

Varroc Engineering Limited

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/2023-24/31

May 28, 2023

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
[Debt: 973454 & 973455]

Sub: Transcript of Investor / Conference Call pertaining to Audited Financial Results for the quarter and year ended on March 31, 2023.

Dear Sir/Madam,

Please find Transcript of Investors / Conference Call held on Tuesday, May 23, 2023, in respect of the Audited Financial results for the quarter and Year ended on March 31, 2023.

This is for your information and records.

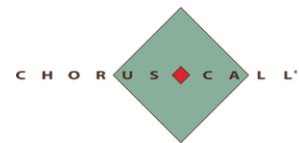
For Varroc Engineering Limited

Ajay Sharma
Group General Counsel and Company Secretary

Encl: a/a



“Varroc Engineering Limited
4QFY23 Results Conference Call”
May 23, 2023



MANAGEMENT: **MR. TARANG JAIN – CHAIRMAN AND MANAGING DIRECTOR – VARROC ENGINEERING LIMITED**
MR. ARJUN JAIN – WHOLE-TIME DIRECTOR – VARROC ENGINEERING LIMITED
MR. MAHENDRA KUMAR – GROUP CHIEF FINANCIAL OFFICER – VARROC ENGINEERING LIMITED
MR. BIKASH DUGAR – HEAD INVESTOR RELATIONS – VARROC ENGINEERING LIMITED

MODERATOR: **MR. KARAN KOKANE – AMBIT CAPITAL**

Moderator: Ladies and gentlemen good day, and welcome to the Varroc Engineering Limited 4QFY23 Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Karan Kokane from Ambit Capital. Thank you, and over to you, sir.

Karan Kokane: Yes. Thank you, operator. Good evening everyone, and welcome you all to the Varroc Engineering FY23 Results Conference Call. From the management team, we have with us Mr. Tarang Jain, Chairman and Managing Director; Mr. Arjun Jain, Whole-time Director; Mr. Mahendra Kumar, Group CFO; and Mr. Bikash Dugar, Head, Investor Relations.

I'll now hand over the call to Mr. Bikash. Thanks and over to you, sir.

Bikash Dugar: Yes. Thank you, Karan, and Ambit team for hosting the call and I welcome all the investors and analysts in this call. Before we start just a small disclaimer, that today's discussion may include statements which may constitute forward-looking statement. All statement that address expectations of projection about the future including, but not limited to statements about the strategy for growth, business development market position and financial results are forward-looking statements.

Forward-looking statements are based on certain assumptions and expectation of the future event and involves known and unknown risks, uncertainties and other factors. The company cannot guarantee that these assumptions and expectations are exhaustive or will be realised. The actual results, performance or achievement could thus differ materials from those projected in such forward-looking statements. No obligation is assumed by the company to update the forward-looking statement contained today in our discussion.

So with this, I would like to hand over the call to our Chairman. Over to you, sir.

Tarang Jain: Thank you Bikash, and thank you team Ambit for hosting the call, and a very good evening to everyone. At the outset, I would like to highlight some positive developments of FY23. Firstly, the revenue from continued operations grew by 17.5%. The EBITDA margin improved to 8.7% versus 6.6% in FY22. Reduced net debt by INR220 million, since the divestment on October 6, 2022.

15 patents, including 5 patents overseas were filed by the Group. Commercialization of new products developed by R&D, divested the loss-making European and American four wheeler lighting businesses, integrating the remaining overseas operations under one Varroc and have built a strong order book in the new businesses.

Now talking specifically about this quarter, that is Q4 FY23, the automotive production in India during Q4 FY23 grew on a year-on-year basis for most of the segments due to the easing of the semiconductor issues and improved economic activity. However, the segment from which we generate around 70% of the revenues, that's 2-wheeler saw a degrowth as exports are impacted by geopolitical issues and domestic demand was impacted due to lower consumption in rural areas.

On a year-on-year basis, 2-wheeler production degrew by 3%, whereas 3-wheeler grew by 7%, passenger vehicles by 13% and commercial vehicles by 6.4% on a year-on-year basis. On a quarter-on-quarter basis also, 2-wheeler degrew by 5.1%, whereas passenger vehicles grew by 11.9% and commercial vehicles by 22.6% due to prebuying before OBD-2 norms came into effect and Q4 is seasonally a stronger quarter for four wheelers.

In terms of operations in 4QFY23, our revenue from operations grew by 2.6% on a year-on-year basis to INR17,011 million. Our EBITDA margin was at 9.5% and it improved on a year-on-year basis by 340 basis points due to a business mix, recoveries and operating leverage. Sequentially also, the EBITDA margin has gone up by 170 basis points QoQ due to a business mix and recoveries.

The reported PBT for the quarter was INR411 million. We could reach agreements with our customers on various claims, which have been pending for some time and the benefit was recognized in the Q4 results. On anticipation of moderate inflation, as well as early sign of rural consumption increasing, we will continue to build the momentum in FY24 factoring in seasonality.

In India, we continue to have a strong order wins for new business in FY23 across business units. During FY23, lifetime revenue from new order wins is INR51,782 million. Out of this, business wins from 7 prominent EV customers is INR17,968 million. The order book also reflects our efforts to diversify that we see nearly 56% of lifetime order wins from the 4-wheeler business and 44% from 2-wheelers and 3-wheelers.

