on the performance of the other subsidiaries especially the only one foreign subsidiaries considering they are also in losses as to what is happening there and how do you see that going forward?

Jatinder Gujral: As we had mentioned in the earlier review also, the two subsidiaries in UK and USA have shown a much better improved performance during the financial year. US subsidiary actually has reported profits compared to the losses last year and if you look at a consolidated figure you were just mentioning at the bottom-line, last year improvement on subsidiaries performance over last year is around 6 crores reduction in losses or improvement profits whichever you look at it. So basically, the losses at these two subsidiaries have been pruned down, controlled operations have been streamlined and they are on a way to recovery.

Vinay Shahane: And it would also be fair to say that substantial amount of value is captured at the time when the parts are anyway shift out of Setco Automotive to the subsidiaries.

Rukun Tarachandani: But what I am trying to understand is should one focus on the consolidated more because ultimately that is where the profitability of

the entire group is getting captured and how much of this difference between the standalone and consol is because of Lava Cast itself?

Jatinder Gujral: Majority of it is because of Lava Cast and that will not be the case in this coming year.

Moderator: Thank you. We take the next question from the line of Pravin Yeolekar from CGS. Please go ahead.

Pravin Yeolekar: Couple of questions. One, you are indicating in your slide 30% growth rate for next year. What is the confidence why you are indicating, are your OEM orders so strong or is it replacement demand?

Jatinder Gujral: Yeah, it is a mix of both the segments going strong. OE demand continues to be good. One thing which normally gets missed out in the FY18 numbers is that our sales are captured when the vehicles are produced. So if you look at the production numbers last year and you look at the sales numbers last year, sales numbers are substantially higher because there was lot of around 45,000 in BS III vehicles which were converted to BS IV and sold in the current year. So the base therefore is understated because the sales happened in FY18 while the production happened in FY17 and therefore if I take the FY18 sales base, this 30% would be lower more like 20%. Having said that, we do know that in the commercial vehicles, there has been a tonnage upgradation last year. All manufacturers have increased the rated payload from 30 to 37 tonnes and 40 to 49 tonnes. Now this sets up a replacement phenomenon which typically lasts for 3-4 years because if you are a truck owner and I am a truck owner and you upgrade to truck which can carry 9 tonnes more, I will also have to do that, otherwise I will lose business to you and it starts with the big fleet and then it gets into the medium fleet and in the far end of the growth cycle which is typically between the third and fourth year of this change, it will get into the single owner. So we see a very robust OE pipeline going into

the future. The projections of our customers are above 20% sales growth, obviously production growth will be 30 for the reason I stated. In addition, we have larger population of vehicles which will come up for replacement demand in the coming 3 years because if you remember 11-12 was the peak, 12-13, 13-14 the market had come down by half. And lot of these vehicles then would now, the vehicles which will come up would be for the years 14-15, 15-16 which are substantially more and the first replacement is where we have close to 90%-95% market share. So both our OES segment as well as our own independent aftermarket will show robust numbers. Vinay had stated that we did lose some opportunities in aftermarket because of this sudden increase and capacity issues which also we expect to ease out this year because already steps have been indicated. In addition, there is a farm business and in addition, we had done in the last quarter a launch of range of products for the American aftermarket. So fundamentally, we have 4 drivers at play and therefore this confidence of 30% growth.

Pravin Yeolekar: And sir can you talk about in the aftermarket post the GST and the E-way bill, how is the aftermarket shifting from, are you seeing any signs of unorganized players moving off on the spare parts side and you getting an opportunity there because you are also talking about launching one new brand if I am not wrong above 10 years vehicle replacement market.

Jatinder Gujral: So typically the operating life of vehicle is 15 years and our current offerings are catering to the first 8, 9 years. Then, the vehicle is getting into a second and third owner and that segment has been traditionally operated by local manufacturers some of whom were not paying excise, not paying VAT etc. so on and so forth and it is an economy segment to the core. What has happened post GST is that we are seeing some of these players moving out or their prices moving up because the noncompliance cost under GST are substantially higher compared

to the noncompliance cost under the previous tax regime. So either they come into the compliant mode and pay the entire taxes or they substantially have to incur more costs in trying to avoid the taxes. So either way it raises their price points up and what we are doing is we are looking at a suitable price point which is 8% to 10% higher than this current prices and giving better life and therefore much better value to the customer and a part of this segment between 8 to 15 years would therefore move up and adopt our second brand or the eco brand as we call it.

