CERTIFIED TS 16949/ISO 14001 EMS OHSAS 18001
CIN No. : L35999GJ1982PLC005203

SETCO AUTOMOTIVE LTD

LIPE CLUTCH

September 12, 2020

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/Madam,

Sub.: Outcome of Board Meeting in accordance with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 33 read with Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that the Board of Directors of the Company in its meeting held today i.e. Saturday, September 12, 2020 has, inter alia, approved the following:

1. Audited Standalone and Consolidated Financial Results of the Company for the quarter and financial year ended 31st March, 2020;
2. Due to the economic impact of the pandemic, Board as an exception has not declared any dividend for the financial year ended on 31st March, 2020
3. Unaudited Standalone and Consolidated Financial Results for the first quarter ended June 30, 2020 along with Limited Review Report.

Please find enclosed herewith the Investor Presentation.

The Board meeting commenced at 10:30 a.m. and concluded at 4.10 p.m.

This is for your information and record.

Thanking you,

Yours faithfully,
For Setco Automotive Limited

Chandra Kant Sharma
Company Secretary

SETCO AUTOMOTIVE LTD.

Encl: As above

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Efficient Engineering

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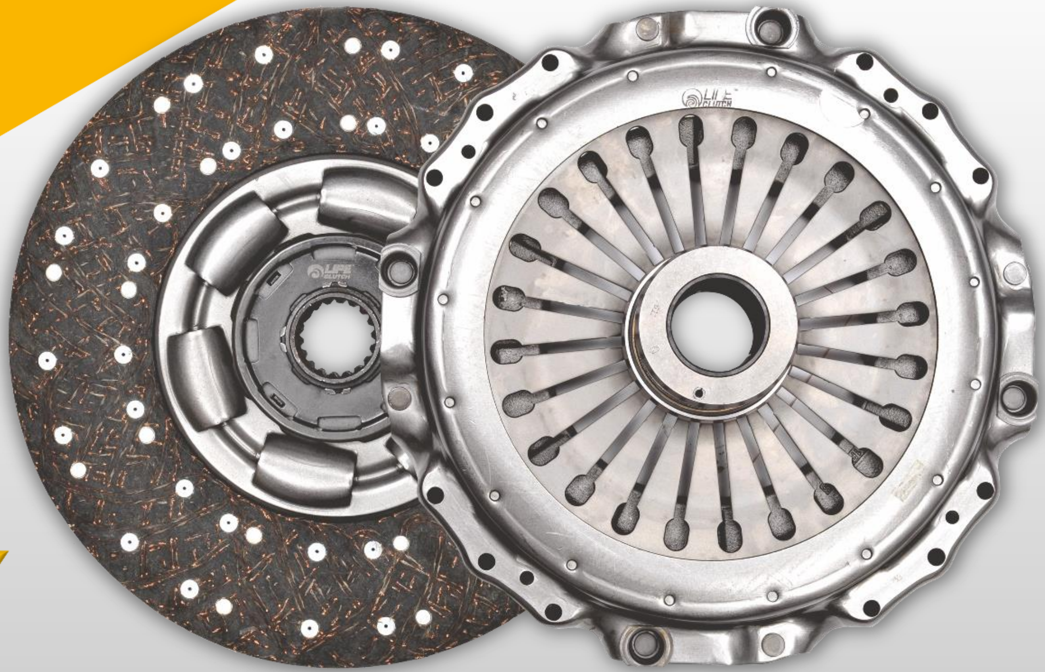
Results FY20 and Q1FY21
Setco Automotive Limited

Investor call: 14th Sep 2020 at 4:00pm

BS-VI READY



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Agenda

1 Overview

2 Financial Results

3 Business Update

4 Outlook

Overview

Highlights –MHCV Industry highest ever drop of >50% in FY20

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MHCV Industry

- FY20 :
  - MHCV Industry sales drop by ~50% in FY20 (largest ever drop in single year) bringing down Industry volumes to 2017 level. Main reasons:
    - General economic slowdown
    - Fleet efficiency improvement due to GST & additional 25% capacity due New Axle norms
    - BS IV stock liquidation by March 2020 for scheduled BS VI transition
    - Covid impact in Feb/ Mar & 10 day lockdown in March
- Q1FY21
  - MHCV Industry drop by ~ 93% in Q1FY21 due to COVID lockdown & related issues.