As stated earlier, our effort to strengthen our R&D capability is showing results as not only -- we have filed 15 patents in FY23 from the Group, but also commercialized products developed by R&D in this financial year. During the current financial year, our businesses will continue to focus on profitability improvement, free cash flow generation and debt reduction.

We also got A+ stable outlook rating from India Ratings.

Finally, I would like to keep you all updated on the final adjustments to be made to the escrow amount and the sale consideration for a deal with plastic Omnium. The information was already given by us on 17 May 2023 to the stock exchange. The buyer submitted the final adjustment but failed to provide the necessary supporting details to enable the company to understand these adjustments. Hence, we have disagreements with the buyer on the proposed adjustments.

Both the parties have now mutually agreed to attend the resolution of the disagreement in accordance with the provisions of the SPA. A qualification was added to this effect and it is not

possible to ascertain the exact outcome of the negotiations at this stage. We will keep you informed once the negotiations reach conclusion on this matter.

Now I'll ask MK, our group CFO, who will walk you through the presentation, which is already uploaded on our website and submitted to our stock exchanges also. Over to you.

K. Mahendra Kumar:

Thank you. Thank you, Tarang. Good evening, everybody. So since our Chairman explained the highlights and the industry performance. I will straightaway go to slide number 3 in the presentation, which is about the consolidated financials. So as our Chairman highlighted, in Q4 of this year, we actually reported a PBT of about INR41 crores and a PAT of about INR40 crores. EBITDA was 9.5%.

But the important thing here to note here is, on a full year basis, we actually reached about 8.7% of EBITDA or close to INR600 crores of EBITDA in absolute terms on a full year basis. The reported PBT was about INR83 crores. Now one point I would like to highlight here is, this is after suffering a onetime exchange loss in the first half of about INR56 crores. So after that, the reported PBT came at about INR83 crores and PAT at about INR39 crores. So that's about the consolidated numbers.

In the next slide, of course, we give the revenue breakdown. No significant change compared to last quarter. So we continue to be predominantly a 2-wheeler and 3-wheeler player, with close to 72% coming from that segment and about 25% coming from 4-wheelers. In terms of business unit mix, PBU continues to be the largest one with close to 1/3 of the revenue coming from there. EBU gives about 22% lighting about 21% and MBU about 12%, aftermarket is close to 9%.

In terms of customer mix, Bajaj, of course is our largest customer with close to 38%, 37.5% revenue coming from Bajaj and the remaining coming from various other customers. In terms of geographical distribution, about 82% comes from India and the rest comes from outside India.

So now going to the next slide, which is about the net debt movement. I'd like to highlight that equity now touched again back to INR1,000 crores plus. You may recollect that because of impairment, we had to take some kind of beating earlier. So back to INR1,000 crores of equity. Of course, EBITDA annualized is close to INR600 crores, like what I mentioned. The net debt level ended up at around INR1,278 crores. Here again, all of you may recollect that when we actually did the divestment on October 6, the net debt was close to INR1,300 crores. So we brought it down to INR1,278 now. And in terms of net debt to equity, it actually means we are close to about 1.27x, net debt-to-EBITDA is slightly above 2.13x. So that's on the debt-related numbers.

Coming to the order wins, of course, our Chairman explained that close to INR5,200 crores of order wins or INR5,178 crores of order win was there in FY '23. And then most of it came from the 4-wheeler, 56% came from 4-wheelers and about 44% only came from 2-wheelers. And similarly, nearly close to 1/3 of it is electric vehicles. In terms of Bajaj versus non-Bajaj also, I think you can see that 86% of these lifetime revenue is going to come from non-Bajaj customers.

So again, going to the next slide, which is what we have been highlighting earlier also that, these focus areas continue to be very important for us. We are focusing on revenue growth. On top of

that, a contribution margin improvement is the next focus area. So these two with the stringent control on fixed costs should actually result in PBT growth. And then on top of this, we are putting robust working capital management and of course, strong control on capex also. This should all convert into a free cash flow generation, healthy free cash regeneration, which will be prudently deployed. Our initial focus will be debt reduction. So that's how we are going to follow in the near future.

So with that I will stop here. I think the next slide is about awards and CSR initiatives, which you can see from the presentation. And the backup details about our company or the overall corporate presentation is also attached in the subsequent slides. So let me stop here. We'll be happy to take your questions. Thank you.

Moderator: The first question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Sir, two, three questions from my side. First is, if you can give slightly more details on this auditor's opinion and the details which were provided on stock exchange on 17th, like what exactly are the disagreement and because of that, will the consideration come down further or increase or what exactly it is?

K. Mahendra Kumar: Yes. So let me answer this question. As we mentioned in the stock exchange announcement, it's too early to comment on the amount or the direction of these adjustments. As per the agreement, we left about INR28 million escrow with the buyer. And it is also subject to some final adjustments, which should be done 90 days after the closure date. So those adjustments have been submitted by the buyer, but we find some of them to be not backed up by enough details. So that's the reason we actually refuted those. And then we actually asked for more details. Those details are yet to come to us.

