



Ready for the future

With its entry into the tractor segment and new markets, Setco is set for growth

Setco Automotive Limited (SAL), the largest manufacturer of 'Lipe' brand clutches for commercial vehicles in India, enjoys 85 per cent market share in the MHCV segment (medium heavy commercial vehicles), which it is planning to increase further by 2020. Incorporated in May 1982, the company employs more than 2,000 people globally. It is a Tier I supplier of clutches to all the major Indian commercial vehicle makers such as Tata Motors, Ashok Leyland, Mahindra & Mahindra, Bharat Benz and Volvo Eicher. SAL has a strategic global footprint with four manufacturing facilities – two in India (Gujarat and Uttarakhand) and one each in the UK and the US. Lava Cast is a subsidiary of SAL.

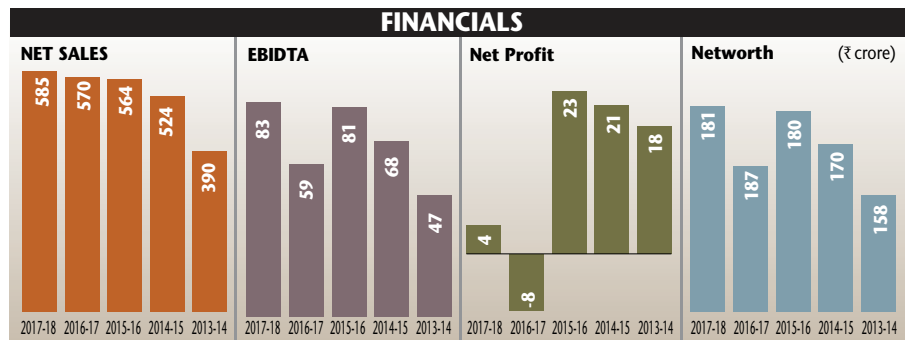
Currently, SAL is the leader in clutch business. The other players include Eaton, ZF Sachs, Valeo and Luk Clutches. In its recent report, India Ratings & Research (Ind-Ra) had maintained a high single-to-low double-digit growth in the commercial vehicle (CV) segment. During October-December 2018, tight liquidity

conditions among non-bank financial companies led to a decline in auto sales volume, especially CVs. In 2019-20, Ind-Ra expects the liquidity of non-bank financial companies to improve, thus improving the funding availability. Apart from improved finance availability, increased construction activities and industrial activities will continue to favour CV demand.

SAL plans to invest ₹300 crore for next three years in a phased manner to expand capacity, as also set up a heat treatment, press shop, LavaCast and other activities. "The company was

established in 1983 and we went into production in 1984," says Harish Sheth, CMD, Setco, about his company's journey. "Before that, I had gained experience by running a small factory in Bombay from 1974 to 1981, where I got my first exposure. Those days we were manufacturing for cars, trucks, tractors – everything that moved on four or six wheels. In 1996, the auto industry faced its first recession in 60 years. Tata Motors declared its first loss of ₹500 crore, the highest by the industry. That's the time when we started looking at other markets and export of components to clutch manufacturers in the US and the UK and developed a relationship."

In 2000, SAL had decided to focus on





make only clutches for commercial vehicles. This helped them win clients and confidence. Soon, Ashok Leyland also joined the client list, after Tatas. SAL supplied the complete range of clutches to both the companies. And, the turnover too went up from ₹15 crore in 2001-02 to ₹315 crore in 2011. "Then, Daimler came on board and it decided to go with us, despite competition," informs Sheth. "For a particular range, we are the only supplier to Daimler even now. Altogether, 85-90 per cent of India's OE requirements are met by Setco. During this time, we set up another factory in Uttarakhand, because of the benefits that were offered by that state. Today, we have a unit in the UK too. We have also bought the US unit in 2007, with the idea that we will penetrate the American market. It's now a turn-around company and we have worked hard for it."

SAL started supplying clutches to Tata Motors in 2001 and managed to supply them with Made-in-India clutches at half the import cost. This was a big moment for SAL and the company grabbed this opportunity. It took risk in investing in technology and product development and the gamble paid off. After the success with Tatas, there was no looking back for SAL. Slowly, the vehicles started gaining tonnage and the older vehicles were being phased out, which helped SAL in a big way in terms of volumes. By 2004, all SAL's losses were wiped off.

New avenues

SAL has now entered into the farm equipment sector with clutches for tractors. "We were looking for the next



opportunity to grow; the tractor segment fitted in well with what we were doing," says Jatinder Singh Gujral, CEO, SAL. "India is the largest producer of farm tractors in the world. We are well-positioned to tap into this segment by supplying clutches to tractors. The other opportunity is that it is adjacent to our manufacturing assembly facilities. Also, what we already have in terms of sizes, volumes are also similar." The company is primarily looking at the growth from tractor business from domestic market. However, it also plans to export to various parts of the world at a later stage. SAL's initial target for tractor business is about ₹100 crore in three years.

SAL's CV business is almost saturated at 85 per cent and about 40 per cent of it comes from OE. The company strongly believes that there is a huge opportunity in the tractor segment. Another advantage for SAL, with its existing facilities, no significant investment is required for the tractor space. SAL continues to maintain its leadership in CV segment for more than a decade due to its timely service, quality, pricing and commitment to on time deliveries.

For SAL, there is further growth in the OE sector that is coming into India

and international market. Daimler has put SAL as its global buyer, as it had successfully supplied international standard quality clutches all the while. The company is also developing new products for the American market that will start from next year. Exports at the moment contribute 5 per cent but, in 2-3 years, SAL is looking to go to 10-15 per cent with substantial increase in business. SAL has an extensive network across the country to cater to its customers. It includes 28 distributors, 43 distribution points, over 4,000 retailers (stores that buy the clutch from the distributor and sell it) and a network of 14,000 mechanics (who buy these products and fit it in a truck).

SAL recently announced its acquisition of 100 per cent stake in LavaCast for €950,000 (₹7.70 crore). This acquisition is a part of the company's ₹300 crore investment plan, through which the company will ramp up its production capacity and help the company to expand its exports markets. It was a joint venture between SAL and Lingotes Especiales SA.

"The first quarter of financial year 2020 will be muted but we expect good pick up from the second quarter ahead of the BS VI introduction from next April, which will push up vehicle prices. So, we expect higher demand this fiscal year," concludes Sheth. The company had reported about ₹8 crore net income on sales revenue of ₹160 crore in the third quarter in December 2018. Its share is trading at ₹30.60 (at a face value of ₹2). The scrip touched a 52-week high at ₹63.

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