Moderator: Thank you. We take the next question from the line of Kush Gangar from Care Portfolio. Please go ahead.

Kush Gangar: I was just looking at margins. Your margins have been improving sequentially and our outlook for the current year has also mentioned about improvement in margin. Can you throw some light on what are the levers for further improvement from the levels?

Jatinder Gujral: Basically, there are three different levers on which we are working. One is we are having a very tight look at our cost whether it is variable, whether it is fixed, and you will see some improvements in the previous three quarters on that front. The second lever of course is the topline growth and since we are above breakeven levels, the fixed costs really do not go up in the same proportion once the turnover increases, so that does improve EBITDA margins. One more thing which we have specifically done is to cut the lag of recovery of RM inflation with our OEMs. We have moved with most of our major customers from one-year pricing cycle to 6-monthly pricing cycle, so that kind of restricts the like to at best a quarter and therefore it will reflect in improved margins going forward.

Kush Gangar: And you mentioned earlier about your CAPEX plan, so can you throw some light on the debt repayment schedule for this year and next year?

- Vinay Shahane:** Next year, total debt repayment would be around 30-35 crores.
- Kush Gangar:** 30-35 crores would be repaid and similar amount would probably be...
- Vinay Shahane:** Around 20-25 crores will be added depending on the CAPEX plan and the spread, around 25-30 crores will be added. So debt level on a term loan side maybe remaining more or less static, but there will be improvement on working capital side.
- Moderator:** Thank you. Next question is from the line of Kashyap Jhaveri from Emkay Fincap. Please go ahead.
- Kashyap Jhaveri:** If I look at your balance sheet standalone, reserves and surplus from about 214 crores are up about 220 crores, have you written-off anything over there?
- Vinay Shahane:** No, it is not written-off. See what happens earlier you had to provide for dividend in the March accounts for the respective year. For last 2 years onwards, the dividend is accounted on a cash basis. So basically the dividend of last year which was paid during the year is reduced from reserve during the year and so at consolidated level, the profits are around 4 crores and the dividend payout was around 12 crores last year. So that is why basically this thing reduction in reserves and surplus, otherwise there is no write-offs or anything on that front.
- Kashyap Jhaveri:** And in non-current investments, there was repayment of those, the Setco Engineering Private Limited investments which is about 35 crores and still our non-current investments are up from about 125 crores to 132 crores. So any subsidiary investment that we have done during the year?
- Jatinder Gujral:** This is only the investment in Lava Cast, the founding subsidiary which we have done during the year.

- Kashyap Jhaveri:** In Lava Cast additional investment was what number?
- Jatinder Gujral:** To the tune of around 30-32 crores.
- Kashyap Jhaveri:** This is over and above 180 crores sir original investment?
- Jatinder Gujral:** See, 180 crores was the project cost. It was not the equity 180 crores. So we have a JV partner also Spanish JV which has also contributed to the capital. So 180 crores was the Phase I total project cost of the investment. So investment which was I think around 65 crores would be in the range of 90-95 crores now.
- Moderator:** Thank you. We take the next question from the line of Mithul Shah, individual investor. Please go ahead.
- Mithul Shah:** Sir, when we will be able to see the growth for BS VI norms. When do you expect the numbers will start coming in for the BS VI norms also?
- Jatinder Gujral:** See the mandated deadline by the government is April 2020, right given the fact that last time the Supreme Court on 31st March came with the judgment that a vehicle produced before 31st March cannot be sold in April. This time, we expect the shift over to happen at least a quarter earlier so I would say from January 20, the BS VI applies to our customers would start. It does not mean that everything will be BS VI because as we know, around 55% of our business is aftermarket and that is all BS IV and prior to that. So BS IV is going to continue for lot many more years, but the OE supplies will switch to BS VI.
- Mithul Shah:** Have we done the ample provision for that?
- Jatinder Gujral:** Yeah, we were already nominated on the program and we are doing the developments with the customers. So it is always there. And we already have some products supplied in our European aftermarkets. So we are fully prepared for this. Just to add, it will be a bit value additive

because either the size will go up and even if the size does not go up, the engineering content on the disc side will go up and that will improve our margins by around 500 basis points at the minimum.