So now we are going to have a discussion in person maybe sometime in June, first week or second week. So, after that only, we'll get some clarity about what's going to be the future state. So that's the position as of now.

Nikhil Rungta: So basically, this issue is only for the escrow amount. There is no issue on the deal. The deal has been completed, right?

K. Mahendra Kumar: Yes, of course, deal is completed, but the escrow amount -- so indirectly, when the escrow is adjusted, the consideration also may get adjusted. I think that's the meaning. So yes, the deal is not under question. It is the amount, which is what we need to finalize.

Nikhil Rungta: Okay. Got it. So the amount can be higher or lower which might lead to further, I mean, onetime loss or profit in our numbers, right?

K. Mahendra Kumar: Yes. I mean we never know. We need to conclude these discussions then only we will get to know. But yes, correct. Traditionally, yes.

Nikhil Rungta: Got it. Sir, second question is what type of capacity utilization are we currently working at? And still, what level can we be? I mean in terms of revenue, we are already at INR6,900 crores,

wherein our margins is 8.7%. So in what level can we go in current capacity? And what would be the margin there?

Tarang Jain:

Yes. So our capacity utilization presently for whatever we have invested, and all of the investments were actually done also in FY '19. So we are, today, I would say, on an average, not more than 60% or 62% of the total. So there's a real upside which is possible. And as you know, we are largely dependent in the 2-wheeler sector, about 70%, and that has unfortunately not performed very well, including our main customer. For the reason -- that's the reason why we are at about 60%, 62% of our capacity utilization.

So there's a huge scope. So we are actually -- so our main focus to hit the nail on the head, our main focus is capacity utilization. We can go up to 80% to 85% at least of this utilization. So you can now see the revenue we are at today, you know that you can get a sense of what we can really -- what kind of revenues we can we try all of our existing investments we already have. And -- but in any case, I think in the coming year, we are looking at a robust double-digit growth overall from whatever the revenues we have achieved in FY '23.

Nikhil Rungta:

And what type of margins are we looking at, at that time?

Tarang Jain:

So see, I mean, like we have said, we are striving for overall double digit, and that's something we will also strive for in the coming year. And that's something we feel is possible. So therefore, that's going to be our objective.

Nikhil Rungta:

Got it. Sir, last question from my side. The debt levels, say, by end of FY '24? And what would be the capex for FY '24?

K. Mahendra Kumar:

Yes. Mahendra here again. As far as capex is concerned, I think it's a bit close to maybe about INR200 crores at the total level, including overseas. Coming to the debt level, like what I mentioned last time, it's maybe still too early to comment. We expect most of the reductions happen on the H2. But yes, that's our main focus area. We won't be able to give a number or guess a number now. But as you have already seen, we reduced by about INR22 crores. So we'll continue to put in those efforts. We will see the results in H2.

Moderator:

We have the next question from the line of Vinay Jain from Karma Capital Advisors Private Limited. Please go ahead.

Vinay Jain:

Just had a couple of questions. So firstly, in the opening remarks, we mentioned that there was some benefit of pending claim settlement with various customers during the current quarter. So can you quantify the amount?

K. Mahendra Kumar:

Yes, Vinay, this is Mahendra here. So basically, like how we have said in last call, this is an annual exercise, which keeps happening in this particular industry. And when it happens, it happens across several products and across multiple customers on an accumulative basis. So it is very difficult to slice it for each quarter separately. So that's the reason. I think the best thing would be to see it as an annual number. If you want to look at the margins instead of looking at quarterly numbers to better to see the annual number. I think that will give a better indication.

- Vinay Jain:** So this would be part of the overall revenues, right? It can be in that line?
- K. Mahendra Kumar:** Yes.
- Vinay Jain:** Understood. And the second question was regarding the China JV. So we had plans of consolidating that JV into our numbers. So any progress we have made on that front?
- K. Mahendra Kumar:** Yes. See, as of now, we have taken the numbers based on what they declared in the arbitration proceedings. So based on that, we actually took it, but we don't have the audited numbers yet. So that's the reason we did not formally consolidate. Once the arbitration proceedings come to an end or we reach some kind of settlement with them that's when we'll be able to formally consolidate based on audited numbers. But we'll continue to get the information built on these arbitration rulings. So that's how we will do it in the near future.
- Vinay Jain:** Understood. And lastly, again, so if you see on a full year basis, we would be at a gross margin of around 35.5%. So hopefully, like we should be improving on this number, as you also rightly mentioned in the opening remarks that the focus is on improving the contribution margin. So this number should improve in the coming quarters and years, right?
- K. Mahendra Kumar:** Yes. I mean we have various cost reduction efforts, which our teams are working on. But yes, traditionally, yes, should improve but we also need to see what kind of inflationary pressures coming in future and how much we'll be able to pass it on. But yes, directionally, what you said is right.
- Moderator:** The next question is from the line of Vishal from Svan Investments. Please go ahead.
- Vishal:** Sir, one question regarding you said that utilization levels are around 60% to 62% currently. But I'm seeing in the cash flow statement, there is a capex material plant and machinery of approximately around INR530 crores. So can you throw some light on this number?
- K. Mahendra Kumar:** Yes, Vishal. So my suggestion would be that we should not go by the cash flow statement because this includes continued operations also. So it has the effect of discontinued operations number also for the year for 6 months. So if you want to get a sense of how much capex we incurred in the continuing operations, I think it could be close to INR200 crores last year.
- Vishal:** Okay. Okay. Great, sir. And sir, regarding -- there is one more item, cost incurred on intangibles, which was INR200 crores last year, and this year also it is INR68 crores?
- K. Mahendra Kumar:** Are you referring to the cash flow again?
- Vishal:** Yes. Yes.
- K. Mahendra Kumar:** Yes. So like what I said, don't go by the cash flow numbers. That again includes the discontinued numbers also.
- Moderator:** The next question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

