



“Varroc Engineering Limited Q3 & 9M FY20 Results Conference Call”

February 13, 2020



MANAGEMENT: **MR. TARANG JAIN – MANAGING DIRECTOR**
MR. STEPHANE VEDIE – PRESIDENT & CEO VLS
BUSINESS
MR. ASHWANI MAHESHWARI – WHOLE-TIME
DIRECTOR & CEO, INDIAN BUSINESS
MR. T.R. SRINIVASAN – GROUP CFO
MR. NITIN KALANI – AVP FINANCE & HEAD
INVESTOR RELATIONS



Varroc Engineering Limited
February 13, 2020

Moderator:

Ladies and gentlemen, good day and welcome to Varroc Engineering Limited's Q3 and Nine Months FY 20 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded.

Varroc Engineering Limited's management is represented by Mr. Tarang Jain -- Managing Director along with Stephane Vedie -- President and CEO VLS Business; Ashwani Maheshwari – Whole-Time Director and CEO, India Business; T.R. Srinivasan -- Group CFO and Nitin Kalani – AVP, Finance and Head of Investor Relations. I now hand the conference over to Mr. Tarang Jain. Thank you and over to you, sir.

Tarang Jain:

Thank you. Good evening, everyone. I am Tarang Jain here. And I would like to thank you for joining the Quarterly Earnings Call of Varroc Engineering Limited.

I would like to quickly start with the industry situation. The Indian two wheeler market continued its declining trend which has been persistent for the last five quarters. The two wheeler industry volumes were down, more than 13% year-on-year in the quarter. Major passenger vehicle markets internationally also saw a decline in volumes. Europe and North America declined by 6.2% and 8.2% year-on-year respectively. The Indian passenger vehicle production also fell by almost 8% year-on-year. The Chinese passenger vehicle market during the quarter however showed signs of revival with a (+1.7%) growth year-on-year. This however may not sustain in Q4 with the ongoing Corona virus outbreak.

I am happy to announce that we have commenced production at our Poland facility, which is an important milestone in our long-term growth strategy. We expect this facility to ramp up quickly over the next year. With this, we have now four new operating facilities up and running which are Poland, Morocco, Brazil and Bulgaria. Additionally, we have a new line within our Czech facility premises. These facilities are crucial to service the new business won by us over the last three years from large global OEMs.

As highlighted earlier, in the initial phase of the operations, these facilities run at sub-optimal capacity utilization, resulting in operating losses in the first few quarters. This is impacting the current year performance adversely.

In the current quarter, consolidated revenue declined by 4.6% mainly driven by India business which saw a decline of 12.7% year-on-year. The VLS business revenues in Euro terms grew by 5.1%. Consolidated EBITDA margins were impacted by the lower revenue along with the subsequent-optimal capacity utilization in the new facilities. EBITDA margin for India Business was an 11.2%, a sequential improvement over the last three quarters. The VLS margins on a like-for-like basis was at 7.8% in the current quarter, lower than the 9.1% margin

recorded in Q3 FY19. However, excluding the losses at the new VLS facilities in the ramp up phase, the VLS EBITDA margin was at about 10.2% for the rest of the business. Our China JV saw some improvement during the quarter. The revenue in local currency was up by 7.4% year-on-year, our share of EBITDA from China JV increased by 72% year-on-year to Rs.168 million. Depreciation and finance costs were higher largely due to adoption of IND AS 116 and a higher asset base. The effective tax rate was higher due to timing of the tax incentives as well as losses in the new entities. Our PAT for the quarter is at Rs.298 million. PAT was impacted negatively by low revenue, operating losses at new facilities during the ramp up phase, higher interest and depreciation/amortization as well as higher effective tax rate.

Our focused effort in optimizing capital expenditure and tight working capital management resulted in a positive free cash flow for the quarter. As a result, our net debt has reduced to Rs.23.75 billion, down from Rs.25.20 billion at the end of Q2. This will continue to be a focus area for us going forward.

On a year-to-date basis, we have won some significant businesses. Our VLS business secured orders of €318 million, equivalent annual revenue of which orders for almost 177 million are new orders, the rest are rewins. The new order wins bode well for our future growth. We are on track to achieve a full year target order intake of €385 million in annual revenue.

With this, we are happy to take your questions now. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: My first question is if you can highlight what could be the revenue potential from the BS VI product on an annualized basis and how are things ramping up there?

Tarang Jain: For the BS VI, in fact, we were earlier expecting strong kind of revenue in Q4. But we see that the adoption of BS VI from BS IV vehicles has been a little bit slow you know. So, therefore we are expecting now sales will largely come more in March of this financial year. I think on an annualized basis, I do not have a very-very distinct clear number, but for me I think if we take just the electronic fuel injection business and the catalyst business we could actually expect at least a revenue going forward of between Rs.250 to Rs.300 crores annually. This is not counting what is the increase in content in some of our products like the Magneto, the Electronic Cluster, etc., where you see because of the BS VI norms, we see some increase in product pricing for these kind of products.

Aditya Jhawar: Tarang, was the number earlier about 350 to 500, does it include our supplies go to Royal Enfield and Bajaj?

Tarang Jain:

It includes both, but earlier I think when we were discussing we were looking also at a growth in the market in the coming year and we would annualize it because we were anyway not expecting more than Q4 kind of a production for BS VI products. But seeing the way the markets are at the moment, we are just being more kind of cautious and conservative when we are rolling out these numbers. So, earlier we have been kind of focusing on at least 10% year-on-year growth. But now I think with the vehicle volumes are where they are we would be a little bit more vary for growth in the coming year.

Aditya Jhawar:

Second question is to Stephane. Stephane, if you see the numbers of Tesla, do you think that the cannibalization of Model S and X is largely behind since the last few quarters volumes of model S and X averaging at about 16,000, do you think that the negative impact of this cannibalization is largely behind, any indication from Tesla that you guys are getting?

Stephane Vedie:

Yes, we honestly were surprised by still very strong volume compared to what we initially forecasted for the Model S and X. The numbers you mentioned are significantly higher than what we budgeted for the year. I think, for Tesla, we are 41% above our budget. So yes, year-over-year, it is a significant decrease. But these cars that have been on the market for I would say maybe five years, six years are still pretty strong, they are still growing interest, they are still opening to different markets and they are doing a good job to update them regularly with new features, new software and the appeal is still there. So, we are surprised but the volumes continue to be pretty stable and pretty strong on this. So, we enjoy this especially for all business in North America. I remind you we won a little content or so on the Model Y, so we will be starting with a facia lamp and with some small lighting on this new model including the stop lamp in the coming month. So, this is also a new volume that will add to our revenue with Tesla.

Aditya Jhawar:

So you mentioned it will start in next couple of months?

Stephane Vedie:

Yes, the Model Y, the product planning in Tesla is still preferred, but they are one of the most efficient car maker as far as time to market. Their ambition is to start in a few months. We will be ready as far as lighting is concerned. Is the full car will be ready? It is still a question mark to me.

Tarang Jain:

Aditya, just one clarification on your BS VI question. When I was talking about Rs.250-300 crores, that was more actually for the two products -- the Electronic Fuel Injection and the Catalytic Converters -- But if have to take all the BS VI products that would of course remain at about at least 400 to 450 plus at a minimum, just to clarify. Because I was only clarifying on the two new products of Catalysts and the Electronic Fuel Injection, not all the BS VI products.

Aditya Jhawar:

The next question is on China. So if you see the revenue run rate on a quarter-on-quarter basis, there has not been a material movement, roughly it is about Rs.1 billion. But there has been a major swing in EBITDA margin from almost 0.5 to almost 16%. If you can help us explain

what resulted into this and what is the outlook for China in '20 and '21 in terms of revenue as well as margins?

Stephane Vedie:

So what about China joint venture? Yes, the last quarter was pretty strong. We saw an increase in revenue of about 4% year-over-year for the quarter. So this was showing the premises of recovery that we are all expecting and waiting for. About the increase in profitability that we saw in the last quarter, I think we have done relatively good job to reduce our cost base adapting to the new reality of the market on trying to be as flexible as possible. So I think we have seen the impact of our cost reduction actions kicking-in, in the last quarter in China. About the outlook, I think in the current situation, it is difficult to predict even before the outbreak of this corona virus. China is the market where we had the biggest difficulty to predict the future. We are always surprised a little bit by the downturn that we have seen starting last year. Now with this virus situation, we think that there will be an impact in the next month for sure. So, we want to be very conservative. As far as China is concerned, we keep focusing on our consolidation, adapting the cost base to the volume reality and we try to plan for the worst and hope for the best.

Aditya Jhawar:

Final question in terms of order execution in China. What I recall is that there were a couple of orders that were coming for execution. Was it towards the end of '21 or beginning of '22 from VW and Geely?

Stephane Vedie:

Yes, that was the end of '21 we will start having the impact on our revenue of some of the big projects with Geely, SAIC and Volkswagen.

Moderator:

Thank you. The next question is from the line of Varun Bakshi from Equirus. Please go ahead.

Varun Bakshi:

The first question is regarding the depreciation cost. This quarter we have seen a sharp jump in our depreciation cost. So, is this depreciation run rate going to continue for the coming quarters or how we should look at it?

TR Srinivasan:

The depreciation has gone up on account of two factors; one is the newer facilities in VLS business we had capitalized over the course of the last few quarters, including the current quarter in Poland. Those depreciation costs are incremental. And on top of that, we also adopted AS 116 from this financial year. So because of that, the lease related costs are now partly booked in depreciation, amortization and partly booked in finance costs. Earlier, they were booked about EBITDA. So combination of that depreciation, amortization costs have gone up compared to last year.

Varun Bakshi:

So this Rs.193 crores sort of depreciation will continue going ahead?

TR Srinivasan:

Yes, so this is more like the running rate going forward.

Varun Bakshi: And are there any more facilities which we are going to capitalize over coming quarters, like Chennai facility...?

TR Srinivasan: Chennai facility will get commissioned in first or second quarter, and on the Poland some more capitalization will happen in the current quarter and next quarter, partly commissioned.

Varun Bakshi: My next question is on our EBITDA in India business. Despite the revenue decline in last quarter, we have seen a sharp jump in our EBITDA margin. So, can you explain what has led to that?

TR Srinivasan: India business what you see is that sequentially, we have been able to improve the margin. It is largely on account of certain cost control measures taken in the earlier part of the year. Once it was clear that we are not going to have any industry volume growth this year and it is going to be rather decline. So proactively took a number of steps in terms of optimizing the manpower cost and different manufacturing locations including selectively taking brochures where required based on the customer demand and also we have optimized the fixed costs at the SGA line as well. So, combination of that is under benefit and we have been also been aggressively negotiating with suppliers for reduction in material costs and that is the other factor which has contributed. So, because of that even though the revenue has declined, but EBITDA margin percentage we have been able to improve sequentially.

Varun Bakshi: In this new order that you have given in your presentation, there is this Rs.21 crores new order from Bajaj for electronics. Is it related to the new carburetor or what is it related to?

Tarang Jain: So I think these are going to be kind of a few new products like electronic carburetor also, but basically these are I think new orders to do with the regular business, there are some new models, the regular items of let us say our Magneto or more of a distill clusters, these kind of businesses, there are some switches, there are some lighting systems. So it is a combination of our business and there are some new models, there are a few wins in our regular parts business in Bajaj.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly, my question is on the new facilities in Morocco and Poland. How do you see the revenue ramping up from these facilities say next financial year FY'21 and '22?

Tarang Jain: I think for FY'21 I think in Morocco and Poland, we do see between €50 million to €60 million of revenues in both these facilities. So we do see a ramp up because production has already started with certain customers in both these places. So next year I think we are just in the process of finalizing our budget. So next year we will see volumes in about that kind of a magnitude; €50 to €60 million. I think going forward FY'22 could also go to probably about

100 million plus in both these facilities. So we are looking at maybe going up to probably even 120 or 130 probably in FY'22 but we have to wait and watch how the market behaves.

Ashutosh Tiwari: This €50 million, €60 million you said is basically from one facility or both put together you are saying?

Tarang Jain: No-no, €50 million to €60 million each.

Ashutosh Tiwari: Some of the business transfer from the older facility of ours also in this or all new orders?

Tarang Jain: So all businesses which are new orders which we have won for these facilities only.

Ashutosh Tiwari: How much revenue we will probably do for Morocco this year FY'21 or maybe whatever we did in third quarter?

Tarang Jain: A little bit around 20 million is what we will do in this year.

Ashutosh Tiwari: Now that probably a large part of CAPEX is complete or is basically going to complete. How is the plan of CAPEX also debt reduction next year?