Moderator: Thank you. Next question is from the line of Pravin Yeolekar from CGS. Please go ahead.

Pravin Yeolekar: I was asking you about the market opportunity in the new replacement product you are planning to launch. Can you walk us through if 100 is the OEM market per annum? What is the first replacement cycle and the second replacement cycle market size opportunities?

Jatinder Gujral: See typically over the 15-year cycle, we are out of in the last 6 years which means roughly around 2 or 3 disc assemblies and 1.5 cover assemblies or if I size up the market in numbers, we are not catering to around 35% to 40% of the market which is greater than let us say 8 to 15 years or 9 to 15 years vintage. So OE we consider separate because OE, we are primarily single source in all the sizes we supply and we have over 85%, but if I look at hundreds of aftermarket, today between our supplies to our OE customers for their aftermarket sales and our supplies in our own brand, we are catering to roughly around 60% of the market.

Pravin Yeolekar: In terms of value or units?

Jatinder Gujral: In terms of numbers. In terms of value, it will be a bit higher because prices for the first 8 years are definitely higher.

Pravin Yeolekar: And you had also talked about the US market export opportunity and some wins for Russian OEM on the clutch side. Can you talk us how these are, when they will ramp up and what is the product profile, is it much superior in terms of profitability?

Jatinder Gujral: See, the American aftermarket is a pretty big market with annual volumes of 500,000. It is dominated by one player which is US based player and we have developed a range of products for the aftermarket. So what we have started is selling in our own brand in the last quarter of FY18 and the initial response including repeat sales, orders and things like that has been very encouraging. What the market lagged was a good stable product from a manufacturer who has OE DNA and I think we filled that slot very well because 60% of the market there is with this giant OE supplier and the balance 40% is with basically aftermarket players who do not stand up in terms of life performance compared to the OE player because they are simply not OE manufacturer. What we have done is developed these products, tested them to the OE standards to our own standards for OE. Also done field testing in US etc. and therefore the product has had very good reception far better than what we had expected in the last 3 months. What will also happen is as this product sees more stores in US, we have in fact already started getting fillers to see if we can do a private level program with the truck manufacturers who have their own private label for clutches. So that is an added opportunity which will unfold in the coming year or two and they would be keen because like I said we qualify as a OE manufacturer having the test and development regime what an OE manufacturer is required to have. As far as Russia is concerned, the biggest player there was looking at the second stores against their only supplier which was German MNC and they came to us and we went through testing and validation cycle of around 2.5 years and around 2 months back, they have formally approved our products. So we expect that business to start giving us some volumes in the forward years.

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

- Kushal Shah:** Sir, can you share the revenue breakup between the OEM and replacement like percentage of sales?
- Vinay Shahane:** For the year?
- Udit Sheth:** Ballpark is around 35% OE. This year it will be different.
- Vinay Shahane:** For FY18, OE has been around 45% and aftermarket is around 51%.
- Kushal Shah:** And sir what kind of margin difference would be there between these two?
- Jatinder Gujral:** See, OE is high single digit kind of margin and in OES, we get a premium over that ranging from 5% to 7% depending upon the OE. So that is the margin difference. Our own aftermarket is another 5% better, net of expenses because there are lot of selling and distribution expenses when you do your own brand in the market. So there, we get another 5% higher compared to what we get from OES which is 5% to 7% higher than what we get from OE.
- Kushal Shah:** Who would be the second-best supplier in the aftermarket for the clutches?
- Jatinder Gujral:** I think we are the second-best brand in the aftermarket after the OES brand, right because we held in our own brand and then together we command around 60% of the market. The balance 40% is split between 12-13 brands each having some local regional presence and so on and so forth. Some of these are also traded brands. They do not manufacture, they just buy and sell it through the network of other products. So it is a fairly fragmented.
- Kushal Shah:** Most of them would be unorganized sort of?
- Jatinder Gujral:** Some of the brands are organized because for example we have someone like Meritor selling clutches, they do not do anything with

clutches, but they buy and just sell in their brand. So some of these aftermarket brands are organized, but the manufacturers from whom they get are all non-OE and therefore the product does not meet the service requirements and things like that. But the kind of leverage, their aftermarket presence and sell a few numbers here and a few numbers there, individually none of them has got more than 2%-3% market share, but collectively since there are 12-15 of them it adds up to 35%-40%.

