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November 18, 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
[Debt: 973454 & 973455]

**Sub: Transcript of Investor / Conference Call pertaining to Unaudited
Financial Results for the quarter and half year ended on September 30, 2022**

Dear Sir/Madam,

Please find Transcript of Investors / Conference Call held on Monday, November 14, 2022, in respect of the Un-audited Financial Results for the quarter and half year ended on September 30, 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 2QFY23 Earnings Conference Call”

November 14, 2022



MANAGEMENT: **MR. TARANG JAIN – CHAIRMAN & MANAGING DIRECTOR, VARROC ENGINEERING LIMITED**
MR. ARJUN JAIN – WHOLE TIME DIRECTOR, VARROC ENGINEERING LIMITED
MR. K. MAHENDRA KUMAR - Group CFO, VARROC ENGINEERING LIMITED
MR. BIKASH DUGAR - HEAD, INVESTOR RELATIONS, VARROC ENGINEERING LIMITED
MR. KARAN KOKANE – ANALYST, AMBIT CAPITAL



Varroc Engineering Limited
November 14, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Varroc Engineering Limited 2QFY23 Conference Call hosted by Ambit Capital. 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 * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Kokane from Ambit Capital. Thank you, and over to you.

Karan Kokane: Thanks. Good evening, everyone. I welcome you to the Varroc Engineering 2QFY23 Results Conference Call. From the management, we have today Mr. Tarang Jain – Chairman and Managing Director, Mr. Arjun Jain – Whole Time Director, Mr. Mahendra Kumar – CFO, and Mr. Bikash Dugar – Head, Investor Relations. I'll now hand over the call to Mr. Bikash Dugar. Thanks, and over to you.

Bikash Dugar: Thank you. Welcome everyone and thank you for joining us for the quarter end 30th September 2022 earnings call for Varroc Engineering. Please note that the results presentation and press release have been uploaded on the website and also in the stock exchange.

Before we begin the call, please note that some of the matters we will discuss on this call, including business outlook are forward-looking. These are subject to known and unknown risks, the risks and uncertainties are included, but not limited to what we have mentioned in our prospects filed with SEBI and subsequent annual reports, which are available in our website. With that said, I now hand over the call to our Chairman, Mr. Tarang Jain to begin the proceedings.

Tarang Jain: Thank you, Bikash, and thank you, Team Ambit for hosting the call, and good evening to everyone. Before talking about the operational performance of 2QFY23, I would like to again inform that we have completed the divestment of our four-wheeler lighting business in Europe and the Americas on the 6th of October 2022. As communicated earlier, this has resulted in an impairment due to the lower equity value we received. In our consolidated books, we have booked a loss of Rs. 5,709 million against the net assets of the VLS business, which we have divested. With the transaction now behind us, team in Varroc can now totally focus on the continued operations to strengthen its balance sheet and invest in identified focus areas to drive future profitable growth.

Talking about the operational performance. In India, automotive production for all the segments in Q2 FY '23 rose on a year to year-on-year basis as well as on a quarter-on-quarter basis. The main reasons are due to the lower base of last year and the early festive season. On a year-on-year basis, 2-wheeler production grew by 7.7%, 3-wheelers by 24.3%, passenger vehicles by 38.1% and commercial vehicles by 36.2%.

In terms of our operations, I am happy to inform you that we grew the revenue from continued operations by 21.2% to Rs. 18,399 million on a year-on-year basis. This is the highest ever revenue generated by entities in the continued operations in any quarter. We improved our profitability on a sequential basis with improvement in the EBITDA margin by 100 basis points.

This is the second consecutive quarter when the EBITDA margin has expanded and it came in at 9.2%. The operational PBT before JV profit for continued operations has also improved sequentially by more than 294% in the quarter and it is Rs. 545 million. The reported PBT of Rs. 307 million was impacted negatively by net mark-to-market FOREX impact of Rs. 242 million, mainly on intercompany loans. We continue to have strong order wins towards new business in H1 of FY '23 across business units, enabling our future growth.

