May 19, 2025

Setco Auto Systems Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Non-convertible Debenture	215.00	215.00	[ICRA]B- (Stable); Reaffirmed
Long-term – Non-convertible Debenture	350.00	350.00	[ICRA]B- (Stable); Reaffirmed
Long-term – Non-convertible Debenture	20.00	20.00	[ICRA]B- (Stable); Reaffirmed
Total	**585.00**	**585.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation considers Setco Auto Systems Private Limited's (SASPL) weak financial profile on account of net losses and high debt levels, leading to modest debt coverage indicators as on December 31, 2024. The company is also exposed to high refinancing risk as the redemption of the non-convertible debentures (NCDs), entailing a total outflow of more than Rs. 1,000 crore (including accrued interest) is due in September 2025. The same remains a key monitorable. ICRA notes that the company is at an advanced stage of discussions with potential investors to refinance the said NCD (along with the accrued interest), and the management expects this process to be completed prior to the due date. Setco Group's financial profile continues to be weak, given past delays in debt servicing by its associate concern, Lava Cast Pvt. Ltd. (LCPL) due to underutilisation of capacity. While SASPL had supported LCPL in March 2024 through its own funds, ICRA notes that the amount was raised by India Resurgence Fund (Ind-RF) extending a further loan of Rs. 20 crore to SASPL, which reimbursed the support extended to LCPL. Hence, it was largely a stop-gap arrangement. ICRA does not foresee further support to LCPL or upstreaming of funds to Setco Automotive Limited (SAL) or any other Group entity, but the same will remain a key monitorable. The company is also exposed to the cyclicality in the auto industry, as evident from the volatility in the top line over the past fiscals.

The rating, however, notes the extensive experience of the promoters, SASPL's established operational track record and strong relationships with original equipment manufacturers (OEMs) in the clutch manufacturing business of the medium and heavy commercial vehicles (MHCVs) industry. The rating also considers the improvement in SASPL's operating profile over the past two to three years, following infusion of funds through NCDs, which led to streamlining of the business. Consequently, the total revenues are expected to increase by 15-20% in FY2025 on a YoY basis. The operating margins of the company also improved to 14.6% in 9M FY2025 over 11.9% in 9M FY2024 owing to increase in scale of operations.

The Stable outlook reflects ICRA's expectations that SASPL's large debt levels will continue to impact its credit profile. The ability of the company to refinance the existing NCD falling due for repayment in September 2025 remains a key monitorable.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established operational track record of the Group in auto component industry – SASPL is managed by Mr. Harish Sheth, who has an experience of over 35 years in the auto component industry. The company manufactures clutches primarily for MHCVs and the Group has an established operational track record of nearly 35 years. The company's revenues are distributed across three key segments—OEMs, original equipment suppliers and independent aftermarket. It has also forayed into manufacturing clutches for the tractor segment and allied parts like lubricants, brake lining, fly wheels, and auto components in the MHCV segment.

Strong relationships with OEMs along with repeat business from major OEMs – The company has developed an established customer base, resulting in repeat orders. It has an established brand presence in the automotive market with reputed M&HCV OEMs in India.

Credit challenges

Weak financial profile – SASPL's financial profile remained weak characterised by high debt levels and net losses. The high debt levels are on account of NCD subscribed by Ind RF in September 2021 to support the liquidity position of the company at that point of time. It reported losses of ~Rs. 93 crore on a provisional basis in 9M FY2025 over loss of Rs. 92.6 crore in 9M FY2024 (loss of Rs. 117.9 crore in FY2024 and Rs. 209.3 crore in FY2023) owing to high interest expenses. Although SASPL's revenue is expected to increase by 15-20% in FY2025 on a YoY basis, with operating margins projected at 14-15% over 12.2% in FY2024, the company's debt coverage indicators are likely to remain moderate in FY2025 due to high debt levels. The coverage indicators are expected to remain under pressure in the near-to-medium term, given the substantial debt on its books with the redemption falling due in September 2025.

Significant debt with accumulative interest and redemption falling due in FY2026 – SASPL has a significant debt repayment obligation of Rs. 575.0 crore in September 2025, along with the accrued interest till September 2025 aggregating to more than Rs. 1,000 crore. SASPL is required to mandatorily pay 5% coupon interest per annum on NCDs, while the remaining 18% interest on outstanding debt is getting accrued. The company's ability to make timely repayments of NCDs and the accrued interest by September 2025, either through refinancing or equity support, along with the new terms and conditions of the funds, is crucial for its credit profile. ICRA notes that the company is in an advanced stage of discussions with potential investors to refinance the NCD along with the accrued interest, and this process is expected to be completed by September 2025.

