SETCO AUTOMOTIVE LTD

August 8, 2021

To,

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

Dear Sir,

Sub: Company Presentation – Results FY21 and Q1FY22

Kindly find attached the Presentation of the Company for FY21 and Q1FY22 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

This is for your information and record.

Thanking you,

Yours faithfully,
For Setco Automotive Limited

Hiren Vala
Company Secretary

SETCO™ AUTOMOTIVE

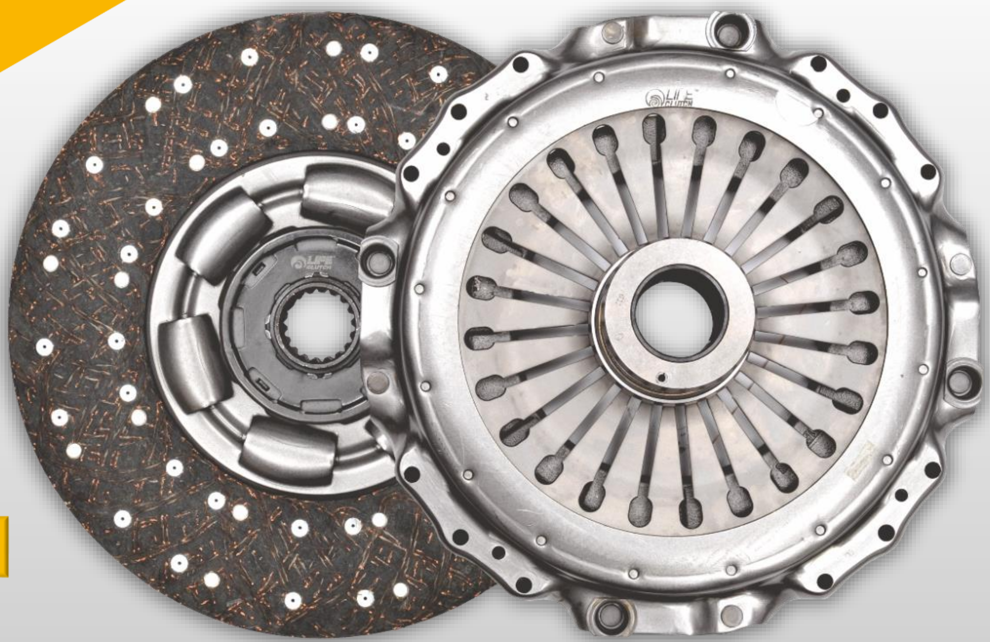
Efficient Engineering

SETCO LIPE CLUTCH

Results FY21 and Q1FY22
Setco Automotive Limited

Every adversity helps you discover an opportunity waiting to happen!

BS-VI implemented



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Agenda

1 Overview

2 Financial Results

3 Business Update

4 Outlook

Highlights/Journey from lockdown

	FY21	Q1FY22
Industry/Economy	• Lockdown quarter • Economy under standstill with mix opening • GDP contracted by more than ~7.3%. • MHCV de-growth by ~30% ▪ Fear of unknown ▪ Survival Instincts ▪ Emotions Rule	• Mix Start /Stop of economy in various parts of India • MHCV growth not comparable with last quarter ▪ Pressing the pedal. ▪ Leveraging Growth Drivers. ▪ Riding the U shape recovery with fear of 3rd wave
Setco Automotive Ltd	• Severe Impact on businesses • Lowest topline recorded for the year in a decade • Severe impact on liquidity • Higher commodity prices in Q4FY21 • Recorded highest loss due to lower capacity utilization	• Production started with social distancing norms • New challenges on Global RM /supply chain due to covid

Growth strategy going forward

SWOT analysis

- Every adversity has an opportunity waiting to happen. The Senior management took the challenges of the global pandemic to re-examine in detail through a SWOT analysis and finalise a roadmap for the next phase of growth

  - ✓ **Strengths** : Strong customer relationship, low cost operations, dependable supplier base, consumer brand pull, technical capability and diversified products segment and customer portfolio.

