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VARROC/SE/INT/2022-23/34 June 2, 2022

To,

The Manager- Listing
The Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1,
G Block, Bandra-Kurla Complex,
Bandra (East), Mumbai-400051.

NSE Symbol: VARROC

The Manager – Listing
The Corporate Relation Department,
Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400001.

BSE Security Code: 541578

Sub: Transcript of Investor / Conference Call pertaining to Audited Financial Results for the quarter and year ended on March 31, 2022.

Dear Sir/Madam,

Please find Transcript of Investors / Conference Call held on Monday, May 30, 2022, in respect of the Audited Financial results for the quarter and Year ended on March 31, 2022.

This is for your information and records.

For Varroc Engineering Limited

Ajay Sharma
Group General Counsel and Company Secretary

Encl: a/a

"Varroc Engineering Limited
Q4 FY 22 Earnings Conference Call"

May 30, 2022

MANAGEMENT: **MR. TARANG JAIN - CHAIRMAN AND MANAGING DIRECTOR, VARROC ENGINEERING LIMITED**
MR. CHRISTIAN PASCHEL - CEO OF VARROC GLOBAL LIGHTING, VARROC ENGINEERING LIMITED
MR. ARJUN JAIN - WHOLE-TIME DIRECTOR, VARROC ENGINEERING LIMITED
MR. T R SRINIVASAN - GROUP CFO, VARROC ENGINEERING LIMITED
MR. BIKASH DUGAR - HEAD OF INVESTOR RELATIONS, VARROC ENGINEERING LIMITED

MODERATOR: **MR. BASUDEB BANERJEE - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Varroc Engineering Limited Conference Call hosted by ICICI Securities. 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 touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Basudeb Banerjee from ICICI. Thank you, and over to you, sir.

Basudeb Banerjee: Hi. Thanks, Ryan. Good evening, everyone. Thanks to Varroc Engineering management for giving us the opportunity to host the Q4 FY'22 result con call. We have with us Mr. Tarang Jain, Chairman and Managing Director; Mr. Christian Paschel, CEO of Varroc Global Lighting; Mr. Arjun Jain, Whole-time Director, Varroc Engineering; Mr. T R Srinivasan, Group CFO; and Mr. Bikash Dugar, Head of Investor Relations.

I'd like to hand over the call to Mr. Tarang Jain for his initial comments.

Tarang Jain: Yes. So, thank you, Mr. Basudeb Banerjee for hosting the call and a good evening to everyone. I would like to thank you for joining the Q4 FY'22 earnings call of Varroc Engineering Limited. Looking at the past year, while we were all anticipating a rapid recovery in volumes, the second wave of the COVID-19 pandemic struck, impacting both the supply and the demand side. Just as we were coming out of the second wave, we saw a worsening of the supply side challenges, particularly the semiconductor shortages, which is continuing and might take till the end of FY'23 to get normalized.

The higher fuel prices, commodity inflation and tightening of financing has resulted in higher cost of ownership of vehicles, impacting demand. We are also witnessing geopolitical issues like the Russia-Ukraine conflict, impacting the global economic recovery. All this has made the operating environment for the business very challenging, impacting the profitability of the operations significantly.

In the background of these challenges, the company took the decision to divest its four-wheeler lighting business in Europe and the Americas and signed an SPA with Plastic Omnium for an enterprise value of EUR600 million in April 22. The transaction will take four to five months to get completed as we need approval from the shareholders, the regularly bodies in various geographies and also from our lenders. This divestment will help the company strengthen its balance sheet and invest in identified focus areas to drive future growth.

In our financials, the business which we are divesting is now accounted for as discontinued operations and only the profit and loss from discontinued operation is shown as a one-line item in the income statement as per the accounting standards. In India, the auto production for two wheelers in FY'22 fell by 3.5% despite a lower base of last year due to the weak rural demand and the higher cost of ownership. Passenger vehicles in India rose by 19.2% due to the preference for person mobility. Commercial vehicles and three wheelers also witnessed growth due to the lower base and overall economic recovery.

On the backdrop of all this, the revenue from continued operations for FY'22 has grown by 33.6% to INR58,442 million as against INR43,739 million in FY'21, outperforming the industry production numbers. The EBITDA margin for FY'22 was 6.1% as against 7.7% in FY'21 for the continued operations. The margins were impacted by higher commodity prices, forex losses on intercompany loans and a lower operating utilization in some of the geographies. The revenue for Q4 FY'22 for continued operations came in at INR16,520 million, which increased 11% quarter-on-quarter and 9.8% year-on-year, again outperforming the industry production numbers.

The EBITDA margin improved on Q-on-Q basis by 150 basis points and came in at 6.5%. The margins for the quarter are still impacted by higher raw material prices. The focus of the company remains to pursue strategy, which is a combination of growth and margin improvement for our various business units. We have growth opportunities due to the mega trends and some of our businesses -- business units like electrical electronics in India, our polymer business in India, the electronics business in Romania are geared up to capitalize on specific growth opportunities. We're looking to improve the profitability of some of the business units like EMIS, forging plant in Italy and our metallic business in India, the four-wheeler lighting business in India, and our two-wheeler global lighting business by a mix of improving internal efficiencies, higher capacity globalization, and in some cases, price increases from our customers.

Strong order wins for new businesses in FY'22 across business units will enable us to continue to offer the industry growth and will also help us in improving the profitability. During FY'22 lifetime revenue from new order wins is at INR35,509 million. And out of that, the business win from the EV customers is INR10,451 million. To capture the growth for mega trends, we happy to announce that the government has approved our application for product-linked incentives and we will be investing around INR2,800 million over the next five years under the scheme.