Stressed financial profile of associate entity, LCPL – LCPL, in which SASPL has a 10.31% shareholding, started commercial production from April 2016. It has an installed casting capacity of 30,000 MTPA. LCPL has been reporting losses for the past seven years till FY2024 owing to internal challenges such as higher rejections and lower yields. LCPL could not service the debt obligation in FY2020 due to high losses and internal challenges. The company underwent debt restructuring in FY2021, providing a much-needed liquidity buffer to LCPL through an elongated repayment period, along with lower interest costs. The company was unable to service the debt obligation in FY2022 and FY2023 as the internal challenges continued. SASPL supported LCPL in FY2022 from the NCD funds and equity for maintenance capex and stabilisation of business. ICRA notes that SASPL has further provided financial support to LCPL in FY2024 from its own cash flows. However, the money was advanced on the pretext of Ind-RF extending a further loan of Rs. 20 crore to SASPL, which was reimbursed in FY2025 for the support extended to LCPL. Hence, the same was largely a stop-gap arrangement. ICRA notes that the account of LCPL has been restructured in FY2024 and ICRA does not foresee further support to LCPL or upstreaming of funds to SAL or any other Group entity, but will remain a key monitorable. LCPL undertook a major maintenance exercise in FY2023, which mitigated the internal challenges faced earlier, improving its yield and rejection rates in FY2024 and FY2025.

High exposure to cyclicality in auto Industry – SASPL primarily caters to the automobile industry and manufactures clutches used in MHCVs. Thus, it remains exposed to the cyclicality in the auto industry, evident from the volatility in the top line over the past fiscals. However, supplies to OEMs account for approximately 27% of the top line, and the balance 73% comes from the replacement market.

Liquidity position: Stretched

The company's liquidity profile remains stretched, with significant debt obligation with accumulated interest due in FY2026. Its ability to successfully refinance the same remains a monitorable. The company's working capital utilisation remained moderate at ~78% during the 13-month period ended in March 2025, with buffer of Rs. 6.1 crore as on March 31, 2025.

Rating sensitivities

Positive factors – A large maturing debt obligation in FY2026 against SASPL's earnings constraints the possibility of any rating upgrade in the near term. However, any meaningful reduction in debt, coupled with sustained improvement in its sales turnover and profitability along with liquidity, strengthening the entity's overall financial profile, would be a credit positive.

Negative factors – Inability of the company to refinance the maturing NCD along with the accrued interest, or any restructuring of the existing NCDs to prevent the occurrence of default, will be a negative rating trigger.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Component
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Established in 1982 in collaboration with Gujarat Industrial Development Corporation (GIDC), Gujarat Setco Automotive Limited (GSAL) was a manufacturer of clutches for OEMs. In 2000, GIDC stepped out of GSAL, and the latter was renamed as Setco Automotive Limited (SAL). SAL manufactured clutches primarily for MHCVs. SAL's clutch business was transferred to its wholly-owned subsidiary, Setco Auto Systems Private Limited, on a slump sale basis in September 2021. SASPL now manufactures clutch products. There were no operations under SASPL before the slump sale. SASPL sells clutches under its own brand, LIPE. SASPL is managed by Mr. Harish Sheth, who has an extensive experience of over 35 years in the auto component business. The company has its own manufacturing unit at Kalol, Vadodara (Gujarat), and an assembly unit at Sitarganj, Udham Singh Nagar (Uttarakhand). The company's research and development centre along with its manufacturing facility are approved by the Department of Science and Industrial Research (DSIR). The manufacturing facility is also certified by IATF 16949, ISO 14001 and OHSAS 18001.

In addition to OEMs, the company caters to clutch demand from original equipment services and independent aftermarket, which together generated 64% of its annual sales in FY2025. The company has also forayed into manufacturing clutches for the farm segment (tractors) and has supplied products to major tractor manufacturers like Eicher Motors and Sonalika Tractors, among others. SASPL has also ventured into a new business of allied parts (shop and ship) like lubricants, brake lining, fly wheels, and auto components in the MHCV segment.

Key financial indicators (audited)

SASPL (consolidated)	FY2023	FY2024	9M FY2025*
Operating income	475.0	558.8	450.8
PAT	-209.3	-117.9	-92.9
OPBDIT/OI	11.1%	12.1%	14.6%
PAT/OI	-44.1%	-21.1%	-20.6%
Total outside liabilities/Tangible net worth (times)	-1.9	-1.7	-1.7
Total debt/OPBDIT (times)	11.3	8.8	6.8
Interest coverage (times)	0.4	0.4	0.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current (FY2026)				Chronology of rating history for the past 3 years			
		FY2026		FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	May 19, 2025	Date	Rating	Date	Rating	Date	Rating
Non-convertible Debenture	Long term	215.00	[ICRA]B- (Stable)	May 21, 2024	[ICRA]B- (Stable)	Aug 7, 2023	[ICRA]B- (Stable)	Aug 12, 2022	[ICRA]B- (Stable)
Non-convertible Debenture	Long term	350.00	[ICRA]B- (Stable)	May 21, 2024	[ICRA]B- (Stable)	Aug 7, 2023	[ICRA]B- (Stable)	Aug 12, 2022	[ICRA]B- (Stable)
Non-convertible Debenture	Long term	20.00	[ICRA]B- (Stable)	May 21, 2024	[ICRA]B- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Non-convertible Debenture	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE0I0R07037	Non-convertible Debenture	Sept 1, 2021	5%	Sept 1, 2025	215.00	[ICRA]B-(Stable)
INE878E07010	Non-convertible Debenture	Sept 6, 2021	5%	Sept 6, 2025	350.00	[ICRA]B-(Stable)
INE0I0R07029	Non-convertible Debenture	July 26, 2024	5%	Sept 7, 2025	20.00	[ICRA]B-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jitin Makkar
+91 124 4545 368
jitinm@icraindia.com

Kinjal Shah
+91 022 6114 3442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22 6169 3349
sakshi.suneja@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches