



## “Varroc Engineering Limited Q3 FY 2021 Results Conference Call”

**February 09, 2021**



**MANAGEMENT:**    **MR. TARANG JAIN – CHAIRMAN AND MANAGING DIRECTOR**  
                             **MR. STEPHANE VEDIE – PRESIDENT AND CHIEF EXECUTIVE**  
                             **OFFICER**  
                             **MR. T. R. SRINIVASAN – GROUP CHIEF FINANCIAL OFFICER**  
                             **MR. ARJUN JAIN – PRESIDENT AND HEAD, ELECTRICAL &**  
                             **ELECTRONICS BUSINESS**  
                             **MR. NITIN KALANI – ASSOCIATE VICE PRESIDENT FINANCE**

**Moderator:** Ladies and gentlemen, good day. And welcome to the Varroc Engineering Limited Q3 & 9M FY 2021 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 touchtone phone. Please note that this conference is being recorded.

Varroc Engineering Limited's management is being represented by Mr. Tarang Jain – Chairman and Managing Director, along with Stephane Védie – President and CEO, VLS business; T.R. Srinivasan – Group CFO; Arjun Jain – President and Head, Electrical & Electronics Business; and Nitin Kalani – Associate VP, Finance

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, and I want to thank you for joining the Q3 FY 2021 earnings call of Varroc Engineering Limited. Let me start with the India business.

The Q3 FY 2021 witnessed a robust growth in the two-wheeler and the passenger vehicle volumes in India. The Indian two-wheeler volumes in Q3 were higher by almost 18% year-on-year and the passenger vehicle were higher by 23%. Revenue in India grew by 29% year-on-year. Our EBITDA in India grew by 49% year-on-year, and our margins continue to be strong at 13.3%.

I will now move to a global lighting business. The passenger vehicle volumes across major markets, including Europe and North America, were almost flat year-on-year. The Chinese passenger vehicle market grew 3% year-on-year. As against this, our global lighting business revenue grew by 9% in euro terms. However, the EBITDA margins in the lighting business declined sharply in the quarter due to a number of factors.

Most of the car manufacturers in Europe scaled up their production schedule significantly after the summer break, leading to a very high demand in the third quarter. At the same time, the COVID second wave generated high absenteeism rates of close to 25%, mainly in our Czech plants. Several of our suppliers were also similarly impacted, resulting in disruption in supplies. The combination of labour and material shortages resulted in a delivery backlog to OEM customers, leading to a high over time and premium freight cost.

We have started discussions with customers and suppliers to recover at least a part of these extra costs. We also took advantage of the Christmas break in Europe to continue to run the plants and rebuild the pipeline of components and finished goods. Consequently, from January 2021 onwards, we managed to reduce the overtime and premium freight cost significantly. We have also started to bring operators from Ukraine to our Czech plants to create a stable reservoir of labour. Absenteeism has now decreased to a manageable level of between 11% and 14%.

The other challenge in the global lighting business is a slower ramp up in the volumes at the new plants in Poland and Morocco, leading to delays in achieving breakeven. In Morocco, the ramp up of a few key projects was delayed by one of the customers along with certain supply chain issues. We expect the situation to start improving in the coming quarters. In Poland, the localization of key processes was delayed by COVID and impacted plant efficiencies. We are now restarting the transfer and localization of BMC and projector assemblies. This, along with the expected ramp up in volumes is likely to help our financial performance going forward.

On a consolidated level, our EBITDA for the quarter was at Rs. 2,456 million, which is a year-on-year decline of 8.8%. Depreciation and amortization costs were higher by 16% as compared to Q3 FY 2020, largely due to higher asset base. Finance cost have started to reduce, quarter-on-quarter a decline of 14% and we were able to reduce the debt level due to free cash flow generation. The consolidated profit before tax was slightly negative at Rs. 51 million. The overall tax expenses were disproportionately higher than consolidated PBT due to the losses in the new plants, on which we are not eligible to recognize deferred tax assets.

VLS Czech is entitled to certain tax credits against eligible capital expenditures under the capital investment incentive scheme agreed with the Czech government. We have re-evaluated the probability of utilization of these accrued Rs. 1,078 million tax credits in VLS Czech Republic, which are due to expire by March 2024, taking into account the ongoing COVID impact. On a conservative basis, we have derecognized these tax credits due to the uncertainty associated with utilization, and the same has been disclosed as an exceptional item. I would like to mention that the derecognition does not impact the right of Varroc to avail the tax credits, if there is a sufficient taxable profit prior to the expiry. We also in the process of representing to relevant higher authorities in the Czech Republic for extension of the time period to utilize such tax benefits.

On order booking, I am happy to inform you that our India Business has been able to secure overall net business wins of Rs. 10 billion equivalent annual revenue. And 83% of these orders are our new business wins. Our VLS business has also been able to secure orders worth EUR 152 million overall so far. After full acquisition of our electronic JV, we are now accelerating the ramp up of our electronic plants in Romania.

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 Basudeb Banerjee from Ambit Capital. Please go ahead.

**Basudeb Banerjee:**

Just a few things I wanted to understand. In terms of euro VLS revenue, I can see EUR 258 million is like a record number which you last replicated in Q4 FY 2019. So, as in the initial comments, you said that the higher revenue is an aftereffect of some delay from previous quarter.

So, how to look at the sustainable run rate post 4Q? Ideally 4Q is a seasonally strong quarter for you, I believe, so how to look at the sustainable revenue rate without any such aftereffects of lower production in previous quarter? And if you can elaborate, I missed in the presentation, but if you can elaborate how to look at the recovery of the freight costs from the clients, as you said? And absenteeism normalizing, so at these elevated revenue where ideally your margins of VLS should have been much better, so how to look at it in coming quarters?

**Tarang Jain:**

Thank you for the question. See, basically, like I mentioned, in Q3 what has happened is that we have had major problems in two-thirds of our revenues of VLS, which are in Europe. There are two existing plants in the Czech and there are two new plants in Morocco and Poland. So, basically the issue has been, I would say, more in Poland and Morocco, where we have not realized the level of sales revenue which we had expected. And coupled with that, of course, because of input material not being on time, we have had to incur the premium freight cost in these two plants. And in Czech Republic, we have had sufficient revenues, in fact, very high level of revenues, but there we were impacted by high premium freight and overtime costs because of the high absenteeism and also input materials, because some of our suppliers also had COVID issues.

Now going into Q4, I think the level of revenues will remain strong. Only thing is that there is some drop in January mainly because of the semiconductor issue, it is to do with electronics and not because of COVID. And from this month, from January onwards, we do not have much of an absenteeism issue or that much of issue on input material, except on the electronics side. So, we don't expect much of any overtime costs or much of, that way, premium freight costs going forward. While on the sales side we have to wait and see. We could have probably about a reduction of maybe 7%, 8% to the revenues which we have done in quarter three in VLS, which could be only because of the semiconductor shortage at our customer end. It is not that we will have any issues, we are somehow able to hand-to-mouth manage our electronics supplies to the customer, and they are very much aware. So, we could have some impact, not a big impact, but there would be some impact at the level of to kind of meet the same level of sales we should have in Q3 and also in Q4 in the VLS business. But yes, the impact of premium freight and overtime should be very, very less in this Q4.

