

# Varroc Engineering Ltd.

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/2020-21/33

August 14, 2020

To,

(1) 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.

(2) The Manager - Listing  
The Corporate Relation Department,  
**BSE Limited**  
Phiroze Jeejeebhoy Towers,  
Dalal Street, Fort,  
Mumbai-400001.

NSE Symbol: VARROC

BSE Security Code: 541578  
Security ID: VARROC

Dear Sir / Madam,

**Sub: Press Release and Investor Presentation - Financial Results Q1 FY 2020-21**

Please find enclosed a copy of Press Release and Investor Presentation on the Unaudited Financial results (Consolidated & Standalone) for the quarter ended on June 30, 2020.

Kindly take the same on record and note the compliance.

Thanking you,

Yours faithfully,

**For Varroc Engineering Limited**

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**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

- Consolidated Revenue from operations for Q1 FY21 declined by 56% YoY due to the impact of the COVID-19 pandemic on business operations
- EBITDA loss for the quarter was Rs 1.8 billion; several cost rationalization initiatives rolled out to reduce fixed cost base by more than 20%
- Resumption of the regular working capital cycle, improved profitability and reduction in capex expected to lead to positive cash flows going forward

**Pune, August 14, 2020:** Varroc Engineering Ltd. (Varroc), a global tier-I auto component group, today announced its results for the quarter ended June 30, 2020

#### Summary Consolidated Financials

(Rs million)

|                                                 | Q1 FY21        | Q1 FY20       | % Change |
|-------------------------------------------------|----------------|---------------|----------|
| Revenue from Operations - Reported              | 12746.9        | 28700.8       | -56%     |
| Other Income - Operating                        | 110.0          | 280.4         |          |
| Other Income - non-Operating                    | 390.0          | 11.3          |          |
| EBITDA : Reported                               | -1794.3        | 2970.3        | -160%    |
| EBITDA %                                        | -14.1%         | 10.3%         |          |
| Depreciation & Amortisation                     | 2069.0         | 1646.3        | 26%      |
| Finance Cost                                    | 431.5          | 312.5         | 38%      |
| Share of net profits of JVs under equity method | 109.7          | -1.5          |          |
| <b>PBT - Reported</b>                           | <b>-3795.1</b> | <b>1021.4</b> |          |
| Tax                                             | -709.2         | 146.4         |          |
| Tax rate                                        | 18.2%          | 14.3%         |          |
| <b>PAT - Reported</b>                           | <b>-3085.9</b> | <b>875.0</b>  |          |

#### Consolidated Financial Performance for the quarter

- Revenue from operations for the quarter was Rs 17,747 million, a decline of 56% over Q1 FY20, mainly due to plant shutdowns caused by the COVID-19 pandemic.
- The Global Lighting Business (VLS) revenue declined 50% YoY in Euro terms. The India Business revenue declined by 71%.
- The reported EBITDA loss for the quarter was Rs 1,794 million.
- The EBITDA loss for India business was at Rs 251 million while VLS reported EBITDA loss of Rs.1,547 million.

#### China JV

- China JV recovered quickly from the Covid-19 impact and performed strongly in this quarter. Revenue grew by 30.5% YoY and EBITDA margin was (+)16.5% for the quarter as against (+)6.3% in Q1 FY20. Our share of the JV profit was Rs.110 Mn as against a marginal loss in Q1 FY20.

### Depreciation and amortisation

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

### Finance Costs

- Finance costs were higher due to higher average borrowings during the period, caused by the disruption to the working capital cycle.

