

# Varroc Engineering Ltd.

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CIN: L28920MH1988PLC047335



VARROC/SE/INT/2021-22/10

June 4, 2021

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: Press Release and Investor Presentation - Financial Results Q4/FY 2020-21**

Please find enclosed a copy of Press Release and Investor Presentation on the Audited Financial results (Consolidated & Standalone) for the quarter / Financial Year ended on March 31, 2021.

Kindly take the same on record and note the compliance.

**For Varroc Engineering Limited**

A handwritten signature in blue ink, appearing to read 'Ajay Sharma'.

**Ajay Sharma**  
**Group General Counsel and Company Secretary**

**Encl:** a/a



## Varroc Engineering Limited

L-4, MIDC, Industrial Area Waluj, Aurangabad 431 136 Maharashtra, India  
CIN: U28920MH1988PLC047335 | Tel +91 240 6653700 | www.varroc.com

### Press Release

- Revenue from Operations for the quarter increased by 32% YoY to ₹ 36.2 billion; India business revenue growth at 44.6% YoY and VLS at 13.7% YoY (in Euro)**
- Consolidated EBITDA for the quarter at ₹ 1,275 million increased by 11% YoY; India EBITDA margins improved by 360 bps while VLS EBITDA margins were adversely impacted mainly by Semi-conductor shortages and poor revenue mix**
- Net Debt reduced to ₹22.5 billion from ₹27.3 billion at end-December 20, and as compared to ₹34.1 billion at end-June 20, partly helped by QIP proceeds**

**Pune, June 4, 2021:** Varroc Engineering Ltd. (Varroc), a global tier-I auto component group, today announced its results for the quarter ended March 31, 2021

#### Summary Consolidated Financials

(₹ million)

	Q4 FY21	Q4 FY20	% Change	FY21	FY20	% Change
Revenue from Operations - Reported	36192.6	27447.5	32%	113027.5	111218.7	2%
Other Income - Operating	103.4	479.4		634.5	925.7	
Other Income - non-Operating	216.7	7.9		636.5	63.2	
EBITDA: Reported	1275.1	1145.8	11%	4602.4	9133.6	-50%
EBITDA %	3.5%	4.2%		4.1%	8.2%	
Depreciation & Amortisation	2361.8	2066.1	14%	8950.9	7318.6	22%
Finance Cost	371.5	349.4	6%	1626.3	1391.7	17%
Share of net profits of JVs under equity method	64.0	-105.5		356.3	-91.7	
<b>PBT - Reported</b>	<b>-1177.6</b>	<b>-1367.2</b>		<b>-4982.0</b>	<b>394.9</b>	
Tax	265.6	3.9		226.6	369.8	
<i>Tax rate</i>	<i>-21.4%</i>	<i>-0.3%</i>		<i>-4.2%</i>	<i>76.0%</i>	
<b>PAT before exceptional tax asset impairment</b>	<b>-1443.2</b>	<b>-1371.0</b>		<b>-5208.7</b>	<b>25.1</b>	
Exceptional tax asset impairment				1077.8		
<b>PAT after tax asset impairment</b>				<b>-6286.4</b>		

#### Consolidated Financial Performance for the quarter

- Revenue from operations for the quarter was ₹ 36,193 million, an increase of 32% over Q4 FY20.
- The India Business revenue increased by 44.6% YoY. The Global Lighting Business (VLS) revenue increased 13.7% YoY in Euro terms.
- The EBITDA for the quarter was at ₹ 1,275 million (Ex China), an increase of 11.3% over Q4 FY20. EBITDA margins declined 70 bps YoY, mainly due to weaker margins in VLS.
- The EBITDA for India business was at ₹ 1,456 million (EBITDA margin 11.9%; improvement of 360bps YoY) while VLS reported EBITDA of (-) ₹ 171 million.
- VLS margin impacted due to:
  - semi-conductor shortages leading to key customer OEMs shutting plants/ reducing volumes with negative impact on volumes at our established profit-making plants (Mexico and Czech Republic)
  - continued losses in new plants – Poland and Morocco as volume ramped-up slower than expected

- increase in raw material costs due to commodity price increases in semi-conductors, resin etc not offset by corresponding increases in selling prices
- exceptional items (premium freight debited by a customer etc)

#### China JV

- China JV Revenue recovered to normal levels in comparison to Q4 FY20 which was impacted due to countrywide shutdowns. Our share of the China JV profit was ₹ 54 Million as against a PAT loss of (-) ₹ 80 million in Q4 FY20

#### Depreciation and amortisation

- Depreciation and Amortisation expenses were higher due to capitalisation at new facilities.