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

- Lower production by OEM's in FY20 for pipeline Inventory correction. De-growth of ~55% in OE Vehicle Production
- Q1FY21, OEM production started from May, however production remains constrained because of:
  - Revised working norms under Lockdown/ Un- lockdown rules including Inter sate supply chain issues.
  - Restriction on total workers and also availability of migrant workers.
  - Global supply chain challenges under Covid.
  - China sourcing dependency and related risks
  - Consumer facing front end challenges (dealerships/ field force / services).
- Gradually the production has started picking-up and expected to ramp-up from Q3FY21
- Setco continues to retain its market leadership with >85% market share in MHCV OEM segment.

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

- Aftermarket sales declined by ~17% in FY20 due to :
  - Lower demand in Q2FY20 & Q3FY20.
  - Demand started picking up in Q4FY20, but abrupt stoppage due to COVID led to standstill in production and sales.
  - Demand is back to pre Covid levels from July 2020

Setco's resilient performance

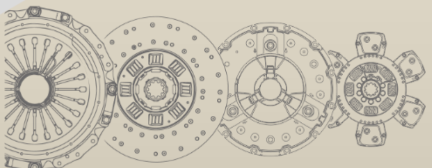
- Top-line of 418 Cr (value decline of only ~30% despite challenging market condition)
- Contribution levels at 27.7% have been maintained despite OEM downturn and related pricing pressure.
- EBITDA margins at 9.8% in FY20 with sharp focus on fixed costs rationalization which will help considerably going forward.
- We expect the above improvements, driven by superior segment mix and pro-active cost management to further improve profitability.

FY21 Outlook

- MHCV industry is projected to have volume de-growth of ~30% in FY21 (at its lowest in almost last 2 decades)
- Despite the above, Setco sales to OEM's estimated to be only lower by ~15% in value terms due to:
  - ➢ BSVI Channel and pipeline inventory restocking will partially mitigate 30% drop in sales volumes (production will be higher)
  - ➢ Migration to larger size clutches (higher realization per unit) due to BS-VI norms will cushion top-line impact of lower volumes
  - ➢ Customized engineering solution (NVH) will drive margin improvement

- 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, since 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 coming years.

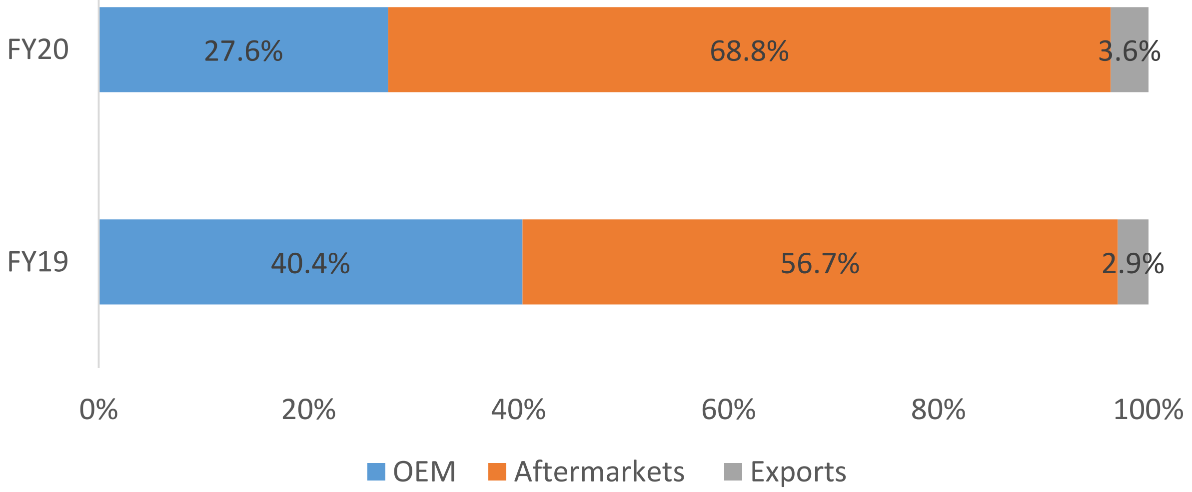
- Farm Tractor clutches – Substantial progress in obtaining OEM's approvals as a second source. Expect business to start in H2FY21.
- Lava Cast: Operational improvement (Rejection, Yield, Power cost), Cost reduction (Variable and Fixed), Export business for higher capacity utilization and proposed restructuring will deliver positive financials from H2FY21.



