

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
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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 | |
| PBT - Reported | -1177.6 | -1367.2 | | -4982.0 | 394.9 | |
| 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> | |
| PAT before exceptional tax asset impairment | -1443.2 | -1371.0 | | -5208.7 | 25.1 | |
| Exceptional tax asset impairment | | | | 1077.8 | | |
| PAT after tax asset impairment | | | | -6286.4 | | |

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 124th 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

::4th June 2021::

Disclaimers

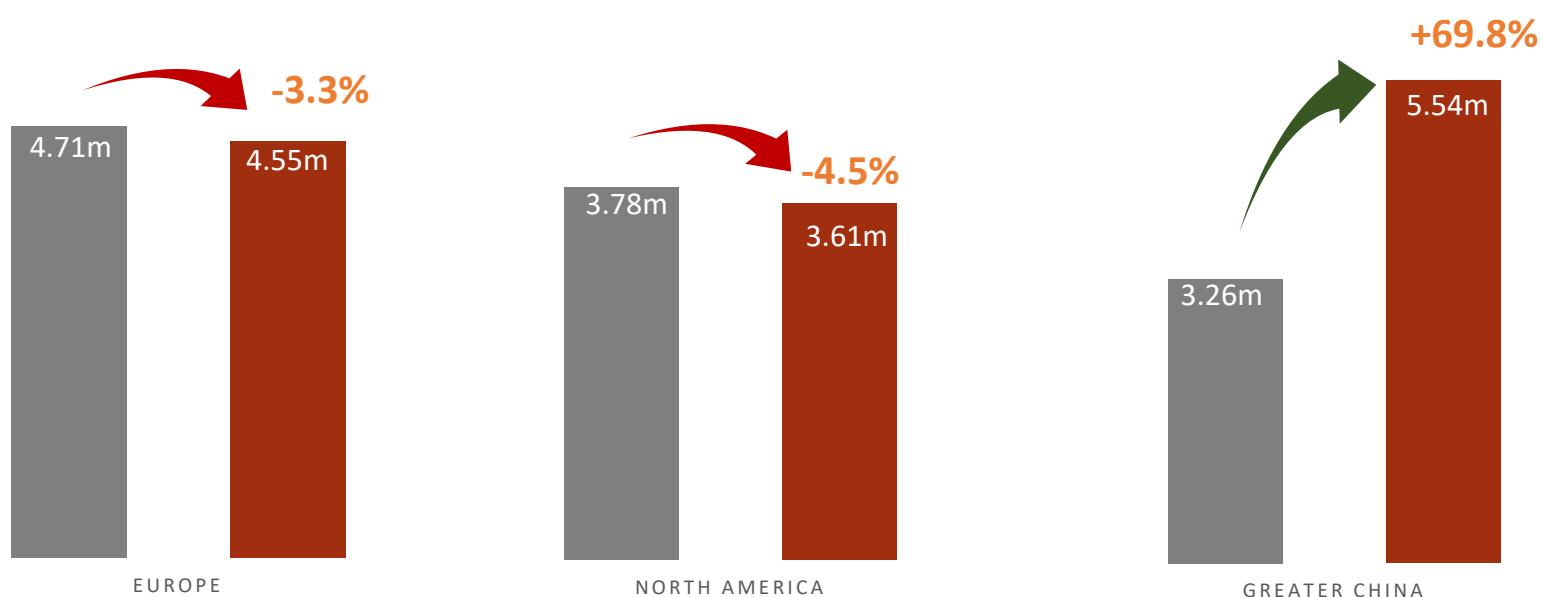
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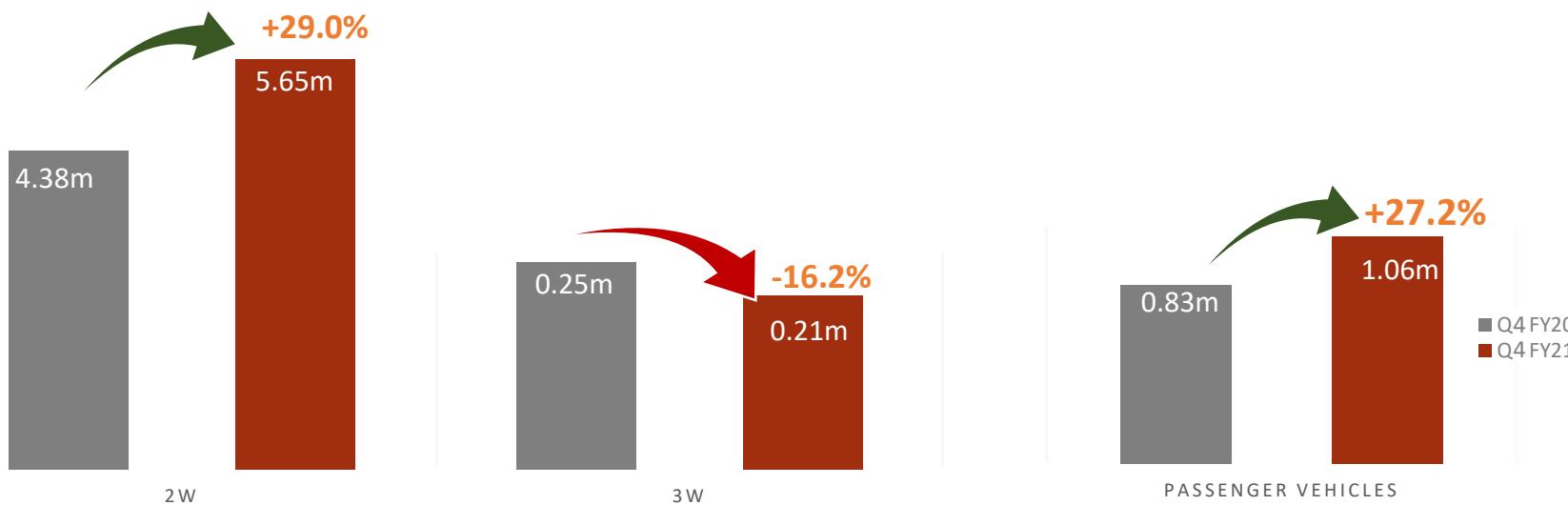
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Industry Trends in Q4 FY21