#### Tax Expenses

- The overall tax expenses were positive in spite of negative PBT due to the losses in the new plants, on which we are not eligible to recognize deferred tax assets and we had to pay taxes in India where we delivered robust positive PBT.

#### Project RACE

- Launched Project RACE (Rapid Achievement of Competitive Edge) to bring VLS EBIT level in line with industry benchmarks with the support of a global consulting firm. The benefits of this project are expected to be visible over the next 12-18 months.

Mr. Tarang Jain, MD, Varroc Engineering Ltd. commented,

*"We have seen a strong recovery in Two-wheeler and Passenger Vehicle volumes across in India in Q4 FY21. The global (Ex China) passenger vehicle volumes in Q4 FY21 declined mainly due to severe semi-conductor shortages. As the current demand for chips is continuing to outstrip supply, suppliers are adding capacities. This additional capacity is expected to help meet auto sector demand starting end of Q2 FY22.*

*During this challenging external environment, our focus will be to steadily improve the margins in our VLS business on a sustainable basis in the coming quarters. In this direction, we have launched project RACE to bring VLS profitability in line with industry benchmarks."*

#### About Varroc Engineering Ltd.

Varroc Engineering Ltd is a global tier-1 automotive component group, ranked 124<sup>th</sup> in the 2019 Fortune India 500 list. It was incorporated in 1988. The group designs, manufactures and supplies exterior lighting systems, plastic and polymer components, electricals-electronics components, and precision metallic components to passenger car, commercial vehicle, two-wheeler, three-wheeler and off-highway vehicle OEMs directly worldwide. The group revenue was close to ₹ 11,200 crore (USD 1.5 Billion) in FY20. The group employs more than 14,300+ employees, has 43 global operating manufacturing facilities and has 185 patents.

Varroc Engineering Limited's shares are listed on the National Stock Exchange (VARROC) and the Bombay Stock Exchange (541578).

# Varroc Engineering Limited

## Financial Results

### Q4 FY21

::4<sup>th</sup> June 2021::

