

Varroc Engineering Limited

Regd. & Corp. Office

L-4, MIDC, Industrial Area
Waluj, Aurangabad 431 136,
Maharashtra, India

Tel + 91 240 6653700
Fax + 91 240 2564540

email: varroc.info@varroc.com
www.varroc.com
CIN: L28920MH1988PLC047335



VARROC/SE/INT/2025-26/34

June 1, 2025

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-400 051.
NSE Symbol: VARROC

The Manager – Listing
The Corporate Relation
Department,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001.
BSE Security Code: 541578
[Debt: 975062]

Dear Sir/Madam,

Sub: Transcript of Investor / Conference Call pertaining to Audited Financial Results for the Quarter and Financial Year ended on March 31, 2025.

Dear Sir/Madam,

Please find Transcript of Investors / Conference Call held on Thursday, May 29, 2025, in respect of the Audited Financial results for the Quarter and Year ended on March 31, 2025.

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-25 Earnings Conference Call”

May 29, 2025



MANAGEMENT: **MR. TARANG JAIN – CHAIRMAN AND MANAGING
DIRECTOR, VARROC ENGINEERING LIMITED**
**MR. ARJUN JAIN – WHOLE-TIME DIRECTOR & CHIEF
EXECUTIVE OFFICER (BUSINESS UNIT-1), VARROC
ENGINEERING LIMITED**
**MR. DHRUV JAIN – WHOLE TIME DIRECTOR & CHIEF
EXECUTIVE OFFICER (BUSINESS UNIT-2), VARROC
ENGINEERING LIMITED**
**MR. K. MAHENDRA KUMAR – GROUP CHIEF
FINANCIAL OFFICER, VARROC ENGINEERING
LIMITED**
**MR. BIKASH DUGAR – HEAD IR AND FINANCE
CONTROLLER (BUSINESS UNIT-2), VARROC
ENGINEERING LIMITED**
**MR. VISHAL RAVAL – GROUP FINANCE CONTROLLER
(BUSINESS UNIT-1), VARROC ENGINEERING LIMITED**

MODERATOR: **MR. VIVEK KUMAR – ICICI SECURITIES**



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Moderator: Ladies and gentlemen, good day, and welcome to the Varroc Engineering Q4 and FY '25 Post Results Conference Call hosted by ICICI Securities Limited.

As a reminder, all participants' 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.

I now hand the conference over to Mr. Vivek Kumar from ICICI Securities. Thank you, and over to you, sir.

Vivek Kumar: Thank you, Sruthi. Good evening, everyone, and welcome to the call. From the management side, we have with us Mr. Tarang Jain – Chairman and Managing Director; Mr. Arjun Jain – Whole-Time Director and CEO of Business Unit-1, Mr. Dhruv Jain – Director and CEO of Business Unit-2; Mr. Mahendra Kumar – Group CFO; Mr. Bikash Dugar – Head, IR and Finance Controller of Business Unit-2; and Vishal Raval – Group Finance Controller for Business Unit-1.

We will start the call with brief opening remarks from the management, followed by Q&A. I would now like to invite Mr. Tarang Jain for the opening remarks. Thank you, and over to you, sir.

Tarang Jain: Thank you, Vivek, and team ICICI Securities for hosting the call, and good evening to everyone, Tarang Jain here.

As you all know, India has now become the 4th largest economy, and the GDP had a steady growth of 6.2% in Quarter 3 of FY '25. Softening of inflation in the last few quarters and the interest rates reduction globally encouraged our Central Bank to reduce the repo rate by 50 basis points in their last 2 monetary policy committee reviews.

Weak growth in consumption, on top of global and regional conflicts and an uncertain tariff regime, may impact discretionary spending, which can have an impact on the automotive industry. However, we remain confident about the medium- to long-term growth prospects of the automotive industry.

During Q4 of FY '25, all the segments registered moderate growth on a year-on-year basis. 2-wheelers grew by 5.8%, passenger vehicles grew by 5.2%, commercial vehicles grew by 3.1% and 3-wheelers grew by 9.5%.

On a quarter-on-quarter basis also, almost all segments, other than the 2-wheelers reported strong growth as normally Q4 is a strong quarter for India automotive industry every year. The 2-



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wheelers degrew by 1.2%, 3-wheelers grew by 3%, passenger vehicles grew by 20.4% and CVs grew by 20.9%.

Now before discussing the operational performance of the company, I would like to highlight a few other aspects, which will help the company to become a more sustainable and enable value enhancement for the stakeholders.

- In FY '25, we filed 25 patents and were granted more than 10 plus patents. Thus, the total filings made now add up to more than 120 for the company, which will further strengthen the intellectual property of the company and help in developing technologically advanced products at an affordable cost.
- Secondly, we also completed the sale of our stake in the China JV, and realized the net proceeds of RMB 290 million during May 2025.
- Thirdly, our sourcing of electricity from renewable energy has been increasing throughout FY '25 and was around 31% for FY '25 as against 13% the previous year. For the month of March '25, it reached around 45%.