- Jyoti Singh:** Sir, my question is on the net debt side, what's our view going forward? And second is on the growth outlook side. So like this time, we did it around 17% for FY '23 levels. So what's the view going forward?
- K. Mahendra Kumar:** Yes. So like what our Chairman explained. So definitely, growth is a focus area for us. So we will continue to aim for strong growth going forward. Of course, it also depends upon -- part of it depends upon the industry growth and part of it on content growth. But that is certainly a focus area, but we won't be able to give you a number, if that's what you are expecting.
- Jyoti Singh:** Okay. And sir, like earlier we had discussed like we were going to diversify from our 2-wheeler to other segments also. So how these things going on, on that front? And what are the strategies that we are following for that?
- K. Mahendra Kumar:** There's no specific strategy to diversify, like how we explained based on the order win, if you really look at the new orders, I think most of them are coming in the 4-wheeler segment only. So I think it naturally happens because we are now giving a lot of importance to the 4-wheeler segment also, both in terms of lighting products and other products. So that will eventually happen over a period of time. But immediately, you won't see a big swing in the 2-wheeler versus 4-wheeler percentage because of this.
- Jyoti Singh:** So sir, like just kind of assumption, if you can give us -- tell what time we will see our company in a better level to reducing the debt and making companies better and profitable?
- K. Mahendra Kumar:** Yes. See, profitable, of course, I think we have already done. Of course, we need to now continue this. Now, as far as the debt reduction is concerned, like how I mentioned in my previous calls also, we have to be a little bit patient. We are hoping that H2 will then I think we can see some kind of good reduction because we continue -- the existing operations don't need any more debt or any kind of debt support.
- So it's on the generation, which comes from operations, which we have been used to repay is there. Of course, we need to see the other areas. For instance, let's say the China settlement comes to some kind of a shape, we may have to invest some amount there. So those kind of nonoperating areas may have some kind of impact on debt levels. But for operations, the focus continues to be debt reduction.
- Jyoti Singh:** So sir, is there any...
- Moderator:** May I ask to request you to please rejoin the queue for further questions. The next question is from the line of Aditya Jhawar from Investec. Please go ahead.
- Aditya Jhawar:** My first question is just to better understand the new order wins of this INR5,200 crores, if you can split us between the completely new order wins and rewins it would be quite helpful.
- Bikash Dugar:** Aditya, we report only new wins, we don't report a replacement order.
- Aditya Jhawar:** So this is completely new order pick up?
- Bikash Dugar:** Yes.

- Aditya Jhawar:** Okay. Okay. Fair enough. My second question is on the China JV. So where are we? I mean what is the status with regard to separation of the JV partner? If you can throw some light on the revenue growth margin expansion that we have seen. So this quarter, clearly, the performance of China JV was quite encouraging. Was there any one-off in this quarter? Will you throw some light on that?
- K Mahendra Kumar:** Sorry, you're talking about the sale China JV...
- Aditya Jhawar:** Yes. Yes.
- K. Mahendra Kumar:** China JV, see the arbitration proceedings are in progress. So I think they may go on for maybe another 1 year or so, 1 to 2 years. But then having said that, the arbitrator is also encouraging the respective parties to sit and discuss and then come to some kind of a settlement. So those things may happen in the coming quarters. So that's on the status. Sorry, what was your second question?
- Aditya Jhawar:** Business in China.
- K. Mahendra Kumar:** I think that's doing pretty well. I think last year, as you all know, had a COVID impact for 2 to 3 months. But now I think the business is back in full action.
- Tarang Jain:** So Aditya, in China, being the largest car market and the penetration of EVs being the highest in the world. I would say, as a JV, both the factories have been performing fairly well. And we do see a good level of growth also in the coming year. So definitely, we do expect the performance from the JV to do well. So what you see actually in this quarter is something which should continue. So we're hoping for actually good results also in FY '24 from our China JV.
- But of course, our effort is that like we said earlier, that the arbitration proceedings are on probably it could continue for probably up to maybe 9 months or so. So our objective is that maybe reach an out-of-court settlement with our partner sooner than later, that's also something which has come out of the arbitration proceedings that we tried to kind of settle amongst ourselves sooner than later.
- So that's where the effort is now that we try to culminate or other split at an earlier date so that we can then focus ourselves of future growth in China, which we expect to be a good market for Varroc.
- Aditya Jhawar:** Okay. That's quite helpful, Tarang. Clearly, there is no one-off in the quarter, right, because it's almost about 20% of our PAT, the China JV number?
- Tarang Jain:** No, it is not a one-off. This is something which will continue.
- Aditya Jhawar:** Okay. That's very good to hear. The next question is, if you can highlight any breakthrough into OEM for our EV component in this quarter?
- Tarang Jain:** So maybe Arjun, do you want to take this?