# Disclaimers

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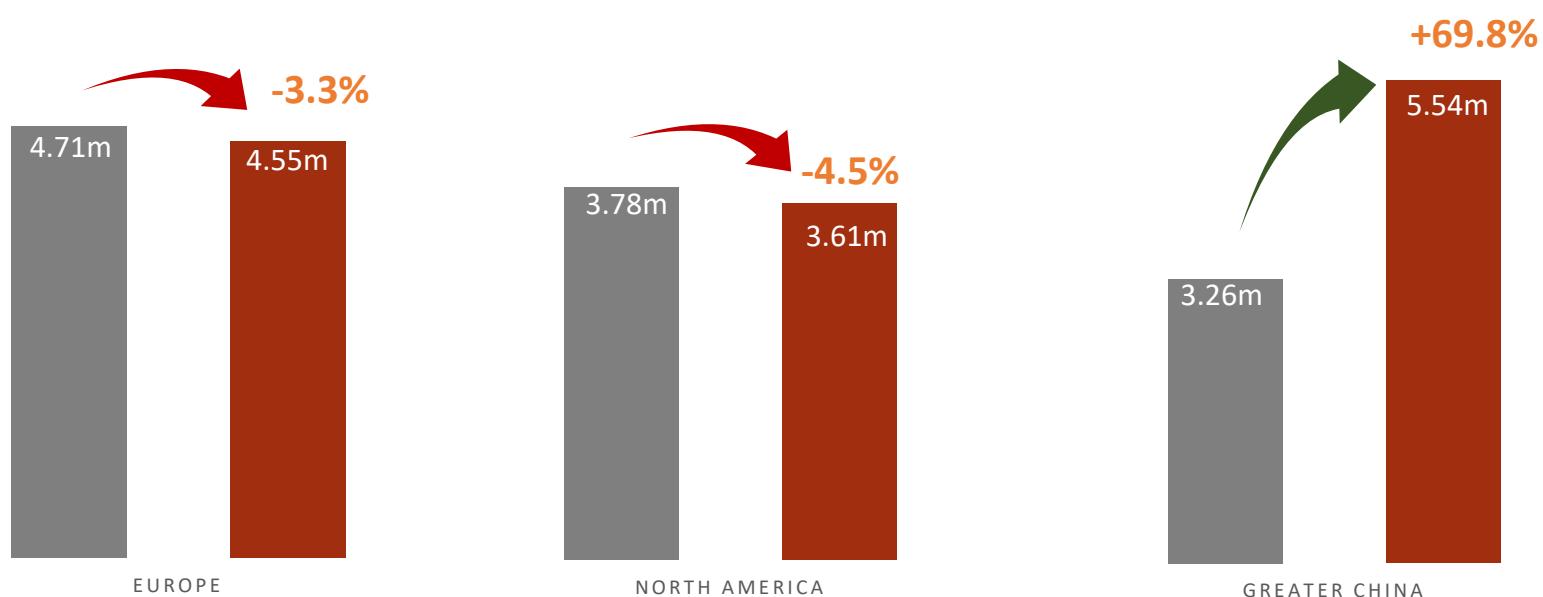
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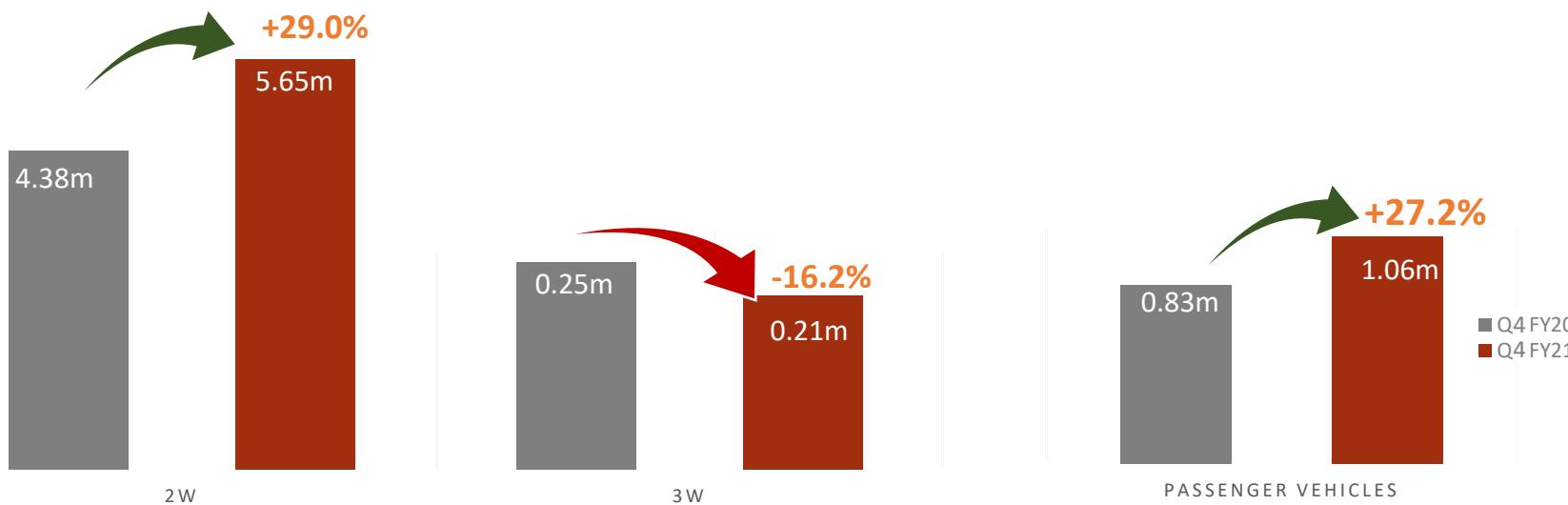


