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VARROC/SE/INT/2024-25/155 February 15, 2025

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,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001.
BSE Security Code: 541578
[Debt: 975062]

Sub: Transcript of Investor / Conference Call pertaining to Unaudited Financial Results for the Quarter and Nine Months ended on December 31, 2024

Dear Sir/Madam,

Please find Transcript of Investors / Conference Call held on Monday, February 10, 2025, in respect of the Un-audited Financial Results for the quarter and Nine months year ended on December 31, 2024.

This is for your information and records.

For Varroc Engineering Limited

AJAY KUMAR SHARMA

Digitally signed by AJAY KUMAR SHARMA
Date: 2025.02.15 11:04:23 +05'30'

Ajay Sharma
Group General Counsel and Company Secretary

Encl: a/a

"Varroc Engineering Limited
Q3 FY '24 Earnings Conference Call"
February 10, 2025

CHORUS CALL

MANAGEMENT: **MR. TARANG JAIN – CHAIRMAN AND MANAGING DIRECTOR – VARROC ENGINEERING LIMITED**
MR. ARJUN JAIN – WHOLE-TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER, BUSINESS DIVISION I – VARROC ENGINEERING LIMITED
MR. DHRUV JAIN – DIRECTOR AND CHIEF EXECUTIVE OFFICER, BUSINESS UNIT II – VARROC ENGINEERING LIMITED
MR. K. MAHENDRA KUMAR – GROUP CHIEF FINANCIAL OFFICER – VARROC ENGINEERING LIMITED
MR. BIKASH DUGAR – HEAD, INVESTOR RELATIONS AND FINANCE CONTROLLER OF BUSINESS UNIT II – VARROC ENGINEERING LIMITED

MODERATOR: **MR. MIHIR VORA – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Varroc Engineering Q3 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mihir Vora from Equirus Securities. Thank you, and over to you, sir.

Mihir Vora: Thank you. So good afternoon to you all. From Varroc Engineering, we have with us Mr. Tarang Jain, Chairman and Managing Director; Mr. Arjun Jain, Whole-Time Director and CEO of Business Unit I; Mr. Dhruv Jain, Whole-Time Director and CEO of Business Unit II; Mr. Mahendra Kumar, Group CFO; and Bikash Dugar, Head, IR and Finance Controller of Business Unit II. We'll start the call with brief opening comments from the management, followed by the Q&A session.

I would now like to invite Mr. Tarang Jain for the opening remarks. Thank you, and over to you, sir.

Tarang Jain: Yes. Thank you, Mihir. Tarang Jain here. Thank you to team Equirus for hosting the call, and a good evening to everyone.

The Indian GDP has slowed down a little as compared to the last year, but still remains strong as compared to the modest global growth. The rural consumption has remained strong in the past few quarters. The income tax cut by the government in the budget and interest rate reduction by the Central Bank augurs well for India as it will help in further improving the consumption of the discretionary goods like automobiles.

During quarter 3 of FY '25, the 2-wheeler, 3-wheeler and passenger vehicle segments registered moderate growth, whereas commercial vehicles and 3-wheelers showed degrowth on a year-on-year basis. 2-wheelers grew by 8%, passenger vehicles grew by 2.8%, commercial vehicles degrew by 1.8% and 3-wheelers degrew by 2.6%. However, on a quarter-on-quarter basis, we saw degrowth in almost all segments due to the early festive season and postponement of purchases due to the year-end. 2-wheelers degrew by 5.5%, 3-wheelers degrew by 16.2%, passenger vehicles degrew by 7.8% and only commercial vehicles grew by 4% quarter-on-quarter.

Before moving to the operational performance of the company, I would like to highlight a few events which have taken place. Firstly, the company received NCLT approval for amalgamation of Varroc Polymer Limited with Varroc Engineering Limited effective 1st April, 2024.

The effects of amalgamation are considered in the stand-alone financial statements. An exceptional cost of INR112.7 million is recognized towards estimated costs like stamp duties directly attributable to this merger. This merger simplifies the group structure and operations and further improves governance.