During H1 FY '23, lifetime revenue from new order wins is Rs. 25,476 million. Out of this, business wins from 5 prominent EV customers is Rs. 8,676 million. Profitable business wins, improving of the contribution margin, focusing on PBT instead of EBITDA margin, sweating of assets, inventory reduction, commercialization of our R&D efforts, control on costs, growing free cash flow, debt reduction and prudent capital allocation remains a focus of the company.

I am now handing over the call to MK, our group CFO, who will walk you through the presentation, which is already uploaded in our website and in the Stock Exchange also.

Mahendra Kumar:

Thank you, Tarang. Good evening, everybody. I think the presentation is already uploaded in the website. Let me start with the highlights. The last quarter, Q2 was an important quarter for us where we completed this transaction. Of course, we explained the highlights of the transaction in our previous call. But I'd still remind you all that we completed this on 6th October and some of the other highlights have already been explained by our Chairman, but just to highlight once again, the growth was pretty strong last quarter at 21.2% on a year-over-year basis. And sequentially also, I think we grew by close to 12%. And this quarter had the highest ever revenue for continued operations in Q2.

In terms of the new orders won also, it was pretty good. We had new orders total in H1 adding up to about 25.5 billion including about 8.7 billion coming from 5 EV customers, including 2 prominent EV customers and 3 new players also. The EBITDA margin also continues to improve. It reached 9.2% last quarter. Again, it was a good improvement from last year same quarter and also quarter-over-quarter. So, with the completion of the transaction, we now have a cleaner balance sheet where we remove debt and debt-like items adding up to close to 34 billion which included about 26 billion of debt items and about 8 billion of debt-like items. So, that was a major cleanup, which our balance sheet had undergone. And of course, we also had to pick up the impairment impact because of that. Now with all these changes with improved profitability, we are now in a better position to service and reduce the debt levels going forward.

Going to the next slide, in terms of the overall industry trends, Q2 again, has been pretty good for the entire industry. Both 2-wheeler and passenger vehicles registered significant growth. Two-wheeler of course, grew by close to 8%, but passenger vehicles grew by almost 38% year-over-year. Quarter-over-quarter sequential basis also the 2-wheeler market grew by about 17%, and passenger vehicles grew by 14%. Of course, there are some positives and negatives here when it comes to the industry trends. The semiconductor constraint seems to be easing now, so that can help the industry in terms of volumes going forward. At the same time, we also need to see how the overall demand scenario pans out. We see some kind of softening of demand at the low end of the spectrum. So, we need to see how these things pan out in the coming quarters.

Now in the next slide, of course, we expand the overall structure of Varroc now, after the divestment. As again, we explained in the previous presentations also. Now basically comprises 2 geographical segments, India and rest of the world. This business is, of course, all of you can actually go through and understand.

And then coming to the next slide where we presented the consolidated financials of continued operations. You may notice that the EBITDA margin improved to 9.2% from 8.2% in previous quarter and also in Q2 of last year. And then in terms of the overall PBT margin, it is close to about 3% now during Q2 of FY '23. Of course, we also had to put this FOREX loss, which is what our Chairman was also explained in his speech. So, with all this, the reported PBT stood at about Rs. 31 crores or 307 million.

One important point to be noted here is the tax, you might have noticed a negative PAT here, but this is because of a couple of reasons. One is the notional exchange losses, which we had to pick up in Q2 and also in Q1 are not actually tax deductible. So, because of that, there will be higher tax incident plus whatever deferred tax assets we had earlier on a similar item at global level also had to be reversed because the transaction values changed subsequently. So, because of that, you'll see a negative PAT. But in terms of PBT, it was at about Rs. 31 crores.

Now in terms of the split between India operations and overseas operations, you might notice in the next slide that it now adds up to about 9.8% of adjusted EBITDA margin in Q2 this is for India operations compared to 8.9% sequentially last quarter. In terms of overseas also, the adjusted EBITDA margin works out to about 3%. Of course, it was higher in Q1 at about 4.5%. The impact of inflation in the overseas markets, particularly in the European markets had some impact here. We are hoping that going forward, it should look better. So, with all this, the overall continued operations reported 9.2% of adjusted EBITDA margin.