# Industry Trends in Q4 FY21

Global Passenger Vehicle Market Production



India Industry Trend : Production YoY



- Passenger Vehicle volumes in Q4 FY21 declined albeit on a lower base (fortnight shutdown in March 20); mainly impacted by severe semi-conductor shortages
- China PV volumes saw a YoY growth on a lower base last year (mainly due to impact of COVID first wave in Q4 FY20 for China)
- Domestic sales volumes grew YoY on back of strong market recovery and lower base in Q4 FY20 (shutdowns); 2W volumes grew by 24% and PV volumes grew by 42%. 3W volumes continued to be weak - down by 34% YoY
- Exports for 2Ws and 3Ws showed YoY growth of 33% and 9%, respectively. PV exports declined by 7%.

## Business Highlights: Q4 FY21

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- **Revenue from operations for the quarter increased by 32% YoY to ₹ 36.2 Billion**
- **Consolidated EBITDA for the quarter at ₹ 1,275 Million increased by 11% YoY**
- **India Business:** Revenue increased by 44.6% YoY, ahead of industry growth; EBITDA increased by 106.6% YoY and EBITDA margin continues to be strong at 11.9%, an improvement of 360 bps YoY
- **VLS:** Revenue grew 13.7% in Euro terms as against (-)2.7% YoY PV industry (Ex-China) volumes; EBITDA margin at (-)0.7% severely impacted by:
  - semi-conductor shortages leading to key customer OEMs shutting plants/ reducing volumes with negative impact on volumes at our established profit-making plants (Mexico and Czech Republic)
  - continued losses in new plants – Poland and Morocco as volume ramped-up albeit slower than expected
  - increase in RM costs due to commodity price increases in semi-conductors, resin etc not offset by corresponding increases in selling price
  - exceptional items (Customer debits and higher scrap etc)
- **VLS China JV:** Revenue at normal level in comparison to Q4 FY20 which was impacted due to countrywide shutdowns
- **Net debt reduction to ₹ 22.5 billion (from ₹ 27.3 billion at the end of Dec 2020);** helped by QIP proceeds while Q4 FCF was negative due to weaker operating performance at VLS business
- **Business wins encouraging; VLS net business wins at € 210 Million and India business wins at ₹ 13 Billion in FY21**
- Launched **Project RACE** to bring VLS EBIT level in line with industry benchmarks with the support of a Global Consulting firm



# Varroc Group: Financial Performance

Particulars	Q4 FY21	Q4 FY20	Growth (Y-o-Y)	FY21	FY20	₹ million Growth (Y-o-Y)
Revenue from Operations - Reported	36,193	27,447	32%	1,13,028	1,11,219	2%
Other income - Operating	103	479		634	926	
Other income - Non operating	217	8		637	63	
EBITDA - Reported *	1,275	1,146	11%	4,602	9,134	-50%
EBITDA Margins (%)	3.5%	4.2%		4.0%	8.2%	
Share of net profits of JVs under equity method	64	(105)		356	(92)	
Depreciation	2362	2066	14%	8951	7319	22%
Finance Cost	372	349	6%	1626	1392	17%
PBT - reported	(1,178)	(1,367)		(4,982)	395	
PAT - reported	(1,443)	(1,371)		(5,209)	25	
PAT - post exceptional tax asset impairment				(6,286)		

Particulars	Q4 FY21	Q4 FY20	Change
Net Debt (Excl. Impact of Leases: Ind AS 116)	22,527	27,315	(4,788)
Net Debt to Equity (Excl. Impact of Leases: Ind AS 116)	0.7	1.1	

\*EBITDA = Profit before share of net profits of JVs plus depreciation plus finance cost less non-operating portion of other income



# Varroc Group: Business Wise Performance Q4 FY21

₹ million

SBU	Q4 FY21			Q4 FY20			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
India Business	12,249	1,456	11.9%	8,471	698	8.2%	44.6%
VLS	23,513	(171)	-0.7%	18,789	433	2.3%	25.1%
Others (IMES)	577	(11)	-1.9%	478	6	1.3%	20.7%
Elimination	(147)	1		(291)	8		
<b>Total</b>	<b>36,193</b>	<b>1,275</b>	<b>3.5%</b>	<b>27,447</b>	<b>1,146</b>	<b>4.2%</b>	<b>31.9%</b>
China JV - 50%	1,594	125	7.8%	861	(6)	-0.7%	85.2%
<b>Total (Incl. pro-rata JV share)</b>	<b>37,787</b>	<b>1,400</b>	<b>3.7%</b>	<b>28,308</b>	<b>1,140</b>	<b>4.0%</b>	<b>33.5%</b>