**Basudeb Banerjee:**

So, if one needs to standardize that, as you are saying that the impact will be very less, so if you can roughly quantify how much was the impact this quarter from those two parameters?

**Tarang Jain:**

I think those two parameters, if I am not mistaken, and I don't think it should be more than probably 10% to 15% of what we have incurred. And also we are still kind of discussing with a couple of customers on sharing some of these premium freight costs which have been incurred by us, right from September onwards. So, this was a couple of for recovery on the same.

**Basudeb Banerjee:**

So, you mean 10%, 15%, other expenses line item got inflated, that's the way to look at it?

- Tarang Jain:** So other expenses in the column other expenses is what we had a 30% jump. And that was significantly higher, and that was only because of overtime cost and premium freight cost and basically in the European plants, Czech Republic, Morocco and Poland. And that's where for January we don't see that much of a cost related to premium freight and over time to that extent. So whatever we have incurred, that cost we see to the extent that only 10% to 15% or could be maybe maximum up to 20%, because there will be some issues of semiconductor and all, shortages are there. But it will be substantially reduced or what we have been incurring in the last quarter.
- Basudeb Banerjee:** Understood. So almost Rs. 120 crore Q-o-Q increase, out of that one can assume 10%, 20% to sustain, so almost 80% reduction in that incremental Rs. 120 crores?
- Tarang Jain:** Over these two costs. I don't know how much these two costs in their overall other expenses are, but these two were the major impacts in VLS in Q3.
- Basudeb Banerjee:** Sir, second question, like, there has been a substantial raw material inflation of almost all major commodities. So how are you fixing that? And how easy is it from a pass-through perspective now?
- Tarang Jain:** So when it comes to India, I mean, there is not really a concern, I think we are very much kind of aligned with all our customers, and they recognize this issue very well. When it comes to our VLS business, we do have long-term contracts on material where I think the issue would be more, I mean, to do with some electronics and some resins going forward, so that's something for sure which is something we are evaluating, that is something we will have to take back to our customers and ask for the increase. Maybe, Stephane, would you like to kind of add to this point?
- Stephane Védie:** Yes. About the raw material, first, we have long-term contracts also with our resin makers, so we are not immediately impacted when the raw material, like the resin, are going up. So, this gives us the time to approach the customers. And hopefully, with 50% of the customers, we have a mechanism to integrate the raw material situation post-lockdown, and with the overall, this is always part of the annual negotiations that we have with them. With the resin, we have been starting an activity of VA/VE to revalidate some of the products where we have, let's say, richer resin when we have higher temperature resin when we can use a lower temperature resin. In parallel to this, we have started a strong focus in the last six months on electronic purchasing. So we used to purchase our electronic directly to the EMF supplier, so that means the LED, PCB assembly suppliers, for example. Now we have reinforced our purchasing team, we have added another 10 people specialists in electronic components in our central purchasing headquarter in Poland in Krakow. And we are able to negotiate at the component level. So we are going down in the raw material chain, if you want, in the bill of material. And we are able to generate steady identified savings that are helping us to negotiate better conditions on the electronics. So, these

are the main activities, the main actions we are doing to mitigate any further or potential increase in raw material, but mainly to take advantage of the raw material and generate service savings.

**Basudeb Banerjee:** Sure. And last question, this to your CAPEX plans from previous quarters, as per your guidance, consolidated CAPEX of almost Rs. 600-odd crores, any changes to that?

**Tarang Jain:** Yes, so, I think it is within that only. So CAPEX will be within that level only of Rs. 600 crores, it won't be crossing that, our new CAPEX. And going forward also there is going to be a great control in CAPEX, I mean, within those numbers. And I think controlling CAPEX is what has resulted in our net debt levels going down and are generating free cash flows. So, in spite of the lower-than-expected results in VLS, we are still able to generate cash, which is helping us in kind of reducing our debt.

**Basudeb Banerjee:** And how much was the net debt figure after Q3?

**Tarang Jain:** So Q3, our net debt figure was Rs. 2,730 crores, it was down from I think around Rs. 3,050 crores in the end of Q2. And we have given a guidance to be down to Rs. 2,600 crores net debt by March end. That's something which we feel we will achieve.

**Moderator:** Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

**Abhishek Jain:** Sir, what is the margin guidance for the VLS in the fourth quarter and first quarter FY 2021 the things to normalize? And are you looking for taking any price hike to pass the commodity cost in the coming quarter?

**Tarang Jain:** Yes. So, see, I mean, the guidance what I can say is definitely the margin is going to be better than what it is for, I can't give an exact number, for Q4, but it will be better than obviously what we have achieved in in Q3. And regarding the material resin cost, anything which is extraordinary in nature, if you are talking about VLS, it is something we are definitely going to go back to the customers and ask for it. Whether it is to do with resins and like what Stephane mentioned was that 50% of our customers there is a pass-through of anything which is exceptional in nature, we get that. Whether it is exchange rate or resins, we are getting that back. With other 50% of something exceptional nature, we will go and request for the same from the customers, because this is a little bit exceptional in nature. So that is one part on VLS. In India, anyway we are quite well aligned to our India business, getting back-to-back, also there is exceptional increase in steel or aluminium or resins or whatever, that's something we are confident of getting back.

**Abhishek Jain:** Okay, sir. Sir, during this quarter, VLS revenue has gone up by 22% in INR terms. So just wanted to know how much revenue growth in a Europe and North America in third quarter. And how is the revenue breakdown for the North America versus Europe in nine months of FY 2021?

**Tarang Jain:** I think the exact percentage, can someone help me?

**T.R. Srinivasan:** Revenue in Europe increased by about 3.5%. And America saw double-digit, 17%. India was 19% year-on-year, because we also started production from the new factory in Chennai.

**Tarang Jain:** That is in euro terms, we are talking for VLS.

**Abhishek Jain:** Okay. So in euro terms, there is a 3% growth in the euro?

**T.R. Srinivasan:** 3.5% in Europe, 17% in America.

**Abhishek Jain:** So it is for the nine months?

**Tarang Jain:** This is you are talking about for the three months, right?

**T.R. Srinivasan:** Right.

**Tarang Jain:** For Q3 to Q3 in FY 2020.

**Abhishek Jain:** Okay. And sir, what was the revenue breakup for the North America versus Europe for the nine months?

**T.R. Srinivasan:** Quarter-to-quarter you can say Europe is about, let's say, 60%, 65% of the VLS revenues continue to come from Europe, that is the largest one, and 20% from America. So that's roughly the split. The rest is all coming from the small lamp, two-wheeler lighting business in India and China.

**Abhishek Jain:** Okay. And second quarter?

**T.R. Srinivasan:** Similar, the percentage mix is not changing that much, it is roughly 20% from America, about 50% from Europe, that's roughly the breakup.

**Abhishek Jain:** Okay. And what was the contribution of the electric vehicles in overall revenue in last nine months? And what is the outlook ahead from this business?