  - ✓ **Opportunities** : Aftermarket, Farm Tractor business, Exports, margin improvements through mix and pricing.

  - ✓ **Weaknesses** : Leveraged balance sheet, stressed liquidity, lower operating leverage in Lava Cast thereby constraining value unlocking in core Clutch business

  - ✓ **Threats** : Uncertainty on future Covid waves and its impact on economy, competitive strength against existing and potential MNC's entry into India

Growth Strategy

- ✓ Financial and business restructuring to ring-fence core clutch business to exploit available opportunities, mitigate threats and build strength around identified weaknesses
- ✓ Time during the Pandemic was used to close the financial and business restructuring program, details followed in subsequent slide

Update on fund raising (India RF deal)

Introduction

- India Resurgence Fund is a 50-50 joint venture fund between Bain Capital USA and Ajay Piramal Group.

Proposed Investment in Setco

- The Investment Proposal involves moving down the clutch business of the company into the subsidiary Setco Auto Systems Pvt. Ltd through BTA (slump-sale) process
- Investment will be in the combination of Debentures (NCDs), CCDs and Equity

Current Status

- All approvals are in place.
- Documentation exercise at last lag.
- Expect to complete all formalities in next 7-15 days.

Benefits

- Sufficient liquidity to resolve all short term stresses and focus on available business opportunities.
- Growth capital to en-cash opportunities in Farm Tractor Clutches, aftermarket and export segments which are both a de-risk and mix improvement initiatives.
- Structured deal, long term funds with repayment terms factoring any further headwinds due to Covid
- Capital for Lava Cast ramp-up which is integral to the Clutch business success is part of the deal
- Effective and progressive business operations of the company going forward over the next 4 years of growth cycle

Overview

Highlights –MHCV Industry drop of >30% in FY21

MHCV Industry

- FY21 :
  - ❖MHCV Industry sales drop by ~30% in FY21 bringing down Industry volumes to decade low:
    - ➢ Pandemic – induced crisis (Frequent Lockdowns)
    - ➢ General economic slowdown
    - ➢ Fleet efficiency improvement due to GST & additional 25% capacity due to Axle load norms
- Q1FY22
  - ❖MHCV Industry growth in Q1FY22 not comparable to Q1FY21 (lockdown quarter)

OEM Segment (contributes ~ 34% of Setco's Revenue)

- Lower production by OEM's in FY21 for pipeline Inventory correction
- Q1FY22, OEM production started on a positive note but:
  - ➢ Revised working norms under Lockdown/ Un- lockdown rules including Interstate supply chain issues due to Second Wave of pandemic.
  - ➢ Consumer facing front end challenges (dealerships/ field force / services).
- Setco continues to retain its market leadership with >85% market share in MHCV OEM segment.

Aftermarkets Segment (contributes ~66% of Setco's revenue)

- Aftermarket sales declined by ~30% in FY21 due to :
  - ➢ Lower demand in Q1FY21 and while demand came back, supply side challenges continued in subsequent quarters
  - ➢ Unexecuted strong order book approx. 6-8 months of sales

Setco's performance

- Top-line of 314Cr (value decline of ~25% despite challenging market condition)
- Contribution levels at 22.7% due to higher commodity prices and unfavorable segment mix.
- EBITDA margins has shown a large downfall at 2.9% in FY21 due to lower operating leverages and quarter lag on recovering RM pricing
- We expect that driven by stable RM pricing, superior segment mix and pro-active cost management to improve profitability in the coming years