Moderator: Thank you. We take the next question from the line of Harshil Shah from Anvil Wealth. Please go ahead.

Harshil Shah: Sir is it possible to give consol numbers every quarter?

Vinay Shahane: We are moving towards that. This was discussed earlier, but may take us sometime, maybe FY20 we will start with that.

Harshil Shah: As in what is the problem like, why are we in the process sir?

Vinay Shahane: The process is basically the subsidiaries with the consolidation and because when you have to declare the limited review results, I know that many companies are doing it, but the subsidiary operations are not really on a large scale like what we have in India. So getting the results prepared, audited. Of course, we do keep getting on the monthly MIS performance report, but getting for audit requirements and group adjustments in the timelines what we have and there are some systemic issues also, the software issues where we have to merge the data. So it will take time. This was I think discussed in earlier call also by some other queries and we are working towards that. But during the financial year, I cannot just start it. So I am saying maybe next financial year.

Harshil Shah: Because standalone numbers are not really reflective of your performance.

- Vinay Shahane:** But these are the lead indicators.
- Moderator:** Thank you. Next question is from the line of Nitin Gandhi from KIFS Trade. Please go ahead.
- Nitin Gandhi:** Can you share some thoughts on your objective 1000 crores in 2020 and 17%-19% EBITDA. What are the changes which you think which now you should do since the Lava Cast is progressing fast and you are putting off CAPEX?
- Udit Sheth:** I think it is a good question. It is pretty straight forward, we are now seeing an upcycle for the next 4 to 5 years. The OEMs are really picking up the demand. We are expecting some 15% minimum growth over there. We are seeing independent aftermarket push also coming through higher realizations and we are also getting the farm tractor business moving ahead. So with all of this and including the international business as Mr. Gujral just spoke about, I think all these four levers and as you know the government of India is pushing infrastructure, its mining is kind of opened up. So there is a lot of road building, there are a lot of truck sales, higher horsepower engines and then just as it peaks in the 3 years' time, they will implement the scrappage policy followed by the implementation of the Euro VI, BS VI. So that will again give another boost for the industry. There may be 4 to 5 months lag at the time, but other than that, the whole thing will continue moving positively upwards. So the topline is pretty well fortified in my opinion and then after that, we are also from a Lava Cast perspective seeing a lot of growth opportunities. As I had mentioned, we are looking into doubling the capacity over there itself that it is not just being done from a foundry but also from a machining standpoint and I do not know how much you know about the foundry business, but on machining you earn larger realization. So we are doing that, we are expecting a good growth coming especially from our non-Setco customer base in Lava Cast. So Ashok Leyland, Tata

Motors and many other who have come on will be buying very high value parts from us and also if you look back at our results, we had at our best peak performance got into about 18% margins and then over the last few years, we were not able to hit those targets for number of reasons and especially last year because of the way demonetization, GST, and the BS IV transition happened, it was a little tricky. Yes, at the end of this year, we have been able to demonstrate substantial improvement in our EBITDA which we believe that now the operating costs are out of the way, we have already invested for the future. So on a higher turnover, those costs will be again divided and therefore we see that we will be able to get back to 18 and maybe even higher we have a very strong program for reduction of the working capital cycle as well. So all in all, we see a very strong outlook for the next 2-3 years. In 2 years definitely, that will get us to 1000 crores on a consolidated basis with higher teens on EBITDA.

Nitin Gandhi: Are we on track to add 4-5 OEMs in H1 for farm tractors?

Jatinder Gujral: We are at various stages of the approval process whether it is field testing or lab testing at their end, we have done a complete validation. Supplies have started to one. So in the first 6 months, we expect another 3-4 OEMs to start supplies.

Nitin Gandhi: And how do we see exports happening for FY19 and FY20?

Jatinder Gujral: See, there is a mix improvement story if you look forward because what we are saying is the aftermarket will grow faster than OE. Whatever FY18 numbers you are seeing, remember has a very high OE content of around 45% of a turnover. As that comes down, there is a natural mix improvement. We talked about margins in aftermarket as well as our own brand aftermarket being higher. Export margins are even better than IAM. So as these segments grow at a faster pace, there would definitely be an impact on EBITDA margins apart from what is

natural because of the turnover growth. I think the mix improvement is also at play in the forward projections of high teens. We are confident of exports growing at above 30% year-on-year for the next few years.

Moderator: Thank you. We take the next question from the line of Punit Gulathi from HSBC. Please go ahead.

Punit Gulathi: Just wanted to understand what implication does BS VI have on your product and does it change anything to the competitive landscape on that account?

Udit Sheth: BS VI basically is about dampening the drive trains impact when it comes to noise and vibration from a clutch standpoint. Normally if you see any vehicle which is moving, there is whole lot of noise, you feel the road shaking in India when it is moving and it is possibly because the NVH is not as per the standard that it needs to be at. This role of dampening the engine of the transmission is now being given to the clutch which earlier was not the case. So now the clutch which uses it at the center with the long travel springs and its friction material configuration for take up characteristics, it has to be reengineered to take up these higher horsepower engines and reduce at the same time this noise as well as judder and vibration. Vibration is what we call judder in the industry. So this is the roll of what the clutch will be doing, it will require extra engineering, it will have possibly more technology in it. It already does for our European supply. So that is what we hope, we will get high realizations for it.

Jatinder Gujral: Just to add this engineering content going up, when I say that what it actually means is that we have to kind of customize the product to an engine gearbox configuration and therefore it sets us apart from all the other players over the full cycle of the product because I will have variants customized to different engine and gearbox combinations of my customers and in the aftermarket, it will be very difficult for

anyone to come with one product of the similar characteristics with all kind of strategy because it will simply not work. So it kind of gives us a very good space to improve our aftermarket share post BS VI.

Punit Gulathi: What does it do to the margins? You said higher realizations.

Jatinder Gujral: Because the engineering content goes up and you are doing something which no one else can do in the vehicle because the clutch is sitting between the engine and the gearbox and after you make your engine BS VI compliant, it has certain vibrations which the gearbox cannot take, and the clutch is supposed to dampen those vibrations. So if you give a solution to the customer which no one else can give, no other component in the truck can give, so obviously you will take your price for that.

Punit Gulathi: Is it fair to assume high realization will translate into better margins also?

Jatinder Gujral: I said previously 500 basis points is what we estimate minimum

Punit Gulathi: 500 basis point improvement just on account of this.

Jatinder Gujral: Just on account of this, yes.

Moderator: Thank you. We take the next question from the line of Sagar Saxena, individual investor. Please go ahead.

Sagar Saxena: Just wanted some clarity on your CAPEX plans for FY19. So you mentioned 50-60 crores for plant upgradation, is that right?

Jatinder Gujral: That is right.

Sagar Saxena: And anything on Lava Cast plant?

- Vinay Shahane:** So 50-60 crores is broken into two or three parts. One part is on plant upgradation and second is for investment for new product development which will be towards your BS VI and many other R&D related issues. Lava Cast will be about 120 crores.
- Sagar Saxena:** Any timeline on this like how many months or how many quarters are we expecting to do this CAPEX on Lava Cast?
- Vinay Shahane:** We are evaluating it, but the faster we do it the better to be able to hit the upcycle of this industry.
- Sagar Saxena:** So do you plan to intimate this to the exchanges like whenever you finalize your plan?
- Vinay Shahane:** Yes.
- Moderator:** Thank you. Well ladies and gentlemen, that was the last question for today. On behalf of Setco Automotive Limited, that concludes this conference. Thank you all for joining us and you may disconnect your lines.