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

*“As is required of any prudent business, we initiated a number of steps to mitigate the impact of the Covid-19 impact on the business. We are limiting capital expenditure in line with revised demand expectations, and it will be only about 60% of the capex incurred last year. We have also taken steps to reduce the fixed cost base through various measures, resulting in savings of about 20% overall. We have also prioritised securing and preserving liquidity till the operations have fully stabilised and visibility on business prospects has improved. These measures helped us weather the storm and navigate our way through the crisis and emerge stronger with a lower cost base and more efficient operations.*

*Going forward, our key areas of focus would be optimisation of cost structure, maximising capacity utilisation of investments made and cash flow generation.”*

### **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 Rs 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**  
**Financial Results**  
**Q1 FY21**

::14<sup>th</sup> August 2020::

# Disclaimers

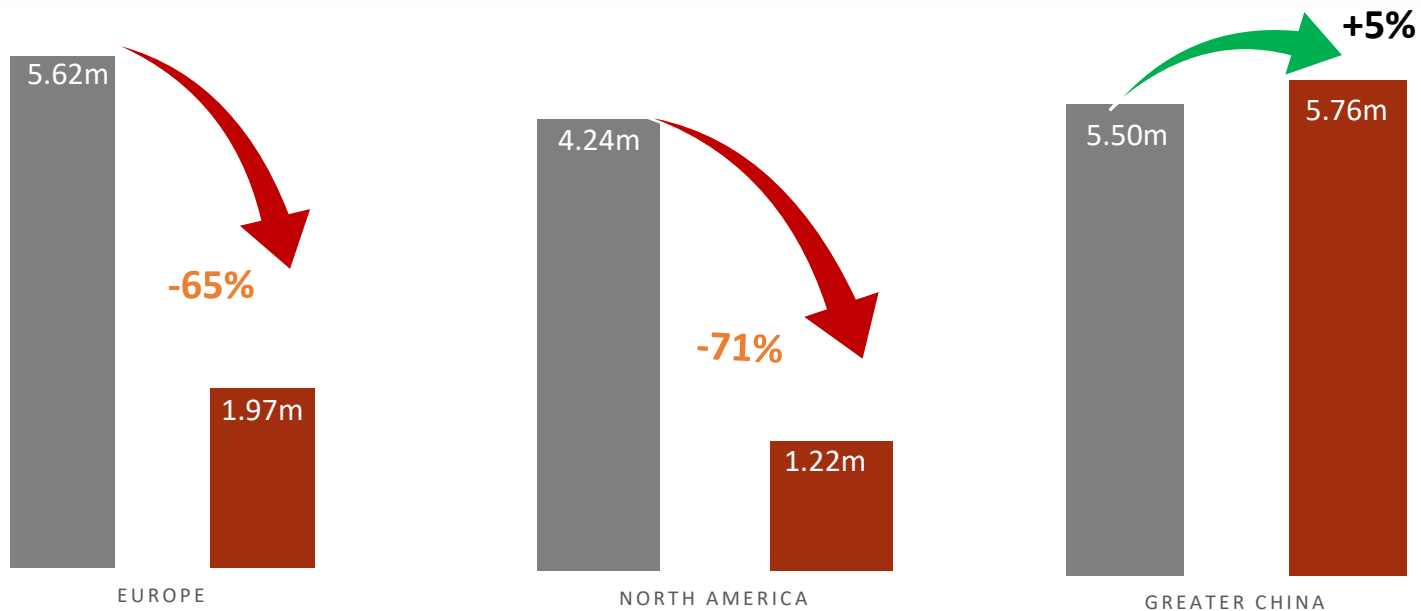
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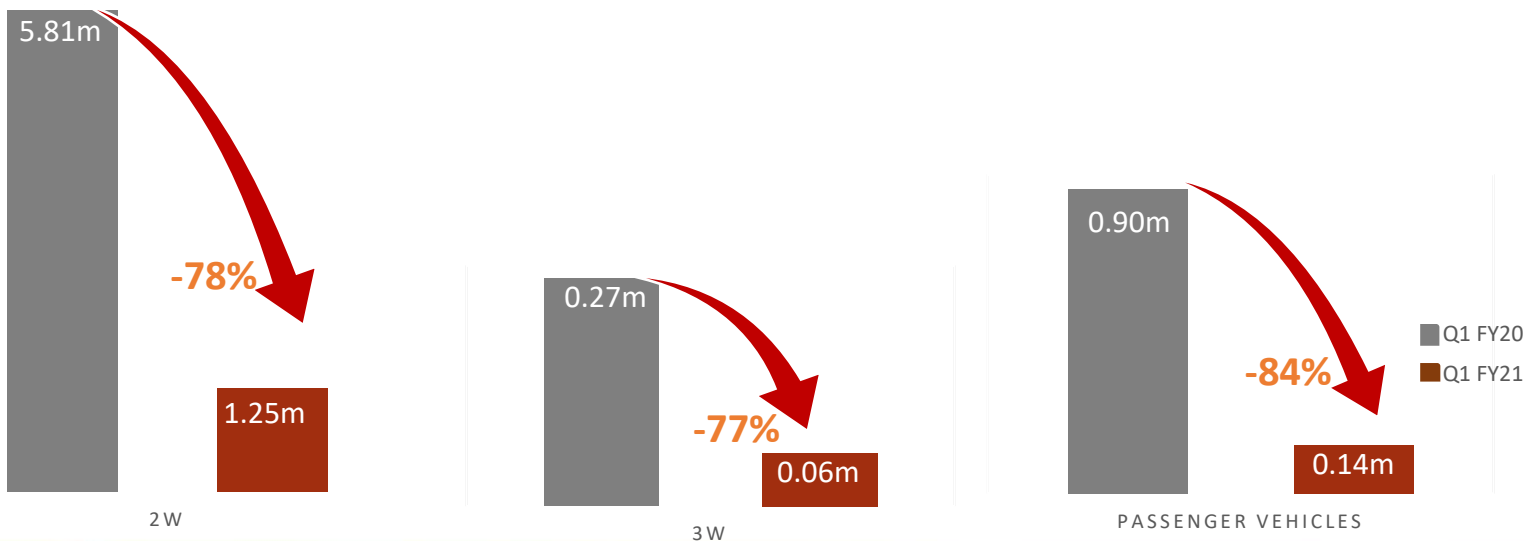
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# Industry Trends in Q1 FY21 YOY