Tarang Jain: Today, our focus is definitely going to be on minimizing the CAPEX. The CAPEX what we have been doing last few years obviously had to be done because we won a lot of new business and we were not in some of the regions like Morocco, Brazil and in some of the other regions of East Europe and India. So, those things have to be done. All have come at the same time. Going forward we will be looking at expanding in these facilities only, but speaking about CAPEX, CAPEX is of course will not be in this tune at all going forward. So, we are extremely conscious about incurring new CAPEX from FY'21 onwards, they will definitely be much lower than what we have been doing in the last three years. That is for sure, which will of course help us in generating more free cash flows and also reducing our debt.

Ashutosh Tiwari: Can you provide some color on the rough numbers?

Tarang Jain: At the moment, I will not be able to share the numbers because we are just in the process of finalizing our budget till about March end. So, we are not yet very clear on it, but I can definitely tell you that free cash flows are going to be there and debt is definitely going to be going down

Stephane Vedie: To expand on Tarang's point we are balancing CAPEX between facilities. So, we are moving, for example, injection molding machines from plant in Czech Republic to the new plant in Poland to avoid investing in new assets. We are developing partnership with suppliers especially on plastic molding so that they bring their own facility, their own investment, their own machine close to our facility so that we can save on CAPEX especially related to plastic.

So, it is a big focus for us right now and we are really changing the gears in terms of investment.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: My first question is on the India business. While you highlighted the BS VI production will be lower in the quarter, just wanted to understand from your side, how has the ramp up been from our side, I mean, are there any production glitches or the ramp up has been very comfortable and the product validation is well from our side?

Tarang Jain: It is not an easy challenge for any of our customers, the OEMs when you are transitioning from BS VI to BS VI, there is a lot of things involved. Having said that, I think, yes, it is a challenge for both us as well as the OEMs, but I think we are negotiating all the issues which have come up pretty well you know and I think we will all be ready, probably in March we will see almost like a full implementation of BS VI products into the market. So I think if you ask me, I would say that the ramp up is happening quite well from our side also and also on the OEM side.

Ronak Sarda: So no major issues which can create some constraint or some cost which can come?

Tarang Jain: At the moment, frankly, the only issue which could come up, I think probably for this month February, everybody is covered, the issue is getting in components from China. So, a little bit of disruption on volumes may happen, because we are probably covered quite well probably in this year till March. But the question is not whether we are ready or not. The question is whether the OEMs and some of the other supply base who are probably sometimes more dependent on China will be ready. So, the vehicle volume really will depend on the situation in China I feel. So, we will have to wait and watch how the volumes pan out. February is fine I think. But March onwards we will have to see how things pan out in China. Sure.

Ronak Sarda: Actually, I did not mean China because that is something beyond control right now and honestly it is very less information as well. But other than that no major shareholders in...?

Tarang Jain: No major issues at all.

Ronak Sarda: Second question is on VLS. If we see the operating losses at the new facilities, I assume these are more of ramp up related or trial related costs. But we are not facing any challenges again on the production side. So, as the ramp up happens, this would really turn profitable as the utilization picks up, is that the right way or there can be some challenges in the production in the new facilities in VLS as well?

Tarang Jain: No, I think that see launches do happen and there are a lot of launches, which have happened for us in the last couple of years. And we have gone through little bit of a tough phase while

launching the various products. But having said that, all the launch related costs are a little bit behind us when it comes to at least the regions where we already kind of been launching products like whether it is in the Czech Republic or Poland or Morocco. I think that is something which we have passed, now I can say that as we move forward, we gain in sales, a lot of these programs now gain momentum, we get the volumes in like I am talking about in Poland, Morocco, €50 million, €60 million each, we definitely see that we are coming out of these losses and we are coming into some level of profitability at least.

Ronak Sarda:

Final question is on the new products. I mean, you showcase some really good products at the Expo. So, on the digital clusters, are we currently supplying the clusters today to end customers or these are purely new products developed and are there any visibility on the orders here?

Tarang Jain:

No-no, we are already supplying digital cluster for many years, we have been in this product for maybe 15-years, we are the first one to launch a digital cluster for Bajaj for the Pulsar 15-years ago. So we have been doing clusters for Bajaj, for Honda, for Suzuki and also developing for some of the other OEMs going forward, but the clusters are getting more complex as their navigation systems which are coming in more of telematics, data has to be provided on the cluster and through the cluster. So, the clusters are also getting more we are very ready for it. We have own telematics platform as well as we do these complex type of digital clusters. So for us, we see this as a very good growth, we see a lot of growth opportunities related to digital clusters because going forward we would not really be seeing much of mechanical clusters anymore, they all be turning digital as we move ahead.

Ronak Sarda:

So, are we targeting the four wheeler segment in India as well for these products or these are purely for two wheelers for now?

Tarang Jain:

Four wheeler mean definitely not the passenger car at the moment. But we may look at some commercial vehicle clusters or it is something which is very similar to what we do in a two wheeler. So, we will be looking more actually at a two wheeler industry. We still have a long way to go to supplying to most of the OEMs in India or abroad, we have a long way to go still. So I think our focus will be more two wheeler, but I think there are some opportunities which could come up in probably the light commercial vehicles market, which we may be looking at, but at the moment, there is nothing firmed up in that regard.

Moderator:

Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel:

My question is related to basically the VLS business. If we look at this year, I think you will end up with the €10 million loss on the new plants with a 40 million run rate. And I think if I recall right at around €34 million monthly run rate, you would be EBITDA breakeven, Right, I mean, to reach a €40, €50 million revenue on an annual basis in Morocco, that would lead to



Varroc Engineering Limited
February 13, 2020

EBITDA breakeven for next year. Can you shed some light how should we look at EBITDA margins once we move in the new plant from 100 million to 180 million over the next two years, how should we look at the margins profile?

Tarang Jain:

See, we have made a lot of investments in all our new facilities, especially Morocco and Poland, and in our expansion of the Czech facility. Now, even next year what is going to happen is that we are not running really at a full run rate. I mean, we will be probably at about 40% to 50% of the revenues we want to achieve. I do not know at the PAT level, but at EBITDA level we will definitely be positive, that is for sure even at this level. In fact, we are going to push to do better on the EBITDA side as we can. That is a basic focus for us. That is where so we are looking at how do we optimize the various major costs of manpower, material, everything over there in these new plants when the sales next year though they will be going up quite well, but it is not where we want to be, we want to be at least 100 / 120 million sort of revenues for these for these kind of plants. But having said that, we are definitely going to see that, of course, we will be positive EBITDA, but how much more we kind of do there is going to be a focus for us for sure in these new plants.