Now one important question that we all have is, okay, what does this do to the debt position and the overall leverage? As you might notice in the next slide, the net debt is about Rs. 1300 crores or INR 13 billion, which is what we indicated in the last call also. Now the consolidated equity

stands at about Rs. 900 crores or Rs. 899 crores to be precise with an annualized adjusted EBITDA of about Rs. 672 crores, the ratios are now looking far more comfortable. The net debt to equity works out to about 1.45 after the divestment. As on 30th September, it was 1.75 because the transaction was closed only on 6th October, it still carries the debt which we subsequently repaid. So, that's why from 1.75 it came down to 1.45 after the repayment of about 33 million in the overseas operations.

So, the net debt to equity now stands at 1.45 on a consolidated basis. Net debt to EBITDA is also close to 2x now or we can say 1.9x, just below 2, let us say about 1.9. This is on the consolidated basis. Even on a standalone basis also if we see, post divestment, it now stands at 1.7 for VEL standalone. So, that's also a comfortable ratio. We will try to improve this as we move forward.

So, on the right side, on the extreme right, you might notice the 31st March scenario, which have both continued and discontinued operations. You might notice the kind of debt we had at the time of close to INR 26.5 billion. Now this is without even considering the debt-like items. If you include that also, you can understand that what happened during this Q2 divestment was a significant relief in terms of the overall divestment of the overall debt burden. And in terms of the serviceability also, I think it's significantly improved.

Going to the next slide in terms of the overall revenue breakdown. Of course, these details. I think they more or less remain the same from the earlier trends, except that in terms of the product segments, 2-wheeler and 3-wheeler now add up to about 68%. Four-wheeler expanded to close to 28% and others at about 4%.

And geographical spread, if you see close to 20% of the revenue comes from outside. This is including the overseas continued operations plus exports from India. And in terms of customer concentration, you can see that Bajaj accounts for about 39% of the overall revenue and others about 61% or 62%.

Going to the next slide, which is about the new lifetime orders, which we won in H1. This is how the split is. The lifetime revenue from customers; if you really see the customer concentration part, the orders won from Bajaj adds up to only 18%. The remaining orders from other customers add up to about 82%. And other interesting point here is the new orders from EV segment constitute about 34% of the total. So, that is also a strong positive thing which we are looking at. And then in terms of the 2-wheeler and 4-wheeler, it is now a split like 44% and 56%, 56% in 2-wheeler and 3-wheeler and 44% from others.

Of course, on the next slide, we have given these EV opportunities, the portfolio of products which we have, which I think we shared in the previous presentations also. Same is the case with

the next slide where we talk about what it means to FY '25 revenue in terms of 2-wheeler and 3-wheeler products.

So, finally, coming to the future focus areas of Varroc, this one gives a good picture of what we are planning to attempt in future. These are the 5 parameters, which we will be continuously monitoring. We will definitely focus a lot on revenue growth, which would be supported by volume growth as well as in any kind of pricing. And that will be followed by strong contribution margin improvements. That's what we are focusing on. This will enable us to strengthen the business, make the business more robust. This should all translate into a good PBT growth. Here again, we need to have a tighter control in fixed costs, so that the improvement in contribution margin translates into PBT growth.

Now obviously, this PBT growth should convert into FCF conversion also, which is going to be a focus area for us. Now once we complete all this, we generate cash, which can be used to reduce the debt levels going forward. And once we actually bring down debt to reasonable levels, we can then think of where to invest. But going forward, our capital deployment will be based on some prudent principles so that this deployment again generates revenue growth and the cycle continues. So, that's going to be a focus area for us going forward.

So, with that, I'll bring this presentation to an end, of course, we have other slides are about the CSR initiatives and all which we have taken up recently. So, with this, I hand it over to you. We can take up any questions which the investors may have. Thank you.

Moderator: Thank you. We have the first question from the line of Arvind Sharma from Citibank. Please go ahead

Arvind Sharma: Sir, my question is on this tax issue that you spoke about, will they continue over the second half as well? And if not, then what's the expected tax rate, if yes, then how much more of these additional taxes could the company be paying?

