
PROPRIETARY

Setco to raise USD 15m to partly fund capacity expansion - vice chairman

12 JUL 2018

Setco Automotive [NSE: SETCO], a Mumbai, India-headquartered maker of clutches for medium and heavy commercial vehicles, is planning to raise USD 15m in equity next year to fund a portion of its capacity expansion, Vice Chairman Udit Sheth said.

The company, which works with internal advisors, is looking to raise INR 2bn over the next few years, according to previous news reports. It will use INR 1.2bn-INR 1.3bn from these funds to double the capacity at its foundry to 60,000 tons per year, Sheth said.

In May 2014, Setco set up a foundry through a joint venture with Spain-based engineering company Lingotes Especiales [BME: LGT].

The foundry will be operational by 4Q19 and will contribute INR 3.5bn to the company's topline by 2021, Sheth added.

As reported previously, the company expects its annual revenue to reach INR 6bn for fiscal year 2018 and INR 10bn by fiscal year 2020, driven by the pickup in demand for commercial vehicles, which has been boosted by the government's infrastructure spending push.

Setco is betting on the supply of clutches for farm tractors and off-highway vehicles for its next phase of growth, according to a company presentation.

The increase in mechanisation in farming will result in the purchase of higher power tractors, Sheth said. Moreover, factors such as the government's push to double farm income and a good monsoon will contribute to the growth of the tractor segment, he added.

The company is looking to capture 20%-30% of the market share in this sector over the next 20

months. According to Sheth, the sector is currently dominated by LuK, a brand owned by Germany's Schaeffler Group [ETR: SHA].

The off-highway vehicles sales market is expected to benefit from the government's road building and infrastructure push, Sheth said.

The Indian government in February increased its allocation for spending on infrastructure projects to about INR 6tn, as it looks to create more jobs and speed up economic growth.

Setco will also launch a cheaper product targeted at after-market customers who are looking for parts late into their lifecycle. Sheth said that the company's after-market segment, its largest by revenue, has room to grow topline 60%-70% over the next two years.

Automobile and commercial vehicles sales in particular have picked up over the last few years on the back of a strong economy. Commercial vehicles sales rose nearly 20% to 856,453 units in the last fiscal year, according to data from the Society of Indian Automobile Manufacturers.

Setco was considering buying an actuation systems maker about six years ago, but decided against it, Sheth said. The company is not looking at targets immediately and has its hands full, he added.

by Pranav Kiran in Mumbai

Grade: Confirmed

TARGET

Setco Automotive

Competitors

Schaeffler AG

Countries

India

Sectors

Automotive

Sub-Sectors

Automotive
components

Topics

Companies for
sale
Growth Capital
Raise

Intelligence ID:

2671159

© 2018 MERGERMARKET LIMITED. ALL RIGHTS RESERVED

To be used for the internal business of the assigned users only. Sharing, distributing or forwarding the entirety or any part of this article in any form to anyone that does not have access under your agreement is strictly prohibited and doing so violates your contract and is considered a breach of copyright. Any unauthorised recipient or distributor of this article is liable to Mergermarket for unauthorised use and copyright breach.