Hitesh Goel:

If I recall, right, Morocco is a high margin plant, right because it is a lower cost location. So once we achieve 180 million or so which is the peak revenue of Morocco and Poland you said, so what kind of EBITDA margin should we assume because you are already at a run rate of 10%, 11% margin for your existing business, how should we see the Morocco plant margin at peak revenue?

Tarang Jain:

What happens is that it is a competitive market, but I can definitely say in the place like Morocco should actually be giving 12% EBITDA margin, otherwise we are not doing our job

Stephane Vedie:

In Morocco, the facility is very attractive so the first five years, there is zero tax, then we have some good incentive package that are making the overall equation pretty competitive.

Hitesh Goel:

On the existing plants, can you give some sense what kind of operational improvement you are doing? There was also electronics JV which was going to give you cost benefit. So, can you talk about that also?

Stephane Vedie:

We have license for us to import. We are putting a lot of focus right now on our systems. We are upgrading a SAP system. We are focusing on the material flow on planning from SAP. These are important systemic upgrade that we need to implement in order to go from the current state from good to great if you want. So, this is really a big, big focus for us. Among the vertical integration of electronics, we have already installed one assembly line in our Romania JV. We are in the phase of validation right now. So, we have produced the first. They are in the phase of validation. The target is to start the production of the first products fully validated by the customer in July. So, we have few more months to go through these validation and to ramp up the production but it is according to our schedule. Then after the following



Varroc Engineering Limited
February 13, 2020

year, we have two more assembly lines coming and then again the following year additional two more assembly lines. So we are targeting six assembly lines in total which will present about one-third of our outsourced electronic purchases right now.

Hitesh Goel: Stephane, when these six assembly lines come through, what kind of cost savings are you looking at from the JV versus...?\\

Stephane Vedie: Right now we are consuming with the first products that we are considering the assumption that we initially took, that means we are able to generate 10% decrease versus external purchasing price right now. And in addition to this we are able also to generate margin on PAT from this joint venture.

Hitesh Goel: I got the sense on new plants. But in VLS on the existing business excluding the new plants, do you see any growth in FY'21?

Stephane Vedie: FY'21 is the lowest point for our plant in Mexico. But after this point we are seeing some interesting growth because we have won significant new programs during this fiscal year for Mexico. So, Mexico is at the lowest point, but we will come back in the following years. In Czech Republic, we have made some capacity increase. We spoke about the M8 line. So you will see also some increase of revenue next year in the Czech plant as well.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Ambit. Please go ahead.

Basudeb Banerjee: First question sir, if I see your customer segmentation of VLS, A B C D, so now more or less breakup contribution, most of them are largely similar. So it is quite confusing. So, if you can help us understand, may not be you take the name but as usual, you mentioned large North American EV maker in that way?

TR Srinivasan: It is mentioned in the footnotes to the slide.

Tarang Jain: What we can say here is that Ford has traditionally been our largest customer and they will remain among the top two customers going forward too. But like I said that the reason we took up such a big expansion a couple of years back with six new plants was to align ourselves with the whole VW Group, including all their brands of SEAT, Audi, VW and Skoda and also the Renault Nissan Mitsubishi Group, because these are two of the top three OEMs in the world, making 10 million plus cars. So, as we go forward, firstly, immediately, we will see that the VW Group, in fact is already the second largest group in our portfolio after Ford and they are going to become the largest going forward from the following year. We also see Renault-Nissan-Mitsubishi also will be growing a little bit faster than some of the rest in the coming years. The whole idea is of course we protect our business with our existing customers, Ford, JLR, Tesla, FCA and PSA, but a lot of the businesses we have won in the past few years has

been with the VW Group and with Renault-Nissan Group which is very good for us because if you are aligned with strong, strong OEMs like these, you can be sure that you will be growing in a more effective manner. So, that is what is happening at the moment.

Basudeb Banerjee: So, next question sir, as you mentioned, €385 million as the target order addition this fiscal, part of that complete new models or some ramp up of existing. So those are the peak level revenues on annualized basis from those projects, is that right?

Tarang Jain: Yes, €385 million includes new wins and rewins. Normally there are about 50:50 because rewins are equally important, rewins are something which you already do and they are refreshed and rewinning that is for us like winning a new business only. So €385 million, you are right is a target which we keep every year and last two years we have been exceeding this target actually, we won more than this €385 million and this year also we are hoping to achieve this €385 million, we already at €318 million which we have set till December-end.

Stephane Vedie: But to the questions, these are not peak revenues, these are average revenue per year for these programs.

Basudeb Banerjee: So to understand, as new orders getting added which will be average revenue per annum, similarly, some model orders which also are models get close to shelf life expiry, so, how to understand that what is the quantum of revenue which goes out on an average per annum so that on a net off basis one can understand the prospect down the line?

Stephane Vedie: The average life of the projects in lighting is about 3.54 years so that gives you an idea. But we have exceptions, we spoke about this earlier, we have a program that just got extended from FCA in North America, the Dodge Challenger, we have the headlamp, rear lamp. It is a program that we have been producing now for five years almost and we got extension of the contract for another two years. So this is always a good opportunity for us because we do not need to put additional engineering, we do not need to put traditional CAPEX. So we like this. This is to give you an idea about the life. For next year we see a significant increase in terms of revenue. We see the ramp-up of civil projects in many of the new facilities, but in the old facilities as well. We should be close to €1.2 billion for the VLS is concerned.

Basudeb Banerjee: For fiscal '21?

Tarang Jain: Yes.

Basudeb Banerjee: As you mentioned earlier, close to Rs.250, Rs.300 crores potential revenue in fiscal '21 from Cat Con and EFI and later on you mentioned Rs.400 to 450 crores overall BS VI incremental revenue. So will it be right to assume around 150-odd crores potential revenue from eCarburetors in '21?

Tarang Jain:

We cannot really share that number, but we have a share of the business of eCarb, we are not 100%. I think the eCarb opportunity, the number is going to be a little bit lower. But I think for us more than Rs.60 crores to Rs.70 crores opportunity the way we see it next year.