I'm now handing over the call to Mr. Srinivasan, our Group CFO, so that we can run through the presentation, which is already uploaded in our website and in the stock exchange also. Thank you.

T R Srinivasan: Thank you, Tarang, and thank you Basudeb for hosting us today. We had uploaded our presentation a short while back. I will just quickly touch upon the highlights from the presentation focusing on the financial part, then we will leave the field open for question. Starting with the highlights of the last quarter and year, so the biggest highlight obviously was securities purchase agreement we signed with Plastic Omnium in April, which you are already aware of and we had a separate call on that as well few weeks back. The second is about our application for the -- under the PLI scheme, under the auto components sector, which has been approved by the central government. So we'll be investing close to INR280 crore over a five-year period.

And other highlight is that from a revenue perspective, both the quarter and year-to-year we have grown. Part of the growth is related to commodity price inflation. And part of it is due to better capacity utilization and additional orders we are able to get from customers. And also sequentially we have been able to improve our EBITDA margins for the continuing operations. So from -- you might have seen from the financials that the business, the lighting business in Europe and North America that we are planning to dispose of have been reported in a separate line in the penal under discontinued operations. And rest of the P&L reflects the results of the continuing operations we have.

Then during the year we also won a new business which will contribute lifetime revenues of around INR3,500 crore overall, out of which revenue relatable to the two-wheeler EV segment will be in the region of about more than INR1,000 crore. So these are the major highlights. From -- we have included slide on the overview of the continuing operation, just to give a better idea to the investors on what are the businesses remaining within the company after the planned divestments. So, in the VL standalone entity, we have two business units, electronic, electrical and electronics business unit in India as well as metallic, in addition to the aftermarket division that we have seen significant growth and the four-wheeling business, which will remain, in India, which will remain with us.

We have a number of subsidies in India, which are mainly in the polymer business, Varroc Polymer, then the metallic business under Durovalves. And coming to the overseas business, we have a joint venture in China like you know, which is into four-wheeler I think and we also have metal forging business in Italy under IMES, a global two-wheeler lighting business, which has operations in Italy, Romania, and Vietnam and the electronics business in Romania, which we are retaining.

So if you look at the overall revenue composition, little more than INR5,000 crore revenue will come out of the businesses we have in India. And something like INR1,400 crore will be the revenue generated from operations outside India, including the other share of the 50% share of the revenue from the China JV. So all put together at a gross level, we are talking about revenues of around INR6,500 crore last year in China JV revenue. I'm not spending much time in terms on the leadership team and product lines in different businesses. I think many of you would be familiar with that.

We have also added additional information on each business unit in terms of the products, the core strengths as well as the focus areas going forward for those -- each of those businesses to give you a good idea of how we plan to address this business and how we plan to grow. And this time we have also included our own on slide which highlights the aftermarket business we have. And large number of products in this are number of products are traded, some are manufactured internally. So, the aftermarket business itself contributes, last year contributed close to INR600 crore of -- INR500 crore revenue in last year. This year it should grow further and that has a very attractive margin profile. So we do EBITDA of close to 14% in that business. We have distributors in number of countries, outside India as well.

So you see revenue breakdown per segment. So, two-wheeler contributes the maximum followed by four-wheeler. It's about almost 70/30 kind of a share. And we have a very balanced portfolio between different regions in India as well as in exports. And this is one thing which will be key to our efforts to improve margins in the coming year.

Coming to the financial performance, starting with the overall industry volumes. In Q4 last year, the two-wheeler segment in India, volume declined by 21%, three-wheeler by about 2%, while there was marginal growth in passenger vehicle and commercial vehicles. On a full year basis, two-wheeler declined by 3.5%, while there is growth in the other segment. But for us, a substantial part of our revenue comes from two-wheeler and three wheelers, which was challenge for us. But in spite of that, we were able to grow. When we look at the financial performance, quarter-on-quarter, we were able to grow the revenue by 11% sequentially and year-on-year by about 10%. And of course large part of year-on-year increase is contributed also by commodity inflation, which we were able to pass on with the lag of one or two quarters, but that has also had some impact in the margin.

So if you look at the margin development over a period of time, all the continuing operations together have EBITDA margin of about 6.5% in Q4, which is sequentially has improved and compared to full year also, it is a better number. And if we had to split up this business between India, the remaining letting business and other business, which is in Slide number 18, you will see that India margin continues to deliver close to double-digit EBITDA margins. So almost 10% in spite of certain exchange loss, they needed to book this year because of the exchange rate fluctuation on intercompany loans to the VLS business. So in spite of that we are tracking at close to 10% EBITDA margin which is quite encouraging and in spite of the commodity price increases and the delay and pass through, and once the commodity price is kind of settled down and stabilize, this margin should improve further and go to close to around 11% or so, that's what we expect.

The remaining VLS business, which is a combination of our electronic operations in Romania, the four-wheeler lighting in India and the global two-wheeler rating business together are almost at breakeven margins right now because of capacity utilization is still not at the desired level, which is impacting the margins. But going forward, we expect the margins to improve in the coming year. And others, which is mainly our forging business in Italy continues to be loss making. And we are looking at strategic option for that business as well in the longer run. But recently we have been able to get some price increases from customer to compensate for that commodity increase as well as the energy cost increase in Europe and that going forward should single digit margin for the IMES business as well.