Secondly, the China joint venture has been recognized as assets held for sale post the arbitration verdict, which requires us to sell the stake to the JV partner in lieu of RMB 310.5 million. An exceptional cost of INR796.5 million is recognized since the net realization, including the estimated taxes and other expenses will be lower than the carrying value of the investment.

Now coming to the operational performance during quarter 3 of FY '25. The company registered a revenue of INR20,753 million with a growth of 10.1% year-on-year. Various new programs which we won in the past period moved to production during the quarter. Thus the tooling sales in this quarter was much higher. On the other hand, higher tooling costs had a one-time impact on our gross margin. Despite that, our EBITDA on a year-on-year basis remained the same at 9.2%, whereas on quarter-on-quarter it fell by 50 basis points.

Our PBT before exceptional items and JV has improved by 80 basis points on a year-on-year, mainly due to control on capex and generation of free cash flow, which is resulting in lower depreciation and interest costs. On a quarter-on-quarter basis, the PBT has fallen, which is adversely impacted by forex translation losses.

The company balance sheet continues to strengthen along with improvement in return ratios. The net debt of the company in 9 months FY '25 reduced by INR1,967 million and net debt to equity reduced to 0.5x at the end of 9 months of FY '25 from 0.64x at the end of FY '24. The absolute net debt figure was INR7,860 million. The annualized ROCE at the end of the 9 months of FY '25 was at 19.3%.

The order book for 9 months of FY '25 has further strengthened and we continue to build the order book in both India and in the overseas business. In 9 months of FY '25, we have achieved net new business wins with annualized peak revenues of INR10,847 million. The order book from EV models constitutes more than 55% of these wins.

It is more heartening to see business win in our overseas operations. We have 2 big business wins in our overseas operations. First one is front drive and rear drive inverter electronics for the electric passenger vehicle. The second one is the interior ambient lighting. The start of production will take place from FY '27. These wins are testament to our dedication to excellence and showcases our advanced electronics manufacturing capabilities.

In the Indian operation, the order book, which is worth mentioning is a win for power electronics that is traction motors and controller for a 3-wheeler player. The SOP of this will happen in the next calendar year. Our endeavor will remain to expand our presence through focused products to drive sustainable growth, improve the gross margin, keep control on fixed costs and optimize the working capital. All of this will help us deliver value to our shareholders.

With this, I will now ask MK, our Group CFO, to walk you through the presentation and give more insights into the financial performance. We uploaded the investor presentation to the stock exchanges as well as on the website.

Mahendra Kumar: Thank you, Tarang. Good evening, everyone. So let me take you through some of the highlights of Q3. The revenue grew at 10.1% year-over-year during Q3 at INR20.7 billion. Profitability for Q3 came in at 3.3% of PBT versus 2.4% during Q3 of last year. And the EBITDA remained flat at 9.2% compared to same period last year. The journey on net debt reduction continues. So we have now reduced debt to INR786 crores.

In terms of the lifetime business won in 9 months, it was coming to INR59.74 billion with annual peak revenue potential of INR10.85 billion. The interesting point here is 53% of the business win is relating to the EV vehicles. This includes a significant win in overseas operations from a reputed OEM. So this will be operational or this will be starting production during FY '27. Another important point here is similar to what we indicated earlier, the revenue from EV-related products comes to about 10.5% of revenue now.

And if you take 9 months together also, it's pretty close to 10%. This is in line with what we indicated earlier. The arbitration verdict, of course, we disclosed and our CMD also talked about in detail. The NCLT approval is also in place now. So that removes a lot of complexity in terms of our internal operations in terms of treasury management and other things. And in terms of the new products, the interior ambient lighting and front drive and rear inverter, these are the new 2 products which we added in the overseas business.

Going to the next slide, this is about the industry performance. So if you compare it with the last year's same period, the 2-wheeler grew by about 8%, 3-wheeler had a degrowth of 2.6%, passenger vehicle grew by 2.8% and commercial vehicle had a degrowth of 1.3%. So it was like a mixed bag between growth and degrowth.

On a quarter-over-quarter sequential basis, if you really see, most of the segments had only a degrowth with 2-wheeler having degrown by 5.5%, 3-wheeler had a degrowth of 16.2%, passenger vehicle 7.8% and commercial vehicle alone grew by about 4%. The point to be noted here is even the EV 2-wheeler volume also on a quarter-over-quarter basis had a degrowth of 6.8%.