Basudeb Banerjee:

And second thing with your standalone EBITDA margin hovering around that 10% to 12% in general, so this Rs.400, 450 close incremental standalone revenue which will be north of 10% mix in '21 ideally. So whether these will be equal margin dilutive or better than existing portfolio margin?

Tarang Jain:

I think our margin should definitely grow overall with the help. But I Am saying generally with customers today, especially where the cost of the BS VI vehicles are almost 10% more, I do not think any OEM lets you make a very good margin on any of the new products also. The products are competitive. So I think that is going to remain in the same kind of a region, but because of higher sales, we cover our fixed costs in a much better way. So we do expect to increase in margins with the increase of sales which is very good for us.

Basudeb Banerjee:

So will it be right to assume gross margin of these new products to be similar to existing portfolio gross margin, not EBITDA margin?

Tarang Jain:

Yes.

Basudeb Banerjee:

The previous quarter when the first instance of major startup cost for Brazil, Morocco came into the numbers, so this quarter Poland came in. So if you can segregate that separately on a QoQ basis, what was the status of startup cost of Brazil, Morocco separately relative to previous quarter and separately the cost related to Poland because revenue might as you said was a very small?

Nitin Kalani:

Nitin this side. Poland would be about Rs.20 crores.

Basudeb Banerjee:

And for Brazil, Morocco, compared to previous quarter?

Nitin Kalani:

Would be about Rs.35 / 36 crores for this quarter.

Basudeb Banerjee:

And last quarter it was, Rs.42-odd crores?

Nitin Kalani:

Last quarter it was about Rs.32 crores for Brazil and Morocco.

Basudeb Banerjee:

So, not much of a change you mean for Brazil, Morocco cost on QoQ basis?

Nitin Kalani:

Yes.

Basudeb Banerjee:

And how to look at only Brazil, Morocco that cost in coming quarters?

Nitin Kalani: That should go down.

Basudeb Banerjee: Will it be possible to quantify or it depends upon revenue down the line or any color on that?

Nitin Kalani: I think Morocco would go down to less than Rs.10 crores in Q4 of this year.

Basudeb Banerjee: That is a significant reduction.

Nitin Kalani: Brazil will be continuing at this pace.

Basudeb Banerjee: And Poland will increase or largely will be same?

Nitin Kalani: Should be here for another quarter, then it should stabilize.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Stock. Please go ahead.

Priya Ranjan: One is your EFI joint venture with Dell'Orto. So when can we see the product rollout in terms of supply from your end?

Tarang Jain: We have two customers today; one is Royal Enfield and the other customer we have is Mahindra Two Wheelers, Java and other models of Mahindra Two Wheelers. So, probably before the end of this month we see a start-up of our supplies for the electronic fuel injection parts.

Priya Ranjan: It is a complete system or is it just the part?

Tarang Jain: So, frankly, see what we are doing is, we are supplying as a joint venture, the total body and the ECU which is the two major products. We could supply the other products also, but they are more like commodities now. So, what is happening is that the OEMs before directly buy those products from the concerned this thing suppliers, but the integration of all this whole system, the responsibility lies on us. We have to integrate all these parts and do the whole collaboration at the customer end. So that is the job of the supplier. Though we are supplying the two critical products which is something which of course we cannot let go and let OEMs get these two products from anywhere, but these are the two critical products in the EFI system.

Priya Ranjan: What kind of opportunity in terms of sales you are looking at from overall?

Tarang Jain: From a JV angle, the opportunity what I understand is Rs.60 crores to Rs.70 crores opportunity.

Priya Ranjan: And this will be classified under business from JV, right?

Tarang Jain: It will be classified as a business from JV. That is right.

Priya Ranjan: If I have to understand that in BS VI we have seen three, four more additional sensors, etc., is also getting used around the EFI ecosystem and plus regulator rectifier, etc., is also changing. So how do you see this opportunity for yourself or there is some talk that you probably have lost some of the share in Bajaj for regulator rectifier is it?

Tarang Jain: Not so, regulator rectifier is a very strong product for us in Bajaj as well as in Royal Enfield also. So, regular rectifier is one of our main products. So, we are very much there. We enjoy a very large share of business in a way comes to regulators. Yes, the other parts like lambda, other sensors, for the EFI we are not present in those products. But regulator rectifier is definitely a very-very core product to Varroc and we have not lost any share of business here.

Priya Ranjan: Just on the VLS part, if we have to assume that probably the next year production of passenger car goes down by say 5% to 10%, so how do you see your impact in overall revenue? And at 1.2 billion revenue, what just Stephane said, is assumed at what growth rate?

Stephane Vedie: We are in the phase of finalizing the budget right now, but we have taken the assumption that there will be a smaller decrease in European and North American market, we do not see a big decrease, we see a smaller decrease. Keep in mind that last year in North America, for example, 17.1 million vehicles produced. This is a pretty good number. This is a small decrease, but that is a pretty good number. Europe has also a pretty sustained number year-over-year. The big question mark is China. So the €1.2 billion that we see in terms of revenue is showing a potential increase of over 20%. That significance in a market that is in a slow decline. This is the result of the business acquisition that we had in the last three years. This is the reason why we have put all these additional capacities. Now this is the time for us to deliver on all these projects that we have acquired, that we have developed, that we have now validated and now we are ramping up with the customers.

Priya Ranjan: Just on Brazil part, I mean, we have seen that you have guided like Morocco the startup cost, etc., will be lowered in Morocco, but Brazil why do you see the startup cost is not coming down? My sense is probably Brazil market is recovering overall.

Stephane Vedie: Brazil market on the whole is recovering. But we are very small in Brazil and we decided to stay small. This is a market where it is very complicated to make money, lots of taxes, lots of barrier for business, lots of let us say a new strategy of additional costs. So we want to keep Brazil to support our global customers on global platform. Today, we have one project. Again, this is part of our global strategy. But we do not focus on Brazil. We do not want to become the Brazil number one lighting player. Actually, Brazil number one lighting player is losing money and has been losing money for a long time. So, we want to be careful in this complicated market.



Varroc Engineering Limited
February 13, 2020

Priya Ranjan: And as far as the Tesla plants in China as well as their plan for Germany, the product you require to revalidate your supply agreements with these facilities, or the existing agreements suffice?

Stephane Vedie: There will be new contracts for these additional facilities and additional volumes.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: My first question is we had acquired some business with TVS. So how is it that part ramping up?

