

February 9, 2021

To,

<b>BSE Limited,</b> <b>Dept. of Corporate Services,</b> Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 <b>Company Code: 505075</b>	<b>National Stock Exchange of India Ltd,</b> <b>Listing Department</b> Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400051 <b>Scrip Symbol: SETCO</b>
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Dear Sir,

**Sub: Q3 FY-21 Results & Performance Review**

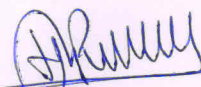
Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Please find enclosed herewith the Presentation of the Company on Q3 FY-21 Results and Performance Review for the information of the investor community at large.

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

We request you to kindly take the above information on record.

Thanking you,

Yours faithfully,  
**For Setco Automotive Limited**



**Hiren Vala**  
**Company Secretary**

Encl: As above



*Efficient Engineering*

**Results Q3FY21**

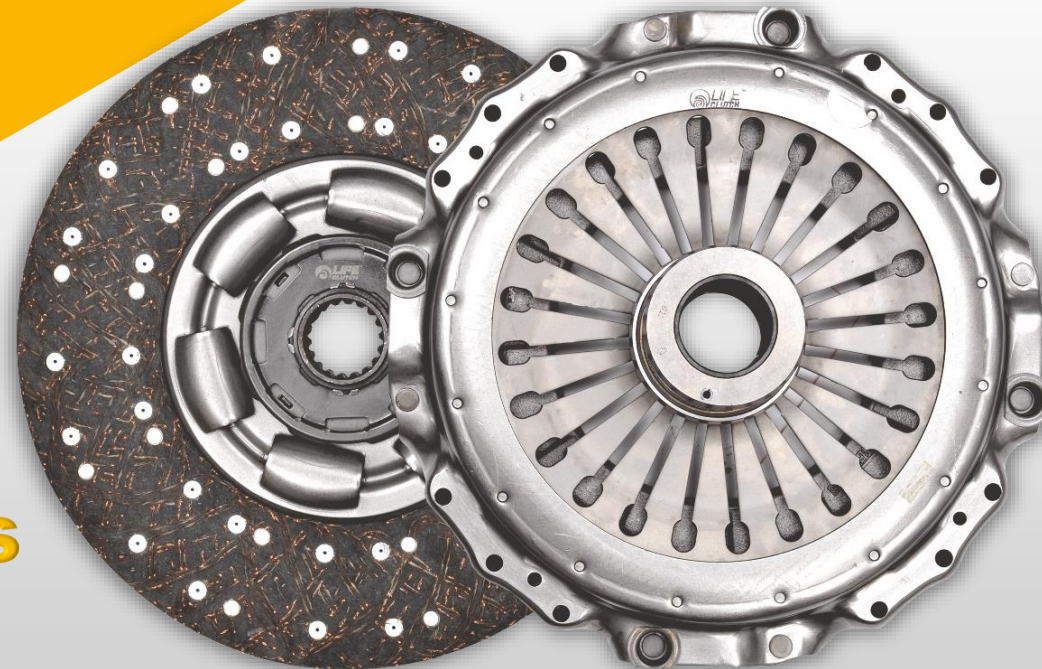
**Setco Automotive Limited**

Investor call: 09<sup>th</sup> Feb 2021 at 4:00pm

**SETCO<sup>TM</sup>**  
**LIPE**  
CLUTCH

...**LIPE** FOR LIFE<sup>TM</sup>

**BS-VI**  
**On Wheels**



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# Agenda

- 1** Overview
- 2** Financial Results
- 3** Outlook

# Highlights/Journey from Q1FY21.....

	Q1FY21	Q2FY21	Q3FY21	Q4FY21 and Beyond....
Industry/Economy	<ul style="list-style-type: none"> <li>• Lockdown quarter</li> <li>• Economy under standstill</li> <li>• GDP contract by more than ~24%.</li> <li>• MHCV degrowth by ~94%</li> </ul> <div> <ul style="list-style-type: none"> <li>▪ Fear of unknown</li> <li>▪ Survival Instincts</li> <li>▪ Emotions Rule</li> </ul> </div>	<ul style="list-style-type: none"> <li>• Start /Stop of economy</li> <li>• Broad Policy Indications</li> <li>• GDP contract by ~7.5%</li> <li>• MHCV degrowth by ~49%</li> </ul> <div> <ul style="list-style-type: none"> <li>▪ Acceptance</li> <li>▪ Mind &amp; Emotion</li> <li>▪ L/W/U Recovery</li> </ul> </div>	<ul style="list-style-type: none"> <li>• Opening up of economy</li> <li>• Vaccine Progress</li> <li>• SME Package ECLGS-2</li> <li>• GDP likely to +ve ve</li> <li>• MHCV de-growth by ~5%</li> </ul> <div> <ul style="list-style-type: none"> <li>▪ Converting Crisis into opportunity.</li> <li>▪ Early successes .</li> <li>▪ Why : W/U &amp; not V recovery?</li> </ul> </div>	<ul style="list-style-type: none"> <li>• Budget focused on Govt spending led growth</li> <li>• Spl focus on infra, mining and Agg Sector d</li> <li>• Scrappage policy announcement</li> </ul> <div> <ul style="list-style-type: none"> <li>▪ Pressing the pedal.</li> <li>▪ Leveraging Growth Drivers.</li> <li>▪ Riding the V recovery</li> </ul> </div>
Setco Automotive Ltd	<ul style="list-style-type: none"> <li>• Severe Impact on businesses</li> <li>• Lowest topline recorded for the quarter</li> </ul>	<ul style="list-style-type: none"> <li>• Production started with social distancing norms</li> <li>• New challenges on Global RM /supply cahin due to covid .</li> </ul>	<ul style="list-style-type: none"> <li>• Supply chain ramp up de-bottlenecking.</li> <li>• Growth in topline by 19%</li> <li>• Positive bottom-line after recording red for the last 4 quarters</li> </ul>	<ul style="list-style-type: none"> <li>• Strong order book across segments</li> <li>• Consumer preference of buying vehicles with Upsized clutch .</li> <li>• Sustained growth in replacement</li> <li>• Success in farm tractors.</li> </ul>



# Highlights –MHCV Industry started its buoyant uptrend

Setco's bottom-line turns positive in Q3FY21 post reporting losses in 4 quarters before this



## MHCV Industry

- ❖ MHCV Industry sales/production after dismal H1FY21 has improved considerably and started its strong uptrend of up-cycle
  - Due to heavy allocation in budget for infrastructure, mining and rural sector is expected to lead to sharp rebound in MHCV
  - OEM production schedules of Q4FY21 exceeds Q4FY20. As per available data it is expected to continue in coming years

## Setco's OEM Segment (contributes ~30% of Setco's Revenue)

- Q3FY21, OEM sales segment grew by ~36% as compared to Q3FY20
- Volumes similar to last year in Q3FY21.
- Implementation of BSVI norms has made a positive impact on companies topline. Clutches have been upgraded and the sizes/upgraded to next level.
- Above resulted in Revenue per unit up by 27% due to upsizing and product mix. Revenue per unit of ~25% will remain going forward
- Setco continues to retain its market leadership with >85% market share in MHCV OEM segment

## Aftermarket Segment (contributes ~70% of Setco's revenue)

- Aftermarket sales :
  - Revenue grew by ~12% in Q3FY21. Strong order book, Q4FY21 demand/order book is the best ever
  - Long overdue replacement of the past has started coming and expect to continue for the foreseeable future

## Business from Farm Sector (Tractor) :

- Supplies started to 2 OEM's from Q3FY21
- Strong schedule for Q4FY21 and going forward
- Going forward we are expecting 10-15% of our overall revenue to come from this segment