Mahendra Kumar: No, these are not like additional taxes or something, like what I explained, these were the deferred tax asset kind of things which we accumulated earlier as an asset thinking that there will be a good consideration and good profit on sale of divestment, which did not happen, so we had to reverse it. So, that's one. Second thing was there were these exchange losses which we had booked. So, that reduced the profits but reduced the reported profits earlier. But the tax calculation doesn't recognize this. So, we still have to pay tax on that. So, there's no additional tax or anything here. And going forward, we won't be having significant intercompany loans to these overseas entities. So, we don't expect this kind of impact going forward.

Arvind Sharma: So, going forward, taxation should be done at the corporate tax rate, right?

Mahendra Kumar: Correct. Going forward, it should normalize.

Arvind Sharma: Sure. My second question would be on the margins. I'm including both of them. So, first, on the overseas operations we see the margins have gone down from 4.5% to 3%. Could you please explain the reasons behind that? For the new operations, since you cited, there are some issues in terms of demand going ahead? If you could elucidate upon that and the possible impact on margins, we could see in India operation, which have been fairly strong at 9.8%. But going forward, what kind of an impact could directionally we see on these margins if the demand is soft?

Mahendra Kumar: Sorry, your question is about the overseas operations?

Arvind Sharma: Both. First overseas operations, the reason behind the 150-bps quarter-on-quarter decline. And for the India operations, the impact of a softer demand.

Mahendra Kumar: Yes. So, as far as the overseas operations are concerned, I think I explained in my presentation also, there was this high inflationary scenario in the overseas markets, particularly in Europe. So, that had some impact on the profitability. So, we should see how it behaves going forward. As far as India operations are concerned, of course, we don't want to give any guidance here, but our effort is always to improve margins from where we are.

Arvind Sharma: Alright, sir. So, this 9.8% margin, of course, you won't give guidance, but you don't see too many headwinds to this number?

Mahendra Kumar: Yes. I mean we still need to see how Q3 pans out. We are in the middle of Q3. So, we should see how the demand scenario behaves in the coming 1.5 months or 2 months. So, based on that only, we can see how that's going to have an impact. But as it stands now, we don't see any kind of thing to worry about.

Arvind Sharma: Sure, sir. And sir, just one final, not a question but just an observation. There has been a fair bit of restructuring in the way you report numbers. So, is this the way that we'll be reporting here on?

Mahendra Kumar: Yes, we split it between India operations and overseas operations. Yes, that's how we are going to report in future also.

Arvind Sharma: Sure, sir. Because as per your 1Q FY '23 numbers and your operations were 12.7 billion, but now we see 14.1 billion. So, I mean there has been some regrouping, but this is how you'll report hereon, right?



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Mahendra Kumar: See, the major difference is the VLS lighting business in India was not reported as part of India business earlier because this geographic segmentation is something which we bringing in only now. Yes, going forward, this is how it will be.

Moderator: Thank you. We have the next question from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Congrats for the decent set of the number in tough time. Sir, my question is related to the overseas operations. So, what is your road map to improve your revenue and the margin for the overseas operation for the next 2 years? And what sort of the target do you have in your mind?