Tarang Jain: We have acquired the business of Magnetics for the two wheelers for TVS. We are going to be in four models of TVS as we move along. I think the first batch of Magnetics for I think one of the models going to start in this February month in and then slowly over the next two months, I think all the models will ramp up and we are expecting a volume of at least per month 60,000 to 70,000 of these Magnetics. And post I think the successful launch of these Magnetics, after a few months, I think we do expect that there are some more products which we have been discussing with TVS open out for us as we move along.

Nirmal Bari: But at present what is the opportunity size in terms of revenue?

Tarang Jain: So, I think about Rs.45 crores to Rs.50 crores minimum on the Magneto side.

Nirmal Bari: In continuation with the previous question on Brazil, so, we had actually given up on the second phase of expansion on Brazil. So what was the CAPEX that we were anticipating there which is not going to happen now?

Nitin Kalani: It was about €8 million which is not going to happen now.

Moderator: Thank you. The next question is from the line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: Thanks for the follow up. Just wanted to check on SaBa, one of the reason of acquisition was to get access into Hyundai. Has there been any progress on this front?

Tarang Jain: Yes, we won our first project with Hyundai. This is called a garnish lamp that is on the small vehicle called the i20 for Hyundai. So we have won already our first program in Turkey. Thanks to this. We are trying to open the door also with Hyundai in India. They are going to audit us in a few weeks in our new plant in Chennai. We are in discussion with Hyundai in Mexico and we are in pretty advanced discussion with Hyundai in Vietnam also. So, so far this is panning out pretty positively.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from Stuart & Mackertich. Please go ahead.

Mahesh Bendre: I just missed a revenue number. I mean for the new facilities that come up, that is Poland, Morocco, Brazil, what kind of contribution we see in this financial year?

Nitin Kalani: Revenue would be very small. So right now if you see we have done almost Rs.220 crores till now which may go up to I would say about Rs.300 crores.

Mahesh Bendre: Next year you are talking about generating additional €50-60 million both from Morocco and Poland?

Tarang Jain: Per plant, yes. There will be Bulgaria, there will be other plants also.

Mahesh Bendre: So €130, 140 million additional incremental revenue can come from these facilities, right assumption?

Tarang Jain: Yes.

Mahesh Bendre: Another thing, in last two quarters we have seen our performance has deteriorated in terms of profitability. Our net margins have fallen back to the 1% now though our operating performance has been good, EBITDA margins are good, but the rest of the items below the EBITDA has been really impacted. So, do you think the current quarter is the bottom that we are seeing now or is there any possibility that similar situation could happen in next quarter as well?

Tarang Jain: What we have been missing on so far in the last five quarters I would say the sales. Unfortunately, the sales in India have degrown and we have been almost flat in our VLS business. We see now a good momentum from January onwards in our VLS business which is of course 62%, 63% of overall revenues. Having seen this, we do expect of course that the worst is behind us and we are only going to be improving going forward. And that is where we are focused. I think we needed the sales and I think this is definitely going to help our overall performance now going forward.

Mahesh Bendre: In FY'21, could we see a dramatic change in terms of performance, because if the incremental revenue comes up operating margin slightly goes up and rest of the fixed costs are covered, we could see a dramatic change on the profitability?

Tarang Jain: We will definitely see good increased profitability next year.

Mahesh Bendre: Last question on domestic market. You said we have received many orders, 200 300 crores of orders. So assuming that the two wheeler market remains what it is now, flat growth, still be able to grow 10% of our market?

Tarang Jain: Keeping the market remains the same, we will definitely grow 10% next year because of BS VI and also because of cross-selling, some new customers like TVS Magneto and some other customers also, some new products. So, we will definitely grow 10% next year from this year level.

Mahesh Bendre: What kind of tax rate we should assume for the next year?

T R Srinivasan: Next year probably the tax rates will go up to some extent because in Czech we are kind of close to maxing out on the tax incentives that we can avail and utilize and of course, Morocco, etc., we will have benefits like in Poland, but that may not fully compensate. So next year, we are still working out the budget, etc., but probably from 20%, 21% level you may see it go up to 24% to 25%.

Mahesh Bendre: In FY'22?

Tarang Jain: I am talking about FY'21, next financial year. Beyond that it is a bit difficult to estimate at the moment. It will probably around the 25% level, you can take it for the time-being.

Mahesh Bendre: Any CAPEX number you would like to share with us for next two years?

T R Srinivasan: We are currently middle of our budgeting process, so we have not yet firmed up the number. Definitely to be on the lower side compared to the current year because a large part of the investments are made in the greenfield facilities and so on. So you will not see the same level of CAPEX, but it will be a premature to give numbers at the moment, but it will be definitely lower than...

Mahesh Bendre: Our depreciation, is it an indication we should look at?

T R Srinivasan: Depreciation will be there. The investments already made, right.

Tarang Jain: No, I am saying the incremental CAPEX will be lower than depreciation cost. Is it a right way to look at?

T R Srinivasan: Not necessarily because depreciation is a combination of the depreciation on the physical assets plus the amortization of the engineering costs plus the amortization of the capitalized lease rentals. So, it will not exactly relate to that.



Varroc Engineering Limited
February 13, 2020

Mahesh Bendre: I understand that you are going through a budgeting process. But just wondering, if 670, 680 crores is the depreciation cost for this year, then maybe Rs.750 crores next year, then the CAPEX will be lower than this number or higher than this number, just any view on this?

T R Srinivasan: Yes, it will be kind of equal or maybe slightly lower than that.

Moderator: Thank you. The next question is from the line of Niranjan Sakhalkar from Acuitas Advisors. Please go ahead.

Niranjan Sakhalkar: I wanted to know if you are seeing an impact of the corona virus on your OEM customers in Europe in North America and in turn on your orders?