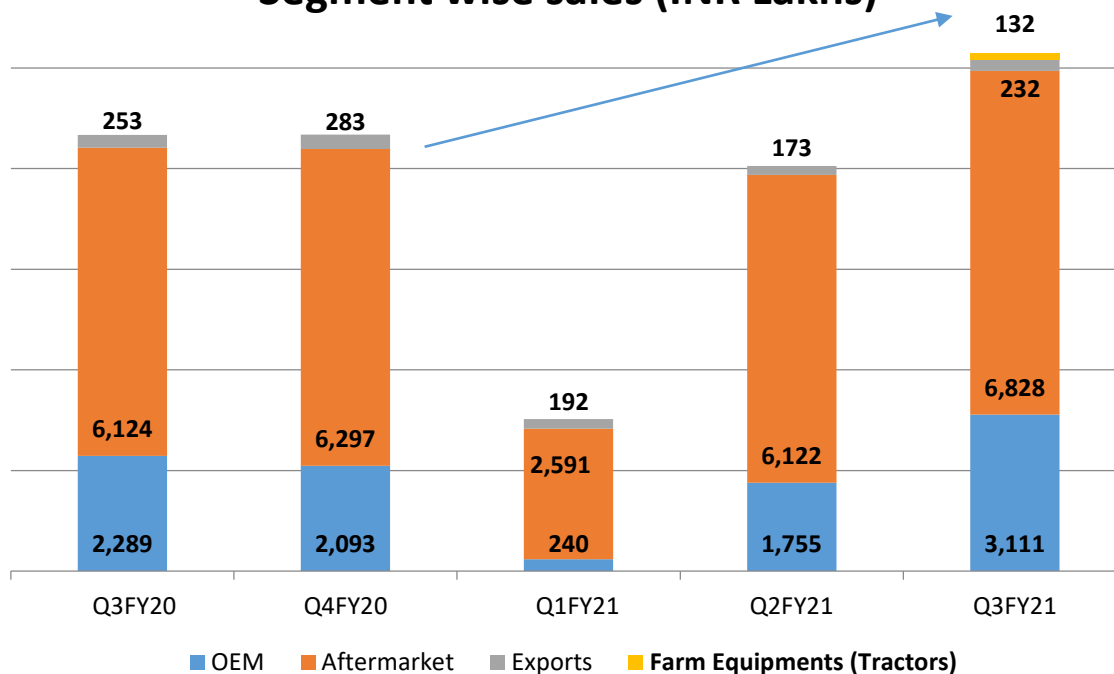
## Setco's resilient performance

- Sales in Q3FY21 grew by ~19% over Q3FY20, with buoyancy in economic activity, strong order book and upsizing will lead to outgrow the industry in future
- Q3FY21 would have been much better, but supply chain constraint has affected the production
- Despite lower operating leverage:
  - Contribution margin in Q3FY21 at 28.2% up by 50 bps as against 27.7%
  - EBITDA margins improved from 5% in Q3FY20 to 12.5% in Q3FY21 up by 750bps (~INR 850 lakhs improvement), due to substantial reduction in fixed cost (down by ~18%) which is further expected to improve
- Superior segment mix and pro-active cost management to drive profitability going forward

## Lava Cast

- Strong growth in commercial vehicle segment combined with Setco's entry into tractor will boost the business for Lava Cast
- Restructuring proposal of bank has been approved and implemented
- Restructuring combined with improved liquidity and the demand will improve Lava Cast performance substantially

Segment wise sales (INR Lakhs)



Revenue (INR Lakhs)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
OEM	2,289	2,093	240	1,755	3,111
Aftermarket	6,124	6,297	2,591	6,122	6,828
Exports	253	283	192	173	232
Farm Equipment (Tractors)					132
<b>Total</b>	<b>8,666</b>	<b>8,674</b>	<b>3,023</b>	<b>8,051</b>	<b>10,302</b>