Global Passenger Vehicle Market Production



India Industry Trend : Production YoY



- Passenger Vehicle volumes in Q1 FY21 declined drastically significantly across all regions (except China) as lockdowns in place globally for a major part of the quarter
- China PV volumes recovered quickly as the Novel Coronavirus impact gradually subsided and lockdowns were lifted.
- Domestic sales volumes declined drastically; 2W volume declined 74%, PV by 78% and 3W volumes were down by 91% YoY
- Exports for 2Ws showed YoY decline of 62%YoY. PV and 3W exports declined by 75% & 60% YoY, respectively.

## Business Highlights: Q1 FY21

- All of the Global and Indian plants were closed in April and most of May. Volumes ramped up gradually post re-opening. June 20 revenues were 80% of June 19 revenues
- Reported Revenue from Operations for the quarter declined by 55.6% YoY
- Consolidated EBITDA loss for the quarter was Rs 1.8 Bn
- India Business: Revenue declined by 71.3%; EBITDA loss at Rs 251 Mn
- VLS: Revenue declined by 50.4% YoY in Euro terms; EBITDA loss at Rs 1.5 Bn
- China JV performance strong as revenue grew by 30.5% YoY and EBITDA margin was (+)16.5% for the quarter as against (+)6.3% in Q1 FY20
- Several cost rationalization initiatives rolled out to reduce fixed cost base by ~20%; full benefits to be seen in the second half of FY21
- Increase in net-debt levels due to disruption in working capital cycle, continuing fixed costs, capex payments and adverse currency movement; cash drawn down in March 20 helped in meeting the liquidity requirements
- Positive cash flows expected in rest of FY21 due to resumption of the regular working capital cycle, improved profitability and lower capex; target to end FY21 debt closer to FY20 levels
- Both cashflow and profitability have turned positive in July. Expect to sustain the same going forward

