

"Setco Automotive will be a Rs 1,000-cr company by 2020"



Clutch plays an important role in the transfer of power from engine to transmission and then to the wheels. Setco Automotive, one of the leading suppliers of clutches, is bullish on the segment and aims to double its turnover from Rs 524 crore in 2017-18 to Rs 1,000 crore by 2020. According to **Udit Sheth**, Vice Chairman, Setco Automotive Ltd, the government's infrastructure push, switch over to BS VI norms by 2020 and the company's foray into tractor segment will facilitate this growth. In conversation with Rakesh Rao, Sheth elaborates on emerging technological trends and impact of BS VI norms on the clutch demand.

Setco Automotive reported 48 per cent growth in Q4 FY 2017-18 compared to same period last year. How do you reflect upon your performance in 2017-18?

Setco Automotive is the market leader for manufacture and supply of premier clutches for medium and heavy commercial vehicles (M&HCV) in India with a turnover of Rs 524 crore. In FY18, the company forayed in the clutches for the farm tractor segment. The company also has a subsidiary LavaCast Pvt Ltd, which is a 30,000 MTPA foundry for fully machined SG & grey iron castings. Setco is a vertically integrated company with its own component manufacturing facilities and a state-of-the-art R&D center. We have facilities in Gujarat, Uttarakhand, UK and the US. Setco manufactures more than 1.5 million clutches every year and supplies to each and every commercial vehicle manufacturer in India.

With demonetisation, GST and switch over from BS III to BS IV out of the way, the sector is poised to grow robustly over the next 3 to 4 year. The OEM demand is growing at an unprecedented pace with a

minimum of 15 per cent per annum and a strong pull through in the replacement market as well. The growth is being spurred by good agriculture, robust investment in infrastructure and resumption of the mining sector. Besides Q1 of FY18, the rest of the year saw a strong demand from OEMs and this has led to the growth overall.

Do you see this momentum to continue in 2018-19? Which are the focus areas for growth for the company?

Yes, this momentum will continue for the next three years; thereafter there will be a switch over to BS VI and we are ready for that. At the same time, the government will also push for strong scrapping norms for old vehicles and that will again spur demand. A 4 year up-cycle minimum is on us. To add to this, we are not only growing in the OEM space but also in the aftermarket (replacement) which will keep our growth cycle positive. Here, we plan to launch a eco-clutch - a more value for money product and that will allow us to double our replacement market sales.

Further, we have our international business picking up in Africa, Middle East and North America. This will add to our growth. Finally, we expect our farm tractor clutch foray to start growing and that will add to this growth. We are sure to be a Rs 1,000 crore company (including Lavacast) by March 2020.

On exports front, how do you intend to grow?

Exports are a major thrust area as we are already Euro VI ready. We have started our sales in North America as well and that will bring great growth to us in terms of topline and margins both. We have also been approved as a supplier to a major Russian OEM.

How is the market for clutches in India?

The clutch market in MHCV and tractor space is here to stay unlike electric vehicles (EV) or automatic vehicle threat in car segment. To carry loads, the ICE (internal combustion engine) will be in vogue for many years to come. The overall market size for us is huge. For example, the MHCV producers make about 250K vehicles per year and they are used for about 15 years. Hence, the market has about 3 million vehicles which we can service. We are only servicing about half of them and believe the other half is available for us.

What are the advantages of ceramic metallic clutches compared to conventionally used clutches?

The answer is not black and white. The ceramic clutches are great for arduous duty cycles in India – heavy hauls, mining, overloading etc. They will continue to play a major role in the future as well as the technology is also becoming better and better. In passenger vehicles, they use organic clutches for more comfort – this will also continue. There is enough room for both technologies to grow in parallel.

How have alliances with global majors (like LIPE Clutch, Lingotes Especiales) helped the company? Are you looking to more global tie-ups?

The global alliance earlier with LIPE (which is now our wholly owned subsidiary that we acquired in late 2005) allowed us to quickly bring new generation clutches to India under

the then technical collaboration. As we started ramping up supplies and production, we vertically integrated our manufacturing for better quality and costs and set up our foundry Lavacast with technology assistance from Lingotes. Both of these relationships have paid off immensely and allowed us to be cost and technology leaders. Our focus now is to ensure we continue to grow and meet the demands of the market over the next 4 years.

How is the performance of aftermarket business?

The aftermarket business for us is an important pillar. It not only allows us to get out of the cyclical nature of the OEM business but allows us to get better margins as well. Clutch unlike other parts is a 10 hour labour job when changing in the replacement market; hence people prefer to go with OE certified products. We believe the aftermarket business will continue to grow at minimum 12 per cent per annum.

How is Lava Cast foundry aiding Setco's growth? Are you looking to grow non-captive customers base for this business?

Lavacast as a business came online 2 years ago and last year was its full year of operation. The rationale to set up our own foundry for fully machined castings was because of supply constraints of quality castings without which we were losing about 10 per cent of our annual top line. In addition, we need a state-of-the-art line to cater to high pressure castings which are now a strong part of our international clutch portfolio. This is now spurring strong growth. In fact, we are planning to now double the capacity with an additional investment of about Rs 130 crore. We already supply to other customers and not just to Setco. In the next two years, about 60 per cent of the increased business will be for outside customers.

BS VI will be implemented by 2020. Will it have any impact on clutch technology? If yes, how prepared are you?

We already supply Euro VI clutches in Europe so we are ready for BS VI. The clutch plays an important role in the transfer of power from engine to transmission and then to the wheels. It acts like a fuse and in case of harsh use it will fail first as it is

designed to fail optimally while saving more expensive parts like the transmission or the engine. In BS VI, the transfer of power needs to be more smooth and it has to dampen the noise and vibration in the vehicles. With stringent NVH norms, the BS VI clutches have better life, better fuel efficiency and better harmonics. These clutches will have more value addition as well.

With traction for electric vehicles (EV) increasing in India, is Setco aiming to tap this market?

We are focused at present on the farm tractor and commercial vehicle market as there is plenty of room to grow and add value.

What are emerging trends in clutch technology?

Euro & BS VI clutches are now playing an even larger role in NVH and emissions. This is being coupled with better mating component performance, better driver and passenger comfort. Hence, our R&D team is totally focused on efficient engineering and we expect that this will get more and more precise. In addition, giving live information on the vehicle dashboard is required with regards to clutch and driver performance. We are working on better capturing this data for better clutch design and performance.

What are your short and long term growth targets for the company?

Our goals as a company are to maintain our leadership position in a growing market while ensuring we get the same position in the farm tractor segment. In addition, we want to better manage our working capital cycle. We are constantly working on new products and frugal engineering while improving our work space for more efficiencies as well as better work environment for our teams. This is an ongoing process and we are all committed towards these goals while delivering ongoing stakeholder returns. We expect to grow our manufacturing footprint in another location in India and we are doubling our foundry capacity.

Finally, we are conscious of the BS VI targets. Our hands are full with all these initiatives and we continue to work on them. As a company, we are focused on growth and profits, and also be one of the best places to work.