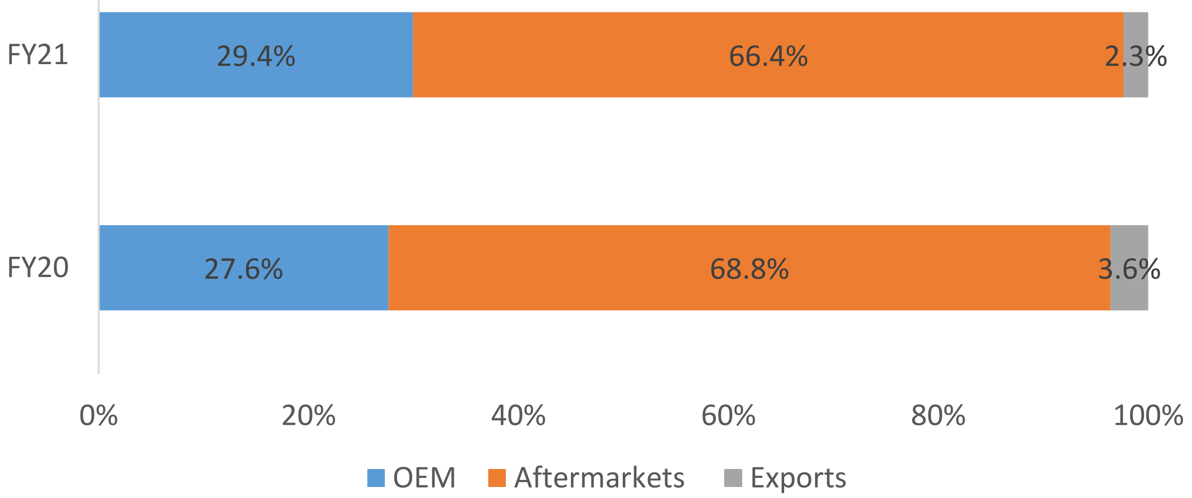
FY22 Outlook

- While Q1FY22 has been subdued due to Covid wave-2, market is now coming back to strongly
- MHCV industry is expecting to grow at exponential double digit growth rate of >30%
- Setco sales to OEM's estimated will be higher than the industry average due to
  - BSVI Channel and pipeline inventory restocking/build-back
  - Migration to larger size clutches (higher realization per unit) due to BS-VI norms
- Higher existing fleet utilization since vehicle replacement cycle is delayed to next fiscal.
  - Excess capacity due to structural changes like Axle load and introduction of GST have been absorbed in the last 2 years, as also new vehicles sales were lower.
  - As economy gets unlocked, fleet utilization will progressively improve and long delayed repairs/over-hauling will be needed, resulting in higher demand for clutches in the aftermarket in coming years.
- Farm Tractor clutches – Business started with two OEM's viz Sonalika and Preet Tractors, expect to add another 2-3 in this financial year
- Lava Cast: Due to liquidity issues, planned maintenance capex is getting completed by H1FY22 and would result in higher capacity utilization