We are also working on commencement of Phase-2 of the renewable energy project, which will further improve this to greater than 50% in the coming year. These initiatives will boost our ESG credentials as well, besides giving us savings in our electricity cost.

Now coming to the operational performance during Q4 of FY '25:

The company registered a consolidated revenue of INR 21 billion with a growth of 11% year-on-year on a like-to-like basis, with Indian operations growing at 13%. Our EBITDA for the quarter was around 10.2% on the back of improvement in the gross margin and benefits of operating leverage.

Our PBT before exceptional items and JV profits was over INR 1 billion or 4.9% of revenue in Q4 of FY '25. As you all know, we have been working on structural changes like merger of Varroc Engineering Limited and Varroc Polymer Limited and exiting from the China JV. We had to recognize certain onetime exceptional items primarily relating to these initiatives, which will simplify our operations and also improve our financial performance going forward.

We continue to strengthen our balance sheet and return ratios. The net debt of the company in FY '25 reduced by INR 2,348 million. And as a result, the net debt to equity reduced to below 0.5x at the end of FY '25 from 0.64x at the end of FY '24. The absolute net debt figure was at INR 7,480 million. ROCE before tax for FY '25 was at 20.8% and the free cash flow generation was also healthy at INR 3,116 million or 3.8% of revenue before growth CAPEX in land.

Looking at the free cash flow generation and lowering of debt, the Board of Directors have recommended 100% of the face value as a dividend for FY '25. In FY '25, we also achieved net-



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new business wins with annualized peak revenues of INR 11,734 million, with EV models constituting more than 55% of this. It is more heartening to see business wins in our overseas operations also, which will improve profitability from financial year '27 onwards.

Our continuing focus on revenue growth, improvement in gross margin, control on our fixed costs and optimization of CAPEX and working capital will enable us to generate healthy free cash flows in the future also.

With this, I will now ask MK – our Group CFO, to walk you through the presentation and give more insights into the financial performance. We have uploaded the investor presentation to the stock exchanges as well as on the website.

M. Kumar:

Thanks, Tarang. Good afternoon, everyone. Let me take you through the highlights for Q4 of FY '25.

Now before I start, I just want to highlight one point, there were certain special items during this quarter and this year because of the structural changes, which we discussed earlier also in the investor calls. So for this reason, the numbers are not directly comparable with the previous periods. So I would like to explain the reasons also.

So first of all, this year, we carried out a couple of important changes to the group structure. One is exiting the China JV and recognizing the impact as an exceptional item. The second one is also the merger of Varroc Polymers with Varroc Engineering, which again has certain one-time cost impact. So these things have been recognized.

One more important point to be noted here is last year during Q4, we also had a significant amount of government incentives in the base, so which was actually pertaining to 2 financial years, which we received in 1 quarter. So if you adjust for these differences in the base and excluding these exceptional items, if you look at the financials, the Q4 revenue at INR 21 billion had a growth of 11% year-over-year, with the India operations registering a strong growth of 13%.

Now this needs to be seen in the context of a moderate growth in the industry also, which was moderate single-digit growth during Q4 for the industry. Similarly for the full year, if you really see at INR 81.7 billion, it amounts to a growth of 8.5% year-over-year, with India operations registering 11%.

Coming to profitability:

Q4 PBT was at 4.9% versus 5% in FY '24. Again, the 5% in FY '24 had the incentive impact. EBITDA was at 10.2% versus 11.1% last year same time. Net debt reduced by INR 2.3 billion. Now it stands at INR 7.5 billion as of March. Subsequently, we got the inflow from China



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divestment. So that is not taken into account here. So that inflow was received only in the month of May. So considering the performance, the Board of Directors recommended a dividend of INR 1 per share for the year FY '25.

In terms of the order wins, the new lifetime order wins were INR 60.5 billion with annual peak revenue potential of INR 11.7 billion.

Revenue from supplying to EV customers continues to be strong. It crossed 10% last quarter. So it's 10.3% during Q4.

And if we take full year, it is close to 10%. Then as we explained and announced in the past, a petition to the arbitration verdict, the investment in China JV was categorized as held for sale. And the exceptional loss of INR 8.1 billion recognized for the year March 31, 2025. The sale of stake in JV has not been completed, like how I explained, and the amount of INR 340 crores, which is the net proceeds after deduction of withholding tax was received.

One more highlights of this year is the free cash flow generation. We had a strong free cash flow generation of INR 312 crores. This is, of course, without considering the growth CAPEX on land. So it amounts to 3.8% of sales, which is pretty close to our PBT percentage also. And return on capital employed also strong at 20.8% before tax.