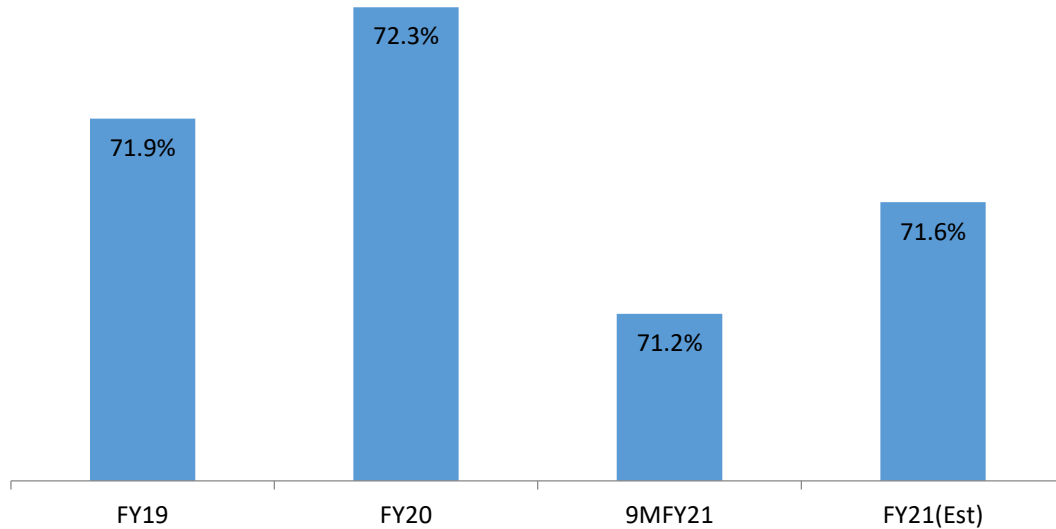
## Key Aspects

## Q3FY21

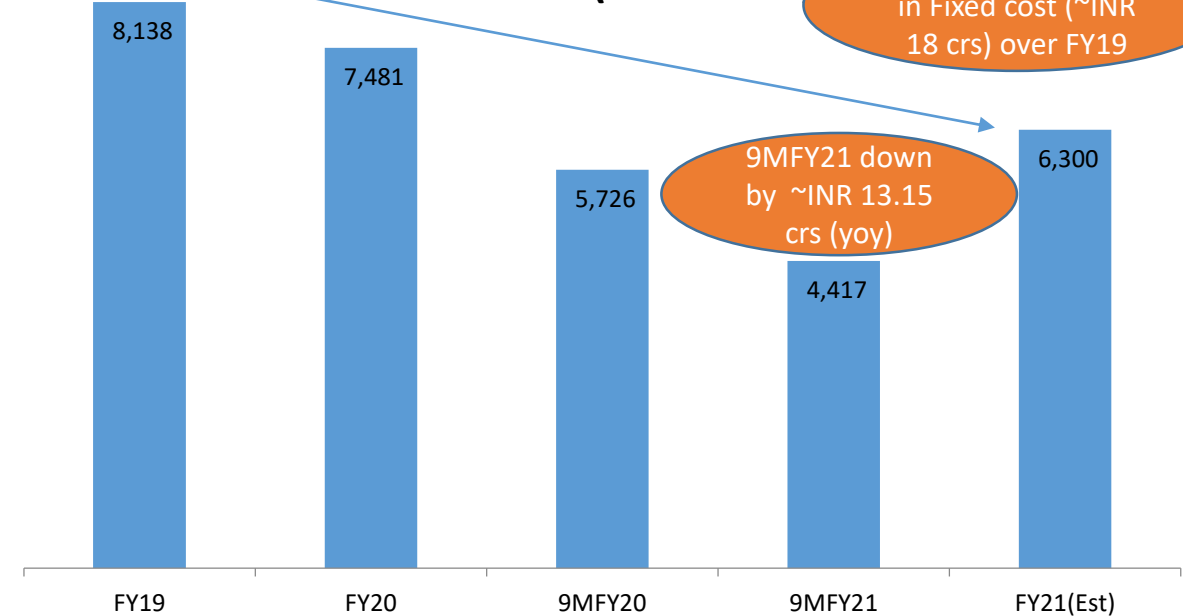
- Quantum jump in the growth of MHCV compared to last year as well as Q1FY21 & Q2FY21. Market sentiments has changed, with higher movement of goods resulting in robust aftermarket demand
- Sales up by ~19% yoy
- Q3FY21 would have been much better, but supply chain constraint has effected the production
- Tractor business started with supplies to 2 OEM's
- Upsizing due to BSVI, steady growth in MHCV, heavy infrastructure spending, mining's etc will drive the revenues in forward years
- Aftermarket demand higher as long-overdue replacement of the past has started coming and expect to continue for the foreseeable future