**Tarang Jain:** You are saying in lighting business, right?

**Abhishek Jain:** Yes, in lighting business.

**Tarang Jain:** Stephane, would you be knowing basically what percentage of our overall lamps revenue would be towards electric vehicle?

**Stephane Vedic:**

I would say we should be in the range of 15% to 20%, I think we can give you precise figures, but we have been growing a lot in the electric field. As, historically, we have always been a strong partner for Tesla with the Model S, the Model X, the Model 3 now, the Model Y where we are producing small lighting and stop lamps. We have expanded also with pure EV manufacturer like Rivian, where we are R1S and the R1T. And recently we won this big platform of the Volkswagen group, so the all-electric platform, when you find the ID.3, the ID.4. So, these are the vehicles that we are producing, we started in Europe and now we are expanding soon starting in China. And then the next step will be for North America. In addition to this, we recently also won the full electric platform for Ford Motor Company in North America, they call it 316 BEV. We launched also the Mustang Mach E, the first time the Mustang is electrified, so we have the rear lamp on this. So, we have a very interesting exposure with the electric vehicle industry, and we continue to increase our share there.

**Tarang Jain:**

Yes. And in addition to this, the premier ID.3 and ID.4 programs of VW, both in Europe and in China, these electrical vehicle programs are with us, because they are big volume programs. So they are also with us, whether it is EU, China and North America, we are in the premier VW programs. And for Renault also we are already in the Zoe and we are also enjoy doing the Twingo, Logan. So, we are in a lot of the EV programs with all the global customers, we are in many of the programs we are a part of it.

**Abhishek Jain:**

My next question is related with India business. So, how much incremental revenue is coming from the new products you have launched in India business?

**Tarang Jain:**

So, I think if you talk about new products, I will say it is more like the BS-VI products which we have been talking about, whether it's your new Magneto, Catalyst, the electronic fuel injection, the electronic carburetor, these kind of products, and some of the other electronics associated with BS-VI. I think almost probably around Rs. 200 crores probably is something which we have probably achieved up to now in the first nine months towards I think the BS-VI product. These are the new products, I would say, to do with BS-VI. Otherwise, okay, there has been a growth for traditional products with various customers, we have increased our volume to Hero for lighting or Magneto from TVS or otherwise. So we have been growing fairly well, I would say.

But when you say about new products, I would basically mean the BS-VI products, that is Rs. 200 crores and now we have started also in for next year working on our electric vehicle portfolio, which is the motor controller, the motor in the motor controller, and also the other electronics like the DC to DC converter, the onboard chargers, and also the battery management system, where we have some tie-up with the foreign companies. So, that is something also which will come into play in the next year, maybe in Q2, or maybe Q3, depending on when it is launched by the customer. So that's what we are looking forward to, that will be the other new product which we will be doing on the EV side. Otherwise, we are cross selling and anyway growing with various customers with our traditional portfolio of various two-wheeler products.



And also on the four-wheeler side, of course, we have just now launched on the plastic interiors. We have we have launched for the new Nissan Magnite our part of plastic interiors, and also for the new this new Kiger of Renault. So for Nissan and Renault, the new programs, we have just now launched in a significant way our plastic interiors. And also, the engine valves and all, we continue to grow with various customers. So India side, I think the four-wheeler space and I would say two-wheeler space, I think we are growing quite well, winning a lot of new business, like in India we have already won so far, wins and some rewins of almost Rs. 10 billion which is Rs. 1,000 crores. Considering that in the first three months there was no real win, so in the last six months we need to generate that kind of new business wins in India.

**Abhishek Jain:** So, what is your revenue guidance for the next year for the India business and margin guidance as well?

**Tarang Jain:** There will be definitely a good level of growth, but that's not something I can really share with you, it's still under process. But there will be a good level of growth next year to the level of revenue this year. It will anyway be a growth, but we are expecting definitely a good double-digit growth in the next financial year.

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

**Aditya Jhawar:** Now, in India business, the performance was pretty good, especially considering the margin profile and the salary reinstatement. One question for the India business, considering our relationship with Hyundai in the Turkey business, are there some talks for some incremental business in the Korean OEMs for the Indian business?

**Tarang Jain:** Yes. So, we are I think making an attempt, we are actually in discussions with Hyundai both for lighting as well as for the plastic interiors for India. That is something we have still not been able to close any business, we are also talking to Kia by the way. So, we have somebody helping us out also here to see that whether we can realize some business going forward, things have been a little slow in this year because of the COVID situation. And a lot of the new model launches are not really happening at the moment, as. I mean, what has been launched is something which has already started a couple of years back, and that also has got postponed in the Indian market, some of the new launches. So, that's what we have. But we are definitely kind of trying our best to win some business, at least on the plastic interior side and on lighting side with Hyundai, Kia going forward. That's something where the efforts are still ongoing from our side.

**Moderator:** Thank you. Next question is from the line of Anurag Jain from Green Lantern Capital. Please go ahead.

- Anurag Jain:** Two questions from my side. One is on the new order wins in Europe. So this EUR 152 million, how should we read it, is it spread over a number of years? So what would be the annual number?
- Tarang Jain:** This is the annual number, it's not the lifetime revenue. It's an annual number, but it takes about one and a half to two years to realize for the SOP to start.
- Anurag Jain:** So FY 2024 is when we will see EUR 152 million kind of a number?
- Tarang Jain:** Correct. I think, Stephane, would you be able to clarify? Because a lot of the business wins are with Ford, so what is the timing of this SOP?
- Stephane Védie:** Exactly. The way we calculate is we calculate the net new business wins. So, if we happen to lose a business for which we are an incumbent, we deduct it also from the number. Like Tarang and Srini mentioned, this annualized number is of full year revenue. Between the time we win the project and the time we start an SOP, there is an average of, let's say, two years of when we start to see the impact. For this year, most of the new business win has been won in North America. This is a very important aspect of our strategy, we want to rebalance the business, have a more globally balanced business between Europe, that is a very strong focus right now. We want to grow North America and we want to grow in Asia, to better balance business. So this year has been really a strong focus in North America. We won marquee projects like the Ford Explorer, for example, one of the main SUV platform in North America, where we won the rear lamp. And in the past month, we won also the stop lamp for all the pickup truck platforms of Ford Motor Company. So that means if you are familiar with their lineup, it is the F150, F250, F350, so this is the highest volume platform in North America, but also in the world when you look at the volumes. So in North America, we want to grow. In North America, we are focusing on the segments of trucks and SUV, this is where we think we need to be.
- Anurag Jain:** Got it. So the other questions were on profitability in VLS really. So by when do we see the margins revert back to the previous levels?
- Tarang Jain:** See, the point is, we will start reverting it from Q4, I don't know to what extent but we will start reverting. But our main concern is that we need the revenues to come back, to really reach a certain level in Morocco and Poland. That's where we have no more of a pain area. So that's why we need to kind of get the revenues up. That's something which we have not yet seen in January, that's where we are hoping to see higher level, probably in February, March. I think once that comes in, we will start seeing better. I think in the Czech Republic, anyway with the premium freight and other thing going down, premium freight and absenteeism overtime going down, we will start seeing better results in the Czech region, which is anyway more than 40% of our revenues globally. So they doing well is very important. But when we say going back, means that we need to achieve at least a 10% EBITDA. So that's something which we are anyway striving for, and even in the next year is something that is something which we do want to strive for to achieve. So that's what we are working on at the moment. But we do need some help in

the sales in the two plants and that's something which we going to see. The other regions, I think we are doing fairly well as per expectations. But this is where we need to focus more in the European region with these four plants to get our profitability up, that's where our focus is.