# Varroc Group: Financial Performance

| Particulars                                     | Q1 FY21 | Q1 FY20 | Growth (Y-o-Y) |
|-------------------------------------------------|---------|---------|----------------|
| Revenue from Operations - Reported              | 12,747  | 28,701  | -56%           |
| Other income - Operating                        | 110     | 280     |                |
| Other income - Non operating                    | 390     | 11      |                |
|                                                 |         |         |                |
| EBITDA - Reported *                             | (1,794) | 2,970   | -160%          |
| EBITDA Margins (%)                              | -14.1%  | 11.0%   |                |
|                                                 |         |         |                |
| Share of net profits of JVs under equity method | 110     | (1)     |                |
|                                                 |         |         |                |
| PBT - reported                                  | (3,795) | 1,021   |                |
|                                                 |         |         |                |
| PAT - reported                                  | (3,086) | 875     |                |

## Debt movement since last quarter

| Particulars                                             | Q1 FY21 | Q4 FY20 |
|---------------------------------------------------------|---------|---------|
| Net Debt                                                | 34,121  | 24,737  |
| Net Debt to Equity (Excl. Impact of Leases: Ind AS 116) | 1.2     | 0.7     |

\*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 Q1 FY21

| SBU              | Q1 FY21       |                |               | Q1 FY20       |              |              | Revenue Change YoY |
|------------------|---------------|----------------|---------------|---------------|--------------|--------------|--------------------|
|                  | Revenue       | EBITDA         | % EBITDA      | Revenue       | EBITDA       | % EBITDA     |                    |
| India Business   | 2,977         | (251)          | -8.4%         | 10,359        | 1,066        | 10.3%        | -71.3%             |
| VLS (Incl TRIOM) | 9,463         | (1,547)        | -16.3%        | 17,840        | 1,859        | 10.4%        | -47.0%             |
| Others (IMES)    | 402           | (11)           | -2.7%         | 577           | 33           | 5.7%         | -30.3%             |
| Elimination      | (95)          | 14             |               | (76)          | 12           |              |                    |
|                  |               |                |               |               |              |              |                    |
| <b>Total</b>     | <b>12,747</b> | <b>(1,794)</b> | <b>-14.1%</b> | <b>28,701</b> | <b>2,970</b> | <b>10.3%</b> | <b>-55.6%</b>      |
| China JV - 50%   | 1,317         | 217            | 16.5%         | 1,009         | 64           | 6.3%         | 30.5%              |

## Euro Performance for VLS

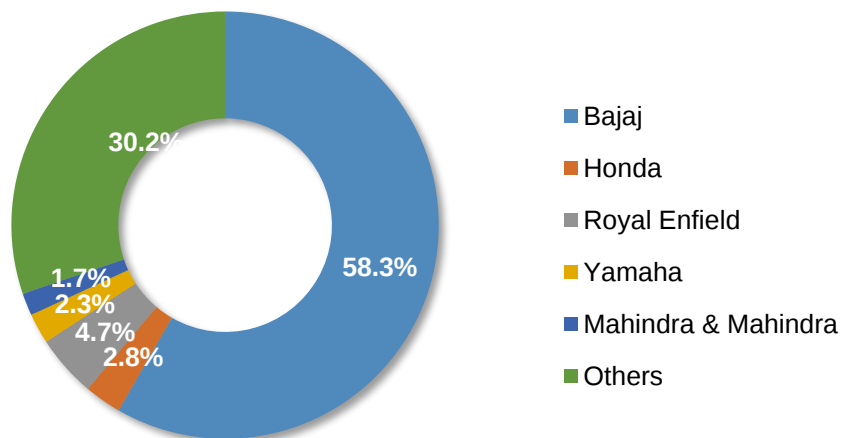
| SBU       | Q1 FY21 |        |          | Q1 FY20 |        |          | Revenue Change YoY |
|-----------|---------|--------|----------|---------|--------|----------|--------------------|
|           | Revenue | EBITDA | % EBITDA | Revenue | EBITDA | % EBITDA |                    |
| VLS -Euro | 113     | (18.5) | -16.3%   | 228     | 23.8   | 10.4%    | -50.4%             |