# Cost Analysis

## Variable Cost % to Sales



## Fixed Cost (INR Lakhs)



### Variable Costs :

- 9MFY21 Variable Cost % age down by 100bps as compare to last Financial year due to superior mix within OE (upsizing and higher realisations & margins/Unit)
- This has resulted in higher contribution and margins

### Fixed Costs :

- On track to bring down the fixed cost by ~>20% (~INR 18crs) over FY19  
✓ Already achieved Fixed cost reduction /savings of ~13 crs till 9MFY21

### EBITDA:

- Improved operating margin and reduction in Fixed cost, driving improvement in EBITDA margins



## Key figures – Q3FY21

## Standalone

In INR lakhs	Q3FY20	Q3FY21	YoY Growth	FY20
Sales	8,666	10,302	18.9%	41,808
Contribution % to Sales	2,397 27.7%	2,906 28.2%	21.0% 50bps	11,588 27.7%
EBITDA Margin	436 5%	1,287 12.5%	195.2% 750bps	4,107 9.8%
Operating PBT Margin	(1,209) (13.9%)	(446) (4.3%)	960bps	(1,752) (4.2%)
PBT PBT%	(611) (7.1%)	271 2.6%		(1,871) (4.5%)
MAT Adj.	(144)	(44)		145
Corporate Tax	-	-		(499)
Other comprehensive income/(loss)	-	-		(129)
PAT PAT Margin	(467) (5.3%)	315 3.0%		(1,645) (3.9%)

## Key aspects – Standalone

## ☐ Topline :

- ✓ Q3FY21 sales up by ~18.9%

## ☐ Profitability :

- ✓ Despite increase in commodity prices, contribution margin at 28.2%, improvement of 50bps i.e. ~INR 500 lakhs
- ✓ EBITDA in Q3FY21 at INR 1287 lakhs almost 3 times the last year's
- ✓ EBITDA margins up by 750bps i.e. ~INR850 lakhs due to substantial reduction in fixed cost and higher sales. EBITDA margins is further expected to improve
- ✓ Favorable segment mix with richer product mix will further improve the profit going forward
- ✓ Company continues with older tax regime due to MAT credit availability

# Performance of Lava Cast

Particulars	Q3FY20	Q3FY21
Capacity (In MT)	7,500	7,500
Production (In MT)	2,030	2,096
Utilisation %	27%	28%

Amt INR lakhs	Q3FY20	Q3FY21
Sales	1,015	1,266
Contribution	222	248
Contribution %	21.8%	19.6%
Fixed Cost	452	579
EBITDA	(230)	(331)
EBITDA %	(22.7%)	(26.2%)

## ❑ Lava Cast turnaround plan hinges on 4 pillars:

### ❖ Improve operating parameters on key variable Costs

- Sales up by ~25%
- Q3FY21, contribution margin at ~20% despite higher commodity prices and increase in electricity cost

### ❖ Reduce Fixed Costs to FY 18 levels. :

- Fixed Cost rationalization led to savings of ~INR 200 lakhs till 9MFY21, all plans on track to reach FY18 levels
- With sharp focus on cost rationalization and increase in sales will lead it to be net positive additive.