Stephane Vedie: So for the moment, no impact from the customers, but it is still early I would say for the supply chain. There was just an extension of one week of the Chinese New Year vacation, so everyone was covered with the material they had in the pipeline. As far as we are concerned, the good news is that we have been able to restart both our facilities. The facility in Changzhou received authorization from government two days ago and are starting production today. On the facility in Chongqing, received the authorization yesterday and we are starting today. We are not at full capacity because we do not have the full crew right now. But it is more than enough to cover the needs that we have for our customers. Most of the customers are restarting later this week or next week. When we look at our top customers, Changan starting on the 14th, so on Friday, Changan Ford is starting on the 1st of March for one facility, on 18th of February for the other one. CJLR on the 17th of February. So, we have a pretty good understanding of where we stand with the customers. Some have already started. GMC, for example, has been producing some ambulances since the 30th of January and we had to support them with our lamps. In terms of supply chain, for the business that we are outside of China, we do not have a direct supplier located in China right now. We purchase in local country but close to the regions where we operate, so that means mainly in Eastern Europe, in Morocco, and in Mexico for our Mexican or North American operations. The exposure that we see to our business is mainly on the suppliers of our suppliers. So that means Tier II. On the electronics side, a lot of electronic components are made in China. So we are developing backup, trying to understand available stock of electronic components; trying to develop some contingency to avoid any impact. We do have some injection molding toolings source in China. The exact count is 156 right now. Some are in value stage, some are in development stage, some are at the end of the process. We have a very close follow up of this. In order to give good quality, we decided to start the sourcing of injection molding tools in China right now. The last batch we were able to source in Malaysia for example this week and then we are monitoring the situation. So as far as we are concerned we believe we are pretty much under control. As far as the customers, we have not seen any shut down right now. There is a risk that someone will not be able to deliver one piece and the chain will be stopped, but I do not think we will face any long-term shutdown. That is our position.



Varroc Engineering Limited
February 13, 2020

Moderator: Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: My first question was on the business VLS and you have been highlighting about reducing CAPEX. Just want to pick your brain about how do you think about the fact that the major competitors, the larger ones are continuously highlighting increased R&D investments as high as 10% of sales? And strategically, I want to kind of get your sense on this because you are moving away from halogen to LED and in your presentation highlighted, ADAS product. How much do you need to focus on continuous development into R&D and what kind of investments do you think you would have outlay for that? And are we going in that direction where you are kind of scaling CAPEX down and ignoring good CAPEX also, what is the risk sitting there? Second question associated with that is similar to Tesla where we kind of miss the bus a bit, do you see any risk with existing customers, some of the larger competitors trying to get in say Ford in that manner and how are you placed with the new programs for Ford in the larger SUVs which are transitioned from Halogen to LEDs in North America?

Stephane Vedie: Well, that was a lot of questions, but I am trying to take one after the other. In terms of engineering, please keep in mind that we think that we have a different footprint that our competition is for engineering. 93% of our engineering associates in what we call the cost competitive countries, Czech Republic is our number one. Location in terms of engineering is the most developments, this is where we have Varroc innovation team. And when we compare to our main competitors, the main development site is located either in Germany for Hella or for Marelli, is located in Japan for Kyoto or Stanley is located in France for Valeo. So, we have a cost advantage from that perspective. Then our number two engineering location is India and we are growing in India and we believe India is a great location in terms of provide the right competencies but also having the right cost base. So, the combination of the only rate in Czech Republic and the only rate in India allows us to do a lot of things at a relatively lower cost. In terms of positioning, we are not positioning the company to be the number one innovator of the market. We position ourselves to bring technology innovation with cost competitive solutions. We try to bring the cost down of the many new innovations and we have been successful to bring local LED to the market for example. This is the sense of history. We see a decrease of the Halogen technology to be replaced by low cost LED. So this is where we play right now with generalist customers, with customers that are bringing volumes but are also bringing a certain level of technology. If we look at vehicles like the Ford Fiesta, the Ford Focus are on entry vehicles in Europe segment, A B, today, we are switching from almost 80% of halogen to 100% of LED. And one of the main drivers for this is the emission. By switching to 100% LED, the car manufacturer is getting the benefit of one gram of CO2 per kilometers. right now with the kind of target that they need to comply with this is starting to become a big deal and we take advantage of this. So that is about engineering. About CAPEX, I think we have invested a lot in the past years and now it is important that we make the assets that we put in place. We are not in a race with spending most, we want to spend smart. We think that going



Varroc Engineering Limited
February 13, 2020

forward is not going to be a big differentiating factor on the cost to produce any more plastic. So we are trying to save our money in terms of plastic injection. We think we have enough capacity. We try to continue to invest smart, that means we invest more in electronics, we are investing in our electronics JV for example. In terms of investments, we are trying to reuse also the assembly line. So that is for every new projects, we do not have to invest in the new assembly line. So we have developed old ones that are allowing us to use to 70% of our assembly lines low cost the use up to 70% of our assembly lines from one generation of product to the next one. We have developed low cost suppliers, we source in Trukey, we source in smart places to allow us also to keep the CAPEX down. In the current quarter, the focus is really on the cash generation and these actions on CAPEX are helping us to show positive free cash flow in this quarter and this is what we want to show going forward. Two engineering and two CAPEX. What was the third question? Sorry.

Nishant Vass: Yes, so the third question was primarily on competitors try to break into your existing stronger customers?

Stephane Vedie: That is part of the game. Some competitors are trying to get our business but we are getting their business selection. So there is nothing that is certain, there is nothing that we take for granted. I think the most important for us is to perform on the day-to-day basis. If we give the right quality, the right delivery and the right price level to the customers, then they have no reasons to the sources or introduce new competitors. A few months ago, we received the "Supply of the Year Award from Ford." This is a very big sign. We are the only lighting supplier that Ford decided to reward globally. So this is showing their confidence in our business. We have a level of quality today in the range of 7,000 IPB. That means incidence per billions of parts we deliver, which we believe it is a pretty good level in terms of quality. The industry average is around 10,000 right now. We have a PPM level at around 73. So, these are the things that are very important, that are part of the fundamental that big focus for Tarang, we need to do our job, we need to do the job well so that the customers have no reasons to move away from us. But at the end, it is also a cost game. So as long as we keep our cost leadership with our local footprints, we are not afraid of the competitors that have a plant in Spain when we are able to produce in local, we are not afraid of the competitors that have a plant in Germany or France, when we are able to produce in Czech or Poland, we are not afraid of competitors that are in the US when we are able to produce in Mexico. So, today this has played in our favor and we need to keep this competitive advantage going.

Nishant Vass: Just from your remarks through the call you kept on highlighting about China. And how do you think that strategy will play out because China, most of your competitors will have similar footprint on card, and the fact that the market in China is quite fragmented, you have a lot of joint venture players across the spectrum. So how do you think your strategy will play out in China?