**Anurag Jain:**

Got it. So on the Moroccan and Poland plant, is it just the delay or we need to win orders or orders are there, just taking some time to come, how's the visibility?

**Tarang Jain:**

No, so the orders are there, we have won orders to level of at least about EUR120 million in each this thing, EUR150 million probably we have already won, but some of the programs have got delayed because of COVID, probably by a year. But we have won enough business, but that EUR152 million to come in, I don't think which was supposed to have been probably by next year, probably will get postponed by another at least one year, maybe by FY 2024 will be when we achieve that kind of a thing. But the way things are, things a little bit slow in these new plants where we made substantial investments already. So, we do need to see the sales growth, but at the same time, yes, we are also taking some more internal actions also at our end to boost profitability in Poland, especially more in Poland, to see that we can get our profitability up even if the sales are not realized to that level. So, there are some internal actions also and then, yes, we are obviously hoping for sales to return in these two plants where we have already invested quite some time back.

**Anurag Jain:**

So, have we also received any incentives in the Europe region? Many of the countries have given incentives just to keep the plant running.

**Tarang Jain:**

I mean, we have got a lot of incentives, but the issue is, one is, because of the lower sales in this year. Secondly, also since September because when the sales have returned in the European region, there because of this high premium freight cost and overtime cost, obviously, the results have got spoiled. So to avail the tax credit...

**Anurag Jain:**

Sorry, my question was more from the COVID front, that have we got anything from the government.

**Tarang Jain:**

So that we have already got it, we have not got anything now for the second wave, because it had not really impacted the sales that way. In the first three, four months, we got it from the Czech, because that time the plants were closed. Now the plants are not closed, nor are the customers closed. Though there is a second COVID wave causing disruption activities, people are falling sick or remaining absent which is affecting supplies as well as production. But it's not that the sales have kind of gone down in this period. We are supplying at extra cost.

**Anurag Jain:**

One last question from my side, which is on bringing down the promoter holding. What is the timeline and what is the plan there?

- Tarang Jain:** So the timeline is that we have up to July 6, and we have already started the process of dilution. And we have already also appointed the bankers to the issue. So, yes, so we will be probably trying in in this quarter to kind of go in for the dilution.
- T.R. Srinivasan:** Board has approved the 10% dilution last month in the Board Meeting, which we had intimated.
- Anurag Jain:** Yes, that I had seen, yes. So, this is not an OFS, right, this will be a new issuance?
- Tarang Jain:** It will be a combination of both.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.
- Bharat Sheth:** Sir, on the VLS side, see, on this Morocco and Poland, currently we are incurring loss and currently our revenue run rate is around 5 million per month. And last time you also indicated that we have taken some internal measures to improve the profitability on VLS side, which will be seen from the Q1. Now what level of really revenue required, I mean, to breakeven at EBITDA level in Morocco and Poland?
- Tarang Jain:** See, frankly speaking, the results have really been also quite bad in both these places because of a lot of premium freight cost. A lot of premium freight cost which has spoiled the results, otherwise the results would not have been so bad, even with a EUR5 million revenue we should have been definitely much better off. It is some of this excess cost related to input material not coming in, and we doing premium freight, and also some of the stronger suppliers not taking the supply charge back in the past is the reason why we have had to have such a bad result even with a EUR 5 million revenue. But yes, to answer your question, I think we do need at least a minimum revenue to be kind of EBITDA positive, we need at least EUR 6.5 million to EUR 7 in Morocco. And in Poland we needed a little bit higher, we would have to go to about EUR 8 million, EUR 9 million at least of sustained revenue to be actually kind of EBITDA neutral.
- Bharat Sheth:** Okay. In normal circumstances?
- Tarang Jain:** In normal circumstances, not paying this excess cost. Because these excess costs are not small, I mean, they are substantial. And we have had to supply to the customers, I mean, it's a different thing that we are discussing with them on them sharing in this cost, but definitely it's not that we could afford to stop the supplies, we have done it at our cost.
- Bharat Sheth:** Okay. And you also in the last call said about, I mean, a lot of restructuring to bring down the breakeven level. So whole, I mean, VLS business now sees normalizing from say Q1 onward or probably FY 2022 Q1. So what kind of run rate VLS really requires to improve the significant improvement in the profitability?

**Tarang Jain:**

So see, we have to do at least about EUR90 million of production revenue, we do EUR10 million of tooling revenue a month, which is not very relevant, because we don't make much of money in the tooling side. We need a sustained level on average of EUR90 million, which means that some months we have to be EUR95 million, because December and July, August, sometimes are a bit lower sales. And that's something which we do see going forward. I think after two years, probably we will see. Because since October 2018 there has been a downturn in the market, we suffered because of that, we didn't get a level of revenue. And then of course, COVID year, we didn't get a level of revenue. Next year, we do see a fairly decent level of revenue, what we expect for the full year, and that's when is a year that we have to perform, we have to achieve those kind of results which you expect. And hopefully we don't have this COVID kind of a situation to continue. Things are getting better.

So we are talking about a situation which was normal pre-COVID, normal situation, normal level of cost is what we need, I am saying at a formal level. Because anyway we have taken very strong steps on the fixed cost where we have brought it down. Also, on engineering cost we have brought it down, also on the CAPEX we have brought it down. And that's why the breakeven definitely has gone down, because the fixed costs are not going to go up to the level again, going forward. We are not going to be crossing a level of maybe more than 3% of revenues on the overall revenues on the fixed cost, which used to be more than 4%, 4.5% earlier. So we have brought that down. So that is something which is permanent in nature, that's not going to go up again. And CAPEX also, we are not going to spend it. So that is something which is definitely controlled.

The issue is on the floor level performance, which is the plant level performance. And that is also only in Europe in these four plants, that's where the focus is. And that's where 65% of revenues come from. And you may be doing very well in the 35%, but a 65% has to do well, and that's where we have not done in Q3. And this is where our focus is, to see that we do whatever it takes at customer end, supplier end, at our plant end to see that we are able to achieve a certain level of result going forward.

**Bharat Sheth:**

Yes, I do agree. Now second challenge which is coming, I mean this semiconductor, which is affecting globally to European as well as American auto manufacturer also. So, how do you see in medium-term that really will play out? Because again, in that case extra expenses may not be there, but we may miss our revenue also. So really what exactly we are doing? And second, in the initial comment you said that we have already commissioned this Romania plant. So to what extent it will really benefit in EBITDA perspective?

