

# Varroc Engineering Limited

## Financial Results

### Q1 FY22

::12<sup>th</sup> August 2021::

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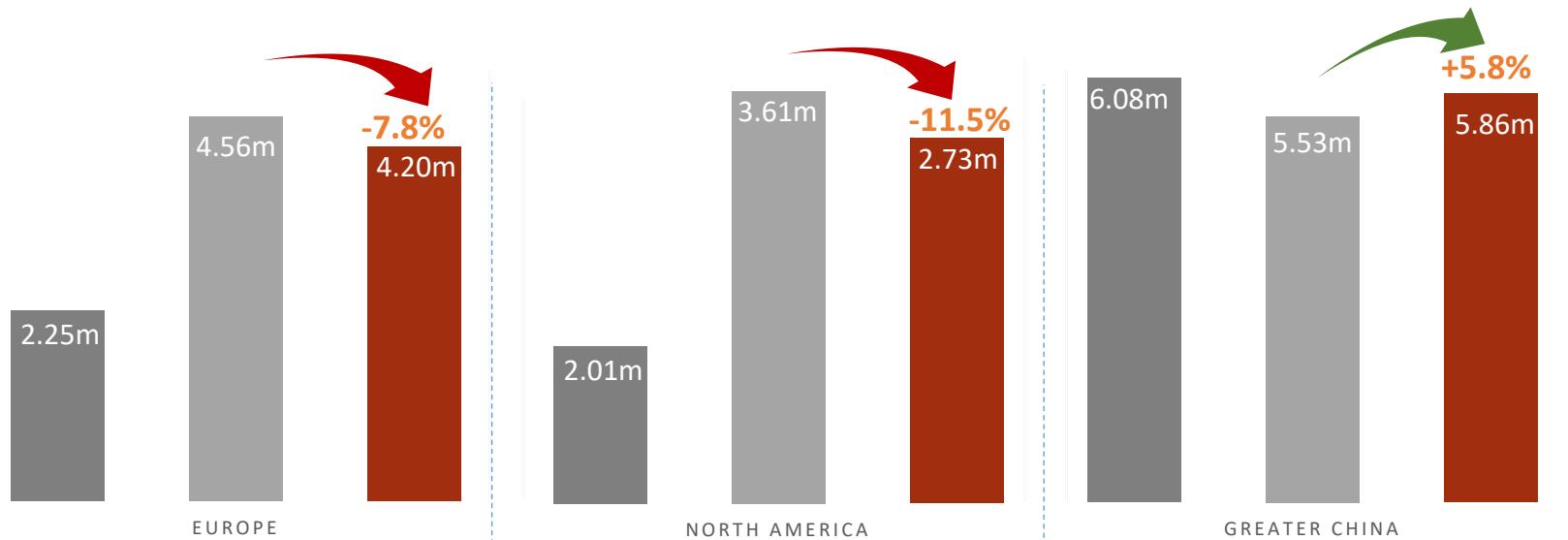
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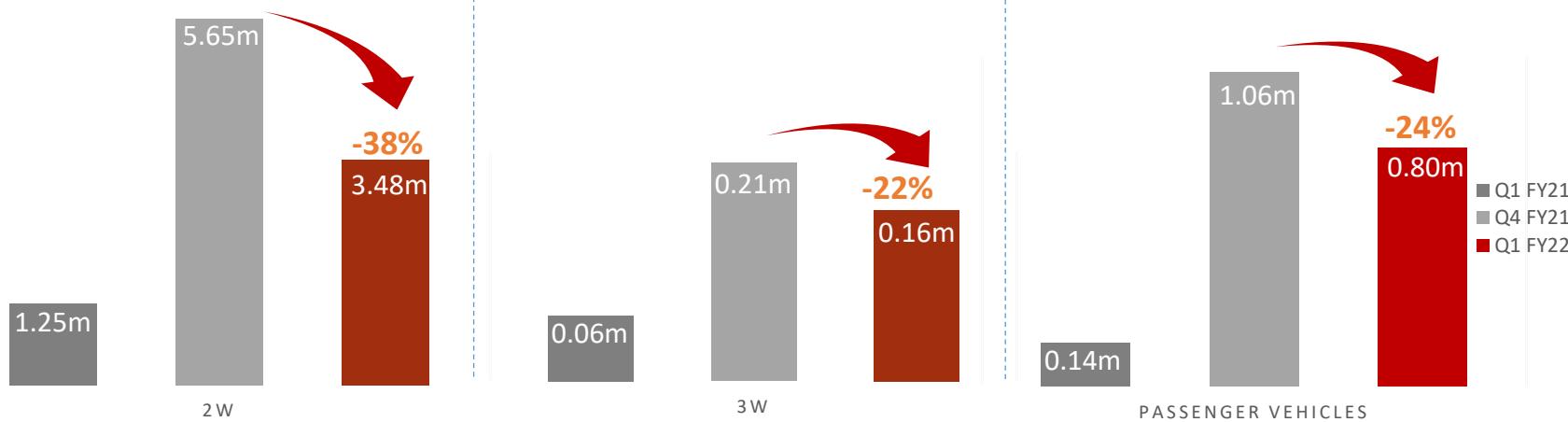
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# Industry Trends in Q1 FY22 – Steep QoQ drop in Global PV Volumes, India suffered due to Covid 2<sup>nd</sup> wave shutdowns