- Arjun Jain:** So let me say before, and we continue to be based with actually five now different OEMs locally and abroad with respect to the portfolio, there is something to report for obviously, we will report it.
- Tarang Jain:** So we are very hopeful, Aditya. I think every so engaged, we have very strong, highly efficient products, which we have developed. And we're engaged with some of the prominent 2-wheeler OEMs in this regard. And we are hoping for some results in this financial year.
- Aditya Jhavar:** Okay. Perfect. My final question is to Mahendra. So if you can highlight what should be the tax rate assumption in FY '24?
- K. Mahendra Kumar:** Final tax rate assumption?
- Aditya Jhavar:** Yes.
- K. Mahendra Kumar:** FY '24, basically, if you really look at the applicable tax rates, VEL at 35% plus of course surcharge and all. And VPL, which is a subsidiary, is at 25% plus surcharge.
- Aditya Jhavar:** So on a blended basis, how much should we consider, sir?
- K. Mahendra Kumar:** See, if you are looking at the exact impact on P&L, it is difficult to predict because it also depends upon the movement in deferred tax. It's difficult to actually put a number to it in terms of what could be the effective tax rate. But if you really look at the normal applicable tax rate, and then you can broadly make it out and VPL is roughly about one third of our business. So then we can compute this on that.
- Operator:** We have the next question from the line of Aashin from Equirus Securities. Please go ahead.
- Aashin:** My first question is on the other income number. So that seems to be high this quarter. So is there any one-off? And what sort of other income we should take going forward?
- K. Mahendra Kumar:** Yes. Mahendra here. So there are basically two major components in it. One is the government incentive, which we get from state government for our operations. So that we recognized the over the period based on the volumes of the respective business. So that's one reason. Second reason, of course, every year-end, we also do some clean-up in provisions and liabilities there's anything which is outstanding for too long a period, we generally reverse it. But these are the main things.
- Aashin:** Okay. Okay. And my next question is on the lighting business. So this quarter, the lighting business, there was a sequential drop in the lighting business this quarter. Could you give us a sense on how the global 2-wheeler lighting business is doing? And how is the Indian lighting business doing? And what sort of growth do we see in both of them going forward?
- Tarang Jain:** I think our lighting business, when it comes to India, we are both in the 2-wheeler lighting and the 4-wheeler lighting business. And we have seen actually a good growth, I would say, when it comes to our both lighting business in India. Both 2-wheeler, 4-wheeler. We have 1 on the 2-wheeler side, we continue to win the various programs India and abroad from various customers.

And the 4-wheeler also even recently, we have won some very prominent business for the EV vehicles on the 4-wheeler lighting side.

When it comes to abroad our lighting business is mainly 2-wheeler lighting as we have exited from the 4-wheeler lighting business. So there, we have our plants in Italy and Vietnam and also in Romania. There we are seeing actually a good performance. And also, yes, the growth has been a little bit subdued in the last 1, 2 quarters abroad. But that's something now we see when we will see a growth in this coming year moving forward.

So overall, I would say India as well as our businesses abroad in Europe in Vietnam, we expect to see actually a good level of traction in our overall lighting business, because we do possess a very robust and a good level of technology in both these sectors.

Aashin:

And sir, a third question is on the order book side. So this quarter, we have seen very good addition of orders on the 4-wheeler side. And if we compare the whole year as well, the 4-wheeler orders have been very strong. So what's -- I mean, what sort of ramp-up do you see -- do we see on the 4-wheeler side? And where are these orders coming from this segment?

Arjun Jain:

So our passenger car offerings are across lighting and polymers and I think a big reason why we've been able to win incremental business is because we've been early to launch a fair amount of technology over the last 18 months. General development time for a passenger car vehicle doing 24 to 30 months, now in 20 to 30 months. So I would put a specific on sort of quarter on it, but there is the time line in which we would expect the ramp-up of these programs is taking place.

Aashin:

Okay. Okay. And my last question is EV revenue, which reported INR100 crores. So could you give us a split on what would be our conventional product and what would be a new product? And what sort of growth do we see in this number going ahead?

Bikash Dugar:

It's a 80% & 20%, 80% is our new products and 20% is our conventional products.

Moderator:

Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth:

So our Chairman made a remark that this year, we expect to grow around double digit. So when our 70% of business is coming from a two-wheeler, which is expected to do single-digit as well as around 20% of business is from global. So if you can give a little more color to what will drive our growth in double digits?

Arjun Jain:

I think, it's the same trends that have driven our growth in this year also, right, because the product portfolio and the strategy that we pursued over the last few years has been to drive content growth. And the primary content growth that is taking place in the two-wheeler and also, I would say, in a passenger car is with respect to electronics.

And this is where whether or an IC engine, whether on an EV, we enjoy extremely strong position. The further topic also is even when we look at the segments, we still see the premium segment in two-wheelers doing well, which is again where we have a significant amount of

content. So in our expectation, even as we look at the year going forward, these the new technologies, the new programs, we continue to grow in size.