Another important highlight is like how our CMD just explained, the renewable energy sourcing, for the full year was at 31% against 13% last year. By the end of March, we even touched 45%, and it will go beyond 50% once we implement Phase-2 also. In terms of patents, we filed for more than 20 patents in FY '25.

Now coming to the automotive production:

If you see the industry trends during Q4, 2-wheelers had only a moderate growth of 5.8% year-over-year, 3-wheelers, of course, had a strong growth of 9.5%. Passenger vehicles had 5.2% growth. And if you see sequentially, 2-wheelers has had a degrowth, maybe also because of the festival advantage impact in Q3. 3-wheelers grew by 3%, but passenger vehicle registered a strong 20% growth.

And EV 2-wheeler volumes grew by 5.5% sequentially. And if we take full year, 2-wheeler grew by double digits, 11.3%, 3-wheeler by 5.4% and passenger vehicle had a moderate growth of 3.3%.

Now coming to the consolidated financials for Q4:

So EBITDA was at 10.2%, which translates to almost close to 5% PBT for the quarter. And again, like how we explained, if you adjust for the INR 866 million or INR 87 crores of additional government incentive to be in the base of revenue of last year, the growth was actually 11% this



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year compared to Q4 of last year. And within this, India business grew strongly at 13% despite a moderate market growth.

Now on top of the volume growth, the cost reductions and ForEx gains also enabled improved profitability versus what we saw in the previous quarter.

Now I will explain in detail some of these exceptional items in the subsequent slides. And then coming to the full year numbers:

The reported PBT before exceptional items and before JV was 3.8%. Again, if we eliminate the base impact because of government incentives, the growth was about 8.5%, with India business growing by 11.2%. The depreciation on interest burden came down significantly compared to last year, which also enabled improvement in the year-over-year profitability.

So coming to the exceptional items:

Basically, there are 3 categories here. The first one is relating to sale of investment in China JV operations. We updated the investors in the past that the arbitration verdict required us to sell our stake to the JV partner.

Finally, after significant delay because we could not see any progress also, we had to enforce the arbitration verdict in British Virgin Islands courts, which ruled in our favor. So with that, we could actually sell our stake to the JV partner. And after deduction of withholding tax, we realized about INR 340 crores. Out of this, nearly about INR 181 crores we brought into India and repaid loans in India as well as abroad. The balance amount is parked in foreign currency, which we will be using in the coming months or weeks.

In relation to the arbitration cost, there is about INR 44 crores of cost, which was awarded by the tribunal, which we need to pay. This amounts to about close to 56% of the total cost, which seems to have been incurred by the JV partner. We are still studying the claims and the details, and we are also checking the legal options regarding how we can contest the cost if we are not convinced.

The second category relates to the merger expenses of Varroc Engineering and Varroc Polymers. We took some impact in the previous quarter also, but we provided for something more because the stamp duties and other related costs were difficult to predict. Most probably in the next 2, 3 months, this will come to finality. And if there is any excess provision, we will reverse it at that time. But for the time being, we are being conservative. So we provided for totally about INR 19.6 crores for the full year.

Another development was relating to KTM. There was a court-admitted insolvency proceeding, which required us to go for a haircut. So the cost of that haircut was close to INR 3.1 crores. So



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being an exceptional item, we provided for that also, as an exceptional item in the overall financials. So that adds up to close to INR 147 crores, which is an exceptional item.

Now out of this if we really see about INR 75 crores, which is related to the impairment adjustment which we took in Q3, not actually a cash impact. It's more like a book adjustment which we need to recognize in the value of the investment. Out of the remaining amount also, some of these are provisions, not exactly cash outflows. But as we progress, we can update and let you know the status on what will be the actual cash outflow with ours.

Coming to the overall net debt levels. We are happy to inform you that we brought down the net debt level further down to INR 748 crores as of March 31. This is without considering the inflow from China stake sale, which came in subsequently. So with an equity of INR 1,594 crores, the net debt to equity is pretty strong already at 0.5x, which can improve further after the debt reduction using the China profits. Net debt to EBITDA also even at the March levels stands below 1.

The subsequent slides, of course, these are the similar slides which we explained earlier also. This gives the business composition. And in terms of the lifetime order wins, it was about INR 60.5 billion for the year FY '25, with annual peak revenue potential of INR 11.7 billion.

Now in terms of the mix also, you can see that the share of 4-wheeler and others is increasing, compared to the revenue mix of 25% that we have. Similarly, the share of Bajaj in the overall pie of order wins also is significantly less than the business mix that we see in revenue. And similarly, EV as a percentage of total also is significantly high at 55%.

So with this, let me stop here. We are happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Arvind Sharma from Citigroup. Please proceed.