Varroc Engineering Limited
February 13, 2020

Stephane Vedie:

We believe that we are too small in China right now. We have the ambition to go. China is the number one automotive market in the world. And to keep our current position on the market, we have to go in China. We think that the current situation with a downturn since last year with no new prices, it is a great opportunity to try to challenge the status quo. We have some discussions with our JV partner right now. We will see how we can make things move. But Tarang can add to the statements. We have ambition to go in China, that is for sure.

Tarang Jain:

China is obviously the biggest market in the world. I think what happens is that in the rest of the world, we are on our own and as Varroc, we are always pretty aggressive in the marketplace. Now in China, I think a little bit of a limited I think also by our partner because they do not seem to be as aggressive as we are. But having said that, I think obviously there is a downturn at the moment, and I think we need to do much more. And that is what we have been discussing with our partners in China, and from last year onwards we have been winning some good businesses with Geely and also with the VW Group with SIAC and FAW who are some of the bigger players in the Chinese market. So that way things are moving, but yes, not as much as we would have liked, we would like to. But having said that, I think we are in a way aligned with our partners and we are doing utmost to kind of grow in this market.

Nishant Vass:

Sorry to keep harping on this, but just to understand, because if your customer gives you a larger order book in China, you definitely need to invest incrementally more on that, right. Your current capacity would not be sufficient for that.

Tarang Jain:

We have been investing. But what has happened is that, traditionally our customer base in China has not been very strong. We are with Ford, we are with Changan, we are with JLR. But we have not been with some of the bigger players there who are like the VW Group with SAIC, FAW, Geely, BYD. These are some of the bigger names and that is something like what we have done in the rest of the world where we have aligned in a much stronger way with VW and Renault Nissan. Here also we are attempting to do that, that how we grow in with the winners in the market. That is something which we are very conscious for the last couple of years. And we have won business and CAPEX is not really an issue because China is a joint venture. Yes, last five quarters have been weak but generally I think from a company angle is very strong, the China JV is very strong financially. So that is not an issue. And to invest there independently, not a problem at all, we could do that anytime. So, we are focusing on winning business first and then of course whatever needs to be done, needs to be done.

Nishant Vass:

A small clarification. You mentioned the model wise. Is that going to be supplied from the joint venture or you are supplying it from somewhere else?

Stephane Vedie:

So today we have sourced the model wise for the delivery of Fremont, California from North America, and then this is for the facial lamp, this is for the stop lamp, and this is for some small lighting reflection so on. Tesla does not have yet sourced the model wise for China



Varroc Engineering Limited
February 13, 2020

production for these lamps. They are using our lamps right now for the few cars that they are producing, but they have not sourced full volume production yet.

Nishant Vass: So once it starts in China in the plant, would you be supplying it from the Chinese joint venture or it will continue to be from Fremont?

Stephane Vedie: Right now we are supplying from our Turkish plant. This has more lighting and if they want to localize in China for sure we will be supplying for the JV.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: Sir, in your presentation you mentioned like-to-like comparison. So when you are doing like-to-like comparison in your India business and in your global business, VLS, so what is the adjustment that is what I want to understand, both for revenue and for your EBITDA?

Nitin Kalani: In revenue, US Interiors business last year mainly and in EBITDA it is basically Brazil, Morocco, Bulgaria startup cost in the last year. In this year, it will be Chennai and the Romanian JV startup cost, the other item is basically the launch cost differential between these two quarters and IND AS 116 adjustments.

Rohit Balakrishnan: And the other question that I had is from your domestic business where you are saying it will be growing at about 10% because of the BS VI. But if one were to look at slightly longer term over the next maybe two, three years, what is the kind of growth that you are looking at in the domestic market? Historically you have grown between 15 and 19, want to understand is that the kind of growth that you expect or this time it will be a much more than that given your BS VI?

Tarang Jain: We are looking at definitely a double-digit as a minimum in India. Now to the BS VI products, but there will be also a lot of cross-selling happening off of a wide range of two wheeler products with other OEM, whatever we supply to Bajaj, we also slowly year-on-year increasing the number of products we supply to an individual OEM and we are also acquiring new OEM which is also driving our growth. Other than that in the Indian market when comes to four wheeler on the interior plastic side, on the engine where a few products we do for the four wheeler side, also we are doing quite well, we are winning a lot of new business from various customers. So, 10% growth is I think for us something which is a given. How much more we can do, how we can maximize that to a higher level of double digit is something what we are looking for. Other than BS VI for two wheelers, we have also developed some of the EV products, some of the electronics around EV, the motor controller. So that is something in the coming years is what also be going to drive moving forward.



Varroc Engineering Limited
February 13, 2020

Rohit Balakrishnan: In the last annual report, you talked about 20,000 crores by FY'20 if I am wrong. Obviously, that is very difficult now given the market. So two questions on this. So when do you think this target that you can achieve, I mean, did you also incorporate some acquisition in inorganic portion as well?

Tarang Jain: So 20,000 crores obviously was a vision we set for ourselves probably five years ago. And yes, we have fallen short, but that included both organic and inorganic growth. We did it at a time when revenues were hardly Rs.2,000, Rs.2,500 crores, last year we did revenue of about Rs.13,000 crores with 50% of our sales in China JV. So, yes, we have been growing. The markets the way they are, we have been a little bit, from a revenue angle, this year has not gone as per expectations. But I think going forward, yes, we are going to be the moment, we are looking at a lot of organic growth, not so much inorganic immediately, looking more organic, but organic growth is something we are doing pretty well in, whether it is in VLS or in India, I think we won substantial business over the years and that would enable us to at least have a minimum 10% growth, if not more. We will be of course aiming for a much higher growth in India through two wheeler BS VI, EV products going forward, comes to four wheeler more of lightweighting of our plastics. Those are the areas we are really focusing in a very-very good way and we are getting a lot of good traction here also.

Rohit Balakrishnan: When you say 10% growth, in the VLS also you are expecting at least 10%, right?

Tarang Jain: Yes, of course.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

TR Srinivasan: Yes, like to thank everyone for joining the call and also for the questions and like to thank you for your continued support to the company. Yes and all of us understand the industry situation and the challenges that we are facing and we are hopeful that the measures that we have taken in terms of optimizing the investments already made and correcting the cost structure and improving the efficiencies over the last two, three quarters, the results of which will become more visible in the current and the coming quarters. So, with that note, we would like to close the call. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Varroc Engineering, that concludes this conference. Thank you for joining us and you may now disconnect your lines.