Varroc Engineering Limited

Financial Results

Q2 FY22

::11th November 2021::

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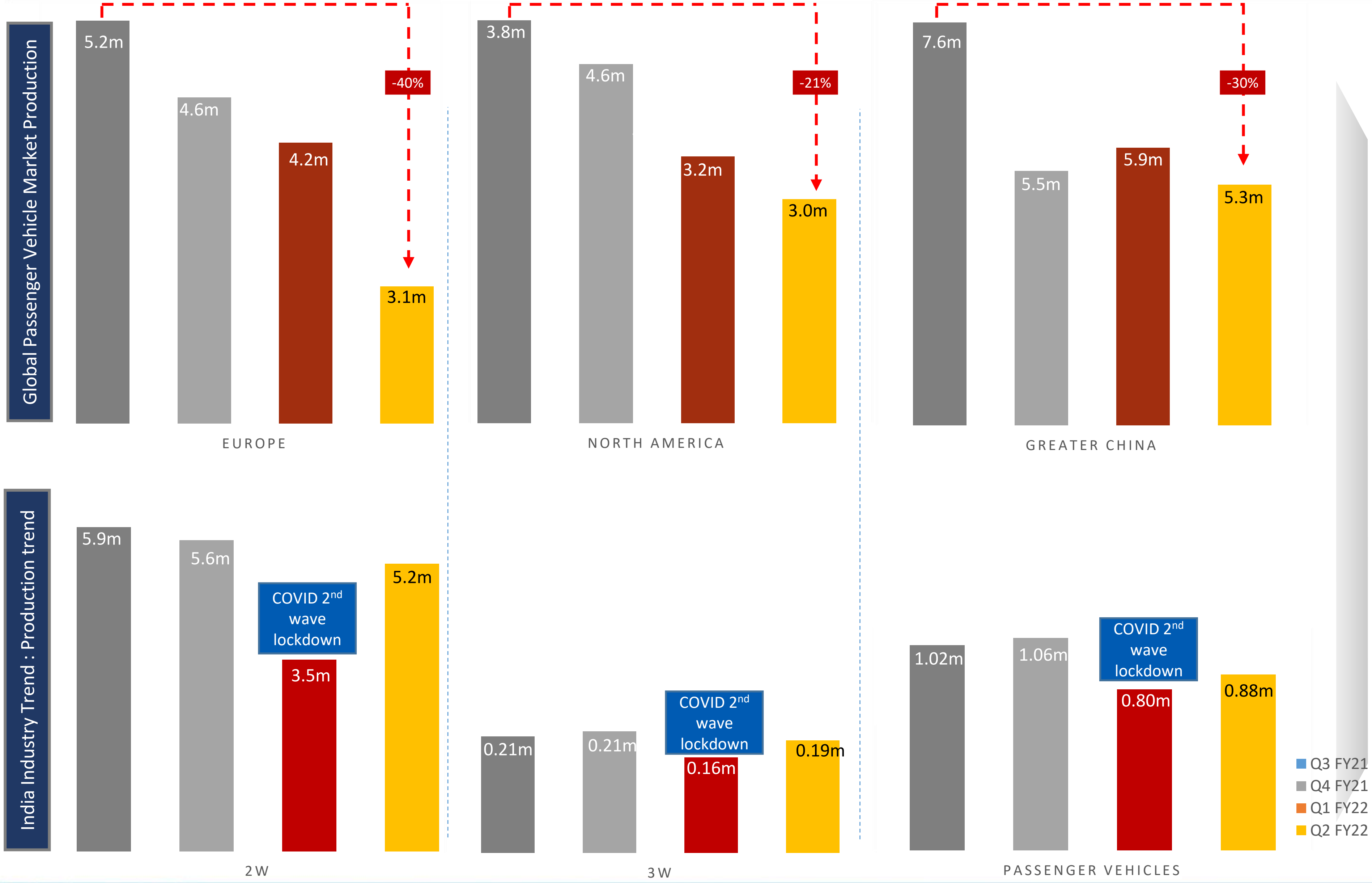
Industry Trends in Q2 FY22 – Drop in Global PV Volumes continues, India volumes too decline YoY