Arvind Sharma: Hello, good evening and thank you for taking my question. 2 questions from my side, sir. First of all, on the employee expenses, there has been a reduction. What are the reasons for that?

M. Kumar: Yes. So a couple of reasons. One, of course, this is the year-end. So we take a realistic assessment of the variable pay levels and other things. On top of that, we also did a restructuring exercise last quarter. The benefit of that for part of the quarter was realized in Q4 itself.

Arvind Sharma: Got it, sir. So this should be the ongoing run rate from here on?

M. Kumar: Yes. Of course, there will be a salary increment impact also from April, so it will be slightly up. But yes, from this base, we will have to build on.



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- Arvind Sharma:** Sir, second question would be on the sale of stake in China JV. The INR 3.4 billion that would be an inflow, which you have highlighted, that would be an exceptional gain in 1Q FY '25? Is the understanding correct?
- M. Kumar:** Yes. So it is more like the cash inflow. So this is like sale of investment. So it's not actually a P&L benefit, but it is more like a cash inflow for sale of investment.
- Arvind Sharma:** Okay. So it will not be reflected in FY '26 or 1Q FY '26 P&L? That has already been accounted for is it?
- M. Kumar:** The benefit of that will come in. For instance, using this money if I repay the loans, when I repay the loans, the interest benefit on that will obviously come into P&L.
- Arvind Sharma:** Got it. So it's not an exceptional gain, it's more a cash in?
- M. Kumar:** Yes, correct.
- Arvind Sharma:** And sir, if you could just share the CAPEX guidance for FY '26 and '27, if possible?
- M. Kumar:** It will be in the range of maybe INR 225 crores to INR 275 crores, including some of the spending that we do for expanding capacity. Plus, we may also go for some land purchase also in and around Pune. So that may be maybe another INR 100-plus kind of crores.
- Arvind Sharma:** This is FY '26?
- M. Kumar:** Correct.
- Tarang Jain:** For the next 7 to 8 years, we are buying a big parcel of land in Pune. So this will be kind of a one-time CAPEX for us. Other than that, I think we are maintaining what Mahendra said between INR 225 crores to INR 275 crores will be our CAPEX year-on-year.
- Arvind Sharma:** Got it, sir. Thank you so much for answering the questions. That's all from my side. Thank you again.
- Moderator:** Thank you. The next question is from the line of Vishal from Svan. Please proceed.
- Vishal:** Thank you for taking my question, sir. And congrats on the decent set of numbers in such a challenging business environment. Sir, I just wanted to know, there has been elevation in inventory and trade receivable. Is this some kind of change in the policy we have adopted? Or there is some one-off there? Can you throw some light on that, please?
- M. Kumar:** Yes. So inventory, of course, broadly, it is because of the increased scale of operations also. But yes, there are certain actions to be taken to bring it down, which we will be working on.



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As far as the receivables are concerned, there are a combination of factors here. For instance, last year, that is in FY '24, we actually discounted and pulled ahead some of these receivable collections into the previous year, just to reduce the overall interest cost. So because of that, the opening balance of receivables was small. So that increase is reflecting here.

Plus on top of that, there is a general increase in the overall scale of business also, like what I mentioned, there is a 13% increase in India revenue. So that also has an impact on the overall receivables. Plus, there is also a change in billing methodology in one of our subsidiaries overseas, IMES Italy. So earlier, we used to bill only for the conversion costs. Now we are billing for the total cost, including total value, including material also. So to that extent, the receivable content also will be more. So it's a combination of factors. There is nothing to worry about.

Vishal: Okay, sir. Sir, regarding the proceeds of INR 340 crores, which we will be accounting in the current quarter. So is there any adjustment there which has to be made in terms of cost or something like that? Or will the INR 340 crores fully will be realized?

M. Kumar: Yes. No, INR 340 crores is already realized. We received the money, as I explained, in the first week of May. As far as the P&L impact is concerned, that was already taken in Q3. A little more towards these arbitration-related costs is what we recognized in Q4. So that way the P&L impact is already taken.

Vishal: Okay. Okay. Sir, my third question is regarding there is a fundraising you have noted in the BSE, nonconvertible debentures of approximately around, I think, INR 500 crores.

M. Kumar: Yes, it's more of an enabling resolution. We are not going to go for any immediate borrowings.

Vishal: Okay. Okay. Great. That's all from my end. In case I have any additional questions, I will fall back in the queue. Thank you.

M. Kumar: Sure.

Moderator: Thank you. The next question is from the line of Sakshat from Ipru. Please proceed.

Sakshat: Hi. Thanks for the opportunity. Sir, I just have one question. Do we indulge in receivable factoring, because our finance cost looks very high for the net debt which we have? And if you can give a breakup how much is factoring cost and how much is...