Global Passenger Vehicle Market Production



India Industry Trend : Production YoY



- PV volumes in Q1 FY22 severely impacted by semiconductor shortages; OEMs continued to operate plants at sub-optimal capacity/ plant shutdowns were frequent. North America and Europe QoQ volumes saw significant drop
- China PV volumes saw QoQ increase in PV Volumes but a YoY decline of 3.6% as it had recovered from COVID first wave in Q1 FY21.
- Domestic sales volumes grew YoY on back of strong market recovery and lower base in Q1 FY21 (shutdowns); However, the QoQ performance was very weak as the COVID second wave related lockdowns severely impacted volumes – 2Ws (- 38%), 3Ws (-24%), PVs (-25%)
- Exports for 2Ws and 3Ws showed YoY growth

## Business Highlights: Q1 FY22

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- **Revenue from operations for the quarter declined 19% QoQ to ₹ 29.4 Billion**
- **Consolidated EBITDA for the quarter severely impacted by semiconductor shortages led volume drop in VLS business and the shutdowns in India**
- **India Business:** Revenue declined by 22.6% QoQ due to COVID second wave related lockdowns; EBITDA margin at 7.7%
- **VLS:** Revenue declined 17.9% QoQ in Euro terms; EBITDA margin at (-)2.8% severely impacted by:
  - Semiconductor shortages leading to key OEMs shutting plants/ reducing volumes, impacting revenue and margins at our established profit-making plants
    - Mexico Production revenue continued the declining trend seen in previous quarter – down (-)6.5% QoQ after seeing QoQ decline of (-)19.3% in previous quarter
    - Czech Republic Production revenue decline trend intensified - down further (-)21% QoQ
    - Continued losses in new plants – Poland and Morocco - as expected volume ramp-up did not materialise
- **VLS China JV:** Revenue declined (-)26.5% QoQ leading to drop in EBITDA margins to (+)4.6%
- **Net debt increased to ₹ 27.7 billion;** FCF was negative due to disruption in working capital cycle, capex and weaker operating performance
- **Business wins:** **VLS net business wins at € 99 Million and India business wins at ₹ 2.8 Billion**
- **Project RACE** to bring VLS EBIT level in line with industry benchmarks is making good progress in identifying potential areas for improvement