Going to the next slide, which is on consolidated financials. So the EBITDA came in at 9.2%, flat as last time. PBT at 3.2%. The exceptional item of INR91 crores includes basically 2 items. One is for the impairment for the China investment, which we have to recognize now based on the arbitration verdict; and also the expected stamp duty and other expenses relating to the amalgamation of VPL with VEL.

The next slide, looking at the 9-month performance, the PBT is coming to 3.5% before exceptional items. And the overall growth in terms of revenue, total revenue comes to 8.4%. India operations within this grew by about 11%. The PBT improvement year-over-year was like 0.5%, 3.5% compared to 3% last year same time. This was largely helped by lower interest cost and depreciation.

The next slide, we give the net debt levels. It's now -- it was at INR786 crores as of 31 December compared to INR827 crores at the end of Q2. And compared to the beginning of the year, we reduced debt by close to INR200 crores. So with this, the net debt to equity stands very strong at 0.5. Net debt to EBITDA is also very strong close to 1. And the return on capital employed annualized basis comes to about 19.3%.

Coming to the revenue breakdown in the next slide. For the 9 months, the business-wise break-up is given there. In terms of segmental break-up, 78.5% comes from 2-wheeler and 3-wheeler now compared to 75.2% last time. This is also because of strengthening of the 2-wheeler EV business. And then in terms of geographical distribution, 88% of revenue comes from India now and 12% from outside. Similarly, Bajaj share of the total also goes to 45.2%, again, because of the increased content on EV products.

The next slide on the total order wins. This is what we just spoke about. So INR59.7 billion in terms of total lifetime value with annual peak revenue of close to INR10.8 billion. With this significant order win in the recent times in the overseas markets, now the overall 2-wheeler and 3-wheeler comes down to 63.33% and 4-wheeler goes to almost 37%. And the EV-related percentage win also goes to almost 56%. And the non-Bajaj share of the total business comes to 68.66%.

On the next slide, we briefly explain the 2 new products which we recently won as an order, basically about the front drive and rear drive inverter and also the ambient lighting -- interior ambient lighting. Just some details about the products.

So that's it. Let me stop here, and we're happy to take your questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We'll take the first question from the line of Aditya Jhawar from Investec.

Aditya Jhawar: My first question is on China JV. Now just a clarification. So we have accepted the offer given by the verdict, right? Is that understanding correct?

Mahendra Kumar: Correct.

Aditya Jhawar: Yes. Now since the 45 days have lapsed, and I'm assuming that we haven't received any money and there might be further to and fro with the JV partner. So any timelines, MK, you can indicate in terms of how much and when we can get that money? And what could be the realization after net in hand?

Mahendra Kumar: Yes. So first of all, it is difficult to clearly put a date to it. But you're right, the 45-day period is already over. It's already overdue. But having said that, both the parties are actively engaged in the discussions. There are certain procedural formalities to be completed, like for instance, how to determine the tax impact. And then we also need to create an escrow mechanism so that the documents and the money get exchanged. So those kind of things are under discussion. But yes, it's taking more time than what we initially expected, but the discussions are in progress.

Coming to the net realization, of course, the tax impact is still under discussion. But based on whatever opinion we got, I think there will be a 10% capital gains tax, which will be taken as withholding tax reduction, plus some cost and all. So broadly around INR320 crores to INR330 crores of net realization is what we should see.

Aditya Jhawar: Okay, okay. That's helpful. Second question is on overseas operations. So very encouraging to see getting big orders in the overseas operation. Now it would be great if you can give a little bit of perspective. You mentioned that SOP is 2027.

So I'm assuming for both the products, ambient lighting as well as the inverter electronic SOP is 2027. So what would be the order size typically for this and the ASP and what opportunity size we are looking at? Any color? And I'm assuming that the manufacturing of this would be in Poland and any capex that we'll have to incur for supporting this order?

Tarang Jain: Yes. I think maybe Dhruv can reply.