So at a total basis, the margin is in the region of around let us say 6.5% in the latest quarter. But with all the improvement plans, the growth expected during next year. We try to move towards a double-digit kind of an EBITDA margin that's what we are targeting to deliver out of the remaining business. And the results from the discontinued operations have been shown separately. So you'll see that that business continues to incur significant losses, which will continue to weigh on the P&L and the balance sheet for the next quarter or two will be complete the closing. And so like we communicated after the SPA signing, so we expect the proceeds from the divestment will help us to pay off the loans we have abroad and also reduce the debt on the books of the parent company and on a net debt basis to become, let's say, zero debt company on a net basis that's what they're expecting to at closing, which will significantly strengthen the balance sheet to enable us to invest in the remaining segments of business, where we plan to grow quite aggressively.

We have also given the revenue breakdown for the continuing operations in Slide 17 just to give an idea of which business it's coming from. So you will see that polymer -- from business unit perspective, polymer contributes almost one-third followed by lighting and electrical electronics business unit and metallic and so on. Two-wheeler motorcycles still contributes, let's say, 60% of the revenue followed by four wheelers and then two-wheeler scooter and three wheelers. India is roughly, let's say, close to 80% of the revenue, 20% coming from outside, and while from a customer perspective, Bajaj contributes little more than 40% overall. It's non-Bajaj customers because they are contributing close to 60%.

And you will see that overall about, let's say, our revenues from the two-wheeler scooters, which is where the EV penetration is happening initially at a high pace, our reliance on that is not very high. So our exposure to EV so our portfolio in the short to medium term is fairly protected against the transition to EV, but you also know that we have a large number of products which of to address the EV sector, EV segment, which we will be able to leverage on that once the volume start picking up on that. So, this is broadly on the financial performance.

On the EV business, I mentioned, we won new business with lifetime revenues of more than INR1,050 crore. So this is between four different OEMs, both engine related orders as well as non-engine related components, so combination of that. That will continue to be our focus area to the new business in this segment in future. And talking briefly about our product portfolio and the kit value, Slide number 26, we try to give you a kind of a kit value of the comprehensive supply for different segments. So you will see that we have quantified the amount for different product segment ranging from around INR5,300 or so to up to 110CC segment going up to INR12,300 for more than 300CC segment in two-wheeler. But as against that, the EV segment we expect the kit value to be around INR30,000 per vehicle. That's the kind of value we are expecting from this segment. And in other segments like three-wheeler and just one you will notice in the next slide is in three-wheeler EV, the kit value will be as much as INR43,500 per vehicle. So that's another growth area that for us with the product portfolio we have.

So, in Slide 28, we have also given, try to give you a breakdown of the new order wins across different segment, annual revenues as well as lifetime revenues. Essentially out the 35,000, INR3,500 crore revenue, INR1,000 crore plus will come from EV and the balance INR2,500 crore from IC vehicles. Bajaj is about one-third, non-Bajaj customers will contribute two-third. So, the share of non-Bajaj will continue to grow. And two wheelers, two and three wheelers contribute about INR2,230 crore against INR1,270 crore for four wheelers. So the four-wheeler segment is another where we are seeing a lot of traction in terms of revenue growth, which has also has a better margin profile overall compared to two wheelers components.

So I think then there are certain additional information on environment and awards and so on, which I am not talking about that much in detail at the moment. And the detailed P&L is in the appendix if you want to go through. And the rationale for the divestment which we shared earlier this month is also available for you to look at. And the summary of the discontinued operations in the last slide where you can see the negative impact of that on the business that continues to be significant, which will be probably a drag for another one or two quarters till the closing. So that's quickly a summary of, let's say, the highlights of the quarter and the year and from a financial and business perspective.

So, now we are happy to take questions.

Moderator: Thank you. We will now begin the question-and-answer session. Our first question comes from the line of Arvind Sharma with Citi Group. Please go ahead.

Arvind Sharma: Hello. Good evening sir and thank you so much for taking my question. Sir, two questions from my side, first on the continuing operations in India. This is EV share around INR902 million that you've highlighted that's broadly remained -- INR902 crore has remained constant since the last time you highlighted this number, talking about Slide 23, any comments on that, sir, the expected revenue.

Tarang Jain: So the EV, see the EV segment, we are saying the lifetime revenues. Are you talking about the lifetime revenues, which we have showcase of INR1,045 crore?

Arvind Sharma: No, sir. I'm talking about the expected revenue in FY'25 for the current business based on SOB industry price. That's slide 23.

Tarang Jain: One second.

Arvind Sharma: INR902 crore, sir.

Tarang Jain: Yes. So this is basically, this is a showcasing, basically the revenue which we expect, and this is from all, whether it's little the electric, the EV power train products or the other than the EV power train products. So overall that's the kind of revenue we are expecting from the EV segment by FY'25.

Arvind Sharma: Sure, sir. Sir, second question is mostly accounting related. The continued plus discontinued operations for the third quarter, which is -- the profit which is given at almost loss of INR2,959 million is little different from what was reported in the December quarter. So is there something apart from just a discontinued operation which is impacting these numbers? I'm talking about the like-to-like numbers. Third quarter reported continued plus discontinued loss versus what was reported in December. Just want to understand the dynamics of this new presentation, because it's the first time we are seeing this.

Tarang Jain: Yes, yes. So, actually what we've tried to do this time because, so now that they have announced the sale of the business and the sale of the business is not exactly the entire VLS as we were reporting earlier. It is a certain components of VLS which we are selling and certain components like the electronics, two-wheeler lighting, global two-wheeler lighting and the India four-wheeler lighting and China we are retaining. So, that's why we try to break up the financial between continued and discontinued.

Arvind Sharma: Right sir. Sir but shouldn't the sum of discontinued and continued operation be similar or is there some inter-party transaction there as well? I'm just comparing the two numbers which right now is negative INR296 crore versus what was given it negative INR265 crore when you reported in December.