M. Kumar: Yes. I think we explained it in the previous calls also. We typically discount about INR 700 crores to INR 725 crores worth of receivables at any point in time. And that is at a cheaper cost compared to the borrowings that we have. So that's the reason we continue it. In future, once we repay all the debt, and that is the last one to be attacked. So at that time, we will reduce it. But for now, yes, this level of discounting will be there.



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- Sakshat:** Okay. So right now, let's say, for a net debt of around INR 750 crores, the finance cost rate would be around 10%. So out of INR 160 crores, INR 75 crores would be towards...
- M. Kumar:** Yes, 8.5% to 9%. But what you need to do is you need to take gross debt, not the net debt. So we have about INR 200 crores of cash also. So gross debt as of last year-end, Q4 end, was about INR 950 crores. And of course, that will come down with the China inflow and all gradually. But yes, for your competitive purpose, you need to take the gross debt.
- Sakshat:** Okay. So we can expect at least INR 80 crores worth of relaxation eventually going forward from the finance cost as finance cost goes down and debt goes down?
- M. Kumar:** Yes. I don't want to give guidance here. So last year, we ended with INR 170 crores. So somewhere I will put it at around INR 120 crores kind of a number. We will, of course, try to reduce it further.
- Sakshat:** Got it, great. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rahul Kumar from Vaikarya. Please proceed.
- Rahul Kumar:** What is the share of revenues from EV? And how much of that is from Bajaj?
- M. Kumar:** No. So share of EV revenue like we explained was 10.3% during Q4. And full year, it was 9.8%. Most of it is from Bajaj only.
- Rahul Kumar:** Okay. Okay. And what is the target on the debt by FY '26 end?
- M. Kumar:** No, again, so like how I explained, last year we generated a free cash flow of more than INR 300 crores. More or less, that's the kind of direction we will continue to take in the coming year also. But there will be some land purchases of more than INR 100 crores plus, like how our CMD explained. And there is a China inflow of already there is INR 180 crore reduction of debt, which we did in the last couple of weeks. So broadly, maybe around INR 400 crores to INR 500 crores is what we should safely assume.
- Rahul Kumar:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Mihir Vora from Equirus. Please proceed.
- Mihir Vora:** Yes. Thank you for taking my question. So sir, my question was that now with the China JV now gone, so based on that, how do we work ahead on the technology front. Like there would be some tech we would be working with the JV. So now going ahead, what would be our technology road map in the lighting space? And how are we looking at gaining market share now with the lighting getting more advanced? So some color on the lighting space?



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- Arjun Jain:** Yes. So I think from a technology perspective, of course, China definitely brought a lot of technology to the table. However, I think for really the requirements of India, we have always been self-sufficient. I think further in terms of having the right partnerships in place to develop or to drive further advanced engineering, I think this is a practice that we have had in place for the last 3 years and we expect that to continue.
- So to summarize, I don't see any major impact in India as a result of the China JV dilution.
- Mihir Vora:** And sir, currently, in terms of lighting in India, what would be your mix as such? 2-wheeler would be how much of it, sir? 4-wheeler would be how much?
- Arjun Jain:** So of the total lighting revenue, I would expect 2-wheeler is probably around 60-ish % and passenger car is 40%.
- Mihir Vora:** All right. And are we seeing some traction on the passenger side as well now? Or do you continue to be more going towards 2-wheeler?
- Arjun Jain:** I think the focus is in both. And I think we continue to win businesses also in both. So I wouldn't say the focus is one way or the other. We believe we have based on what our customer needs are, we believe we have product-based services for those needs. And I think against those needs, we win further business as well also.
- Mihir Vora:** Okay. And sir, my second question is just on the aftermarket. Basically, the quarter seems to be weak as such. Based on what I am seeing, it seems to be at around 7% of your revenue, which used to be around 8% to like 9% to 10%. So any call out here? And what is the aftermarket strategy?
- M Kumar:** No. So no specific weakening or anything. So the overall base is also increasing. So obviously, the aftermarket business generally grows in high single digits. The overall base grew in double digits. So because of that, there was some dilution.
- Mihir Vora:** All right. Okay, sir. Thank you, that's all.
- Moderator:** Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please proceed.
- Jyoti Singh:** Yes. Thank you for the opportunity. Sir, just wanted to understand largely on the macro side. So like India what's your outlook on that? And also, if you talk about on the European margin. Plus what is the outlook for '26 during this uncertainty time period? And apart from this, like any other new products that we are targeting in the coming years? And what will lead to growth in the upcoming years? Thank you.