## Euro Performance for VLS

SBU	Q4 FY21			Q4 FY20			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
VLS -Euro	267.4	(1.9)	-0.7%	235.1	5.4	2.3%	13.7%

Exchange rates : ₹/ € Average for Q4 FY21 = 87.9; ₹/ € Average for Q4 FY20 = 79.9



# VLS: QoQ performance by plant

€ million except otherwise mentioned

Region	Production Revenue		Q-o-Q Change %	
	Q3 FY21	Q4 FY21		
North America	41	33	-19.3%	
Czech	152	146	-3.6%	
Poland	13	16	29.9%	
Morocco	12	15	23.0%	
India	6	7	16.2%	
Brazil	2	2	10.6%	
SL2W	20	23	16.4%	
Eliminations	(11)	(10)		
<b>Production Revenue</b>	<b>236</b>	<b>234</b>	<b>-0.8%</b>	
Tooling	17	26	50.4%	
Engineering	8	8	4.0%	
<b>Total Reported Revenue</b>	<b>260</b>	<b>267</b>	<b>2.7%</b>	
New plant financial performance (€ mn)				
	Poland		Morocco	
	Q3 FY21	Q4 FY21	FY21	Q3 FY21
Revenue	14.5	19.2	44.0	14.9
EBITDA	(4.0)	(2.9)	(11.4)	(2.7)
EBITDA %	-28%	-15%	-26%	-18%
PAT	(5.3)	(5.7)	(17.8)	(4.9)
				FY21
				17.8
				(10.1)
				-19%
				-21%
				(19.1)

Established plants\* production revenue impacted mainly due to Semi-conductor shortages.

Overall revenue growth mainly driven by Customer Funded Tooling (CFT) and newer plants; newer plants improving in revenue, but profitability is still a challenge

Notes: \*Czech Republic and Mexico

# Semi-conductor shortage & other reasons – OEM Reactions and Impact on VLS established plants

## VLS Region

## Customer wise Impact details

### Plant shutdown days

January  
2021

February  
2021

March  
2021

VLS Region	Customer wise Impact details						Key Customer Plant (VLS Supply)	Comments / shutdown days
	Average monthly production Revenue (€ mn)			Customer	Average monthly production Revenue (€ mn)			
North America	Sept - Nov	Jan- March	% change		Sept - Nov	Jan- March	% change	
	16	11	-30%	C	6.2	2.1	-67%	USA
	D	4.7	2.9	-39%	Canada	Customer decided to focus on newer models for which we are not the suppliers, in preference to models, where we supply; Models with our lamps were believed to be down by ~85% YoY		
Czech Republic	A	2.2	2.0	-8%	Other plants	January (15 days)	February (0 days)	March (5 days)
	F	17.4	15.9	-8%	No known plant shutdowns	Slower than normal activity at other plants		
	A	12.3	6.0	-51%	Germany (P1)	Normalisation of volumes in Q4 FY21 as OEMs were overproducing in Q3 to make up for earlier in the year lost revenue due to COVID		
	F	17.4	15.9	-8%	Germany (P2)	January P1= (0 days)	February P1= (4 days)	March P1=(18 days)
					No known plant shutdowns	P2= (0 days)	P2= (16 days)	P2= (10 days)
						Production for some of the models have been slowed		

Notes: (1) The revenue shown above is only production revenue. Total Revenue = Production Revenue + Tooling + Engineering revenue