**Tarang Jain:**

No. See, you are right, so definitely there is an effect of almost, if it is EUR90 million revenue we expect, then differently a 7%, 8% revenue drop because of this semiconductor issue is because the OEMs ordering less. But we are hoping that maybe February and March that drop becomes maybe not more than 5%, 6%. But that is something we are to see with eventual pick up. But having said that, we have to internally kind of work on seeing that what more can we

drive on cost mitigation and other aspects, that is a continuous process. That's something we anyway keep working on to see that. Because the sales, I mean, we have the business wins. But the point is that we can't really do much if the customers are not placing those orders because of semiconductor issue, more than anything else. So, that was one thing.

Secondly regarding the Romania plant, we have just started the Romania plant, I think we have only one SMT line now, that will reach a full production capacity in March. So whatever we do in Romania plant or on the electronics, you can say we have a 10% saving to the company vis-à-vis what we kind of buy from a supplier of PCBS. Once you do PCBS inside, it is a 10% saving. That's something which is there. So we have already started in a smaller way, the first line will be at a full capacity probably by March, that's what we are trying to do. And then we are ordering the second line also now in this quarter, and then we have a focus to order three lines if we can in FY 2020, in FY 2023, because we want to accelerate that process to kind of order more SMT lines, because whatever more we order will give us savings in our bill of materials. So at the moment that's the plan. So, we have a plan for six lines, we already have one line, one line we are ordering now for next year, and then we would see how to kind of plan the three more lines, because we are just trying to see which businesses to put in, some of the future businesses to put in these three lines and then we go ahead. This is not a very high CAPEX kind of an investment also, but it gives you tremendous amount of savings.

**Bharat Sheth:**

Okay. And now coming to this India business. We have reported a very good on the EBITDA front. So, what kind of a sustainable number do we really look? That is one part. And second thing, we have been hearing that a lot of high-end two-wheelers, imported two-wheeler like Benelli or Triumph, so do we have any kind of win from them in future?

**Tarang Jain:**

So with the Benelli we have tried to make the touch. Benelli we are not there, but I think that we have already kind of, see whether it is Triumph or it is Husqvarna or KTM or Ducati, all these kind of high-end customers or even let's say the high-end Dominar and all of Bajaj, all these people we are a supplier to all of them, and we have got a significant amount of lighting revenue with all these two-wheeler OEMs on the high-end LED lighting.

**Bharat Sheth:**

So, if one has to put, what is our current LED business in India, four-wheeler and two-wheeler put together? And how do we see over the next three years?

**Arjun Jain:**

So, if I go back to your previous question also around the higher cc bikes, I think both in terms of our positioning with the Bajaj and the Bajaj brand of KTM, Husqvarna and good forward Triumph as well, we already supply all the high-end headlamps. We also have certain other products sale also across our polymer business, electrical business and metallic business. Royal Enfield, which is the other major volume player in this space, also we have a significant amount of revenue with them, on their new platform as well. So, I think Meteor was the first product that launched on that platform. Also we have a significant amount of content. On the four-wheeler side also, from a lighting perspective, I think we have always played in, let's say, the

higher technology lamps historically with Mahindra. Today we supply the lighting to both the Magnite and the Kiger, which Renault and Nissan have launched, which I think is a fantastic response. And I think those are the first real full LED headlamps in that category of car. And we are making both of them.

**Bharat Sheth:** So approximately, in FY 2021 what would be that revenue? And how do we see, say, in next three years? Some kind of aspirational, I mean, our ballpark or growth that we are looking.

**Arjun Jain:** So for the Indian number on the LED content, I will work with Nitin and get back to you on that number. Going forward, however, I think we see a lot more LED headlamp programs coming across multiple customers. Even on the two-wheeler side, we see mass volume platforms moving towards the LED, we can't reveal those yet because we are under NDA with our customers as well. So for sure, I think LED in general, given our global capability and strength, given our first mover advantage in India as well, we launched the first LED headlamp in India or locally produced in India on the Dominar, and then the second also on the KTM, Duke. So, I think we are very well positioned to gain a lot of growth and gain a lot of that conversion from bulb to LED.

**Bharat Sheth:** Thanks for a very elaborate answer. But can it be a meaningful business in three years, I mean, for domestic business? And Tarang, on this sustainable EBITDA margin.

**Arjun Jain:** So on the LED, I mean, it depends a little bit on what you mean by meaningful business. I think today is already a meaningful business. We have a plant in Chennai, that plant every lamp they are making, will be an LED headlamp. Our plant in in Takve also for two-wheeler, we make LED headlamps for the local market, we also export to customers like Ducati also out of there, and to KTM also out of there. So today, I would say, it is already a meaningful business. And going forward, of course, it's hard to predict a number, especially when we are thinking three years down the line. But we feel that we are very well positioned to capture most of the growth that comes from the conversion to LED headlamps.

**Tarang Jain:** And about your sustainable margin part, for India business, right?

**Bharat Sheth:** Yes.

**Tarang Jain:** See, there has been a very high spike in raw material cost. So what happens is that because when the raw material costs are down, your EBITDA number maybe kind of looking better. But I think that with this huge spike which has been in steel prices and aluminium and resin and all that stuff, I think I would say that going forward we will definitely be able to achieve at least about 12% plus kind of a number in the India side going forward. That is also because of the high impact on material cost to sales.

**Bharat Sheth:** Okay. So that is on the higher revenue, you mean to say that?

- Tarang Jain:** The sales numbers are going up because of higher material cost also, it is back to back. We are not losing on lose the material cost but then it impacts the EBITDA percentage to some extent, like, say if you are doing 13% or 13.3%, there will be some impact of it. Also let's say, if you are making the same quantum of profit for the similar set.
- Bharat Sheth:** And our Pune plant which we lost in a fire, which was mainly for LED lamp only, so has it come back?
- Tarang Jain:** Yes, so that we have shifted to Chakan now, in a new location in Chakan we are much closer to a customer, that's where the automotive hub is also. So, we are not going to go back to the Hinjewadi plant, we are going to be in this new plant over here, and here what is happening is that we have started all the assembly operations, we have been doing it for the last many months in Chakan, last more than one year. But then we had ordered a lot of our new machines. Till recently we have been outsourcing a lot of the molding and metallizing and all. But now slowly, slowly by March end, I think, we will be fully self-sufficient. And from April we can expect like say a total normal working of our four-wheeler lamps which we were making in Hinjewadi now will shift to Chakan, we will see normalcy return from April 1st of next financial year.
- Bharat Sheth:** Last question, sorry. See, out of these Rs. 2,700 crores total net debt, how much is in Europe and how much is in India?
- T.R. Srinivasan:** Out of that roughly Rs. 600 crores would be in India, the balance would be in foreign currency, between euros and dollars combined.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.
- Sachin Kasera:** Can you give us some sense, this year we have seen a good reduction in terms of debt, how are things looking for FY 2022? You will also have I think some help from QIP, so both on CAPEX and debt how are we looking at FY 2022?
- Tarang Jain:** So CAPEX, we are trying to limit it to Rs. 600 crores for FY 2022. That's not going to change. And when it comes to debt, I mean, see, today let's say we have saved Rs. 2,600 crores, definitely our target will be to reduce it by at least about Rs. 900 crores to Rs. 1,000 crores in the next one year is going to be a target of debt reduction.
- Sachin Kasera:** And can you give us some sense from medium-term perspective on the LED trend, in both four-wheeler and two-wheeler? And how we positioned there?
- Tarang Jain:** See, four-wheeler I think probably Stephane can also answer, but now any new RFQs are all LED only, whether it is rear lamps or headlamps, Stephane maybe you can answer that question. But on a two-wheeler side, all high-end vehicles are all now LED, all high-end vehicles. See,



the more commuter vehicle, which is a larger volume, for it to become LED in the real sense will take some more time, because it is all about affordability. And that may still take some time, in India I am talking about, for it to become kind of LED. They may do some partiality or something, but we will have to wait and watch. We don't see that commuter vehicles are going to have a full LED kind of a concept soon. But all high-end, I mean, probably 180 cc and above, maybe 200 cc, maybe more than 200 cc, 250 cc is what we see more of LED at the moment, full LED. But that premium vehicle market is anyways going up also, it's not that it's going down. So, that is anyway a good market for us. And we are also benefiting through that market.