Bharat Sheth: Is it fair understanding that these are more profitable than our traditional business so which can help us, I mean, apart from operating leverage to achieve a double-digit kind of EBITDA margin?

Arjun Jain: So I would not comment maybe on profitability of specific products and programs. But in general, right, as you said, greater the operating leverage, the better position, the better the position it puts us in.

Moderator: Thank you. We have the next question from the line of Prateek from Nippon Asset Management. Please go ahead.

Prateek: Just still fair to say that Q4, when I look at your performance, it's very similar to how the automotive markets have behaved. This is primarily because of a largest customer expect that there would have been growth Q-o-Q? So what I'm trying to get to is, basically, I can't see the benefit of content flowing through despite having a very poor and despite the automotive markets is on doing well, is this only because of Bajaj?

Tarang Jain: No, I would say that the content growth actually has, in a way, helped us reach a certain level of revenue, otherwise, like you know the Bajaj volumes were quite low. They were quite negative actually for the whole year, including in Q4, but it was the content growth, what earlier was mentioned that because of electronics is the reason why we've been able to reach a certain level of revenue and on a very low capacity utilization. So therefore, I think that this content growth is really helping us in driving at least a certain minimum level of performance in the market.

Prateek Poddar: Got it. The second question is more on your direction or strategic initiatives of increasing contribution margins reducing fixed cost. Could you just talk a bit about how much of that or has any of the strategic initiatives play in this quarter? Because the gross margins have improved. I understand there are some one-offs over there. But even if you see sequential EBITDA margins have expanded. So I'm just trying to get to whether it is mostly attributable to the one-offs, or there has been some improvement in terms of controlling fixed cost/improving country margins?

K. Mahendra Kumar: Yes. The efforts related to our cost reduction including the fixed cost control, I think just beginning -- they have just started. So we'll see most of the benefit may be in the current year. But I won't be able to put a number to it, but yes, definitely that we should see some improvement this year.

Prateek Poddar: Got it. And Mahendra just by your guidance of repaying debt in H2, it looks like most of these benefits will start showing in H2, the improvement in margins, which will help to reduce debt?

K. Mahendra Kumar: Correct. So on top of that, I mean, we are not just relying on profitable improvement alone for debt reduction. In fact, there is enough to be done in working capital side also, so that continues to be our effort. And second thing is if you really see our capex versus depreciation, so we don't need to really invest INR330 crores, INR340 crores, which is our depreciation number. So to the extent, there will be -- that will reflect in the FCF generation also, which should help us the debt reduction.

- Prateek Poddar:** Last question, what's your effective cost of interest cost, effective interest cost and where can you get this down to with improved mainlined cash flows?
- K. Mahendra Kumar:** If I really look at the recent deals, which we are getting, I mean they are anyway between like, 8% to 9.25%, that's the range. So obviously, we are trying to keep it at the minimum as far as possible. I think, we are getting some good positive reaction and maybe this kind of improved profitability will strengthen our case further.
- Prateek Poddar:** Would it be possible for you to call out fixed cost initiatives or fixed cost reduction initiatives/improvement in contribution margins, is it possible?
- K. Mahendra Kumar:** No, we don't want to give any guidance ledger. And again, let's wait for a couple of quarters to see them materialize and then talk about them.
- Moderator:** Thank you. The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.
- Pradyumna Choudhary:** So my first question when you speak about new order wins, when you give a number, how does the calculation takes like what kind of growth do we assume for the product or the model that we're supplying? Just wanted to get some clarity on that.
- Arjun Jain:** Generally, any order wins is reported based -- as reported based on what is the customer expectation of the volume that they will achieve on that particular model. Of course, we will temper it with again, there is no, let's say, a precise science to be will temper it with what is the reality that we see in the market today also. Generally, we've end of that. I think that is something I can give you.
- Pradyumna Choudhary:** Understood. And secondly, regarding the EV products like traction motors and DC/DC converters and all these. So we see quite a few companies talking about manufacturing. So how are we really differentiating ourselves, especially, when it comes to pitching ourselves to customers outside our anchor customer?
- Arjun Jain:** As I said there's two major points of differentiation. I think the first one, and I think I cannot state enough in terms of how much of an advantage it is we actually engage with customers is that we are already completely localized when it comes to manufacturing. So it's when we have enough product in the field. We have been manufacturing now for more than 12 months. So that is definitely a significant advantage for us.
- And the second major advantage on the product label is around efficiency, I think the most expensive component in the EV is the battery and all of our products are geared towards ensuring very good to maximize range based on any particular battery size.
- Bikash Dugar:** And thirdly, the R&D setup, which we had which helps us to develop and commercialize the product very quickly.
- Arjun Jain:** Yes, of course. I should mention that also. I think when I say localization, one is, of course, manufacturing localization, but also, let's say, the engineering and development capability,

localization is these comprehensive. I think, we have said it before also, but EV products today are not necessarily mature technologies. But I think the validation and testing setups that we have allow us to move through generation of maturity very, very quickly. And again, we were engaged with the multiple customer engaged something that they really like.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Kotak Mutual Fund. Please go ahead.