Exchange rates : INR/Euro Average for Q1 FY21 = 83.67; INR/Euro Average for Q1 FY20 = 78.20

# Revenue by Customers and Order Wins

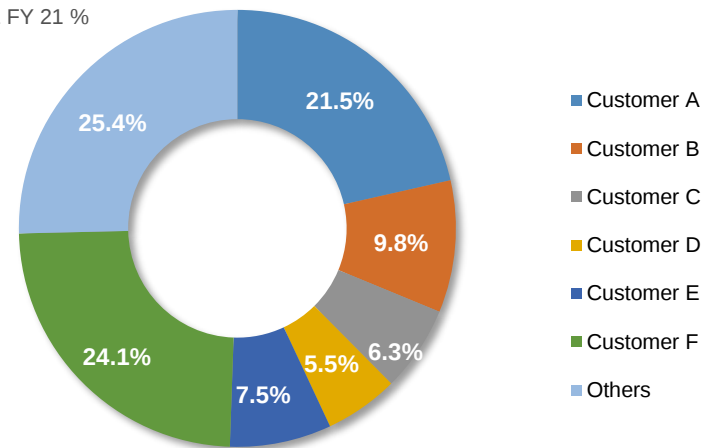
## India Revenue Split by Customer<sup>(1)</sup>

Q1 FY21 %



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

Q1 FY 21 %



Revenue in Europe declined by 46% YoY

Revenue in Americas declined by 55% YoY

Revenue in China increased by +31%YoY as lockdowns were lifted by the Govt.

## Highlights of major order wins and near-term potentials (Order value in terms of average annual revenue) – till July 20