4 sequential quarters



- **PV volumes in CY22 continue to be impacted severely by the semiconductor shortages; OEMs plant shutdowns were frequent. Europe, China and North America volumes saw further significant drop – both YoY and QoQ**
- **Europe weakness in Q2 severe than other regions (Q0Q drop of nearly 27%).**
- **Domestic 2W sales volumes declined 12.3% YoY as recovery post COVID second wave was weaker than expected. PV and 3W volumes saw a small improvement YoY and QoQ**
- **Exports of 2Ws, 3Ws and PVs showed YoY growth**

Sources: India Data - SIAM,
Global Data – Production volume, © IHS Markit, October 2021. All rights reserved.
Charts not to scale

Business Highlights: Q2 FY22

- **Revenue from operations for the quarter for India increased by 34% QoQ as COVID second wave restrictions were lifted. VLS revenue decline continued as QoQ revenue was down 11% over previous quarter, primarily due to lower OEM production volumes**
- **Consolidated EBITDA for the quarter severely impacted by semiconductor shortages led volume drop in VLS business and the commodity inflation in India**
- **India Business:** On a YoY comparison**,** revenue improved by 36%; EBITDA margin at 9.9% as commodity and Electronics price pressure impacted the RM costs
- **VLS:** Revenue declined 13.0% QoQ in Euro terms; EBITDA margin at (-)7.2% severely impacted by:
  - Semiconductor shortages leading to key OEMs shutting plants/ reducing volumes, impacting revenue and margins at our established profit-making plants
    - Czech Republic Production revenue decline trend continued - down further (-)20.5% QoQ
    - North America volumes down 1% QoQ; helped by new program launches
  - Continued losses in new plants – Poland and Morocco - as expected volume ramp-up did not materialise; Q2 volumes weak
  - VLS has some of the flagship EV programs from VW, JLR currently under production; those programs continue to grow substantially
- **VLS China JV:** Revenue improved (+)46% QoQ however EBITDA margins continued to be weaker as RM prices continued to increase (+)5.9%
- **Net debt increased to ₹ 30 billion;** FCF was negative due to disruption in working capital cycle, capex and weaker operating performance
- **Business wins: VLS net business wins at € 145 Million YTD and India business wins at ₹ 4.0 Billion YTD**
- **Project RACE:** Identified potential areas for improvement; Full potential improvements, net of cost inflation around **€75 million per annum; Impact in FY23 to be around 60% and 100% in FY24**

Varroc Group: Financial Performance

₹ million

Particulars	Q2 FY22	Q1 FY22	Q2 FY21	Growth (Q-o-Q)	Growth (Y-o-Y)		H1 FY22	H1 FY21	Growth (Y-o-Y)
Revenue from Operations - Reported	30,326	29,416	29,161	3%	4%		59,742	41,908	43%
Other income - Operating	87	146	228				233	338	
Other income - Non operating	12	8	4				20	394	
EBITDA - Reported *	(60)	176	2,661				116	866	-87%
EBITDA Margins (%)	-0.2%	0.6%	9.1%				0.1%	2.1%	
Share of net profits of JVs under equity method	12	(26)	90				(14)	200	
Depreciation & Engineering/Intangible amortisation	2374	2192	2270	8%	5%		4566	4339	5%
Finance Cost	440	386	443	14%	-1%		826	874	-6%
PBT - reported	(2,851)	(2,419)	41				(5,270)	(3,754)	
PAT - reported	(2,972)	(2,293)	(388)				(5,265)	(3,474)	

Particulars	Q2 FY22	Q1 FY22	Q2 FY21	Change Q-o-Q	Change Y-o-Y
Net Debt (Excl. Impact of Leases: Ind AS 116)	30,067	27,771	30,644	2,296	(577)
Net Debt to Equity (Excl. Impact of Leases: Ind AS 116)	1.2	0.9	1.1		

Debt increased due to::

1. Capex during the quarter
2. Negative operating results
3. Working Capital changes

***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 Q2 FY22

₹ million

SBU	Q2 FY22			Q2 FY21			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
India Business	12,686	1,250	9.9%	9,329	1,257	13.5%	36.0%
VLS	17,302	(1,258)	-7.3%	19,788	1,502	7.6%	-12.6%
Others (IMES)	596	(53)	-8.9%	421	(84)	-19.8%	41.5%
Elimination	(258)	(0)		(377)	(15)		
Total	**30,326**	**(60)**	**-0.2%**	**29,161**	**2,661**	**9.1%**	**4.0%**
China JV - 50%	1,716	102	5.9%	1,188	206	17.3%	44.4%
Total (Incl. pro-rata JV share)	**32,041**	**42**	**0.1%**	**30,350**	**2,867**	**9.4%**	**5.6%**