Dhruv Jain Yes, yes. So just to answer this question, so when we're expecting these businesses to go into production, it would actually be around middle of 2026. So it will be fiscal year 2027. However, it will be most likely calendar year 2027, at which point these businesses will hit their peak revenue. In terms of what we're expecting roughly in terms of annual revenue, it would be in the range of USD 30 million per year. So that maybe gives you some insight. And just to clarify, this would be produced in Romania, in our Romania electronics facility.

Aditya Jhawar: Okay. That's helpful, Dhruv. And what would be the capex for this?

Dhruv Jain: So in terms of capex -- yes. So in terms of the capex, we are expecting this to be -- I don't want to give you some wrong numbers, but essentially in the range of $2 million to $3 million.

Aditya Jhawar: Okay, okay.

Tarang Jain: Most of the infrastructure is already in place. Only certain program-related capex is what we need to incur.

Aditya Jhawar: Okay. That's helpful. Now just I think overall on overseas operation, if you split the business into 3 parts, the new products that we got and we have premium 2-wheeler lighting and IMES. So what we understand is that premium 2-wheeler lighting was struggling a little bit because of end market and customer-specific issues. If you can give us an overall update that what should we expect in each of the 3 kind of businesses? So I think Romania, Poland is still relatively small, but what is the update on a premium 2-wheel lighting and IMES?

Dhruv Jain: So maybe I'll just go first, Aditya, and I will talk more about the 2-wheeler lighting in Italy and Vietnam. So here, we actually have also added some new customers this year. So we've had some success. We've added a major premium 2-wheeler lighting customer. Having said that, if we look at the next 12 months, we're not really expecting any revenue increase. So we're expecting that the revenue that we have experienced in the last 12 months, it will be along the same levels. I think we are -- I think that's the answer to that question. But on IMES, perhaps...

Tarang Jain: So just to clarify, so see, what we are looking at -- now you said 3 businesses. See one is, of course, the electronics business out of Romania, which today, I mean, is very much underutilized probably at about 15%, 20% utilization, that we will start seeing utilization going up from July of '26 and then reach -- in some months, it will reach that peak of $30 million annually. So -- and that's good and that will occupy a large part of the capacity and maybe we can do even more in the current facility we have. But then, of course, it is fairly profitable with that level of revenue.

On the 2-wheeler lighting, of course, there has been this pain in Europe because we have 2 facilities there; one in Italy, in Turin and then one in Vietnam. So there, the larger customer has been so far over the years, Piaggio and we have seen some fall in sales with Piaggio. So going forward, we see sales in the next financial year to be similar in 2-wheeler lighting as the current year. But of course, the 2-wheeler lighting on a whole is profitable.

But we won orders already from one premium customer with a large order I mean, revenue size of almost EUR3 million per year. That business will start in FY '27. And similarly, for 2-wheeler lighting, we are pursuing the Japanese OEMs also and also another European OEM out of Vietnam. So in the future, we see more revenue growth in Vietnam as compared to Italy because people want lower cost and everything. So we will see from FY '27 a good level of growth in Vietnam year-on-year in 2-wheeler lighting business. So we have -- that's what we see.

In the case of IMES, so IMES has been profitable year before last. But this year, it has been challenged because of the market situation. Our major customers there are the Caterpillar Group, and of course, the oil and gas business, whereas the oil and gas business has done well, but that's only about 20% of the revenues. 80% comes from the Caterpillar Group, and that's where the volumes have been lower. But we have been pushing for some more business with Caterpillar in this forging facility. So there is also a game of revenues.

We are expecting that next year, we should have a higher level of revenues. We've already seen some revenues go up from January, but it's not enough. So we do expect higher level of revenues from April overall. So with that level of revenues, I mean, our basic objective is that we try to reach at least a PBT neutral kind of a situation instead of a PBT negative which is there today in this financial year.

So there's a lot of effort going, plus we're also looking at more customers. So we are in discussion with a couple of more customers also for these kind of forgings. And there also, we are expecting some level of success where some business can also flow in next year, the second half. So there also, we are more optimistic that the results next year in IMES also should be better than the current this thing, financial year.