Tarang Jain : So, see, basically, what has happened is that the business, which is in Europe today, other than our forging business units, which we continue to improve operationally. We have a 2-wheeler lighting business. 2-wheeler lighting business we've had for the last 10 years and this business has got plants in Italy, Romania and in Vietnam. So, overall, I think this business is quite a steady business, it has a revenue annually at probably between 45 million Euros to 50 million Euros a year for a steady business. And this is something we have to see because we have the confidence of all the customers in the 2-wheeler business, whether it's in Southeast Asia or in Europe. So, going forward, I see in the next couple of years, we see a good traction in our Vietnam business in Southeast Asia because that's where we see where the Asian markets, I see more of a better growth potential as compared to Europe. So, Europe, we'll have to see how it pans out. The country, there are these headwinds because of the war, the Ukraine war. So, we have to really see what really happens in the coming months, but then the war is on, we cannot really predict how the volumes will pan out for us at least in the coming year. But I think that so also let's say, if the war is on in Europe, we still expect to grow in a smaller way, probably anywhere between probably 3% to 5% is what we're looking at. But when it comes to our Vietnam facility, that's where our focus is going to be a little bit more on our 2-wheeler lighting business. And that's where we are now active at the moment working on growth opportunities over there also with the Japanese OEMs. And that's where we are looking that probably we are having growth between 5% to 10% growth in the Southeast Asian market as we go along. So, overall our 2-wheeler lighting business is something where we feel more confidence in Southeast Asia rather than Europe. And when it comes to our new business of electronics, which is in Romania. This business, of course, at the moment, we have a revenue of about close to 25 million Euros a year. Here, we are supplying the electronic assemblies to Plastic Omnium for the lighting business. Here is where we are now looking at future growth, I cannot say at the moment, we're looking at a strategy for growth. But yes, this is also a business we want to grow this thing going forward. So, at the moment, I think we'll probably be clearer in the next quarter. You know that about we are building on a strategy now of how we want to grow our European business, both on a 2-wheeler lighting and the electronics side. But yes, there will be a growth. How much growth,



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I'm not very clear at the moment. This is something we'll be more clear within the next one quarter.

Abhishek Jain: And for FY '23, it will be tough to make a margin of 5% kind of the numbers from the overseas business because there will be continued pressure because of this RM and the wage inflation?

Tarang Jain: So, I think that we will definitely make a margin. We'll definitely make an EBITDA margin, it's very difficult to really predict how this inflation pans out going forward. It's really uncertain, but we are confident that we'll make a positive EBITDA for sure in this business.

Mahendra Kumar: Yes, that's clear. Our efforts will continue, but it's difficult to predict the macroeconomic scenario. So, let's leave it at that.

Abhishek Jain: But sir, we are seeing the impact of the RM inflation in the bottomline, but not in the topline, even the topline has gone down in this quarter despite the capacity additions in the electronics business in Romania and plus that some ramp up in the other 2-wheelers business. So, what is the reason that we are not able to do topline growth?

Tarang Jain: See topline also, to an extent, does get impacted because what we are servicing in the 2-wheeler is also on the premium side and the and also the entry level. So, there is some impact which has come in. And also, we have to remember that the month of August normally is a holiday in Italy. And normally, we don't have more than one week of sales. So, both our forging plant as well as our lighting plant in Italy, both have been impacted by lower sales in August. And therefore, overall, the sales has been impacted for the quarter.

Abhishek Jain: And sir, in India business, we have seen a basic growth in your electronics business because you have started supply the motor and controller DC-DC converter to the Bajaj Chaser. So, just wanted to know how much content per vehicle? And are we also looking to supply to other 2-wheelers brands?

Tarang Jain: Yes, we do, I mean. And in fact, we're increasing our volumes with Bajaj Auto on the motor, motor control and other products for the EV, so those volumes are going up on a consistent basis. And also at the same time, yes, like we mentioned that even for the EV powertrain, we are in discussion with other customers. And we are hoping that we are going to be winning some businesses also where it comes to the EV powertrain and, of course, also the other products around the EVs, whether it's lighting, switches or plastics or other products.

Abhishek Jain: So, what kind of the growth we are looking from the electronics business for FY '23?



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Mahendra Kumar: So, I think we are growing with the market. And today, I think we are one of the early starters and I think that we have efforts, we have a focus approach to EV now, we have sales on EV side and therefore we will see a good momentum and good percentage of EVs growing quarter-on-quarter.

Abhishek Jain: Sir my other question is from the lighting business so how the current contribution in a lighting business from two-wheeler versus four-wheeler side?

Mahendra Kumar: We do not comment on individual sub segment level data.

Abhishek Jain: And sir you want many new business in the four-wheeler lighting side, so can you throw some light over there, what is the content per vehicle there and who are the key customers and what can be the opportunity size?