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- Arjun Jain:** So I think from a macro standpoint, I can probably talk about India. And I think really, I would say some of the macro trends that we focus on is an increasing desire and need for localization, which we look to take advantage of, given that for our core processes, we are already localized. And also from a design perspective, we are already localized. The further trend that we look to leverage is the movement and greater penetration of EV as well, right? So I think both these trends together, I think, create enough opportunities for us to be able to drive content growth in the vehicle.
- K. Kumar:** What was your second question?
- Jyoti Singh:** Second question, sir, on the European margin outlook and our plans or FY '26 outlook?
- K. Kumar:** No. So this we explained in the calls also. So what we are currently focusing on is building the order book. We already had some good order wins in the previous quarter, which we announced and talked about also. So that journey continues. We will continue to build the order book. But there will be some gap between the order booking and the sale. So that will take anywhere between 18 to 24 months. So most probably, we should see a good recovery in FY '27. For now, we will continue to have good tight cost control and manage the business.
- Jyoti Singh:** Okay. Thank you, sir. And sir, just wanted to know your overall outlook on the recent development that is done by Bajaj Auto on the KTM support. So basically, it will help them in a longer term to unlocking globally. So how we will going to benefit, if you can talk about it?
- Arjun Jain:** No, I think especially from a 2-wheeler perspective, I think KTM vehicles is where we generally deploy the highest levels of technology we have. So KTM doing better is only an extremely positive signal for us, right? One, of course, from a sales standpoint, but also, like I said, really from a technology deployment standpoint.
- TarangJain:** So just to add, see, now that Bajaj has taken control over KTM and related brands of KTM, Husqvarna, et cetera, we see a much greater opportunity for sales growth with KTM in Europe. And we see also opportunity not only in products we do today like lighting, but also on some of the other products where I think probably we will try to drive more sales.
- And Bajaj also being in control, may be more open to Indian suppliers, having a greater contribution in the KTM motorcycles being made in Europe. And that will also help probably the overall BOM costs also for Bajaj. So we are going to anyway be trying to discuss with Bajaj in this regard that whether there can be greater opportunities of the products we supply in India or otherwise also for KTM in Europe. So that's the big opportunity we see with this development.
- Jyoti Singh:** Okay. Thank you so much, sir.
- Moderator:** The next question is from the line of Vishal from Svan. Please proceed.



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Vishal: Sir, regarding the strategy in exports, so post the exit from Visteon and even in China JV, we have actually struggled with exports. So any strategy change in the team or scale up in the product line or offerings? If you can share some thoughts on that, how we are proceeding to scale up this business?

Tarang Jain: See today, our exports is around 4% of our revenue, which we, of course, definitely are not very excited about. And we definitely want to first reach a double-digit percentage of overall revenues being export.

Also for the reason that exports, we are able to realize slightly better margins also. So our efforts are on. We have also a focused group focusing on a lot of our metallic products which are going, we want to penetrate more there some of our also electronics. So this whole effort is in process and probably the next 2 to 3 years, we would definitely like at least 10% of our revenues coming from export. So this effort is on, and we are extremely focused in trying to realize this particular objective of ours.

Vishal: Great, sir. Sir, my second question is regarding this quarter, there has been improvement in the margins and notably so there has been strict cost control you have done in other expenses as well as employee costs. So from here, do you target some kind of meaningful improvement as well? Or do you see some scope from here on as the scale improves, mix improves?

Tarang Jain: See, the main focus of ours is sales growth. And like we said that we want to grow 6% to 8% more than the market, and that's always going to be our objective going forward. India now, at the moment, almost 90% of our revenues is coming from India. And here, definitely, we would like to have a high double-digit growth in FY '26. That's what we are aiming for. And I think the profitability and other things also is based on us realizing the revenues.

And today, I think we have a good order book. And I do feel that if the market really, in a way, is growing, April was not a very good month, as you know, overall for automotive. Other than 4-wheelers, which grew at about 5%, I think all other vehicles degrew. So we are just hoping that the markets at least are at the same level as last year. And then I think we can expect a good growth. And then if the growth is good, we can definitely expect a good margin.

Abroad, like what our CFO said, Mahendra said, that this coming year, we have won a lot of good business abroad also. But all those businesses will start getting realized from the second quarter of FY '27.

Till then, of course, in the abroad businesses, we will have to keep focusing on cost controls till that time. But yes, FY '27 onwards, second quarter onwards, we will start seeing that there is a growth in sales, and of course, then the return of profitability. That's for the abroad business, which is about today, 10% of our revenues. But of course, there, we see also a good level of business wins in this year, which will help us also going forward in the overall sales growth.