Financial Results

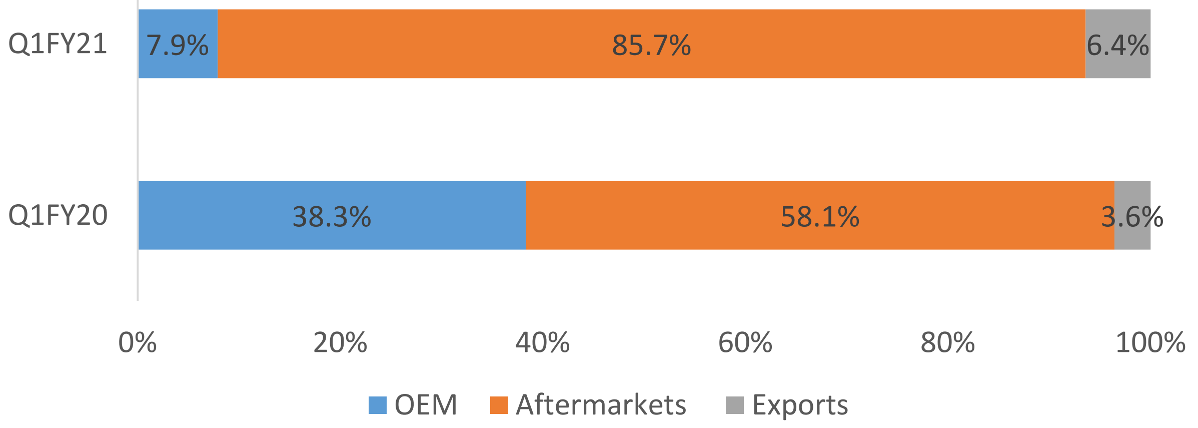
Segment mix – Standalone Sales

FY20 – INR 41,808 lakhs
FY19 – INR 61,340 lakhs



Q1FY21 –INR 3,022 lakhs
Q1FY20 –INR 12,826 lakhs

Q1FY21 VS Q1FY20



Key Aspects

- FY 20
  - Superior mix due to higher %age sales in Aftermarket compared to OEM sales.
  - Impact on margins due to lower activity levels mitigated due to superior mix
  - Improved mix will drive improved margins in forward years as activity levels reach/ surpass FY 19 figures .
- FY 21
  - Q1 has been the lockdown quarter with full economic impact of pandemic across all segments. Again OEM bore maximum impact due to multiple issues .
  - Aftermarket is back to pre Covid levels from Q2 and OEM has also started picking up though slowly .
  - Expect OEM to be between 20-25 % of total sale on a full year basis in FY 21.