Tarang Jain: See I cannot mentioned about the content per vehicle for lighting, but today our major customers today are Mahindra, Volkswagen and Renault Nissan and we also supply something to Tata Motors and we are now looking at driving sales with another couple of customers as we move forward and we are quite confident that we will grow our over four-wheeler lighting business in a very positive manner going forward.

Abhishek Jain: And what is the current revenue from the four-wheeler lighting business?

Mahendra Kumar: Again, we do not disclose that sub segment information.

Abhishek Jain: And my last question is related with your outlook for the polymer and the metallic business what sort of the roadmap you have to improve these business?

Tarang Jain: So, the polymer business we are both on the two-wheeler side and the four-wheeler side. I think in two-wheeler side we have got substantial good market share across all customers in India on a two-wheeler side most customers I would say and that is something probably we have a range of products we are looking at probably at cross selling also the products other than Bajaj to cross sell with other customer that is something which already are in process and we continue to grow on that side, but I think more our major focus is going to be on the four-wheeler plastics and that is why we will see that we focus little bit better on the four-wheeler side or plastic and we grow that business on a Pan India basis as we move forward that is the focus area where it comes to metallic side we see anywhere growth year-on-year for a next few years for what is the investments we have already made, we are seeing a good growth going forward in metallics, but we are like I have said in the earlier calls we are being very cautious because most of our metallics business is all ICE engine related so like we do transmission part and we do engine valves. So, here we are very particular that we have to look at ROCE being over 20, over 22 and



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unless ROCE are there in this any new business wins we are not really willing to invest further on the metallic side, but here also the metallic side our focus would be a little bit more on the export where we see better contributions towards the margins.

Moderator: We have the next question from the line of Vinay Jain from Karma Capital. Please go ahead.

Vinay Jain: So, wanted to ask question on the India business so if you I look at other than electrical and electronic business all the other business segments has actually if I look at on a sequential basis the growth is lower than the industry growth with which we have seen be it two-wheeler, four-wheeler or three-wheeler, any specific reason for that because again for us there would be a component of maybe partial price increase as well coming through in the current quarter?

Tarang Jain: See what I see is that we have grown both in our electrical electronics business and the polymer business. So, both I think sequentially the revenues have gone up if you really go to the details yes metallics on a metallic side yes we have not really grown on a metallic side and because metallic side also does a significant amount of exports which has been impacted because of the situation in Europe.

Vinay Jain: Lightening business if you could comment so because on a consolidated basis the lightening business is also down around 5% sequentially, so is it largely attributed to the overseas business?

Tarang Jain: I think we are doing fairly well I think on the growth in India on four-wheeler lighting business I think that is a business a customers coming to grow over there. So, I do not think we have anything to do with these local domestic markets there I think we are continuing to grow in this lighting business even in the last quarter.

Vinay Jain: So, again on the overseas part also on the way we are reporting it now sequentially the revenues have come off around 50 odd crores and the margins also off, so what are we guiding for on the overseas business or India business from a medium-term perspective, so are we still track on achieving that 8% to 10% margin over the next say three to four quarters?

Tarang Jain: See we are definitely going to be striving for that. See the issue in Europe is the Ukraine war and inflation that is the biggest issue here that is why it is very difficult to kind of predict what is going to happen on the margins, it is not that easy and that is what the early participant also asked the same question. So, definitely it is very difficult to give guidance in Europe on the margins and also the volumes I would say considering the situation in Europe at the moment.

Vinay Jain: And how is the ramp up for the Romania facility coming up so it is that also getting delayed because of the situation which is happening in Europe?

Tarang Jain: At the moment what is happening we already have a set business where we are supplying from a SMT lines to plastic omnium for the lighting PCB that business is going on presently the volumes are okay fair, but yes one is impacted by inflation in that business also, but like I said earlier we are now strategizing with some other customers and trying to focus on more business wins going forward. So, we are looking at growth also in the electronics business going forward, but presently we are in the stable situation at the moment, but the revenues we are doing at present. So, it takes some more for growth to take place on the Romania electronic side, but we are definitely working towards winning some new businesses over there. The overall revenue of overseas business is just about 10% of the total.

Vinay Jain: But in terms of profitability is it still loss making or is it in the black?