# Varroc Group: Financial Performance

₹ million

Particulars	Q1 FY22	Q1 FY21	Q4 FY21	Growth (Y-o-Y)	Growth (Q-o-Q)
Revenue from Operations - Reported	29,416	12,747	36,193	131%	-19%
Other income - Operating	146	110	103		
Other income - Non operating	8	390	217		
EBITDA - Reported *	176	(1,794)	1,275		-86%
EBITDA Margins (%)	0.6%	-14.1%	3.5%		
Share of net profits of JVs under equity method	(26)	110	64		
Depreciation & Engineering/Intangible amortisation	2192	2069	2362	6%	-7%
Finance Cost	386	432	372	-11%	4%
PBT - reported	(2,419)	(3,795)	(1,178)		
PAT - reported	(2,293)	(3,086)	(1,443)		

Particulars	Q1 FY22	Q4 FY21	Change	Debt increased due to::
Net Debt (Excl. Impact of Leases: Ind AS 116)	27,771	22,527	5,244	1. Negative Working Capital changes (Increased inventory mainly) 2. Capex during the quarter 3. Negative operating results
Net Debt to Equity (Excl. Impact of Leases: Ind AS 116)	1.0	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 FY22

₹ million

SBU	Q1 FY22			Q1 FY21			Revenue Change YoY	Q4 FY21			Revenue Change QoQ
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA		Revenue	EBITDA	% EBITDA	
India Business	9,480	728	7.7%	2,950	(245)	-8.3%	221.4%	12,249	1,456	11.9%	-22.6%
VLS	19,504	(544)	-2.8%	9,604	(1,550)	-16.1%	103.1%	23,513	(171)	-0.7%	-17.1%
Others (IMES)	741	(8)	-1.1%	402	(11)	-2.7%	84.1%	577	(11)	-1.9%	28.3%
Elimination	(309)	0		(209)	11			(147)	1		
<b>Total</b>	<b>29,416</b>	<b>176</b>	<b>0.6%</b>	<b>12,747</b>	<b>(1,795)</b>	<b>-14.1%</b>	<b>130.8%</b>	<b>36,193</b>	<b>1,275</b>	<b>3.5%</b>	<b>-18.7%</b>
China JV - 50%	1,171	53	4.6%	1,297	217	16.7%	-9.7%	1,594	125	7.8%	-26.5%
<b>Total (Incl. pro-rata JV share)</b>	<b>30,587</b>	<b>230</b>	<b>0.8%</b>	<b>14,044</b>	<b>(1,578)</b>	<b>-11.2%</b>	<b>117.8%</b>	<b>37,787</b>	<b>1,400</b>	<b>3.7%</b>	<b>-19.1%</b>

## Euro Performance for VLS

SBU	Q1 FY22			Q1 FY21			Revenue Change YoY	Q4 FY21			Revenue Change QoQ
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA		Revenue	EBITDA	% EBITDA	
VLS -Euro	219.6	(6.1)	-2.8%	115.0	(18.5)	-16.1%	90.9%	267	(2)	-0.7%	-17.9%

Exchange rates : ₹/ € Average for Q1 FY22 = 88.83; ₹/ € Average for Q1 FY21 = 83.67; ₹/ € Average for Q4 FY21 = 87.9