T R Srinivasan: Okay. So you will see the statement that that there is the Q3 was restated. So there was an inventory valuation error in our Morocco plant, which is a part of the discontinued operation. So, that impact has been taken in Q3 now. The -- that Q3 went up by the equivalent amount, the difference you see, which is about EUR3 million roughly, EUR3.4 million if I remember correctly. And that is the amount which has been added to the Q3 numbers which were reported last time.

Moderator: Thank you. Our next question comes from the line of Joseph George with IIFL. Please go ahead.

Joseph George: Hi. Is the audio clear?

Tarang Jain: Yes, it's clear.

Joseph George: Hi, thank you. Thank you for the opportunity. I just have one question. What will be the effective date of the transaction? What I mean to say is you mentioned in the calls that the closure will happen five to six months down the line. What I want to understand was in this period of five to six months, if there are cash losses in the VLS business, whose account will it fall into, your account or the acquirers?

Tarang Jain: No. So, one is that we are looking at a closure by September of this financial year, that's our target. But to answer your question, see till we close the transaction, whatever are the profits or the losses in this discounted operations will be a part of our consolidated results till that time. So, we still own up to the results with a negative or positive till the time we close the transaction.

Joseph George: So is it possible that you would have, I mean, you may have to infuse some capital into VLS if the operational losses continue?

Tarang Jain: Yes. So in case we see that there is a need for the cash, because presently what's happening is that it's not only the chip shortages which continue in the discontinued operations, that is one reason for low revenues, but also this Ukraine-Russia issue also has impacted volumes because of higher commodity prices and inflation and there is a certain kind of a impact on a demand. So, therefore, there will be a likely possibility that we will have to infuse some amount as per need till the time we close.

Moderator: Thank you. Our next question comes from the line of Shivlal with Unique Investments. Please go ahead.

Shivlal: Hello, good evening. Can you hear me?

Tarang Jain: Yes, I can hear you.

Shivlal: I just wanted to know the quantum of foreign loss you have booked in internal corporate transactions and will it be for one time only or it'll be recurring feature in near future?

Tarang Jain: You were saying for the year last year, for the year?

Shivlal: For this Q4 forex loss also you have accounted for, inter-corporate loans.

T R Srinivasan: Yes, forex loss we are accounting in EBITDA now for all the periods. So, that's for the full year it has INR28 crore net. The last quarter actually Q4 was a small profit of about INR4 crore.

Shivlal: But it'll be continue in future.

T R Srinivasan: Well, it’s really a function of, I mean, it'll -- it's really a function of the exchange rate movement in the sense, because these are intercompany loans. These are all mark-to-market. At closing, this will all get squared off. So, yes, technically it can move in either direction and we are also looking at hedging it to the extent possible so.

Shivlal: And my another question is that how much will be the interest burden for the next year ’22-’23 after this disposal of the lighting division?

T R Srinivasan: See, after the disposal, the borrowings will come down significantly. Like I mentioned, on a net debt basis, we should become, net basis we should become debt free. It doesn't mean that there will not be any debt in the books at all. We'll still have some borrowings outstanding. So maybe out of the 26, let's say, out of gross borrowings we have about close to I think INR3,000 crore or thereabout. We will probably end up repaying somewhere between INR2,000 crore to INR2,200 crore, INR2,300 crore of debt. The balance is what will remain. So you'll see a big reduction in the interest cost for sure, but it's a function of how exactly we are able to, let's say, negotiate and settle those loans. And cause that also will have an impact on the credit rating post-closing once we're able to pay up the debt, large part of the debt, which will reduce interest cost rate per se, so on. So it's a combination of all that. So, yes, but I can just say that post closing can see a significant reduction in the interest cost. So, maybe, I don't know, maybe one-third of the level we have now or even less could be, but it's a bit difficult to put an exact number to that at the moment.

Tarang Jain: No, I think that for last year to give you a kind of a number for the continued operation, I'm not talking about a discontinued operations, on the continued operations, I think we had incurred about INR135 crore of interest costs. And I think post the sale, probably we would not be more than one-third of this as interest cost to us post the closing of this transaction, because that of the debt here also will get reduced which is in the continuing operations.

Shivlal: But this will happen by FY'23.

Tarang Jain: Yes, so from Q3 onwards you will see that annual impact. But for the first six months until we close, the first six months of FY'23 till we close, obviously, we have to absorb the overall interest cost. But once we close the transaction, then you will see that what I'm talking is about the continuing operations, interest cost on an annualized basis.

Moderator: Thank you. Our next question comes from the line of Noel Vaz with Asian Market Securities. Please go ahead.

Noel Vaz: Yes. Thank you for the opportunity. So, I just had one question. So right now as per the slide on, slide 18, it is saying that Bajaj is about 42% of revenues by FY'22, right? So I just wanted to know exactly since we are getting some four wheelers wins as well as some other wins from the EV segment. So the portion of Bajaj to non-Bajaj how should we see it changing over FY'23 or '24?

Tarang Jain: So, FY'23, I don't know whether it will really change. But if you talk for the next three to five years, once we also are focusing in India on the four-wheeler side of the business and we are also winning customers for EV products also in a bigger way and also driving more of our global business in Europe, you will see that the Bajaj this percentage will go down. I don't know by how much, but it'll go down to maybe it could be one-third, because Bajaj for us is a significant customer also on the EV side. And whatever numbers you saw for two and three wheelers, but there's a full content of EV power train there plus of course the other parts like plastics or switches or LED lamps. I mean, they're our biggest consumer of all our parts for the EV vehicle. So it'll go down, but I would say next three years to next three to five years, I think probably Bajaj should be one-third and non-Bajaj should be two-thirds. That's the way I would, I mean, look at it.