Aditya Jhawar: Yes. So Tarang, this IMES, it is in a way relatively lower synergy as compared to other businesses. So was there any thoughts or consideration to divest this business over a period of time or it's not on the table?

Tarang Jain: So presently, see, the point is, I agree with you, it's not a part of a core business. But in the current situation, current state, there won't be any buyers in this current state. And therefore, I think it is prudent as a company that we focus on increasing sales because the plant is actually quite good and the current customers also are very happy. The question is of sales. We have enough capacity.

So now the effort is more of a sales effort, I would say, that we are trying to see that we reach a certain level of sales and profitability. So at the moment, we are not really thinking -- though it's

-- I agree with you, it's a little bit of a non-core, but at the moment, we want to make it really profitable. Then once it's profitable, then we can think about these kind of things. But at the moment, we don't have that thought process at all.

Aditya Jhawar: Sure. That's helpful. And finally, a question to MK. Any number that you would like to indicate in terms of capex for this year and next year as well as targets of debt reduction this year and next year?

Mahendra Kumar: So our regular capex will be just about INR200 crores plus we are also investing in land for this year. So finally, we may end up this year with about INR260 crores to INR270 crores. Next year also, the regular capex will be in the range of maybe INR200 crores to INR250 crores. But next year, again, if required, we may have to invest something in the land. So that's where it is.

Tarang Jain: No. So basically, Aditya, what is happening is that now we are nearing full capacity last few years, we have been adding to a capacity utilization in all the plants. The time has come that we need to buy more land. So definitely in the Pune region or in the northern region. So definitely, there will be a kind of a significant so we would have to budget.

Other than the INR250 crores, INR200 crores, INR250 crores for normal capex for some growth capex, we will I think have to budget next year at least I think close to INR150 crores at least of capex towards land because that's something which will be important, which can again last us for the next 7, 8 years at least. So that's something which will come in one-time next year as an extra capex.

Aditya Jhawar: Yes. And debt, MK?

Mahendra Kumar: Debt reduction, I think you've seen the number. We are right now at INR786 crores. So like what we indicated earlier, we may end this year with somewhere around INR700 crores to be the number. This is without considering the China realization. China realization when it comes, obviously, it will be less to that extent. So from there, I think whatever free cash flow we generate next year minus the investment in land will decide the debt level for next year.

Moderator: The next question is from the line of Nishant Chauhan from Geojit.

Nishant Chauhan: So my question is related to the employee expense. So if I see quarter-on-quarter, I think we have been seeing an increasing trend of expenses towards the employees. So could you just help us understand, I mean, what is happening over here? And what would be the sustainable run rate of employee expense going ahead?

Mahendra Kumar: Yes. So a couple of things happened. This quarter, we also had some severance pay in some of these overseas locations. That's more like a one-timer. Plus last quarter, we also had certain credits, certain reversals of provision reversals, which we took. So because of that, the quarter-over-quarter will appear to be a big variance. Going forward, yes, we are also doing some kind of restructuring currently. So that will bring in some kind of reduction starting from March onwards. So that's how it develops from now on.

Nishant Chauhan: So any idea, I mean, where would this settle at a sustainable run rate of employee expense?

Mahendra Kumar: More or less take the current level as the going in level. But what happens is next year, of course, obviously, there will be a merit increase also. That will be partly mitigated by the headcount reduction exercise, which we did recently. But yes, so other than that, more or less the current level of spending will continue.

Nishant Chauhan: Okay. And secondly, would it be possible to give out the number for -- I mean, what would be the 9 months revenue for our international subsidiaries, I mean, the lighting and the electronics business in Romania?

Mahendra Kumar: No, we don't give that kind of split. Yes. So for us, the entire business is the total business. But by segment, we have given anyway in our presentation.

Moderator: The next question is from the line of Mihir Vora from Equirus Securities.

Mihir Vora: So sir, my question was basically on the integrated starter motor, the ISG thing which we are working on. And we can see fewer models right now in the industry, but there seems to be a good scope for that. So can you throw some light comparing it to the starter motor, how much the content increases here and what is the comparison? Like what makes the OEMs shift to this kind of the technology? And are we in engagement with any customers like multiple customers?