Cost Analysis

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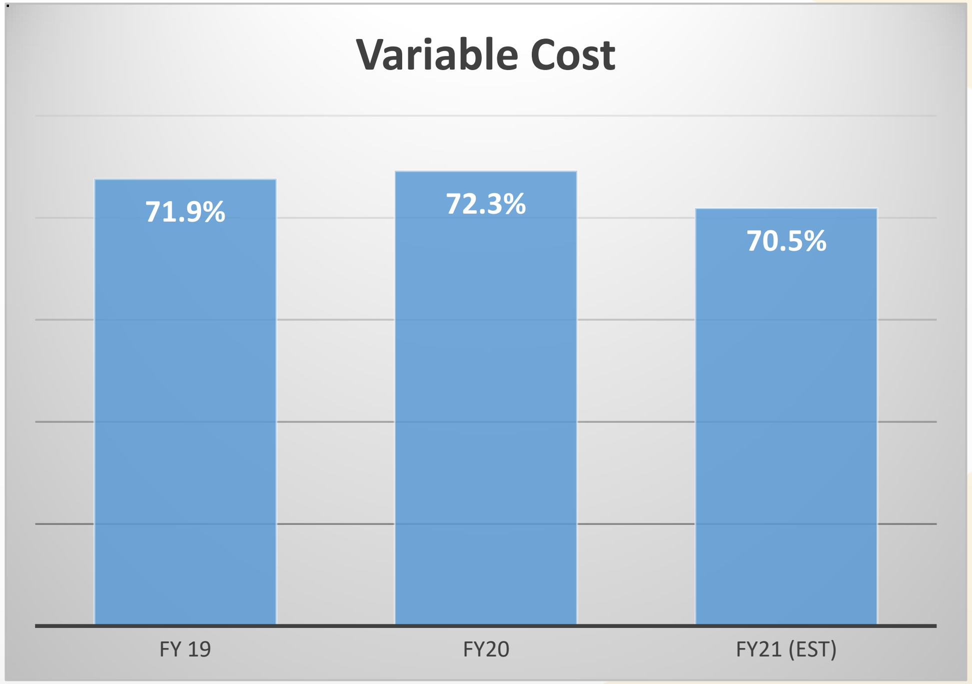
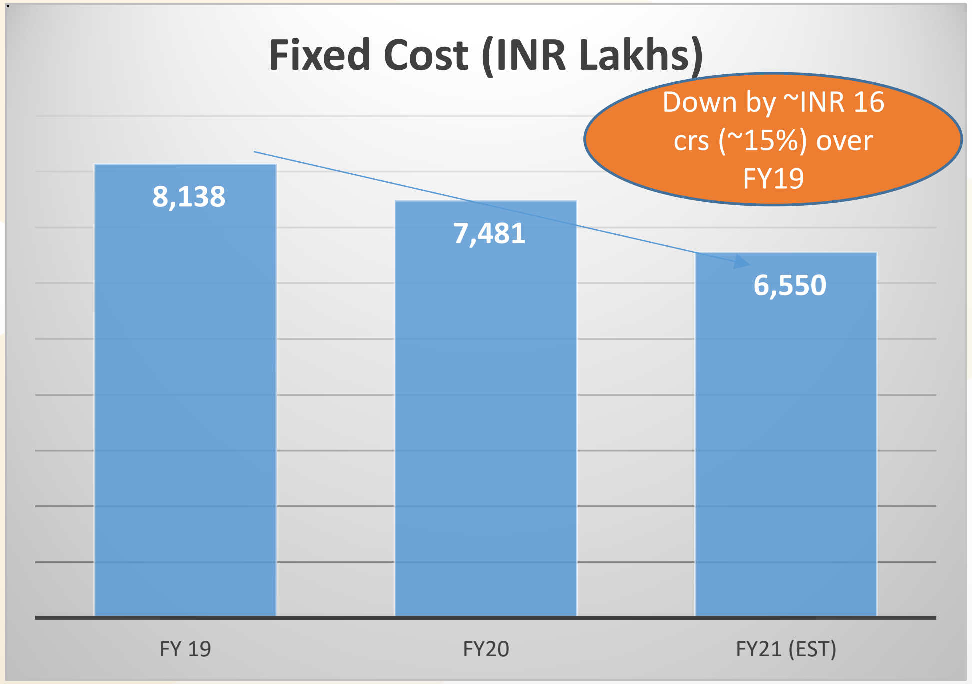


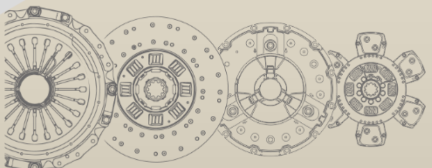


- Variable Costs :
  - In FY 20 , Variable cost % age maintained, despite lower activity level of 30%.
  - In FY 21 Variable Cost % age will come down by 50-100 basis point due to superior mix within OE (upsizing and higher realisations & margins /Unit) as well as higher aftermarket sales .
- Fixed Costs :
  - From H2FY20 ,an 18 month cost reduction program has been initiated
    - ✓ Already achieved Fixed cost reduction /savings of ~10% over FY19 in FY 20
    - ✓ Full year impact of ~10% in FY21 and further ~10% planned in FY21. Total reduction of ~15% improvement in FY21 over FY19 base.