Mahendra Kumar: I think we already explained it earlier in the presentation so it is not loss making, it is making profits. At EBITDA level we showed 3% EBITDA in here.

Vinay Jain: So, over the years we have accumulated losses with respect to the VLS business and also we have taken an impairment charge on the asset side, so do we expect any benefits to accrue on the actual tax to be paid in future years or you are expecting a normalized tax rate going ahead?

Mahendra Kumar: No as of now we are not expecting any benefits to come from there that is the reason we reverse the accumulated deferred tax as such going forward it should be the normal tax rate.

Moderator: Thank you. We have the next question is from the line of Rishi Vora from Kotak Securities. Please go ahead.

Rishi Vora: First question you did eluded to the fact that you want to improve the contribution margin of the business now if I just specifically talk about the polymer business that business even if I look at before 2019-20 have been doing let us say high single digit EBITDA margins with a ROCE of less than mid to high single digit, going forward what are the key initiatives which you will be taking in order to improve the profitability of the business and the ROCE of the business?

Tarang Jain: So, today we have already like you said we have made a lot of investments in the past and today we are still not at full capacity utilization. So, therefore I feel there is scope with whatever the capacities we have today to improve to load more business over here and we are growing there as such and also whatever for the investments we are making we are looking at a consent approach I mean we are going to be very careful when it comes to capital intensity that something we are going to be extremely careful going forward. Other than that, already we have been working a lot and we are very focused on basically operational efficiencies, how to drive for OEs control, your variable cost and also better sourcing with the growth we are taking place, how to do better sourcing from the market. So, definitely we want to drive our contribution

margin up as our CFO has mentioned in his presentation. So, the focus is on improving this contribution margins to better control on a manufacturing plants mainly a lot on the variable cost and including also the material cost and I think that somewhere where we are actually getting good traction there also we are also working on trying to recover wherever the material increase are taking place, the kind of recovery from the customer on a regular basis so there is we are actually pushing the customers to compensate us for whatever the material cost increases including the electronics, price increases which takes place. So, we are trying to get a better recovery from customers also which was not that strong probably pre COVID, but that is something we have taken it in a much stronger way.

Bikash Dugar:

And moreover, it is last four, five years the business mix for the India operation is drastically changing. Now we have growth coming from the electrical business then you have four-wheeler polymer business and aftermarket. So, that mix has the better profitability in the industries as compared to the other businesses and this is what will drive the business margins going ahead. Internally a lot of work is being done to control cost and increase the efficiencies.

Rishi Vora:

And what will be the capacity utilization in your polymer business is it currently?

Tarang Jain:

I think depending we have got a total of about 13 plants. It could be anyway depending on the plants; it would be probably anywhere between 55% to 75% it depends on which plant.

Rishi Vora:

And sir going forward as you have also several EV orders for EV components obviously the margin profile of those components would be very different ROCE the asset terms would be different, how will your margin profile in ROCE seems to, is the components in the higher margin equivalent or lower margin front your current business and my sense is asset terms are much higher than the current business line, so will it be margin dilutive but ROCE accretive or we have got margin also?

Tarang Jain:

Definitely see electronics EV components definitely helping us drive better ROCE and better margins going forward and that is what and this is a future electronics and the EV part is the future along with the four-wheeler business what we do and this is something where I mean there is a very good focus so you are right I mean yes may be pre COVID we did not see that kind of ROCE, but I think going forward we are moving towards the target of at least 22 ROCE and also better double digit margins that is something we would have focus on.

Rishi Vora:

And sir last question what would be CAPEX guidance for this year?

Mahendra Kumar:

See for the remaining 6 months it could be somewhere between 100 to 150 crores.

Moderator: We will move on to the next question we have the next question from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: I have few questions one just in the last question you said second half CAPEX plan is 125 crore how much was the CAPEX in first half?

Bikash Dugar: In India operation it was around 70 crore odd only.

Basudeb Banerjee: And consol?

Bikash Dugar: Consol I think it will be less than 100 crores.

Mahendra Kumar: Consol anywhere it is not the right way to compare now because it had discontinued operations also.