**Arjun Jain:**

And even on the commuter segment, like CMD said, even if the headlamp does not go full LED, due to regulation, we see a lot of incremental LED content in terms of things like DRL, position lamps, etc. And this is really where we are very strong, given the fact that we have a global level of technology that we bring to the market and also, we are completely vertically integrated with the electronics and also the assembly. And even when I say DRL and position lamps, sometimes they are quite possibly the same cost as a regular bulb headlamp. So there are definitely significant opportunity as we move forward, especially as regulation around emission control becomes even tighter. So, those are the opportunities we hope to leverage.

**Tarang Jain:**

On the four-wheeler LED side, I think, probably, Stephane you would like to add something?

**Stephane Védie:**

Yes. So on the four-wheeler LED side, if we look at the signaling functions, which is rear lighting, we are today current almost at 85% already. And every new vehicle now is including full LED. We have a few exceptions in emerging countries where we need to provide very, very low-cost solution. On the front, on the projection functions, we are today between 50% and 55%, but all new RFQs are clearly showing a shift towards LED. I think part of our value proposition at Varroc is to develop some low-cost LED solutions to replace halogen. So we are one of the main actors in the market to replace halogen technology. And I believe in the next few years, halogen will just be history. But beyond LED, right now the main trend on the four-wheeler side is more HD, more metrics lighting, so that we can have safe eyebeam driving if you want so that we don't glare the oncoming traffic. If you look at our recent launches, the ID3, ID4, these electric vehicles once again, these are metrics technology from Varroc that we have fully developed ourselves. And this is the next trend that is coming.

So beyond LED now we are into pixelization, digitalization of the light. The mega trend as we see is, obviously, we remain on safety, comfort, style, but more and more. The advantage of LED is mainly the efficiency, you need much less power to drive lighting that is LED based rather than halogen based. So for electric vehicles this is very important, every electric vehicle manufacturer is going to LED. I think in previous calls I also mentioned Ford in Europe, in order to reduce the CO2 emission on there even low-entry-level vehicles like the Ford Fiesta or Ford Focus, they are switching everything to LED. So this vehicle historically had probably A segment, B segment, some strong halogen content, now we are switching everything 100% to LED.

Another important trend that we see in our business right now is more and more we will be using lights for communication. So, we have already some applications we are able to project logos, we are able to project lines on the road to indicate to the driver if in case of a road worker, for example, if you have enough space to pass through this tiny spaces. So there is still a big evolution in terms of technology on every additional function that we are entering is an additional revenue stream that we can develop in the future. So we are really excited with this trends in terms of technology.

**Sachin Kasera:** And do we think that we can have some market share gains next three, four years in the LED lighting in India, both in four-wheeler as well as two-wheeler?

**Stephane Védie:** Sorry, I didn't get it.

**Sachin Kasera:** I am saying, are we looking at some market share gains in terms of are we competitively positioned that our market share in the LED business, both in four-wheeler and two-wheeler in the next three, four years may be much higher than what it is today?

**Stephane Védie:** Absolutely. In India, absolutely. I think Arjun explained it very well. Historically, the customers, when they wanted an LED light, they went to Varroc anyway, and this has been our experience with Mahindra, this interesting vehicle for Renault, Nissan, that is really the rebirth of the relaunch of Renault, Nissan in India market are really going with us and with the global technology that we are able to offer to these global customers. So that's clearly a clear trend that we see in India with a strong penetration of LED content.

**Arjun Jain:** And I would add also on the two-wheeler side, I think today our market share, I don't know our exact position, but I would be surprised if we are anywhere lower the number two in terms of LED market share. I think where we would expect to gain is in overall lighting market share in the two-wheeler as the two-wheeler moves more and more towards LED.

**Stephane Védie:** Thank you. Another trend that we see also related to technology is we see the real-estate of lightning expanding outside of the four corners of the car. In the past we saw a lot of chrome around the car, now the OEMs are at the trend to replace chrome by light. For electric vehicles you don't need the grill anymore to cool down the ICE engine, because you have your batteries, you don't have ICE engine. So now we see a strong trend to use the grill to integrate more lighting features. For the ID4 for Volkswagen in China, we are supplying, for example, a lit logo. So there is a Volkswagen logo in the front of the car that is lit. So we have a LED system with the electronics that goes with it. So that's I think an interesting new trend that's developing right now.

**Moderator:** Thank you. Next question is on the line of Chirag Shah from Edelweiss. Please go ahead.

- Chirag Shah:** Sir, two questions. Question one, sequentially your RM to sales ratio, both in India as well as in Europe, has gone adverse. So, is it because of commodity prices or it is because of product mix, what is it?
- Tarang Jain:** I think sometimes it is a combination of both. So in some cases, yes, I mean, in our VLS business to be competitive, because nowadays people, see, when you go to LED lamps, the content is more of LED, the material costs are not the same as a percentage as halogen lamps are. Halogen lamps the content was actually lower as a percentage compared to the LED's electronics, which are more expensive. So, that is one reason why as you move more towards LED, the material content as a percentage, I mean, does go up. And anyway, I mean, the market is also more and more competitive. And the other thing in recent times is, but that is like a cyclical nature depending on a period of time that at the moment, of course, I mean, the material costs have gone up so that percentage will show will be higher, because of the global demand all the material costs have gone up. So, to that extent it will be up. But then tomorrow if things normalize, again the material cost would go down. So, that is a cyclical thing. But yes, as LED content goes up, the percentage of material content does rise to the selling price.
- Chirag Shah:** And in India, is it again because of mix?
- Tarang Jain:** So in India, I would say, in India also if you are doing more of LED, the raw material percentage will be higher anyway, also in the four-wheeler. In two-wheeler, I would say that we are able to still manage a little bit of a similar price to halogen, because the volumes of high-end are not so high. So, there we are able to manage a better pricing. When it comes to mass volume, like say in passenger car, there it is not easy to be able to get that kind of a profit margin like we are able to get in the case of the LED lamps for lighting, because the volumes are very less there.
- Chirag Shah:** Just for clarification, sequentially, both in India as well as in VLS, the contribution of LED would not have gone up meaningfully, right?
- Tarang Jain:** I don't know, because see, what has happened is that I think the level of sales have gone up from September in the VLS business. And the sales have gone up in a lot of these EV vehicles also otherwise, and that has got a lot of LED content. So, definitely I would probably say that, yes, it has had an impact. There is more of LED consumption happening in the third quarter than before, because of a lot of the high volume like VW, for example, their major programs are electric, the ID3, ID4, which are very high-volume programs. And that is full LED. So there, I mean, that would definitely contribute in a big way to the bill of material cost percentage to sales, compared to earlier.
- Chirag Shah:** And for India, when you indicated that LED share is going up, is it largely because of daylight running or is it the enter LED system as such? Or more of daylight running halogen content or LED content?