Arjun Khanna: My first question is just a follow-up to a question by an earlier participant. You talked of a cash release from working capital. When I look at your balance sheet or inventory plus receivable equal to payable. So in a sense, you're running an extremely tight ship, probably best-in-class compared to even most of our peers. So just curious, how do you intend to release cash from even this position?

K. Mahendra Kumar: Yes. So there are two, three things we are trying to do. One is, of course, inventory, there is still enough scope for the reduction. Actually, we started this about six months back. I think we achieved some success last year already. But still, there is more to be taken there. And second thing is if you really look at our payment terms also, I think still there is some scope for improvement in that area again. Plus there is something in various other categories, like we have other current assets where certain deposits are locked up. There are certain GST input credits is need to be fully utilized. So there's a big shopping list, which we are working on. So it doesn't come from one single area but across multiple areas were being implicated.

Arjun Khanna: Sir, my second question is in terms of capex, while we brought out roughly INR200 crores of capex, how much would be spent to India and how much outside India? Do we have a breakup there?

K. Mahendra Kumar: Most of it is in India is almost 80% to 85% in India only the remaining 15% may be abroad.

Arjun Khanna: Sure. So our Romanian unit would be fully built up in terms of SMT lines and new lines you are looking at scaling up on?

Arjun Jain: So I think the way to think about scaling in SMT plant is there is definitely space to scale further. And for the business that we have, across our different SMT plants, we have enough capacity. Of course, if you have significant order win etcetera, that would lead to cost for the capex also.

Arjun Khanna: Sure. Sir, my final question is probably I haven't understood it as well. In terms of China, you mentioned in arbitration, and we have used those numbers. So aren't we in control of the plants? Why would we have to use numbers from arbitration on people be on the ground?

K. Mahendra Kumar: Yes. So it isn't like this. So what deals under our control is one plant, but that is the step-down subsidiary. So for consolidation, we need a holding company level. So we are a 50% partner in a joint venture. And this particular plant, which is under our control is a subsidiary of that particular JV. Unless we get a JV consolidated number, we won't be able to consolidate here.

- Arjun Khanna:** Sure. Perfect. Understood. And the second part, this is in terms of the auditor qualification, just to reiterate, it's only the escrow amount that under consideration, or it is even the EV value that could be under consideration or reconsideration?
- K. Mahendra Kumar:** See, as per the agreement, the EV consideration is also a subject matter of discussion. But having said that, we have a significant amount of escrow there of 28 million. So which way it goes, we need to wait and see, we need to wait for the negotiations to come through and then see which direction in progress and what kind of impact it will have.
- Arjun Khanna:** So theoretically, it could be lesser than 28 million or even more than 28 million, is that the right understanding?
- K. Mahendra Kumar:** And politically speaking, we shouldn't be talking about that because it comes in the public domain and the other party also may be seeing it.
- Moderator:** Thank you. The next question is from the line of Abhishek from Dolat Capital. Please go ahead.
- Abhishek:** Yes. So what would be the key revenue drivers for the polymer business? If you can throw some more light on new business wins and new product addition in this particular segment? And how do you see RM trend and margin outlook in this segment?
- Arjun Jain:** The key drivers for the business again, right? I think over the last two years, we have been able to -- we have productionized multiple processes for the first time in India. So whether it is 2K moulding with technology, topics like roof rails. These are really first time products, these are really first time products. So that within that within these processes and the product line that this process is build where we expect to see the growth is where we will see the growth.
- And then first – and then there is also the ability to drive further value-add also for example, whether it is painting, whether it is the integration of other filtering other featurization, door panel, which customers are increasingly looking for because there is clearly an increase in the standard of the cabin that OEMs are looking to achieve. So directionally, I would say, this is where the growth for polymer is. This is where the growth of the polymer business is coming.
- Abhishek:** How do you see RM trend margin outlook in this business? Because earlier the raw materials prices are quite high and that was impacting the margin, but now it is going down. So how do we see benefit of it?
- Arjun Jain:** So we don't comment specifically on product-specific margins.
- Abhishek:** Okay. And sir, in metallic business, which is a high-margin business for you. There are highly stronger EVs for accelerations. So what is your plan to de-risk it? Have you added new products on this particular segment?
- Arjun Jain:** Yes. So I think when we talk about EV penetration versus the capacity that we have versus the overall split of the business, I think, we feel we are quite comfortable where we are at right now. Even within the metallic business, it's not like the entire metallic business is at risk, and EV also

we need to quite likely going forward to transmission assemblies. So there is enough -- we are quite comfortable with the amount of capacity reusability that we have.

We also already build, we already supply certain metallic products into EV as part of the for example, for the motor, the shaft we made in-house. So from that perspective, we don't see a major threat to the capacity at least in late over the next two to three years as a result of EV.

Abhishek: So supplying this motor, motor control to the Bajaj Chetak. So you have also started to supply this to other e-2-wheeler brands?

Arjun Jain: No. As of now, we are focused on Bajaj and Bajaj only.

Abhishek: Okay. And sir, my last question on this performance of the VLS remaining business, this comprises who we are lighting to 2-wheeler manual electronics. You have mentioned around 18.3% revenue from the global business. Is it the VLS remaining business revenue?

Tarang Jain: We could not hear you very clearly, sorry. Can you please repeat it?