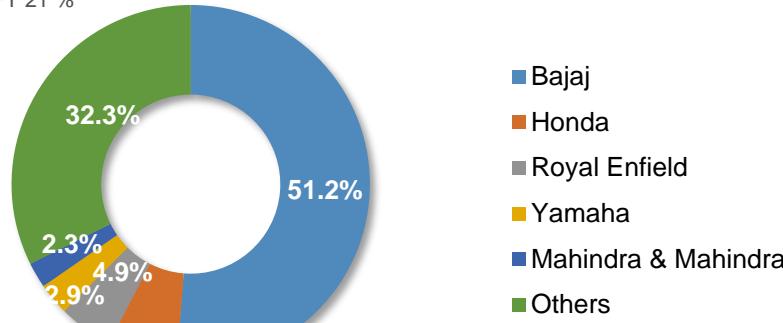
(2) Customer A is an American multinational car manufacturer, Customer B is a large British car manufacturer, Customer C is an American electric car manufacturer, Customer D is an international automotive manufacturer, customer E is a large European car manufacturer & customer F is a global automotive manufacturer headquartered in Europe.

December month has quite a few holidays; to remove impact of these holidays, we have removed December for the prior period and added September to make the appropriate comparison

# Revenue by Customers and Order Wins

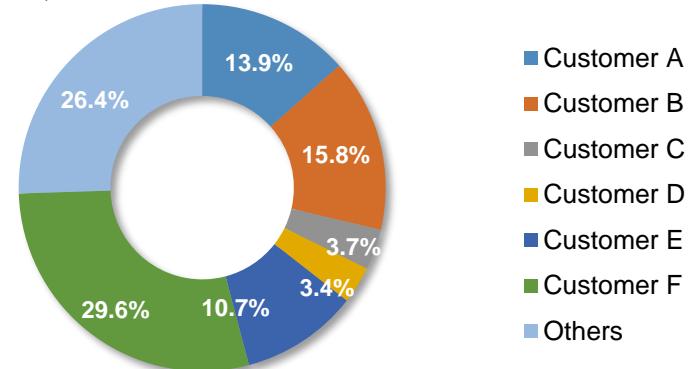
## India Revenue Split by Customer<sup>(1)</sup>

Q4 FY 21 %



## VLS Revenue Split by Customer<sup>(2)</sup>

Q4 FY 21, %



Revenue in Europe increased by 13% YoY

Revenue in Americas declined by 4% YoY

Revenue in India increased by 148% YoY

## Business New Business wins: VLS / Recent orders: India

## Near term potentials

VLS (FY21)	<p><b>Overall Net Business Wins of € 210 Mn;</b></p> <ul style="list-style-type: none"> <li>- New Business wins - € 162 Million net of givebacks/ cancellations</li> <li>- Re-wins - € 48 Million net of losses</li> </ul>	<p><b>Pipeline ~€ 70 million</b></p> <p>Ordering activity is picking-up gradually and some of the potential orders will add to the already strong visibility for the VLS business</p>
India Business (FY21)	<p><b>Overall Net Business Wins of ₹ 13 billion (New ₹10.8 billion)</b></p> <p><b>Bajaj:</b> Business of ₹ 5.2 billion for various products across businesses</p> <p><b>HMCL:</b> Various Polymer and Electrical &amp; Electronic product orders of ₹ 1.8 billion</p> <p><b>HMSI:</b> Various Metallic and Polymer product orders of ₹ 1.2 billion</p> <p><b>Royal Enfield:</b> ₹ 0.8 billion</p> <p><b>Various orders</b> from customers (VW, Yamaha, MG Motors, and Mahindra &amp; Mahindra etc.) for ₹ 4 billion</p>	<p>In discussion with major customers for Electrical products, Traction Motor and Controller, Telematics, lighting, Catalytic Convertor and Polymer products.</p> <p>Active engagement with new customers for couple of more product categories for BSVI engine and EV products</p>

Notes: (1) Based on management information system database

(2) Total Revenue break-up in Euro excl VTYC. Customer A is an American multinational car manufacturer, Customer B is a large British car manufacturer, Customer C is an American electric car manufacturer, Customer D is an international automotive manufacturer, Customer E is a large European car manufacturer & customer F is a global automotive manufacturer headquartered in Europe.