Basudeb Banerjee: So, the SEBI format reported consol number included this quarterly profit?

Mahendra Kumar: Correct.

Basudeb Banerjee: So, overall, for the full year you are expecting around 250 crore?

Mahendra Kumar: Yes I think the right way to see it just let us look forward I think that is the right way to actually think about it. So, going forward it will be 100 to 150 crores in H2.

Basudeb Banerjee: Just trying to see that now in today's presentation this 1,300 crore of net debt which was expected to be net cash a few months back and your trajectory of per annum free cash flow just trying to understand how much time will it take that to net cash levels at this level of margins or you are already at record revenues, so what kind of sustainable CAPEX to produce that you will be looking forward to?

Mahendra Kumar: So, like what I have mentioned you know our current EBITDA margins on the current run rate in terms of revenue so you can compute it. As far as CAPEX is concerned I mentioned 100 to 150 crores next 6 months after that also it could be in the range of maybe 200 crores to 250 crores the following year. So, we have very tight control on CAPEX going forward so based on that we can work out we do not want any guidance here, but we are very focused on containing our CAPEX, improving profitability and also improving the free cash flow situation overall.

Basudeb Banerjee: And then the debt also?

Mahendra Kumar: Yes all that will flow into debt reduction.

Basudeb Banerjee: Sir like in this quarter interest outgo which was 49 odd crore now after the debt reduction with on this level of debt what will be the sustainable interest outgo?

Mahendra Kumar: Like what I mentioned you know the net debt levels and you know the average rates right now. So, I think when compute as we continue to generate that will come down, but based on the current levels we can compute the interest burden for the remaining 6 months.

Basudeb Banerjee: So, including discontinued business where overall working capital to sales used to be almost zero or negative and now under this new business do you see any chances of work cap to sales structurally changing and because why I am asking is already generating free cash flow and reducing debt is of paramount importance in case working capital reverses structurally how one should look at it?

Tarang Jain: I think we will continue to have good control on the working capital going forward. We do not want to give any kind of indications or estimates now, but that certainly one of the focus areas in order to generate good free cash flow we need to have working capital also under tight control we are focusing on that.

Basudeb Banerjee: In the earlier part when we said three weeks of manufacturing holidays in August or European operations, so what kind of such holidays one should expect in the Christmas month?

Bikash Dugar: Once again another 15 days of holidays generally within Europe.

Tarang Jain: Normally December in India is also one of the weaker months and when it comes to Europe obviously 10 to 15 days there is no working days practically. So, obviously month of December you do see an impact.

Basudeb Banerjee: So, broadly holidays from a QoQ perspective will broadly remain similar so no incremental benefit or damage because of holidays on revenues?

Tarang Jain: Yes there is no incremental damage it is a way it has been in the past years. I am not talking about the COVID years, but generally.

Basudeb Banerjee: And last question sir like we were discussing earlier that suppose the fire accident the new facility of four-wheeler lighting will come up somewhere end of CY22, what is the progress with respect to that and how you are improving the utilization of Chennai facility as some key OEMs are plan to get added, so what is the status there?

Tarang Jain: So, basically when it comes to a new facility in Pune I do not think we mentioned that we are going to be ready in 22 I mean we are going to be looking at SOP somewhere around April 23 that is what we are looking at I mean the plant is moving in a very fast pace. So, I think we



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should do SOP I think it will gain some more benefits on single piece and yes we are looking at of course more business in Pune. When it comes to Chennai Renault Nissan is a main customer we have there today other than Daimler where we are exporting for bus lighting, but Renault Nissan recently also we won another very big business of about 70 crores of business annually a year in this last quarter and I think Chennai plant is playing along well. I would say we are growing a revenues also in Chennai and going forward we are in touch with also another large customers and we are hoping that we see some good traction with this other customer also moving forward in Chennai.

Moderator: Thank you. I would now like to hand it over to the management for closing comments.

Tarang Jain: So, thank you and thanks again for joining, listening and asking questions. We continue to pursue excellence in our day-to-day life for creating value for all you stakeholders. Thanks.

Moderator: Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may disconnect your lines