- Tarang Jain:** It will be a combination of all, right. See, I mean, ultimately the level of content is defined by the OEM and what is the styling that they are really looking to pursue. So like we were talking about earlier, a little bit also depends on how the different segments in the market grow. So now, for example, if their 250 cc and above segment really grows at significant pace, we would expect to sell more full LED systems, right? If the market is more, let's say, in the 100 cc space, or that is really where growth takes place, you would expect to see more DRL and position lamp type of content, and I would say even LED tail lamp type of content. So if you ask me, the content really depends on the segment of vehicle we are selling into.
- Chirag Shah:** Okay, and on PVs, is it the same that up to Rs. 12 lakh is more LED now, because earlier that was not the case?
- Tarang Jain:** I mean, at the outset I would say now even at Rs. 6 lakh we are seeing that there are significant LED content, like on the Nissan Magnite.
- Chirag Shah:** It is full LED, right, it is entire LED system rather than the VRS?
- Tarang Jain:** Yes, it is full LED system with the DRL, which is also LED and with the tail lamp also that is LED.
- Moderator:** Thank you. The next question is from the line of Aditya Jhawar from Investec Capital. Please go ahead.
- Aditya Jhawar:** Just wanted to understand the swing in margin and VLS on a sequential basis from 7.6% to 4.1%. Now, if you can help us understand the swing in gross margin and what is the element of extra freight cost as a percentage of sales that we incur in this quarter. Because what we understand is that on a sequential basis there would have also been benefit of positive operating leverage. So if you can understand this bridge, it would be helpful.
- Tarang Jain:** See, premium freight is about 2%, the premium freight impact on the VLS margin. And there would also be element of the overtime coming out of the Czech Republic, because Czech Republic is also about 45% of the overall revenues. So over time also for that plant would at least be about 1.5%, so maybe as a whole 0.7%. So maybe 2.7% would come out of these costs.
- Aditya Jhawar:** Okay. And Tarang, you expect that sequentially this cost will substantially come down?
- Tarang Jain:** Yes, I think that this cost will substantially come down in Q4, I am talking about overtime and the premium freight.
- Aditya Jhawar:** Okay. But at the same time, Tarang, you mentioned that in Q4, because of the supply side issues, the production could be lower, but will it be lower as compared to December quarter, or it is hard to say at this stage?

- Tarang Jain:** See, January was definitely lower than this thing because of semiconductor, I think, probably 7%, 8% lower. And February we are hoping that it is similar, but we don't know, let's see where we end up. March is looking strong. But the issue what happens is that we are expecting a strong month, but then the pickup is not there because they have not got the electronics, the OEMs. So, they may not give you a schedule the following week, they may cancel kind of a thing, the earlier week for the next week. So, we have to wait and watch. But definitely there is an impact in the sales because of the semiconductor shortage there in VLS, whether it's in North America and also in Europe.
- Aditya Jhawar:** Okay. And moving to China, we saw a significant sequential decline in profitability. And seasonally there should be relatively a stronger quarter because of the Chinese New Year. So, what transpired in China?
- Tarang Jain:** So, China actually, frankly, the profitability actually was very good, but we had to take some charge on the customer for the tooling of customer in this quarter, which was probably more like a one-time that we had to take a charge, because of which this EBITDA went down, and PAT went down. Otherwise, the sales were very strong in the last quarter. So, some of that has played out in the last quarter in China. So, the amount is about 750k of customer funded tooling which we had to probably kind of give back to the customer.
- Moderator:** Thank you. The next question is from the line of Apoorva Mehta from AM Investments. Please go ahead.
- Apoorva Mehta:** Just wanted to ask you, because our guidance for next year was close to Rs. 14,000 crores to Rs. 15,000 crores of turnover and double digits plus margin. Can we achieve that seeing the scenario and the kind of headwinds we have? Can we achieve that, is the possibility there?
- Tarang Jain:** Yes, the possibility is there for sure. We are still working on a budgets at the moment, because we have still not got overall volumes from our customers, we have made some estimates and seeing that definitely it is possible on that Rs. 14,000 crores, Rs. 15,000 crores of revenue and double-digit margin.
- Apoorva Mehta:** And another thing, what will be our lighting contribution in India business currently?
- Tarang Jain:** Lighting contribution, see what happens is that the four-wheeler lighting actually grows into the VLS entity, the lighting entity, the four-wheeler. But otherwise, the India side, I think, the lighting business overall would be about 6% to 7% of our revenues, weathers it is halogen or LED.
- Apoorva Mehta:** So overall if we say, it is Rs. 800 crores of quarterly turnover from India business, we would want to say that 8% is the lighting business on that?

- Tarang Jain:** No, we are not doing Rs. 800 crores, about Rs. 1,200 crores is what we are doing presently. On Rs. 1,200 crores a quarter, we are doing about 6.5% to 7% is our two-wheeler lighting business.
- Apoorva Mehta:** And overall, what will be the lighting business, if we say two-wheelers, first quarter.
- Tarang Jain:** Only India?
- Apoorva Mehta:** Only India.
- Tarang Jain:** So on India put together, lighting is 6.5%, 7%, but India we only count the two-wheeler lighting. Four-wheeler lighting is a part of the global lighting business in India.
- Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** A couple of questions I have got, but first one clarification. You had mentioned in one of the calls that you are looking at a double-digit growth in India in FY 2022. But when I look at your nine-month number, we are down like 18% and possibly we might end year with a 12%, 13% or 10% kind of a downside for FY 2021. So, you are talking about FY 2022, 10% growth on FY 2021 base or FY 2020 base?
- Tarang Jain:** No, see, so I am just saying that we will be significantly higher than the FY 2021 base, because FY 2021 base is a COVID year, we have lost the first quarter anyway.
- Giriraj Daga:** Correct. So would you be able to better than FY 2020 also?
- Tarang Jain:** We will be better than FY 2020 and it will be a double-digit over FY 2020 also. There will be a double-digit growth in India over FY 2020 India sales, for sure.
- Giriraj Daga:** My first question is like related to the CAPEX number. You mentioned Rs. 600 crores, so I believe somewhere about EUR9 million to EUR10 million will be spent on our Poland and Morocco in FY 2022, so what will be the maintenance CAPEX in VLS in India?
- Tarang Jain:** So, India, I think, let's say that we do about Rs. 151 crores, Rs. 160 crores of CAPEX, out of that the maintenance CAPEX is normally about probably 10% to 15%. And I think should be similar also, I mean, in the VLS business also. Stephane, do you want to confirm what it is going to be, I mean, roughly, is it 10%, 15% the maintenance CAPEX or is it higher?
- Stephane Védie:** That's correct for the ballpark. In this new facility, most of the equipment is brand new, so it's a little lower in, let's say, older facilities like in Mexico, we are more in the 15% to 17% range. But in average, I think we are at around 13%.