# VLS: QoQ performance by plant

€ million except otherwise mentioned

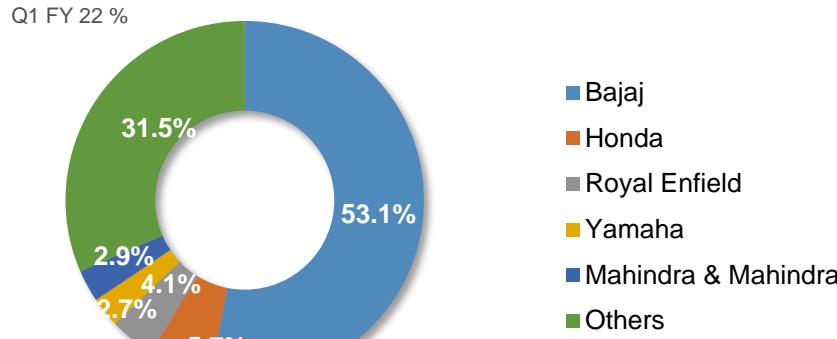
Region	Production Revenue			Q-o-Q Change %	
	Q3 FY21	Q4 FY21	Q1 FY22		
North America	41	33	31	-6.5%	
Czech	152	146	116	-20.7%	
Poland	13	16	16	-0.7%	
Morocco	12	15	16	6.2%	
India	6	7	5	-26.7%	
Brazil	2	2	2	-2.4%	
SL2W	20	23	22	-6.9%	
Eliminations	(9)	(8)	(9)		
<b>Production Revenue</b>	<b>234</b>	<b>237</b>	<b>199</b>	<b>-16.0%</b>	
Tooling	17	26	15	-39.7%	
Engineering	8	5	5	0.0%	
<b>Total Reported Revenue</b>	<b>258</b>	<b>267</b>	<b>220</b>	<b>-17.9%</b>	
New plant financial performance (€ mn)					
	Poland		Morocco		
	Q1 FY21	Q4 FY21	Q1 FY22	Q1 FY21	Q4 FY21
Revenue	1.7	19.2	19.5	2.9	17.8
EBITDA	(1.1)	(2.9)	(5.1)	(1.7)	(3.5)
EBITDA %	-65%	-15%	-26%	-60%	-19%
PAT	(2.2)	(5.7)	(6.8)	(3.2)	(7.3)
					(5.0)

Semiconductor shortages continue to impact Established plants\* production revenue negatively, albeit at a pace even more severe than the previous quarter.

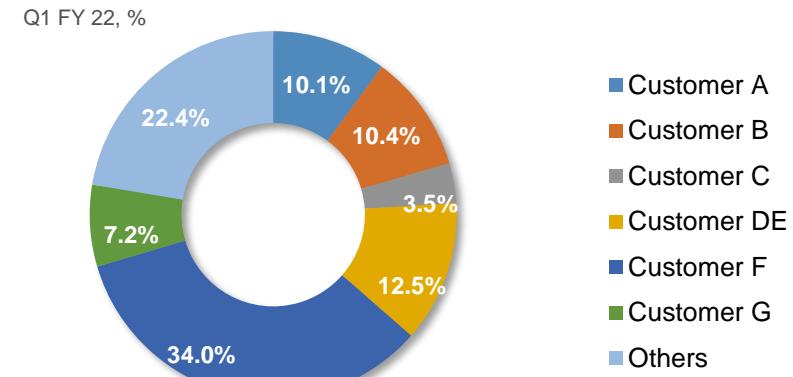
Newer plant profitability still not up to expectations due to slower ramp up in volumes

# Revenue by Customers and Order Wins

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



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



Revenue in Europe  
declined by 17.6% QoQ

Revenue in Americas  
declined by 10.2% QoQ

Revenue in India declined  
by 45.2% QoQ

Business	New Business wins: VLS / Recent orders: India	Near term potentials
VLS (Till July 22)	<p><b>Overall Net Business Wins of € 99 Million:</b></p> <ul style="list-style-type: none"> <li>- New Business wins - € 78 Million net of givebacks/ cancellations</li> <li>- Re-wins - € 21 Million net of losses</li> </ul>	Ordering activity is picking-up gradually and some of the potential orders will add to the already strong visibility for the VLS business
India Business (Q1 FY22)	<p><b>Overall Net Business Wins of ₹ 2.8 billion (New ₹ 2.7 billion)</b></p> <p><b>Bajaj:</b> Business of ₹ 1.6 billion for various products across businesses</p> <p><b>TVS Motors:</b> New orders of ₹ 0.5 billion for two new product categories</p> <p><b>Various orders</b> from customers (VW, Yamaha, MG Motors, and Mahindra &amp; Mahindra etc.) for ₹ 0.7 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 EV products, BSVI products and forging products</p>