Financial Results

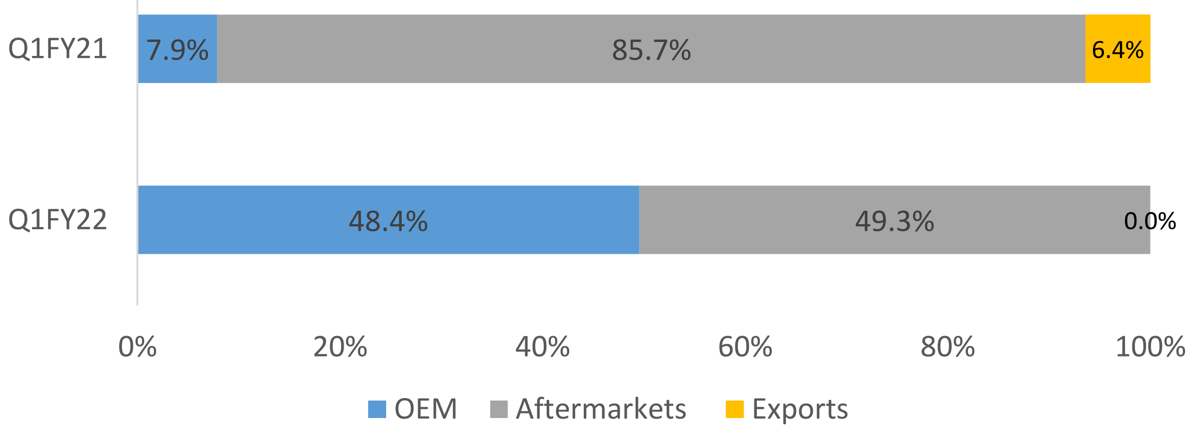
Segment mix – Standalone Sales

FY21 – INR 31,406 lakhs
FY20 – INR 41,808 lakhs



Q1FY21 –INR 3,022 lakhs
Q1FY22 –INR 5,637 lakhs

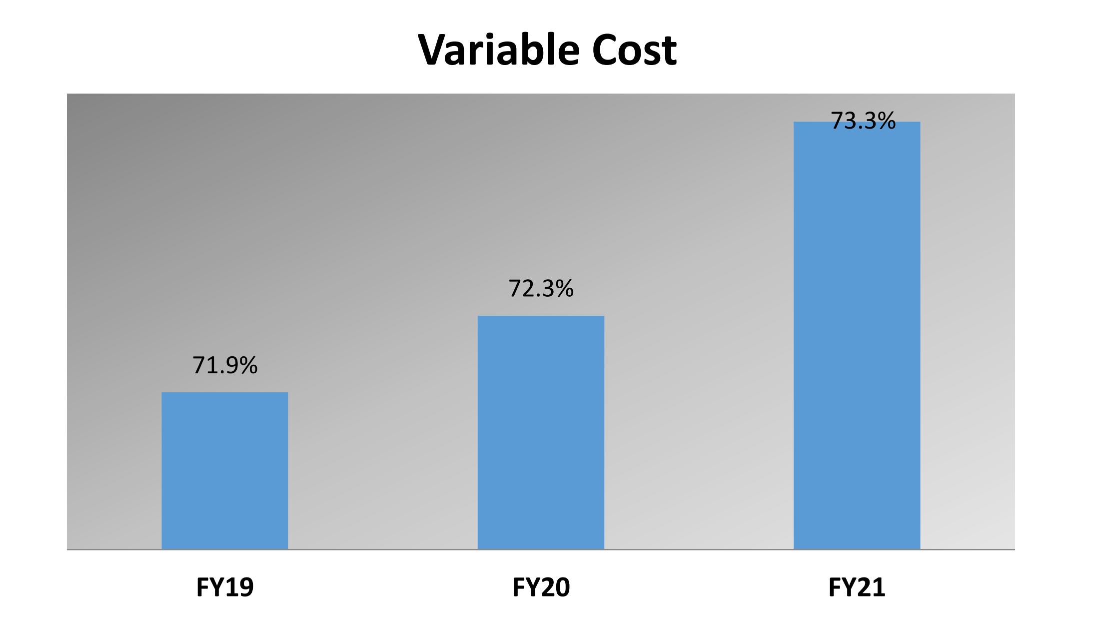
Q1FY21 VS Q1FY22

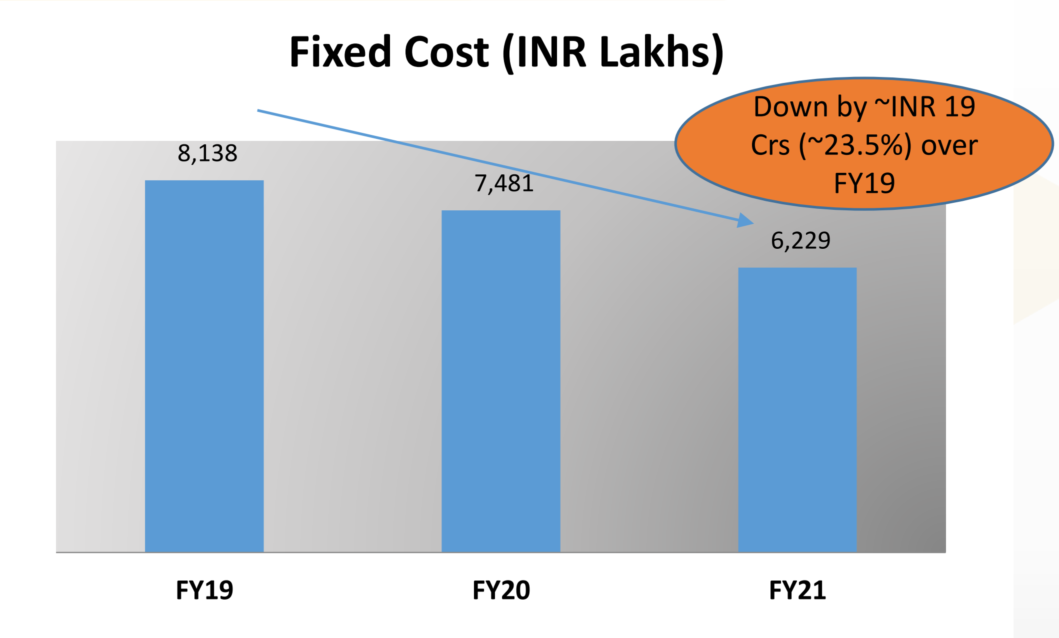


Key Aspects

- FY 21
  - Impact on margins due to lower operating leverage
  - Higher commodity prices during the last quarter further impacted margins
- Q1FY22
  - Q1 has been the open/close lockdown quarter
  - Aftermarket business has been impacted due to liquidity challenges

Cost Analysis





- Variable Costs :
  - FY 21 Variable Cost % has slightly increased due to unfavorable segment mix and higher commodity price increase
- Fixed Costs :
  - Already achieved Fixed cost reduction /savings of over ~24% in last two years

Details of One time Exceptional Items

- As per accounting standards (IND-AS), Exceptional items in FY21 results includes the following:

Particulars	**Rs. In lakhs**
Provision for diminution in Investments (Subsidiaries and Associates)	791
Provisions for Advances/Expected credit loss	1515
Inventory written off	1746
Total – A	**4052**
Provision on Investment (FMV on investment in Associates) – B	1075

Key figures – FY21 and Q1FY22