Details of One time Exceptional Items

- Exceptional items include following as per Accounting standard (INDAS)

Particulars	Rs. In lakhs
Provision for diminution in Investments (Subsidiaries and Associates)	**1,414**
Provisions for Advances/Expected credit loss	**606**
Total	**2,020**



Key figures – FY20 and Q1FY21

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Standalone

In INR lakhs	FY19	FY20	Growth	Q1 FY20	Q1 FY21
Sales	61,340	41,808	-31.8%	12,826	3,022
Contribution % to Sales	17,259 28.1%	11,588 27.7%	-40bps	3,927 30.6%	845 27.9%
EBITDA Margin	9,101 14.8%	4,107 9.8%	-500bps	2,031 15.8%	(566) (18.7%)
Operating PBT Margin	3,772 6.1%	(1,752) (4.2%)		756 5.9%	(2,061) (68.2%)
PBT PBT%	5,286 8.6%	(1,871) (4.5%)		1,151 9.0%	(1,586) (52.5%)
MAT Adj.	626	145		225	39
Corporate Tax	1,057	(499)		176	-
Other comprehensive income/(loss)	-	(129)			-
PAT PAT Margin	3,602 5.9%	(1,645) (3.9%)		749 5.8%	(1,548) (51.2%)
EPS	2.71	-		0.56	-

Key aspects – Standalone

- **Topline :**
  - ✓ **FY20 sales lower by ~32% YoY.**
  - ✓ **Q1FY21 sales were at 3,022 lakhs. However, FY21 expected to be better than FY20, due to-**
    - ➢ BS VI inventory restocking
    - ➢ MHCV production ramp-up likely to start from Q3FY21 onwards
    - ➢ Aftermarket business is back to pre-covid levels from August
- **Profitability :**
  - ✓ **RM cost has been stable but early headwinds seen in steel and related commodities. Will be offset by mix and pricing.**
  - ✓ **18 month, fixed Cost rationalization from H2FY20 will give progressive improvements over the 18 month , and then beyond .**
  - ✓ **Company continues with older tax regime due to MAT credit availability**

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%) in the initial years till FY19.
  - ➢ OEM Slowdown in FY20 has directly impacted castings demand for both captive (Setco) and non-captive (external) business.
  - ➢ Low operating leverage in foundries. Lower capacity utilization resulted in losses

- **Debt Restructuring Proposal**

❖ Final Restructuring proposal submitted and all discussion and most formalities completed

❖ Expected contours of the restructuring:
  - ➢ Out of the Term loan outstanding of ~INR 86crs, ~INR 51crs is to be repaid with reduced rate of interest in next 10 years in ballooning manner
  - ➢ Balance amount of ~INR 35crs to be repaid in 2 years at the end of servicing of sustainable portion with 0.01% coupon rate.
  - ➢ Funding of Interest on Term Loan and Working Capital (FITL) upto June 2021

❖ Key highlights:
  - ➢ Lava Cast's internal cashflows to service the repayment
  - ➢ Headroom of 6 quarters to ramp up capacity utilization.
  - ➢ Exports a major thrust area post Covid as US/European customers move away from China.