Euro Performance for VLS

SBU	Q2 FY22			Q2 FY21			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
VLS -Euro	198.2	(14.3)	-7.2%	227.9	17.4	7.6%	-13.0%

Exchange rates : ₹/ € Average for Q2 FY22 = 87.36; ₹/ € Average for Q2 FY21 = 86.94

VLS: QoQ performance by plant

€ million except otherwise mentioned

Region	Production Revenue					Q-o-Q Change %	YoY change %
	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22		
North America	49	41	33	31	31	-0.6%	-36.7%
Czech	120	152	146	116	92	-20.5%	-23.4%
Poland	7	13	16	16	14	-14.8%	98.8%
Morocco	8	12	15	16	15	-3.5%	103.7%
India	6	6	7	5	9	73.0%	54.4%
Brazil	2	2	2	2	3	27.4%	80.5%
SL2W	16	20	23	22	19	-12.2%	17.1%
Eliminitions	(6)	(11)	(7)	(9)	(5)		
Production Revenue	**201**	**236**	**237**	**199**	**178**	**-10.7%**	**-11.8%**
Tooling	18	17	26	15	15	-5.1%	-19.2%
Engineering	8	8	8	5	6	-7.7%	-34.5%
Total Reported Revenue	**228**	**260**	**270**	**220**	**198**	**-9.7%**	**-13.0%**

New plant financial performance (€ mn)

	Poland			Morocco		
	Q2 FY21	Q1 FY22	Q2 FY22	Q2 FY21	Q1 FY22	Q2 FY22
Revenue	8.6	19.5	17.7	11.6	17.6	15.3
EBITDA	(3.4)	(5.1)	(3.7)	(2.2)	(2.5)	(4.0)
EBITDA %	*-39%*	*-26%*	*-21%*	*-19%*	*-14%*	*-26%*
PAT	(4.5)	(6.8)	(5.9)	(3.8)	(5.0)	(8.0)

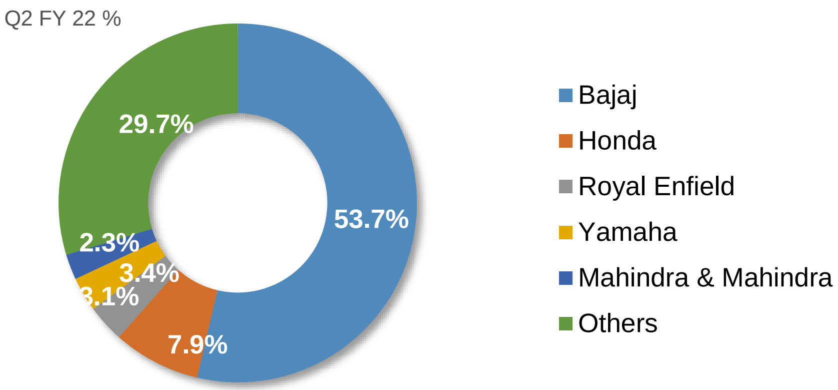
Semiconductor shortages continue to impact Established plants* production revenue negatively, albeit at a pace even more severe than the previous quarter.

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

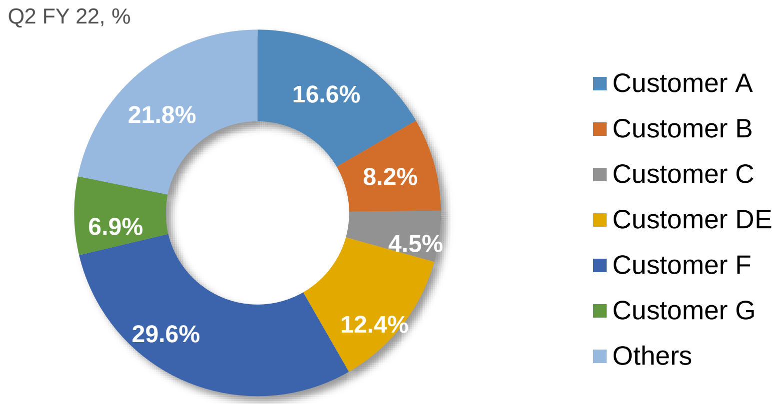
*Notes: * Czech Republic and Mexico*

Revenue by Customers and Order Wins

India Revenue Split by Customer[1]