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Standalone

In INR lakhs	FY20	FY21	Q1 FY21	Q1 FY22
Sales	41,808	31,406	3,022	5,637
Contribution % to Sales	11,588 27.7%	7,124 22.7%	845 27.9%	1,149 20.4%
EBITDA Margin	4,107 9.8%	895 2.9%	(566) (18.7%)	(481) (8.5%)
Operating PBT Margin	(1,752) (4.2%)	(6,099) (19.4%)	(2,061) (68.2%)	(2,400) (42.6%)
PBT PBT%	(1,871) (4.5%)	(9,629) (30.7%)	(1,586) (52.5%)	(2,278) (40.4%)
MAT Adj.	145	51	39	-
Corporate Tax	(499)	(273)	-	76
Other comprehensive income/(loss)	(129)	(1108)	-	
PAT PAT Margin	(1,645) (3.9%)	(10,515) (33%)	(1,548) (51.2%)	(2,201) (39%)

Key aspects – Standalone

- **Topline :**
  - ✓ **FY21 sales lower by ~24.9% YoY.**
  - ✓ **Q1FY22 sales were at 5637 lakhs. However, FY22 expected to be better than previous year**
    - BS VI inventory restocking
    - MHCV production ramp-up on track
    - Aftermarket business will improve post liquidity infusion
- **Profitability :**
  - ✓ **RM headwinds in steel and related commodities, pass on is happening with lag of 1 quarter**
  - ✓ **Fixed Cost rationalization taken place**

Lava Cast

- **Lava Cast rationale:**
  - Assured timely supplies of quality Castings to avoid sales loss and reduce development time of new products.
  - Strategic plant location to minimize freight cost of Castings.