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- Vishal:** Perfect, sir. Thanks sir, for answering my question. And all the best for the next financial year.
- Moderator:** Thank you. The next question is from the line of Aksh from Praj Financial. Please proceed.
- Aksh Vora:** Sir, I just wanted to have a question on electrical electronics and lighting components. And that we have seen over a 26% decline in electrical overseas revenue. So what is the reason for that?
- Tarang Jain:** Overseas. Yes, you are talking about business II. There, I think, as you know, generally, the conditions in Europe are quite weak. And even in Vietnam, we have not had the expected sales, because the major customer there continues to be Piaggio. And Piaggio globally, actually, unfortunately, the volumes have dropped. And that's the reason that there has been no growth. But having said that, we have won some good businesses from some 2-wheeler players in Europe.
- And also, we are actually also driving hard to win some businesses with some Japanese OEMs, big OEMs. And I think that going forward, I think we do expect, from FY '27, a good level of revenue growth coming in from 2-wheeler lighting. Also, we expect that the electronics capacity, which today is running at quite a low level of about 20%. There also, we see, like I said, that from the second quarter of FY '27, we will start seeing the return to higher revenues and profitability as we have already won the businesses. We have already won the business, and we continue to win also more business for electronics, 2-wheeler lighting. And also going forward, even we will focus on 4-wheeler lighting.
- Aksh Vora:** Okay. Sir, because if we see, even if there was a big degrowth in that particular segment. So it was my concern about that. What's your outlook on metallic division? Because even there, we have seen some muted growth of under 5%?
- Tarang Jain:** Yes. So I think when it comes to metallic, we are quite choosy, like I said, because it's a very high CAPEX and a little bit lower ROCE business compared to our other products. So we are picking and choosing the kind of businesses we want to enter. And we are also focusing on a full capacity utilization, because we still have some capacity underutilized. So we are trying to see how we can also fill up those capacities.
- So yes, compared to electricals, electronics, lighting or our plastics business, we are obviously a little bit more conservative when it comes to growth in the metallic business. Not to say that we will not grow, but it will not be the level of growth we see in our other products where our focus is obviously more, because they are not also as much high CAPEX business like in metallic.
- Aksh Vora:** Okay. Okay. And sir, about the land parcel, what is it related that we are investing? Like you said, it would be there for the next 7, 8 years, we are investing in some land parcels. So any glimpse you want to share, sir?



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- Tarang Jain:** So here, see, in the Pune region, we have about 7 factories and largely more in the Chakan area in Pune. And here, we are running out of space. Of course, it's not that immediately we are running out of space, but I think it's not easy to get a land parcel, and we are looking at a bigger land parcel this time, so that we don't have to worry too much. It's not that easy to get land parcels, as you know. So therefore, we are in discussions, and we are trying to get a big land parcel, which will be in excess of INR 100 crores for sure, seeing the land cost today.
- And once we are looking at it in the next probably a couple of months to kind of close that transaction. So once we have it, then I think that the kind of land parcel we are looking at, I think we should be okay for next 7 to 8 years in the Pune region, which is a region which is also growing very fast for us.
- Aksh Vora:** Right. Sir, lastly, what would be our utilization rate?
- Tarang Jain:** Now I think the utilization rate would be how much?
- M. Kumar:** Average may be 70% to 75%. Varies from business to business. Electronics maybe on the higher side.
- Tarang Jain:** Yes, yes. So I think 70% to 75% is fair. And I think we have been disciplined in terms of increasing capacity. But yes, there are places, like MK said, like electronics, where we have to drive capacity increases now.
- Aksh Vora:** And sir, sorry for one more question. What would be our approximately margins in EVs compared to the traditional ICE? Or the delta, if you can share?
- M. Kumar:** No, we don't give that product level margin data.
- Tarang Jain:** Yes, but it's competitive. It's not that the margins are, as a percentage, so much higher or something. Because nowadays, even a lot of the technology products and everything, it is competitive. It's as competitive as the ICE engine. It's only that because of the content, you have a very good revenue growth coming out of such EV products. So that's the good part. But the margins are competitive. I don't think it would be something higher or something like that. But one-odd product may be higher, but generally it's similar.
- Aksh Vora:** Okay. Got it. Thanks a lot. Thanks for that.
- Tarang Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nishant Chouhan from Geojit BNP Paribas. Please proceed.