- Giriraj Daga:** Okay. My second question is related to Morocco and Poland. In one of the presentation slide, slide number seven we were mentioning the Poland potential about EUR 145 million equivalent revenue annually, and Morocco about EUR150 million. These are the potential revenue this plant can achieve, right?
- Tarang Jain:** Yes, these are the revenues we have to achieve, but this is a revenue we are looking at achieving in these two plants not before I think FY 2024.
- Giriraj Daga:** Yes, I agree. But I am not asking for a year but peak revenue we can achieve from this month or this number can go higher from this also?
- Tarang Jain:** So, peak revenues will be probably more like say EUR 180 million or something.
- Nitin Kalani:** EUR 180 million in Morocco, and about EUR 200 million in Poland.
- Tarang Jain:** That's what we have said earlier also, you know, in the past year.
- Nitin Kalani:** This is on the back of orders already won, basically. So, whatever orders so far we have borne, we can touch a revenue of about EUR 145 million in Poland and about EUR 150 million in Morocco, based on current order whatever we have won basically in last couple of years.
- Tarang Jain:** This is on one business and then, of course, we will win some more business, so that will take it up to EUR 180 million and EUR 200 million respectively in Morocco and Poland.
- Giriraj Daga:** Okay. My last question is related to our debt number. So, we had mentioned about the Rs. 900 crores to Rs. 1,000 crores of reduction in debt. Are you assuming any part to be coming from the working capital optimization in this number?
- Tarang Jain:** So, yes, definitely. I mean, see, on the debt side there will be some working capital optimization also, but yes, I mean, so a lot of the things we have already addressed, or we are addressing now. But I think that the main thing is that we want to reduce the debt number to a normal level, which we are quite confident of doing. We are also going in for this dilution of 10%, and plus we have some other options also. And plus of course, we are looking at a superior operational performance so that we can target that we are down from December end to maybe March end we are down by about Rs. 900 crores to Rs. 1,000 crores in this period. That I think we feel fairly confident of doing.
- Giriraj Daga:** No, just a follow-up there. My idea was that since our business will go up, I was thinking we will have to deploy more working capital. And if we are guiding about Rs. 1,000 crores or Rs. 900 crores kind of reduction, ultimately, we have to work out EBITDA of somewhere about Rs. 1,800 crores to achieve this kind of a number.

- Nitin Kalani:** If you see, I think end of first quarter of financial year 2021 we had a working capital cycle disturbance basically. So, the answer which I had given earlier was pertaining to that disturbance. So, most of the working capital disturbance has now been restored to a normal level. Going forward, obviously, there will be some incremental needs towards the new business which we will be doing in future years. Part of that I think will be sort of coming from working capital optimization from the existing level, part we will have to fund.
- Tarang Jain:** So, you are right that to some extent, yes, but we don't see some big number there emerging. So, I am talking on a net basis that we feel confident of reducing our debt by March 2022.
- Moderator:** Thank you. The next question is from the line of Apoorva Mehta from AM Investments. Please go ahead.
- Apoorva Mehta:** Just wanted to ask about the content per vehicle going forward, because Stephane was telling that lot of chrome will be replaced by these LEDs. So going forward, this content per vehicle should substantially go up?
- Stephane Védie:** Yes. So, clearly this is depending on the segment of the vehicle, this is depending from the OEMs, this is depending from the regions. But yes, our play is to increase our content per vehicles. So, when we go from one generation to the other, we try to supply more to the same vehicle. So, obviously, the front lighting, the rear lighting, we want also to add, what we call, the small lighting with the stop lamp, the fog lamps, the rear reflects as we want to expand our footprint on the car, if there is a logo lamp, if there is something that goes in the grill, if there is something that goes in, for example, the small projection of logo when you open the car door. This is something we are doing in our Turkish facility right now. So these are the content increase in the car that we are pushing for.
- And then just as a reminder, you have different trim levels for each of the vehicles, so there is an entry level, mid-level on the higher level. So, the higher level is always a way to push for the new technology. So right now, we are really pushing towards a HD. It's not anymore like is there going to be LED or not; it is more like is there going to be HD technology, matrix technology or not in the new vehicle. So that's all we are pushing for the content.
- Apoorva Mehta:** And last question on the backward integration, how are we positioned on the backward integration side? Where we are and where we want to be by in next two, three years?
- Stephane Védie:** I just wanted to remind to everyone that we decided to take 100% of the share of our electronic manufacturing joint venture. We completed this just few months ago and this is giving us really a freehand to right now accelerate. And as Tarang mentioned earlier, now we want to boost the growth in this. With this level of technology increasing in our product, the contents of electronic is increasing, so we believe this is key for us to do our own electronics. So we have one SMT line, by September we will have the second one. And then we have an ambitious plan to go up



very fast to the six SMT line that we are targeting for this location. We are, by the way, have therefore a space that could accommodate even the double of this, right now our plan is six SMT lines, but we may want to even increase in the future.

**Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

**Basudeb Banerjee:** Just a quick clarification. In the call you have been saying target is to reduce net debt by Rs. 900-odd crores in next fiscal, that is purely on free cash flow generation or that includes element of any funds raised as such?

**Tarang Jain:** No, it is also a part, part will come from fundraise.

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

**Tarang Jain:** Thank you, everyone, for this call. And yes, the numbers, especially in VLS have been disappointing in the Q3. And I think the main issue still lies in Europe, but it is not that as a company we have not been in control of that, it is just that the circumstances in the Czech and in other European new plants have been such either low volumes in Morocco, Poland, or we have had these issues of absenteeism, and input materials coming in.

I mean, we have found it tough to kind of manage in this kind of a COVID situation in this quarter. So obviously the result is significantly lower than what we would like to actually definitely do. And, of course, our objective is that in VLS that we have to kind of reach a double-digit sooner than later. That's what we are going to strive for. We do have a level of sales now, level of business wins, level of customer confidence, that is quite strong in our case.

It is just that, yes, in this environment we do need to see that we perform better. And therefore, we are actually reasoning with our customers, listening with our suppliers, also internally looking at solutions how to improve the EBITDA margins in VLS. That's something we are striving, and we are confident that we will be able to achieve it soon.

On the India side, anyway, we are going strong and we will get stronger. In FY 2020 we are looking at a strong sales number of Rs. 14,000 crores to Rs. 15,000 crores, in both VLS and India. Sales are there, how we convert that to profitability in a meaningful way is something what we are focusing on.

So, with this, I just want to thank all of you for this call, and see you the next time. Bye.



*Varroc Engineering Limited  
February 09, 2021*

**Moderator:**

Thank you very much, sir. Ladies and gentlemen, on behalf of Varroc Engineering, that concludes this conference. We thank you all for joining us. And you may now disconnect your lines.