Abhishek: So you have mentioned 18.3% revenue from the global business. Is it the VLS remaining business revenue?

Bikash Dugar: That is VLS remaining business and also the export which we do from India.

Abhishek: And how much classification in terms of the export from India and VLS remaining business of 18.3%?

Bikash Dugar: Again, business point, we don't want to talk about that. This is what we have been reporting and this is it. But export overall is not significant.

K Mahendra Kumar: Yes. It's predominantly all the business outside, export not so significant at this stage. There is scope for improvement there.

Moderator: The next question is from the line of C A Kanwaljit Singh from Balaji Investment. Please go ahead.

C A Kanwaljit Singh: My question is so what are the new avenues that the company is on looking forward in the next 3 years? And at what will be the capex for next year?

Arjun Jain: I think the capex question, CFO already answered, we would expect it to be around INR200 crores. I don't think there is necessarily as many new avenues we need to pursue. I think we will continue to pursue the existing avenues that are driving growth for us, which would primarily be around passenger car and the businesses that we win in polymer and lighting as a result of the first mover advantage we have on certain technologies over there.

And secondly, as a result of premiumization and content growth within 2-wheelers, whether that the EV components or higher and electronic components or higher in electronic components on premium 2-wheeler.

- Moderator:** Sir, the current participant in the queue seems to have dropped from the queue. We will proceed to the next question, which will be from the line of Vishal from Svan Investments. Please go ahead.
- Sachin:** This is Sachin here. Congrats on financial improvement over the EBITDA margin. My question was even if the segmental numbers. In the other segment, we had resumed primarily first of the Italian operation, there's a good improvement quarter-on-quarter. So if you could tell us a bit more is there some one-off in days or is there some structural change in the business has become applicable.
- Management:** Yes. Sorry, that was not very clear, but I guess you're asking about the overall margin improvement, right?
- Sachin:** Sir, my question was, when we look at the segmental numbers, the other segment, which I think primarily refers to your Italian operation, there also, we have seen a sequential improvement in profitability. So are there some one-offs in that or if we have no structural changes has been competitively that has improved?
- Management:** Yes, there is no one-off, but I think over the last 1 year or so, Italian operation has been doing well.
- Sachin:** And what is the long-term strategy in terms of the Italian operations as we continue to run them the way they are with focus or not, just improving the profitability or at some point of time, we will look also in terms of the strategy Italian operation?
- Tarang Jain:** So every operation, you are talking, I think, about the lighting business. Yes. So see, presently, frankly, we're not thinking too much ahead. So we are just thinking that how we improved the operations, and we have, as you know, significantly improved the profitability in this pausing business of ours.
- We still have some certain capacities which are underutilized. So our basic focus now is that how can we get in more revenue in this plant at the moment and at the same time, drive also further operational improvements, which are possible.
- So the focus will be revenue growth as well as profitability improvement coming through driving further operational efficiencies. So this is our focus at the moment. We are not looking at something more at the moment.
- Sachin:** Sure. Second question on the contribution from electric vehicles. You have mentioned in the presentation that we close around 1.5% approximately INR100 crores. Considering the strong growth in the EV segment, can you give us some sense and the ordering that we have, what type of growth we could see for overall EV business come in here, maybe over a 2, 3-year period?
- Tarang Jain:** This revenue was largely coming, I think, from 1 major customer presently. And talking about - - lastly, we were talking about the EV powertrain because we've already said that if you were to talk about other products, whether it's polymer or lighting and everything, then obviously, we

have won a lot of business last year, more than 1,700 of lifetime revenue orders from the EV space.

But talking about the EV powertrain, we expect a good level of growth in this EV powertrain from 1 customer we have today. And we're already seeing a growing momentum coming in from this 1 customer on their model. And we are hoping that the growth will be quite significant in this financial year.

Sachin: Sure. So my next question on working capital, as mentioned by the CFO, that there are lot of this inventory. So if you could give us some sense that are we looking at some good number? Or is it just being some efficiency in the overall working capital or the raise of working capital could be taken as there could be perceptible improvement in the net debt because of the release of working capital?

Management: No, it won't be a very significant number because part of it was taken in '23 already, but still there is some more left. So I would not be able to put a number to it. But there is there's enough scope for improvement. It may not be -- we're expecting it to be a 3 digit number. It may not be.

Sachin: Sure. I just last question to one of the previous query in you mentioned that the ratio of 2-wheeler and not change significantly. But when you look at your order book, this year. Then when we see the share of passenger vehicle and commercial vehicle is almost like 50%. So I'm a little confused as to the order being set so strong from the non 2-wheeler segment while ratio in terms of where revenue should not change a little bit more in favor of PV and CV or other 4-wheelers.

K. Mahendra Kumar: No, what I meant to say was, it will change over a period of time it won't change immediately. The same trend continues for, let's say, a few years, then it will change significantly, but not immediate.

Moderator: Ladies and gentlemen, that will be our last question for today. I now hand the conference over to the management for closing comments. Over to you, sir.

Tarang Jain: So thank you. Thank you, and thanks to everyone, again, for joining and listening and asking your relevant questions. We, at Varroc continue our journey towards generating strong financial performance and creating value for our stakeholders. Thank you.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.