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- Nishant Chouhan:** Yes. Sir, just one question. The question pertains to our overseas subsidiaries, that is the Romania, Vietnam and the lighting plants over there. So could you just provide, how is the year for them? What kind of revenue did we do there compared to the last year?
- M. Kumar:** Yes, so in terms of the overall percentage, it is around 4% of the total revenue, which is coming from these overseas markets. So what was your question, outlook or...
- Nishant Chouhan:** Just the revenue number, if you can provide, or the Y-o-Y growth, degrowth that you would have done in our lighting subsidiaries across Vietnam, Romania, Italy and also the Romania electronics.
- Tarang Jain:** So basically, see, we have got 2-wheeler lighting plants in Vietnam, Romania and in Italy. And we also have an electronics plant in Romania. So compared to the previous year, there was a degrowth when it came to the sales, which was in a very challenging atmosphere. And the 2 reasons I said was that one was the challenging environment in Europe. And when it comes to Southeast Asia, in our Vietnam plant, a larger customer is Piaggio there also. And Piaggio, if you see the last couple of years, there has been a degrowth in their volumes.
- But having said that, we have been winning businesses with other customers in Vietnam, whether it's European or Japanese. But that's something which will start getting realized only from FY '27 onwards. So till then, I think we are going to be challenged when it comes to the sales. Like if you talk about FY '26 and, let's say, even the first quarter of FY '27, we are not going to see any kind of sales growth from current levels. It could be probably similar or a little lower only. I am talking about plants abroad.
- Nishant Chouhan:** Right. Got it. Got it. And sir, secondly...
- Tarang Jain:** Just one second. Yes.
- Arjun Jain:** Maybe just to add a little bit to that, I will just try to also summarize from my side. So yes, last year versus this year, there has been, I believe, a sales decrease of between 25% to 30%. The reason, of course, is one is the macroeconomic trends in Europe not being the best and also this customer dependency that we have had for the Romania locations as well as the Italy and Vietnam locations.
- But what we also announced in the last call is that we have had some significant business wins that will bear fruit in terms of sales in FY '27. So yes, so there is this decrease in revenue, but there is a light at the end of the tunnel from our perspective.
- Tarang Jain:** So we can expect a good level of growth from FY '27 second quarter, as we have already won businesses for these plants abroad.



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Nishant Chouhan:

Got it. Got it. Sir, secondly, on the domestic electric 2-wheeler side, I think what we have seen is the pace of growth has been slowing down. This year, the volumes grew by around 20%, whereas last year we saw like a 30% growth in volumes. And coupled with that, we are also seeing a lot of OEMs going towards a lower priced or more value kind of value price models. So in that scenario, probably the value growth is even lesser for electric 2-wheeler industry as a whole. So how do you see this play out going ahead? And how excited are we in this electric 2-wheeler segment as a whole as a component supplier?

Tarang Jain:

Yes. So I would say, really, I think for an electrical electronic component supplier like us, it is really the ultimate opportunity from a content growth perspective, right? The amount of content we would put into a comparable EV scooter versus the comparable ICE engine scooter, I think the content growth is almost 5x, 6x.

Now further to that, fortunately, the content growth is not necessarily driven by the bells and whistles on the vehicle, but is really driven by the core vehicle powertrain, right? So of course, the price point pressure at an OEM level, even at a component supplier level, of course, exists. But the content that we have is not possible to do away with, right? You need repowertrain, you need a BMS if the vehicle has to be EV.

So we continue to be extremely bullish around it from the perspective of our growth. And yes, maybe the growth rate has moderated a little bit, but I don't think that it is not a trend that we see going away anytime soon.

Arjun Jain:

So basically to add, see, we are very excited about the penetration of EV in 2-wheelers. Today, we see the penetration more happening in scooters and it will continue for sure. And I think this optimization of the cost in these various models is necessary for higher adoption. So that's in the right direction. And there could be some little bit ups and downs maybe in a quarter or something like that, but the direction is very clear on the EV transition. I am not saying it's going to be 100% of all scooters, but definitely, there is going to be a good level of growth in the scooter segment.

Even I think going forward, I think we can see also EV adoption in the motorcycle segment. That's also something which I think probably will happen going forward. And I think we are very well placed also. Recently also, we have increased the product portfolio that we added the BMS also a few months back in our portfolio. Plus, we are also adding more customers. Today, let's say, we have Bajaj.

We are also in discussions with other customers. We have already won some businesses with other customers. So whatever the level of growth may be, it's going to grow. And I think that we as Varroc, we are definitely going to benefit with our strong presence already as an early starter in the EV game, especially on the powertrain side. And so I think you can see a good level of sales as a percentage increasing for Varroc in the years going forward.



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Nishant Chouhan: Great sir. Thank you for your answers.

Moderator: Thank you. The next question is from the line of Rahul Kumar from Vaikarya. Please proceed.

Rahul Kumar: Sir, can you give us some guidance on the operating margin or EBITDA margin for next year or something like?

M. Kumar: No, we don't give any guidance like that. But you can broadly say, we will try to improve it from now on. Like how our CMD explained, growth will be the major focus for us. On top of that, we are also working on cost reductions and margin improvements. So all this should translate into improvement from the current levels, but it also has a seasonality factor to it. Not all the 4 quarters are equal for the auto component industry, as you know. So there may be some ups and downs, but yes, the journey continues to improve it further.

Rahul Kumar: Okay. And the quantum of improvement which we have seen this quarter versus, let's say, last year, that quantum would obviously reduce, right?

M. Kumar: That's what. We can't predict or we don't want to give any such guidance, but yes, we will try to improve from here.

Rahul Kumar: Okay. Thank you.

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

Tarang Jain: So I just want to thank everyone for joining the call, and for all of you for your continued support to the Varroc Group. Thank you.

M. Kumar: Thank you.

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