### ❖ De- Risked Business Portfolio :

- Higher Capacity utilization with improved operating mix
  - RFQ's of over 15,000MT annually received from US/European manufacturers moving out of China. Expect 1/3<sup>rd</sup> conversion into orders in the coming years
  - Higher castings content in Farm tractor clutches and US export clutches

### ❖ Debt Restructuring :

- Debt restructuring approved by the banks and implemented, substantially reducing the interest cost

- **Lava Cast to be net positive additive to EBITDA and cash profit going forward**

# Key figures – Consolidated Q3FY21

## Consolidated

In INR lakhs	Q3FY20	Q3FY21	Growth
Sales	10,119	11,108	9.8%
Contribution % to Sales	3,236 31.9%	3,551 31.2%	9.7%
Fixed Cost	3,094	2,684	(13.2%)
EBITDA EBITDA Margin	142 1.4%	866 7.8%	510% 640bps
Operating PBT	(2,248)	(1,332)	
PBT	(1,995)	(1,240)	
PAT	(1,809)	(1,069)	
PAT (after Minority Interest &OCI)	(1,679)	(953)	

## Key aspects – Consolidated

- Consolidated performance subdued due to
  - Contribution up by ~10% to INR 3,551 lakhs, margins maintained despite higher commodity prices
  - Fixed cost reduced by ~13% over last year with sharp focus to bring it further down
  - EBITDA margins at 7.8% and improvement of 640bps i.e. 724 lakhs improvement and will continue to improve due to higher volumes and tight control over cost
  - Lava Cast capacity utilisation on upward trend, and expects to be major turnaround going forward
  - Supply chain constraints has led overseas subsidiaries continue to face challenging conditions in aftermarket segment which is their main operation
  - Frequent lockdown in foreign countries has resulted in lower sales and impacted profitability

# Management Message



**Harish Sheth,  
Chairman & MD**

**Setco Automotive Limited :**

The Company has turnaround and first time earned PAT after reporting losses consecutively in last 4 quarters.

Due to huge allocation of funds in the budget towards infrastructure, mining and rural sector, it is expected that M& HCV Industry will lead to sharp recovery

The implementation of BSVI standard had made great impact on company's revenue . Most of the clutch sizes upgraded to the next level . This has resulted in increasing the revenue and EBIDTA

The company continue to hold over 85% market share in supply to M&HCV . With TML / Mahindra / Ashok Leyland / Daimler company continue to be single source for supply of its products.

The Scrappage policy declared in the recent budget will be giving further scope to enhance the revenue  
The company has received strong acceptance in the Tractor business . Going forward we expect that 10 to 15% of overall revenue will be from Tractor business.

Our efforts rationalizing fixed cost will continue in coming years, which will add to the bottom line.

**Lava Cast Pvt Ltd :**

The increase in demand from OEMs in M&HCV, also lead to increase in demand for casting from Lava Cast Pvt Ltd. Besides, there are good opportunities to get the export business . Coupled with this , implementation of restructuring of debt proposal by lender will help it to be self reliant to meet its debt and interest obligation .

Going forward, Lava Cast Pvt Ltd will be net positive additive to EBIDTA and Cash profit.

# FY21 Outlook and Beyond...

## OEM (MHCV & Farm Tractors)

- Heavy allocation in budget for infrastructure, mining and rural sector is expected to lead to sharp rebound in MHCV
- Upsizing and higher engineering content in BS VI clutches will improve revenue and margins/unit.
- Long awaited scrappage policy coming into effect from April 2022 will boost the demand
- Farm equipment : Sales started with 2 OEM's, expects to start with few others in next 3-4 months

## Aftermarket (OES & IAM)

- OEM Sales in the growth years of FY14-FY18 has started coming-up for the first/second replacement cycle in the current year and has been considerably driving OES sales growth
- Deferred fleet repairs of cannibalized vehicles in downturn of last two years, will grow spare parts business .
- Better availability and network expansion will drive Independent Aftermarket
- International Subsidiary - introduction of new generation clutches (ASD clutch) in US

## Lava Cast

- Increase in demand from Setco Auto and Exports will drive the optimum utilization production capacity
- Improvement in EBITDA coupled with Interest rationalization will substantially improve the cash profit.
- Lava cast will be additive to consol profitability



## We Invite You To Visit Setco

### Setco Automotive Limited

Anurag Jain

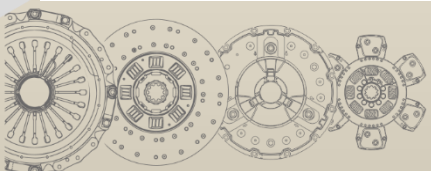
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