- **Issues faced in Lava Cast**
  - Teething problems: Lower Capacity utilization (max achieved is only ~52%) and high rejection rates (~17% - 19%).
  - OEM Slowdown in last two years has directly impacted castings demand for both captive (Setco) and non-captive (external) business.
  - Low operating leverage in foundry and Lower capacity utilization resulted in losses

With all of above Lava Cast to be net additive at EBITDA level going forward

Performance of Lava Cast since Inception

SETCO AUTOMOTIVE LTD

Particulars	2020	2021
Capacity (In MT)	30,000	30,000
Production (In MT)	8,144	5,479
Utilisation %	27%	18%

Amt INR lakhs	2020	2021
Sales	5,550	3,823
Contribution	1,311	984
Contribution %	23.6%	25.7%
Fixed Cost	1,725	1,634
EBITDA	(414)	(629)
EBITDA %	-7.5%	-16.4%

- Lava Cast turnaround plan hinges on 4 pillars:
  - Improve operating parameters on key variable Costs
    - **IN FY 21, Lava Cast achieved best ever contribution margin despite least capacity utilization**
  - **Reduce Fixed Costs to FY 18 levels. :**
  - **De- Risked Business Portfolio :**
    - Higher Capacity utilization with improved operating mix
      - Higher castings content in Farm tractor clutches and US export clutches

- ***We expect improved performance of Lava Cast as OEM segments will also return to normalcy. Lava Cast will be net positive additive to EBITDA from H2FY22***

Key figures – Consolidated FY20 and Q1FY21

SETCO AUTOMOTIVE LTD

Consolidated

In INR lakhs	FY20	FY21	Q1 FY21	Q1 FY22
Sales	47,032	35,926	4,135	7,063
Contribution % to Sales	14,995 31.9%	9,061 25.2%	1,314 31.8%	1,819 25.8%
EBITDA EBITDA Margin	3,601 7.7%	(1,006) (2.8%)	(953) (23.1%)	(731) -10.3%
Operating PBT	(5,330)	(10,285)	(3,069)	(3,210)
PBT	(5,405)	(12,708)	(3,069)	(3,096)
PAT	(5,242)	(12,330)	(2,889)	(3,020)
PAT (after Minority Interest &OCI)	(4,742)	(13,117)	(2,775)	(3,020)

Key aspects – Consolidated

- Consolidated performance subdued due to
  - Lower top-line of Setco and hence lower operating leverage
  - Lava Cast capacity utilization severely impacted by OEM downturn in both captive (Setco) and non-captive segment (OEM’s)
  - Overseas subsidiaries continue to face challenging conditions in aftermarket segment which is their main operation

Management Message

Harish Sheth, Chairman & MD

The Covid pandemic specially the wave-2 continuously made us learn how to build a robust organization to manage unfolding uncertainties. At Setco we have taken a conscious step to reflect and introspect over the last 18 months by doing a deep analysis of what all needs to be done to make the company strong and grab the current and emerging opportunities Infront of us.

We are focused to leverage our strength, build capabilities to overcome our weaknesses so that we exploit the opportunities and ring-fence the core business to withstand any known / unknown external threat. Accordingly we have embarked on financing and business restructuring program to solve the stressed liquidity issues and get adequate growth capital.

Despite steep OEM slowdown, we continue to enjoy over 85% market share and are poised to reap the benefit when the business cycle turns to growth in H2 FY22. Our strong supplier base, technical expertise and brand royalty are pillars of strength, which has helped us successfully come back in the last 18 months

Large and growing aftermarket potential, initial success in farm business & exports are opportunities on which we have planned our growth strategy for the next 5 years. This is important from both the de-risk and margin improvement dimensions.

We are close to finalizing our finance and business restructuring program which will help us unlock the value of our core clutch business and serve our customers much better

IR Contact

Thank You
We Invite You To Visit Setco

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