VLS Revenue Split by Customer [2]



Revenue in Europe declined by 17.6% QoQ on top of 17.3% QoQ reduction in previous quarter

Revenue in Americas improved over previous quarter by 4.5% QoQ as new programs started

Business	New Business wins: VLS / Recent orders: India	Near term potentials
VLS (YTD Oct 22)	**Overall Net Business Wins of € 46 Million in Q2 / YTD Oct € 145 million** - New Business wins - **€** 83 Million net of givebacks/ cancellations - Re-wins - **€** 62 Million net of losses	Ordering activity is picking-up gradually and the current challenging environment is leading to some slowdown in ordering activity.
India Business (Q2 FY22)	**Overall Net Business Wins of ₹ 1.2 billion (YTD ₹ 4.0 billion)** **Bajaj:** Business of **₹** 0.7 billion for various products across businesses **TVS Motors**: New orders of **₹** 0.1 billion Telematics business (CarIQ) won an order from Renault in India **Various orders** from customers (VW, Yamaha, Force Motors, Royal Enfield and Mahindra & Mahindra etc.) for **₹** 0.4 billion.	In discussion with major customers for Electrical products, Traction Motor and Controller, Telematics, lighting and Polymer products. Active engagement with new customers for couple of more product categories for EV products, BSVI products and forging products

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 DE is an international automotive manufacturer customer, customer F is a global automotive manufacturer headquartered in Europe and Customer G is a leading light vehicle manufacturing group in the world

EV business in India: Highlights & Updates

2W

Component	Industry product price expectations based on Investec Research (Rs per 2W) *	Total @ Installed Capacity (Rs Crs) #	Expected revenue in FY25 for current business based on SOB and industry price (Rs Crs)
Traction motor	11,000	700	529
Controller	5,000		
DC-DC converter	1,400		
Telematics	3,000		
Battery Management	4,500		
Other Products (VCU, On-board Charger, Switch and Polymer products etc)	13,000		
Total per vehicle (A)	**37,900**	**700**	**529**

constrained by the lowest capacity product; some of the product at Varroc will have much larger capacity; This is based on certain volume assumptions for existing business wins

*Research report published by Investec on 27th July 2021 titled "Electric Vehicles – the electrification of auto ancillaries"

3W

Component	Product price expectations (Rs per 3W)	Total @Installed Capacity (Rs Crs)	Expected revenue in FY25 for current business based on SOB (Rs Crs)
Traction motor	46,000	367	306
Controller			
DC-DC converter			
Telematics			
Battery Management			
Other Products (VCU, On-board Charger, Switch and Polymer products etc)			
Total per vehicle (B)	**46,000**	**367**	**306**
Total Varroc current business (A+B)		**1067**	**835**