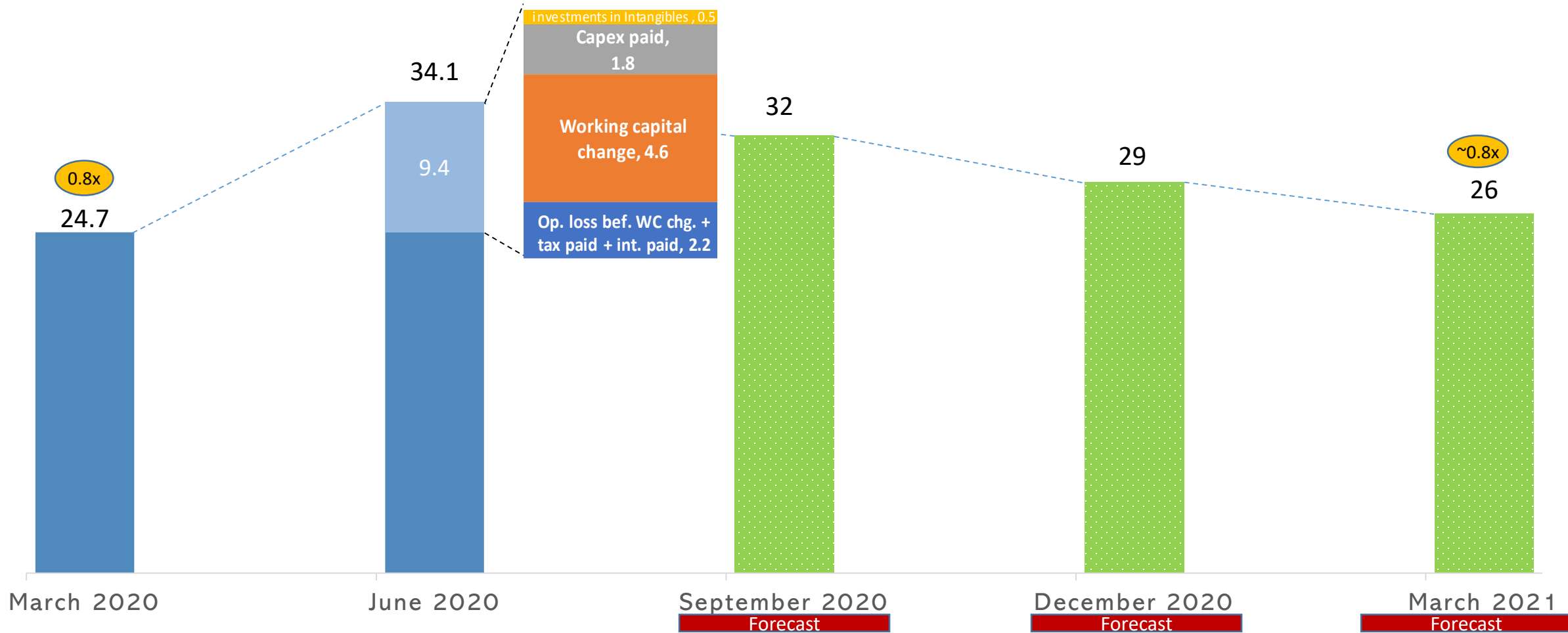
| Business       | New wins: VLS / Recent orders: India                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Near term potentials                                                                                                                                                                                                                                         |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| VLS            | <b>Overall net business wins of ~Eur 14 Mn; pipeline of &gt;Eur 100 Mn</b><br>- New Business wins - Eur 22 Mn including EV programs in China and further wins in Americas<br>- Re-wins - Eur 28 Mn and losses Eur 36 Mn                                                                                                                                                                                                                                                                                                                                                                                    | Some of the key orders out of the pipeline of >Eur100 million, if won, will likely provide further boost to our new facilities                                                                                                                               |
| India Business | <b>Overall net business wins of ~Rs 1.6 Bn</b><br><b>Bajaj:</b> Order of Rs 667 million for various products including EV products<br><b>HMCL:</b> Various orders for polymer and electrical products for Rs 192 million<br><b>MG Motors:</b> Order for polymer products for Rs 220 million<br><b>VW:</b> Various orders for polymer products for Rs 108 million<br><b>Mahindra:</b> Various orders for polymer products for Rs 100 million<br><b>HMSI:</b> Various orders for polymer products for Rs 82 million<br><b>Other Customers:</b> Various orders for Rs 258 million in annual revenue potential | In discussion with major customers for Electrical products, Traction Motor and Controller, Telematics, lighting, Catalytic Convertor and Polymer products.<br><br>Active engagement with new customers for couple of more product categories for BSVI engine |

Note: (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.

# Debt Situation Update and Outlook for FY21

Billion Rs



D/E

## Debt Reduction by March 21 to happen through -

- Restoration of normal working capital cycle
- Improved profitability
- Significant reduction in Capex and other initiatives

# Updates for FY21 – Current Situation (Q2) and Outlook (rest of the year)

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## Current Situation – Q2 FY21

- **Substantial improvement in performance as compared to Q1**
  - July – Good ramp-up in volumes from June levels; Revenue at 92% of July 19 levels. Profitability and cashflows turned positive.
  - August and September – strong supply schedules from all key customers both in India and VLS

## Outlook for H2

- **Confident of building on the turn around in Q2** as a result of various initiatives already rolled out in Q1
- **Focus on cash conservation and cost optimization in VLS**
  - Recurring SG&A and Engineering costs reduction measures completed; savings visible in monthly run-rate
  - Reduction in full year capex
  - Working capital improvements, especially inventory, through process and system changes
  - Reiterate target of positive Free Cash Flow on full year basis

# THANK YOU