Noel Vaz: Okay. Thank you very much. My second question is actually related to your EV portfolio. So, it, I think, one second please, yes, so it is, I think, DC to DC converter and starter motor right…

Tarang Jain: It's the traction motor.

Noel Vaz: Sorry, yes, traction motor. So the thing is actually there are a lot of other peers who are coming out with or trying to compete in similar products. So I just want to know exactly so, how should we see this competition within these particular products going forward? Are we going to see a situation where there's going to be only three or four players competing within India within those same segments or is it going to be still a little bit more fragmented than that?

Arjun Jain: Hi. This is Arjun. I'll take the question. In general, right, I think across the EV product lines, I think they will continue to evolve over the, for sure, at least the next three to five years, right. For us, I think the way we look at it is the technology that we have looked to develop. We have -- and that we have developed, we feel there's clear differentiator for it. So there will definitely be segments. So the segment of the market that we are very clearly targeting really is the kind of vehicle that a Chetak is, right. However, in general, right, if you look at the EV marketplace, it's still relatively fragmented even by performance of vehicle. So you could expect that there will be a level of fragmentation for some time. However, of course, I think over time, as let's say the market starts to mature, I would expect the component supplies will also start to mature. Again, from a Varroc perspective, we are very confident that the portfolio we have chosen is really the most differentiated and has highest value.

Moderator: Thank you. Our next question comes from the line of Rikin Shah with Omkara Capital. Please go ahead.

Rikin Shah: Okay. So I just wanted to understand regarding the patent infringement cases, while it might not be quantifiable, but what is generally the liability in cases like these similar?

Tarang Jain: Can you please repeat, it's not so clear.

T R Srinivasan: Patent infringement, liability.

Tarang Jain: So, presently you see what -- so the way it works is that there Valeo has raised a number of infringement against us a couple of years ago and mainly it's in the German courts. And the way the German courts work is that there is a separate court which identifies, even if there's an infringement of any kind, even a smallest of infringement, they will say it's an infringement. And then there's another court which kind of hears out a nullification process. So the first process is with the first set courts would be in Germany, would be, okay, whether we have infringed or not, and then, okay, there could be some interim, some liability. And but then according to us, all these patents are actually quite frivolous in our view and they will not stand when it comes from nullification. It will not stand on its feet. But the only thing is that between the infringement which is granted by the court, nullification, the gap is more than a year. So till then is something which you need to kind of deal with. So what we are also parallelly trying is that trying to see that whether we can reach some kind of a reasonable understanding with Valeo in this regard. So that we don't really have to honestly kind of spend more on in legal expenses and other things, and also settle the case from a, I mean, forever. So we are also discussing, we are also in discussion with Valeo to see whether we can settle and come to a reasonable number, which would be in a single-digit kind of in million euros. It would be in a single digit. So let's see how that goes. So, of course, the court procedures are going on, but parallelly we are looking at some kind of a settlement also with Valeo. Let's see what works out. If something reasonable, we will settle.

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

Abhishek Jain: Thanks for opportunity. Sir, how much is the total debt? Do we include the discontinued and continued operation?

T R Srinivasan: On a net basis, so we are at about INR2,600 crore, on a Gross basis it’s close to INR3,000 crore.

Tarang Jain: INR2,900 crore.

T R Srinivasan: Yes.

Tarang Jain: So, INR2,900 crore on a gross basis and INR2,650 crore on a net basis.

Abhishek Jain: And a continued operation total debt is around INR1,500 crore, right?

T R Srinivasan: Continued operation, see, when you say continued operation, you need to see India plus overseas, but that is about, let's say, INR1,300 crore, INR1,400 crore. But that also, part of that debt was taken to finance the lighting system business. So, in that sense, it's not growing up in discontinued operation, but it is really to fund the lighting system business. So if you look at purely funding for the continuing operations, that’s what said it'll be much lower, so maybe in the region of INR600 crore, INR700 crore maybe all put together. So that's why once we have the closing and the sale process coming in, you will see this figure coming down sharply.

Tarang Jain: So majority is for the discounted operations, whether it is in any entity, whether it's in India or it's in overseas, continued operation. Largely lot of the debt has been taken to fund the VLS operations over the last couple of years. So, I would, so what we are saying is that out this INR2,900 crore of gross debt, about INR2,000 crore to INR2,300 crore at least would be towards the VLS kind of business and the balance would be more for the India and a little bit of maybe other businesses abroad.

Abhishek Jain: So you have raised around INR4,700 crore from this deal and your total debt is around the INR2,600 crore, INR2,700 crore plus there is some adjustment because of the working capital. So, most probably you should take net cash company after this deal, but you are talking about that the debt will continue to be there around INR8 to INR9 billion in the books. So can you explain it entirely sir?

Tarang Jain: Yes. On a net basis, we will be cash positive on a net debt basis, but that doesn't necessarily mean that we will repay 100% of the existing borrowing. Some of the existing working capital financing, et cetera, which is at the lower cost will continue. And we will prefer to preserve some liquidity to be able to find our investments in the growth areas we have identified both EV relation and otherwise so.

Abhishek Jain: So, if we consider the cash and cash equivalent, then what would be the position in FY’23 would end about our cash on a net basis?

T R Srinivasan: Yes. On a net basis, at closing, we should become surplus. That's what we have communicated. So, beyond that we expect to maintain that status going forward. So, not be any materially change. So, parallelly we are also working on the long-term strategy for the India business and also other parts of the business. So, as a fall out of that, if we decide to make any significant investments, at that time we will update in terms of anything. But we don't see. We still expect to end the current financial year on a net cash basis.