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

- **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 | | |
| Total | 36,193 | 1,275 | 3.5% | 27,447 | 1,146 | 4.2% | 31.9% |
| China JV - 50% | 1,594 | 125 | 7.8% | 861 | (6) | -0.7% | 85.2% |
| Total (Incl. pro-rata JV share) | 37,787 | 1,400 | 3.7% | 28,308 | 1,140 | 4.0% | 33.5% |

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

| Region | Production Revenue | | | Q-o-Q Change % | | |
|--|--------------------|------------|--------------|-------------------|---------|--------|
| | Q3 FY21 | | Q4 FY21 | | | |
| | 41 | 33 | -19.3% | | | |
| North America | | | | | | |
| 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) | | | | |
| Production Revenue | 236 | 234 | -0.8% | | | |
| Tooling | 17 | 26 | 50.4% | | | |
| Engineering | 8 | 8 | 4.0% | | | |
| Total Reported Revenue | 260 | 267 | 2.7% | | | |
| New plant financial performance (€ mn) | | | | | | |
| | Poland | | Morocco | | | |
| | Q3 FY21 | Q4 FY21 | FY21 | Q3 FY21 | Q4 FY21 | FY21 |
| Revenue | 14.5 | 19.2 | 44.0 | 14.9 | 17.8 | 47.3 |
| EBITDA | (4.0) | (2.9) | (11.4) | (2.7) | (3.5) | (10.1) |
| EBITDA % | -28% | -15% | -26% | -18% | -19% | -21% |
| PAT | (5.3) | (5.7) | (17.8) | (4.9) | (7.3) | (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

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 |
| | | | | A | 2.2 | 2.0 | -8% | Other plants |
| Czech Republic | | | | A | 12.3 | 6.0 | -51% | No known plant shutdowns |
| | 51 | 46 | -11% | F | 17.4 | 15.9 | -8% | Germany (P1) Germany (P2) |
| | | | | | | | No known plant shutdowns | |
| | | | | | | | 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

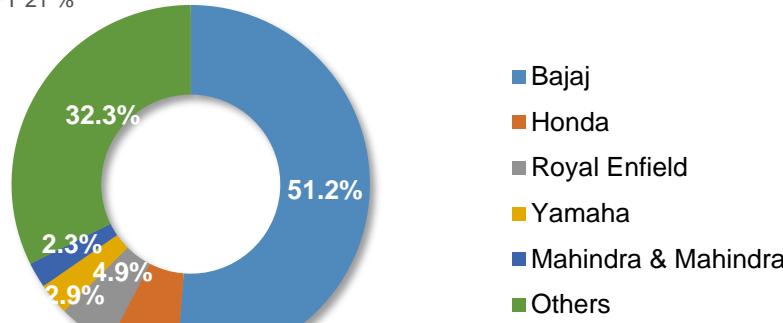
(2) Customer A is an American multinational car manufacturer, Customer B is a large British car manufacturer, Customer C is an American electric car manufacturer, Customer D is an international automotive manufacturer, customer E is a large European car manufacturer & customer F is a global automotive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

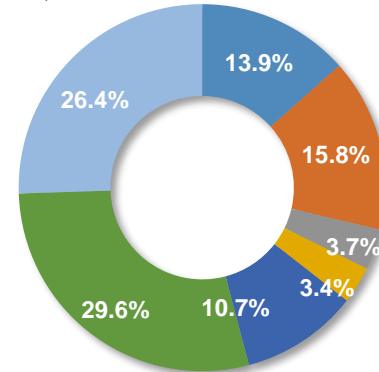
India Revenue Split by Customer⁽¹⁾

Q4 FY 21 %



VLS Revenue Split by Customer⁽²⁾

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>Overall Net Business Wins of € 210 Mn;</p> <ul style="list-style-type: none"> - New Business wins - € 162 Million net of givebacks/ cancellations - Re-wins - € 48 Million net of losses | <p>Pipeline ~€ 70 million</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>Overall Net Business Wins of ₹ 13 billion (New ₹10.8 billion)</p> <p>Bajaj: Business of ₹ 5.2 billion for various products across businesses</p> <p>HMCL: Various Polymer and Electrical & Electronic product orders of ₹ 1.8 billion</p> <p>HMSI: Various Metallic and Polymer product orders of ₹ 1.2 billion</p> <p>Royal Enfield: ₹ 0.8 billion</p> <p>Various orders from customers (VW, Yamaha, MG Motors, and Mahindra & 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 | | |
| Total | 1,13,028 | 4,602 | 4.1% | 1,11,219 | 9,134 | 8.2% | 1.6% |
| China JV - 50% | 5,858 | 751 | 12.8% | 3,981 | 230 | 5.8% | 47.1% |
| Total (Incl. pro-rata JV share) | 1,18,885 | 5,353 | 4.5% | 1,15,200 | 9,364 | 8.1% | 3.2% |

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

- **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