Varroc Group: Business Wise Performance H2 FY22

₹ million

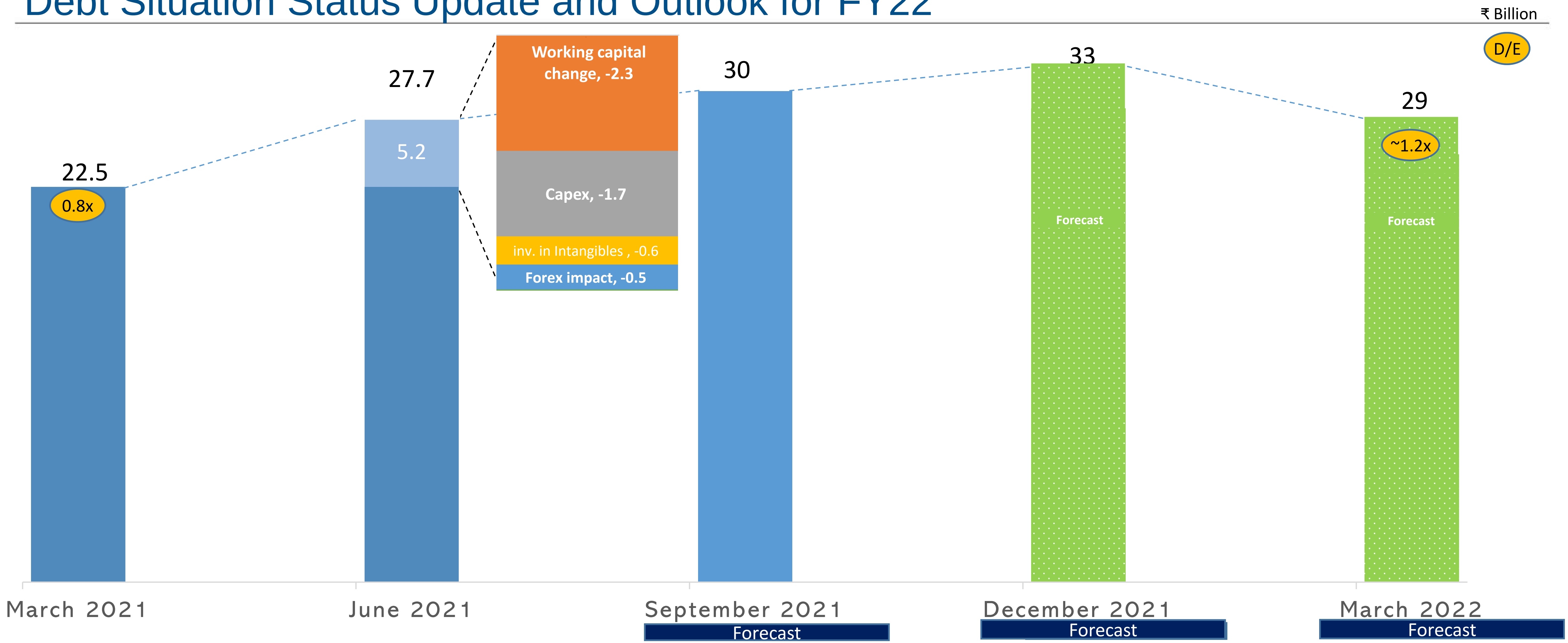
SBU	H1 FY22			H1 FY21			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
India Business	22,166	1,978	8.9%	12,306	1,004	8.2%	80.1%
VLS	36,806	(1,801)	-4.9%	29,251	(43)	-0.1%	25.8%
Others (IMES)	1,336	(61)	-4.6%	823	(94)	-11.5%	62.3%
Elimination	(567)	0		(473)	(0)		
Total	**59,742**	**117**	**0.2%**	**41,908**	**866**	**2.1%**	**42.6%**
China JV - 50%	2,886	155	5.4%	2,486	423	17.0%	16.1%
Total (Incl. pro-rata JV share)	**62,628**	**272**	**0.4%**	**44,394**	**1,289**	**2.9%**	**41.1%**

Euro Performance for VLS

SBU	H1 FY22			H1 FY21			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
VLS -Euro	418	-20	-4.9%	336	0	-0.1%	24.2%

Exchange rates : ₹/ € Average for Q2 FY22 = 88.10; ₹/ € Average for H1 FY21 = 86.94

Debt Situation Status Update and Outlook for FY22



Debt Reduction is challenged due to -

- Extension of the current challenging situation around semiconductor supplies and lower capacity utiliation
- Continuing Capex & working capital

Update on Current Business Environment

- **Current Situation**
  - India business revenue performance lower than normal in October as demand during festival season not as strong as expected as well as supply constraints
  - VLS October / November – Semiconductor shortages continuing -
    - Soft schedules as a result of semi-conductor shortages. North America volumes improving as new programs starting
    - Overtime and premium freight costs under control
- **Outlook**
  - **India:** We expect that the business will see a strong growth in coming months on the back of strong traction in EV business
  - **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


TO SPEAK & ACT FROM THE HEART
SINCERITY
TO WALK WITH EVERYONE
HUMILITY
TO DO WHAT IS RIGHT
INTEGRITY
TO GO THE DISTANCE AGAINST ALL ODDS
PASSION
TO MAKE IT HAPPEN
SELF DISCIPLINE