Abhishek Jain: Okay. And what would be that CapEx for the next year, because the order book is quite as strong. And as you said that, around INR1,000 crore is from the EV side. So in that case you need use CapEx going there. So can you throw some light on the CapEx plan for next two years in the continued operations?

Tarang Jain: So we would say that, because see India side, I think we have made a quite bit of CapEx in the past, but still I think we will need to make CapEx of at least around INR200 crore here. And then for the other businesses, the other, whether it's your two-wheeler global lighting or the electronics business unit abroad or for the India global lighting, overall, I think probably we would be looking at another probably INR100 crore of investments. So we can say, let's say, for the next couple of years, I would say for the continued operations, we would look to invest about INR300 crore each year to kind of have this kind of growth which we are aspiring for, which is at least about 8% to 10% more than the market growth.

Abhishek Jain: And what would be the asset turnover of this CapEx?

T R Srinivasan: Yes, typically the asset turnover for us depending on the segment ranges from 2.5 to 3.5 so that’s typically the kind of. So, on average you can take maybe around 3.

Abhishek Jain: So from the existing business, I'm talking about only continued operation, what would be the peak revenue and what is the current capacity utilization only from the continued operations?

T R Srinivasan: On the continued operation, you're talking about capacity utilization.

Abhishek Jain: What is the current capacity utilization and how much peak revenue can be achieved from the existing capacity only.

Tarang Jain: You're talking about for the full continued operations?

Abhishek Jain: Yes, yes.

Tarang Jain: I think that, yes, I think that we could, I mean, on, if everything goes well the market is kind of good. We could be looking at, at least about INR8,000 crore of revenue from the continued operations with the current capacity.

Abhishek Jain: Despite that you are doing the CapEx of the INR300 crore each year. I mean, the INR900 crore the next three years.

Tarang Jain: Yes. So I think that's an investment we will make. I think initially the investment a little bit higher, I would say, for the business other than our India business of INR200 crore. For the next two years, it could be INR100 crore. But then we don't have to invest so much going forward even for a double-digit kind of a growth in those markets. But yes, the next couple of years it would be INR200 crore plus INR100 crore.

Abhishek Jain: Okay, got it. And sir out of the INR8000 crore kind of the revenue, what was the revenue contribution from the two wheelers international business and the India lighting business, four-wheeler lighting business?

T R Srinivasan: 21%, it’s a combination of global two-wheeler lighting plus India four-wheeler lighting.

Tarang Jain: So the global, so the way we have shown it, if you see Slide number 8, we have shown that the India four-wheeler lighting and the global two-wheeler lighting business is 21.4%. That includes also the India two-wheeler lighting. And then you have the polymer business, which is at about 33%. And you have your electrical and electronic business in India, which is about close to 20%. You have the metallic business, which is all your engine valves, we are all the IC related, mostly that's about 12%. And you have that IMES, that forging plant in Italy, which is 5.1%. And your aftermarket is at about 8.5%.

Abhishek Jain: So what would be the part of the VLS revenue in total revenue? If I talk about the earlier two-wheeler lighting was the part of the VLS plus the India four-wheeler was also part of the VLS which has not been sold yet. So if I talk about the only that revenue, what is the quantum?

Tarang Jain: So that is the one which I said was 21%. The lighting itself as a whole would be 21.4% that's what we are showing.

Abhishek Jain: Okay. So it is more than the INR1,000 crore kind of the revenue?

Tarang Jain: Yes, yes. It will be more than INR1,000 crore.

Abhishek Jain: Okay, sir. And so what kind of the margin you are -- expansion you're looking from overall business only from the continued operations for the next two years?

Tarang Jain: So see, we have to, I mean, we are going be striving to achieve in the next couple of years, an EBITDA margin of closer to 11.5% to 12%. And that is something we are very constant about, especially. So India is something in the next two years we would like to achieve a 12%. That's what we are striving for because we have a lot of business already. And with a bit of market support, I think we can achieve that 12%. And in the other businesses, I think everything else I think we can look at about, we would like to strive for closer to 10% EBITDA, a double-digit EBITDA. That is going to be what we are going to be looking at. But India is going to be probably 80% of our revenues and the balance will be about 20% of our revenues. So that's the way we are looking at it in the next two years that this is something we need to achieve, that we will achieve.

Abhishek Jain: But as you mentioned that around more than INR1,000 crore is coming from the international business, international lighting business from the VLS and that is the low margin business plus there is an incremental revenue from the E two wheelers around INR1,000 crore. This is also a low margin business. In that case, EBITDA margin expansion of around 500, 600 bps if possible, then what would be the key growth drivers?

Tarang Jain: See, basically the way I see it in the foreign businesses, whether it's electronic business unit, which are just started and the revenues will we really see in the coming year with the Romania business, and that's going to be a double-digit EBITDA in the coming year. We also looking at our overall global two-wheeler lighting business to be at about 10%. Then India four-wheeler lighting business, I think this year we can expect 8% and then going to the next year 10% and our India business, I mean that the major business, here we expected to be, I mean, 11.5% in this year and probably 12% in the next year.

Moderator: Thank you. Our next question comes from the line of Pawan Parakh with Renaissance Investment Managers Private Limited. Please go ahead.

Pawan Parakh: Sir just one question, what is going to be the cash burn in discontinued operations until we consumed the deal?