Arjun Jain: So we already have 2 customers for the product. One is already in SOP and the other one is in development. Fundamentally, I think there are 2 or 3 factors, right? I think one is there's definitely a gain in efficiency and in fuel efficiency. Secondly, I think the -- in terms of rider feel as well, there is an improvement. And thirdly, I think your total packaging space required also reduces from having 2 independent electrical machines to having 1 integrated electrical machine. So these are the broad benefits. In terms of the -- sorry, I think that was your question. Does this address it?

Mihir Vora: Sorry?

Arjun Jain: Have I addressed everything in your question?

Mihir Vora: No, sir. Basically, the question was also on the content value part, like how would it fare against the starter motor?

Arjun Jain: So stand-alone, I would say, probably around at least 15-ish -- somewhere between 15% to 20% value increase.

Mihir Vora: Okay. Sure, sure. And sir, my second question was on the China JV part. So basically, we -- I assume that we would be having some synergies in terms of lighting technology from the China JV. So post this arbitration, post the stake sale, so how do we look at technology transfer or something like that from that China JV? So how does it impact our lighting business in domestic or, say, Romania?

Arjun Jain: So I can speak for India. I think one, from an India perspective, I think we are self-sufficient anyway in India, especially for the technology level required. And further for the future level of technology also required, I think whether across China or other parts of the world, broadly, we are protected. So we don't see any risk.

We do want to maintain a level of engineering in China for our 4-wheeler lighting, especially on the 4-wheeler lighting part. So we will have a team -- and also for the ADAS electronics, which we already do today. So we do have some engineers who kind of drive our ADAS engineering over there. And plus, post the sale, we will want to maintain a strong level of team in China for engineering on the 4-wheeler lighting side.

Mihir Vora: Okay, sir. And sir, my last question would be, are we seeing some traction on the 4-wheeler lighting domestic part also like we predominantly have been a 2-wheeler lighting company. But is it that we are seeing some traction on the 4-wheeler side as well?

Arjun Jain: I would say, we have a decently sized book of business. We continue to win business. We continue to deliver. I think most recently, we have executed -- we supported a customer with the localization of a full-fledged LED headlamp, which has been completely indigenized. So like with any, I would say, there is a good level of traction based on the service that we offer.

Moderator: The next question is from the line of Gautam Desai from Valence Capital.

Gautam Desai: My question was more on the slide which says the Varroc's EV product offering and that the total kit value is 35,000. So is it possible to give some kind of break-up of the -- value of each of these 7, 8 items? And the second question was that recently, Pricol has released its presentation, and they are doing the instrument clusters for the Bajaj Chetak and the 3-wheeler. So -- and they plan to eventually go into e-cockpit as well as navigation. So my question was like we are also looking at the same space and they are also looking at getting into BMS. So how do we stand, especially with respect to Bajaj in the EV portfolio?

Arjun Jain: So again, I don't want to comment versus one competitor specifically per se. But I mean, like with any product group, there will be multiple players in each product group. I think the value that we speak about is really, I would say, a total addressable value within the vehicle, most of which is already captured. Now of course, program-to-program, product-to-product, there will be variations. So I would really look at that number that we state directionally in terms of the total addressable value within a vehicle.

And of course, like I said, in the case of certain customers and one customer in particular, we've already been able to capture a large majority of that value. I think that's how I would put it. Of course, the value can also range based on what exactly is the performance requirement of the vehicle and what exactly is the definition of the vehicle. The higher performance vehicle is generally higher value. Lower performance is generally lower value.

Gautam Desai: So I was asking from the perspective that some of our products, they are getting obsolete like valves and the RR and the CDI and these kind of products. And at the same time, there are new products that we are launching. So do we see a cannibalization of our revenue because of the loss of certain products?

And at the same time, that loss is regained through the launch of more higher-value products. And in those high-value products that we get, how do we stand? That was like more what I was trying to figure out. And the second was the break-up of the cost of each of these 8 items. The value of each of these items.

Arjun Jain: Okay. So I'll go one by one at the questions. So there is different powertrain technology, right? I mean, at the most simplified level, the way to think about it is, okay, you have an ICE engine, you have an EV, right? So different powertrains have different component requirements. Today, we have a strong portfolio across every powertrain, and I would include CNG also over there now. So for us, fundamentally, we are placed effectively regardless of which powertrain does well.