# Varroc Group: Business Wise Performance FY21

SBU	FY21			FY20			₹ million Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
India Business	36,466	4,052	11.1%	38,105	3,917	10.3%	-4.3%
VLS	75,514	722	1.0%	71,692	5,101	7.1%	5.3%
Others (IMES)	1,918	(171)	-8.9%	2,291	100	4.4%	-16.3%
Elimination	(870)	(1)		(869)	15		
<b>Total</b>	<b>1,13,028</b>	<b>4,602</b>	<b>4.1%</b>	<b>1,11,219</b>	<b>9,134</b>	<b>8.2%</b>	<b>1.6%</b>
China JV - 50%	5,858	751	12.8%	3,981	230	5.8%	47.1%
<b>Total (Incl. pro-rata JV share)</b>	<b>1,18,885</b>	<b>5,353</b>	<b>4.5%</b>	<b>1,15,200</b>	<b>9,364</b>	<b>8.1%</b>	<b>3.2%</b>

## Euro Performance for VLS

SBU	FY21			FY20			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
VLS - Euro	872	8	0.9%	909	65	7.1%	-4.1%

Exchange rates : ₹/€ Average for FY21 = 86.2; ₹/€ Average for FY20 = 78.5



# Debt Situation Status Update and Outlook for FY21

₹ Billion

D/E



## Debt Reduction by March 21 happened through -

- Part restoration of working capital cycle
- Reduction in Capex intensity
- QIP Proceeds
- Positive operating cashflow generation which started in Q2 and continued in Q3; Q4 negatively impacted by Semi-Conductor shortages

## Launched Project RACE to bring VLS EBIT levels in line with best-in-class industry benchmarks

**Industry and internal challenges leading to sub-optimal EBIT in VLS:** As widely known, our industry is going through one of the toughest times with significant issues across demand (e.g. uneven demand due to Covid) and supply (e.g. semi-conductor /chips availability, plants operations continuity, etc.). At the same time, we have also been facing several challenges internally in our VLS business such as higher raw material costs, lower productivity, under-utilized equipment, higher overheads and many more. The combined impact of these market and internal challenges has led to our VLS EBIT margins drop.

**Launch of an Integrated Turnaround Program (Project RACE) with support from a reputed consulting firm:** In recent years, we have launched several initiatives internally to address these challenges. While we have seen a mixed success in specific areas (e.g. improved customer and geographical diversification and increase in our overall market share within global PV lighting), we realize the need to start a more holistic program which goes into the details of every aspect of our VLS business and launches targeted initiatives to turnaround the performance. We have partnered with a highly respected consultancy firm with substantial experience in transformations to support us in this journey. The consulting firm is amongst the top tier-1 consulting firms globally and in recent years has led several similar turnarounds in Europe and globally. The consulting partner will work closely with a dedicated VLS teams for next 12 months to enable the turnaround of VLS business, especially in Europe.

**Target industry level EBIT margins in next 12-18 months :** Project RACE will focus on both topline and operational excellence levers. On topline, we intend to optimize our product/customer/pricing mix, while on operations, we will evaluate levers across VLS cost structure, i.e. raw materials cost optimization, productivity improvement, OEE improvement, overheads optimization, footprint optimization, etc. We plan to cover all key plants of VLS in Europe (Czech, Poland, Morocco) to start with, but apply the learnings across other geographies subsequently. With this program, we hope to bring VLS EBIT levels in line with best-in-class industry benchmarks over the next 12-18 months.

**More details and early results to be shared in future quarterly updates:** The project has been just launched and will identify the key value creation levers over the next few weeks, while also rolling out in parallel targeted quick-win initiatives. We will share more details on Project RACE in future quarterly investor updates.

**We have partnered with a global consultancy firm with substantial experience in business transformations to support us in this journey**



# Update on Current Business Environment

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- **Current Situation in India and VLS**

- India revenue impacted negatively by customer shutdowns in May and June
- April and May– Semiconductor issue impacting Europe and North America volumes of key customers
- Soft schedules as a result of semi-conductor shortages till August 2021
- Overtime and premium freight costs in control

- **Outlook for rest of the year**

- **India business:** we continue to believe that the business will recover strongly once lockdowns are lifted
- **VLS Revenue growth driven by end customer demand but constrained by semi-conductor shortages**
- **Focus on cost optimization, positive free cashflow and debt reduction to continue**
  - Launch of project RACE with a reputed global consultant help achieve industry level profitability
  - Control over Capex and working capital
- **Focus on maintaining adequate liquidity support to business**



THANK YOU