Tarang Jain: So, frankly, we are not really expecting too much of a cash burn over here. We are looking at kind of seeing that how we can really mitigate this kind of a cash loss. So we are taking already a lot of measures of our project race, which is continuing kind of aspect. We are also, which means basically streamlining the operation, the scrap, and all, especially in the new plants. With the current plants, we don't have any issue as such. But yes, there could be some cash burn. We don't know the estimate because it's month-to-month. We have to see really based on the volumes, because of the chip shortages and also the Ukraine issue largely more in Europe, I would say the European parameter, which is a major parameter, here it is very difficult to really predict what is going to be a cash burn. But I think whatever is -- is a question of another few months that's something we will finance. But we don't expect it to be some kind of a major cash burn over here. There could be a small cash burn. That's something we will finance.

Pawan Parakh: Okay. So what was the cash burn in Q4?

Tarang Jain: Q4 cash burn was, how much about.

T R Srinivasan: Probably in the region of EUR10 million to EUR15 million roughly.

Tarang Jain: About EUR10 million to EUR15 million.

Pawan Parakh: Okay, okay. So, basically when you say small cash flow means like EUR10 million to EUR15 million for two quarters, which means like…

Tarang Jain: No, no, we are talking about…

T R Srinivasan: Going forward, what we are seeing is that the revenue sequentially is improving quarter-on-quarter because of semi. Main issue so far has been on the revenue side, because of the semiconductor supply shortage situation. Capacity utilization was an issue. And now that issue is getting improving like sequentially we are improving the revenues. So we expect this quarter and next quarter to have, I mean, it still not fully normalizing, but still coming to reasonable level of capacity utilization, which is why operationally we expect the cash flow to come close to breakeven level and on top we have also getting price increases from customers to compensate for the commodity cost increases and the energy cost increases we have had in the last few quarters. So combination of that, we expect the business to be operationally come close to kind of breakeven free cash flow. There could be some requirement and the main financing requirement will be related to certain loan repayments which are coming due between, let's say, in the next few months that will be in the region of EUR15 million to EUR20 million between now and let's say closing September or so, which we had to finance from the parent company and a little bit of incremental operational funding depending on how the revenue is generated

Tarang Jain: Yes, a few more million euros probably may be required we have to keep that. But it's not something, like significant what we have seen in the past. We don't expect that to happen.

Moderator: Thank you. Our next question comes from the line of Basudeb Banerjee with ICICI Securities. Please go ahead, sir.

Basudeb Banerjee: Thanks. Sir, couple of questions. One to continue with the previous question, like six months from April to September is not a small time. It's almost half year. So, on a general basis for VLS for full year CapEx used to be almost INR700 crore, INR800 crore. So in this six months period what is the CapEx VLS will be doing? Is that subdued significantly or it is normal that will also define the quantum of cash burn? So from that angle, if you can highlight.

Tarang Jain: Yes, I don't think that. I think presently we are not really spending more on CapEx, because we already have a lot of investments in place. We are underutilize on our investments. And so the moment we are not really doing much of a new CapEx presently for the last, I would say, from January onwards our CapEx has been only towards past payments. We have not been investing in new CapEx at the moment.

Basudeb Banerjee: Sure. And second question, sir, if I look at your presentation Slide 17, where you have highlighted segmental profitability which is very useful, where roughly if I see FY'21 and '22 both the years VLS remaining operation operated hardly at 1%, and similarly, IMES Italy minus 9% in both the years. So broadly one can see that the loss of IMES might get balanced out by either EBITDA profit of VLS remaining and residual EBITDA is only from India operations. So 1% moving to almost 9%, 10% as you mentioned, and minus 8%, 9% moving to plus 5%, 6%, if you can explain the journey, nor is IMES is also up in the grab sooner later, because double-digit EBITDA loss making entity taking away a significant part of your residual EBITDA.

Tarang Jain: See, the way I see, frankly, for FY'23, the EBITDA margins I expect in India would be closer to 11.5%. That's my expectation. And on the VLS remaining operations, I would expect it to be closer to 10% in the coming year. And IMES would be in the range of probably from a minus 8.7%, I would say, in a range of 4% to 5%. This is what I am looking at for FY'23. IMES, why is coming to profitability is because recently we have got the price increases from our customers in this business towards gas prices as well as towards raw material price increases and general price increase also. So, therefore, I think we'll be better off also in our other operations IMES side also in this coming year.

Basudeb Banerjee: And sir VLS India four-wheeler lighting operations, how is the profitability?

Tarang Jain: That will be around 8% in this year, but the next year we are targeting 10%.

Basudeb Banerjee: And similar to the gas price and other raw material contract changes what you mentioned for IMES, how one should look at VLS remaining operations margin moving from 1% to 10%?

Tarang Jain: Yes. So I think this VLS remaining of this 1% has got a lot of noise around it the last year. I don't want to get into it. But the business, see if you see the VLS remaining operations, largely I've totally told you about the India operations, where we expect it to be at about 8%. The other two main businesses are the two-wheeler lighting businesses where -- which has got plants in Italy, Romania and in Vietnam. Now, Vietnam is doing very well with the high level of EBITDA, because it's got the revenues and it's only doing a very good double-digit EBITDA. Wherein comes to Italy and Romania, the issue today is the capacity utilization. So that's something where we are looking to see that we are able to -- in that region Italy touch about 7%, 8% for the Italy. So, overall, I think we will be at a 10% level for our two-wheeler lighting business, at least. And in the EBU, now we see the sales coming in. They're not really had any sales, the Romanian electronics business unit. So, there also we see revenues coming in at about 25 million, 30 million in this year and we are looking at a double-digit EBITDA also in our Romania electronics business, because this year at the moment we supplying all these PCB, lighting PCBs to VLS, which will then PO. So, therefore, overall, we are quite confident that, because we have the businesses, the business has been taken at good prices. So, is a question of better utilization in some of these plants like Italy and Romania. And I think with a better utilization, you will see a double-digit EBITDA in this space. It's not really a problem.