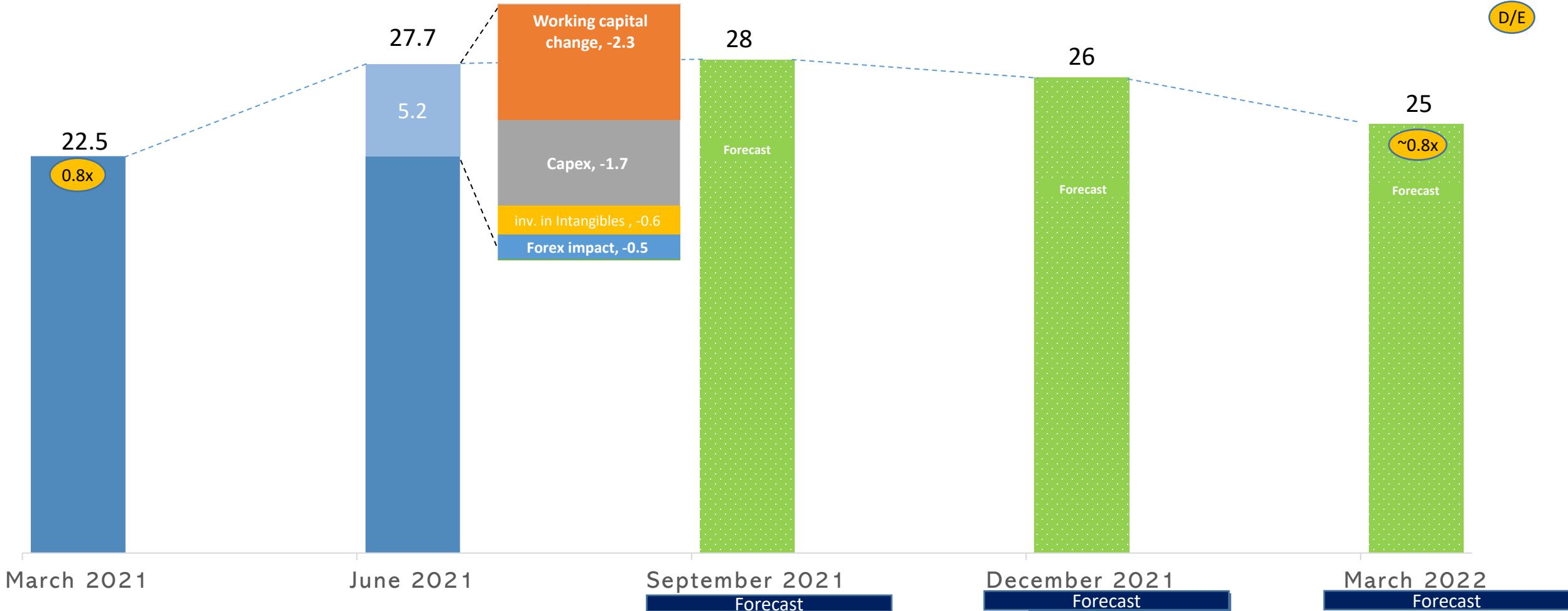
Notes: (1) Based on management information system database

(2) Total Revenue by 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 DE is an international automotive manufacturer, Customer F is a global automotive manufacturer headquartered in Europe and Customer G is a leading light vehicle manufacturing group in the world

# Debt Situation Status Update and Outlook for FY21

₹ Billion

D/E



## Debt Reduction by March 22 to happen through -

- Part restoration of working capital cycle
- Reduction in Capex intensity
- Positive operating cashflow expected in Q3 and Q4 as we expect Semi-Conductor shortages situation to improve



# Update on Current Business Environment

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- **Current Situation**
  - India business revenue performance strong in July
  - VLS July / August – Semiconductor issues continuing -
    - Soft schedules as a result of semi-conductor shortages till August 2021. North America volumes August onwards to be considerably better than previous 6 months
    - Overtime and premium freight costs under control
- **Outlook**
  - **India:** The business has shown a strong recovery post lockdowns; expect to see a strong growth in coming months
  - **VLS Revenue growth driven by end customer demand but constrained by semiconductor shortages**
  - **Focus on cost optimization, positive free cashflow and debt reduction to continue**
    - Launch of project RACE to help achieve industry level profitability
    - Control over Capex and working capital
  - **Focus on maintaining adequate liquidity support to business**



THANK YOU