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

Performance of Lava Cast since Inception

Particulars	2017	2018	2019	2020
Capacity (In MT)	30,000	30,000	30,000	30,000
Production (In MT)	10,014	12,522	15,683	8,144
Utilisation %	33%	42%	52%	27%

Amt INR lakhs	2017	2018	2019	2020
Sales	4,936	7,364	10,616	5,550
Contribution	997	1,638	2,179	1,311
Contribution %	20.2%	22.2%	20.5%	23.6%
Fixed Cost	1,601	1,736	1,958	1,725
EBITDA	(605)	(98)	221	(414)
EBITDA %	-12.3%	-1.3%	2.1%	-7.5%

- Lava Cast turnaround plan hinges on 4 pillars:
  - Improve operating parameters on key variable Costs
    - **IN FY 20, Lava Cast achieved best ever contribution margin despite least capacity utilization**
  - Reduce Fixed Costs to FY 18 levels. :
    - Fixed Cost rationalization in 2nd half of FY20 led to savings of ~200 lakhs, benefit of which will continue going forward.
  - 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 1/3rd conversion into orders
      - Higher castings content in Farm tractor clutches and US export clutches
  - Debt Restructuring :
    - Debt restructuring likely to be approved by end Sept.

- ***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 H2FY21***

Key figures – Consolidated FY20 and Q1FY21

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Consolidated

In INR lakhs	FY19	FY20	Growth	Q1 FY20	Q1 FY21
Sales	68,044	47,032	-30.9%	14,372	4,135
Contribution % to Sales	22,224 32.7%	14,995 31.9%	-80bps	5,066 35.3%	1,314 31.8%
EBITDA EBITDA Margin	9,705 14.3%	3,601 7.7%	-660bps	2,309 16.1%	(953) (23.1%)
Operating PBT	1,095	(5,330)		277	(3,069)
PBT	1,677	(5,405)		277	(3,069)
PAT	(79)	(5,242)		(124)	(2,889)
PAT (after Minority Interest &OCI)	289	(4,742)		(34)	(2,775)
EPS	0.22	-		-	-

Key aspects – Consolidated

- Consolidated performance subdued due to
  - Lower top-line of Setco and hence lower operating leverage
  - Lava Cast capacity utlisation 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
  - COVID-19 has overall impacted the business in Q4FY20 and Q1FY21

Management Message

Harish Sheth, Chairman & MD

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 FY21.

Strong distribution strength and increased focus in Aftermarket segment has resulted in growth in market share despite an estimated 20% decline in the segment. This improves our product mix, leading to sustained margin improvement which is visible in our H1 performance.

Our proactive steps in reducing cost and expanding business in newer segment of farm tractors and exports will strengthen our ability to arrest top line de-growth in future.

The newly introduced BS-VI products improve revenue per vehicle as well as EBITDA margins. As volumes increase this will manifest in coming quarters.

The expected Govt Boosters on demand creation (Scrappage Policy which is a long-term Booster) & GST reduction to 18% (Short Term booster for next 6-8 quarters) will further give impetus to our growth momentum.

The new strategy on Lava Cast, implemented since last fiscal is showing very good initial signs. We are well positioned to exploit the upcycle through higher capacity utilization and leveraging improved operating efficiencies. We expect Lavacast to be net EBDITA and Margin additive to the consol results starting H2 FY 21.

FY21 Outlook and Beyond…

OEM	• Inventory build back of 4-6 weeks of BS VI Stocks will offset the sale drop in FY 21. • Upsizing and higher engineering content in BS VI clutches will improve revenue and margins/unit . • Farm equipment : Substantial progress in obtaining OEM's approvals as a second source. Expect business to start in H2FY21
Aftermarket (OES&IAM)	• OEM Sales in the growth years of FY14-FY18 will come-up for the first/second replacement cycle in the current year and would drive OES sales growth • Deferred fleet repairs of cannibalized vehicles in downturn of last two years, will grow spare parts business . • Like in other segments after growth in pre–owned truck sales will add to this demands will give boost to aftermarket sales • Better availability and network expansion will drive Independent Aftermarket • International Subsidiary - introduction of new generation clutches (ASD clutch) in US
Lava Cast	• OEM slowdown has directly impacted castings demand. • New 4 pillar strategy to make LavaCast grow on a sustained profitable trajectory in place.

IR Contact

We Invite You To Visit Setco

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