Basudeb Banerjee: So, sir, like, from a previous question regarding that inventory adjustment for Morocco plant, which got accounted later on, so like initially if all of VLS was going to get hyped off sold. So why these partial operations still you're keeping or you have kept them on visibility of major turnaround and capability or Plastic Omnium didn't want those operations?

Tarang Jain: See what we have kept out of VLS is our two-wheeler lighting global -- global lighting business, which is anyway our core business. So that's something which we would not sell. And PO is not interested, because they're not in the two-wheeler line anyway, and we would also not sell. So that is very clear. On the electronics business unit, we have kept it not only for supply of the lighting PCBs. We have also developed our own future technologies on the light engines, on the light-controlled units, which give supply to a lot of the other lighting players independently, and that's a future technology. And also we are developing at the moment the internal external cameras, which are the ADAS products, which has got a very good market, especially in China and India, other than Europe. So we are focusing. So, the electronic business unit is also something which is core to us. And electronics as a business unit is not lighting. This is a high ROCE business, a good margin, and a high ROCE business. And this is an electronics is something which we have chosen to be for us as a future growth item other than the two-wheeler LED lighting and EV products. So this is also going be a core business for us moving forward the EBU, which is in Romania, other than the two-wheeler lighting global. So we are not too concerned about margins going forward. Presently the margins have been impacted more because of capacity utilization, I would say, in these plants. Varroc capacity utilization is 60%, 70% is a PAT positive plant, I mean, the Italy plant. These two businesses anyway we want to keep. India four-wheeler lighting is our market. We wanted to keep the India four-wheeler lighting business, because it's a market we understand, I mean, here whether they're global four-wheeler lighting company, four-wheeler companies, OEMs or there Indian OEMs, we have a good relationship. We do other parts also, like plastic parts or some of the other engine parts. So, I mean, we have all customers here. And we're very comfortable in doing business in India being our market. So we wanted to keep this. It was our choice to keep this business in here we have a non-compete arrangement with Plastic Omnium for five years, which would also continue further. And we have all the latest technology agreement also. So, whatever the future technology which come in, also will be there for India. When it comes to China, China frankly did not get sold, because it's a JV. So because the JV is something which companies were not interested in buying, not interested because of JV. Going forward, once we have a solution for China, we will see what to do. But presently PO was not interested in actually buying into a JV kind of a thing. They wanted to independent.

Moderator: Thank you. Our next question comes from the line of Deepak Pawar with Vasuki India Fund. Please go ahead.

Deepak Pawar: Thank you for taking my question. My question would be on the electronic components or parts. It's on two wheelers and three wheelers, which we are expecting INR30,000 on two wheelers and INR43,000-odd on three wheelers. So what would be the EBITDA margins that you expect, any ballpark figure on these kits?

Tarang Jain: So I think it would be anywhere. It would be double-digit depending on the product, because some of the more expensive products like motors, which are at least INR8,000 to INR10,000, some of the bigger components you could have probably a lower EBITDA, maybe 10, but comes to the smaller product, so it could be anywhere between 10% to 15% is what we look at a range depending on which EV product we are talking about. But that's something our EBITDA margin one anyway needs to have for the kind of investments we have made in this business. Not only on capacity, not only on CapEx, but even on the engineering side. The lot of money invested here.

Moderator: Thank you. Our next question comes from the line of Arvind Sharma with Citi Group. Please go ahead.

Arvind Sharma: Good evening, sir, and thanks for taking my question again. Sir, just a quick clarification on the revenue guidance that you gave of INR8,000 crore. What's the timeline for this?

Tarang Jain: So, the INR8,000 crore is what we can do in the continued operation. That's our capacity. That's a minimum we can do. But it all depends on the market conditions. But what I am saying is that we will do always 8% to 10% more than any market growth that we are very confident of doing. So, it'll be 8% to 10%. I don't want to put a number there. But we'll be 8% to 10% more than what is the -- if the market goes at 1%, we will go at 10% to 11%, if grows at 5%, we will grow at 14%, 15%. So that's what I'm saying that we are very confident of with our own product portfolio which we possess.

Arvind Sharma: Sure, sir. And I believe that includes the new EV orders as well.

Tarang Jain: Yes, yes.

Arvind Sharma: And sir just to rehash the margin numbers, the consol business margin aspirations are 10% which includes 11.5% for India and 10% for the remaining part of VLS, is that the right number, sir?

Tarang Jain: Yes. So, like I said, we would like to have 11.5% for India, but in India the four-wheeler lighting business we are not looking at more than 8% and then the other businesses we're looking at 10% abroad for FY'23.

Arvind Sharma: Sure. Right, right, sir. Sir, just, I know it's, you clarified on this, but just to be very sure, when you talk about the India operations revenue in the Group performance, India and VLS remaining, India operations revenue include EBU, MBU, but do they also include the four-wheeler lighting business in India, which was earlier part of VLS?

Tarang Jain: No, no, four-wheeler lighting at the moment comes in the VLS remaining operation.

Arvind Sharma: VLS remaining, got it sir.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to our management for closing comments.

Tarang Jain: Thank you. I just want to just thank everyone again for joining us, listening to us, and asking your various questions and queries. The trust and faith of all our stakeholders is what motivates us to pursue excellence in our day-to-day life. And thank you very much in showing confidence in us over these last few years, especially. Thank you.

Moderator: Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.