Now of course, I mean, it is obvious. If you have more EV, you will have lesser -- you have more EV or EV grows faster than ICE, you could make the suggestion that EV has potentially cannibalized some of ICE's growth. But that is not necessarily the way we think about it, right? The way we think about it is that you have to be prepared from a technology standpoint in each powertrain. Then within the ICE powertrain, because you talked about a product like a CDI, yes, the CDI has already largely converted to a fuel injection system.

Every domestic vehicle will really be -- will really have a fuel injection control unit, which is something that we do and which replaces the CDI. This is something that we already do. So within each powertrain, we drive technology progress to capture whatever is the technology level that is required now for the vehicle. So don't really have a concern around -- I mean, we don't really think about it from the perspective of cannibalization. We think about it from the perspective that we have an overall market and you have to be prepared to service each segment of the market.

Then in terms of the value of components, like I said, I mean, the value can range dramatically based on what is the performance requirement. So it would not be -- not necessarily be correct for me to give you a value. But I think in terms of the broad values, it's quite easy to find out what broad values for, let's say, an e-powertrain would be, what broad values for a charger would be, broad value for BMS would be at an individual component level.

Gautam Desai: Okay. That's helpful.

Tarang Jain: Also to add, actually, see, today, even the current products like engine valves and all, there's a huge demand for these kind of products. Now today, in fact, we're in a situation where we don't have capacity to actually offer to the customers. There's so much of demand because some of the people have exited this business. So there's a lot of demand and pressure on us to deliver. So that's not a business which is degrowing. Actually, it's a growing business for us.

Moderator: We'll take the next question from the line of Sanjay Chawla from Renaissance Investment Managers.

Sanjay Chawla: Can you explain a little bit more and can you quantify the impact of these tooling sales and margin impact? And what would the margins be like without this?

Tarang Jain: Yes. See, tooling generally go with a lower margin than the regular product. So if you see the impact -- I mean, if you really see this quarter margin -- gross margin with last quarter, I think close to about 0.4% is because of the tooling sale impact.

Sanjay Chawla: And this is a Q-o-Q impact?

Tarang Jain: Q3, Q3 versus Q2.

Sanjay Chawla: Right. And also, you mentioned inventory correction. How much was the impact because of that?

Tarang Jain: See, there are -- these are normal corrections which we take whenever we do the fiscal verification. So there are 2, 3 reasons. One is this inventory correction, plus there are also certain one-timers in the base. So all these things contributed to the remaining gap when you see year-over-year. But quarter-to-quarter, this is the only one.

Sanjay Chawla: Okay. And can you give some indication or pointers as to where the margins are headed? You're also doing this cost optimization, headcount reduction exercise. So where do you see these margins being headed, let's say, next year?

Mahendra Kumar: It should certainly be better. We don't want to put a number and give a guidance to it. But yes, you're right, there are various actions which are in progress, the cost optimization things and we are also doing a Phase 2 in renewable energy, plus interest saving itself should be significant if we really end this year with below INR700 crores. Then similarly, depreciation should more or less stabilize at the current level until we do the next level of significant capex. So that way, I think all these things are positive trends for the coming year, but we don't want to put any number to it.

Sanjay Chawla: And any savings from this end of arbitration? Any sort of impact from that as well?

Mahendra Kumar: Yes. So the money inflow when it comes, obviously, it will reduce debt significantly. I'm not even counting...

Sanjay Chawla: I meant the impact on the EBITDA margin. Were you incurring any cost in the opex side from this arbitration which was going on?

Mahendra Kumar: We don't expect anything now. See, we actually incurred a significant level of arbitration legal costs last year itself. So this year, it is not so significant. There may be some closure-related cost once we complete the transaction. But other than that, we don't expect any significant.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Tarang Jain: Yes. So thank you once again to everyone for joining the call and for your continuing support to our company. Thank you.

Mahendra Kumar: Thank you.

Dhruv Jain: Thank you.

Moderator: Thank you, members of the management. On behalf of Equirus Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.