

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/2022-23/76

October 3, 2022

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 34th Annual General Meeting of Varroc Engineering Limited

Dear Sir/Madam,

Please find enclosed herewith transcript of 34th Annual General Meeting held on September 29, 2022 at 11:00 AM.

A copy of the same is also being placed on the Company's website i.e., www.varroc.com

This is for your information and records.

For Varroc Engineering Limited

Ajay Sharma
Group General Counsel and Company Secretary

Encl: a/a

34th Annual General Meeting - Varroc Engineering Limited
29th September 2022

- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**

- Dear Shareholders, it is my privilege to speak to you in the Annual General Meeting of your company Varroc Engineering Limited. I hope all of you are in good health. Our company continues to progress towards being a sustainable organization in extraordinary circumstances. Over the last two years, businesses and the society at large have been faced with unique and unprecedented challenges. We've been living in a VUCA environment- Volatile, Uncertain, Complex and Ambiguous. Looking at the past year, while we all were anticipating a rapid recovery in volume, the second wave of the COVID-19 pandemic struck impacting both the supply and demand side. Just as we were coming out of the second wave we saw a worsening of the supply side challenges, particularly the semiconductor shortages, which is continuing and might take till the end of FY23 to get normalized. Higher fuel prices, commodity inflation and tightening of financing have resulted in higher cost...

- So, ladies and gentlemen, sorry. I think I will start the meeting by wishing you a very good morning. I welcome you all to the 34th Annual General Meeting of the shareholders of the company. Due to the Coronavirus outbreak and the resulting physical distancing guidelines, this meeting is being held through video conference in accordance with the circulars issued by the Ministry of Corporate Affairs. LIVE proceedings of this Annual General Meeting are also being webcast on the e-voting website of NSDL. We have the requisite quorum present through videoconference to conduct the proceedings of this meeting. Participation of members through videoconferencing is being reckoned for the purpose of quorum as per the circulars issued by the Ministry of Corporate Affairs and the Section 103 of the Companies Act, 2013. The quorum being present, I called this meeting to order.

- Before we start the main proceedings of the meeting, I request my colleagues on the video conference to introduce themselves. Mr. Gautam Khandelwal will not be joining the meeting as he is unwell. Mr. Marc Szulewicz, Mrs. Vijaya Sampath, Mr. Vinish Kathuria, Mr. Arjun Jain, Mr. Dhruv Jain, and Mr. Rohit Prakash, you could please introduce yourselves.

- **Mr. Vinish Kathuria - Independent Director, Varroc Engineering Limited:**

- Hi. This is Mr. Vinish Kathuria, an Independent Director of the company joining on the video call from Gurgaon, Haryana.

- **Mr. Marc Szulewicz - Independent Director, Varroc Engineering Limited:**

- This is Marc Szulewicz attending this meeting from Paris. I'm an Independent Director of this company.
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
- Vijaya? Arjun?
- **Mr. Arjun Jain – Director, Varroc Engineering Limited:**
- Hi, this is Arjun Jain, Director at Varroc. I'm joining the AGM from Singapore.
- **Mr. Rohit Prakash- Whole time Director, Varroc Engineering Limited:**
- Hi, this is Rohit here, Whole-time Director of the company and I'm joining this meeting from the Boardroom with the Chairman and the other people. Thank you.
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
- Apart from them, we have key executives and senior management joining from their respective locations. Further, Mr. Paul Alvares and Mr. Mustafa Saleem, representatives of the Statutory Auditors and Mrs. Uma Lodha, Secretarial Auditor of the company are also present in the meeting from their respective locations.
- The company has taken all feasible efforts under the current circumstances to enable members to participate through video conference and vote at the AGM. I thank all the members, colleagues on the Board, Auditors, and the management team for joining this meeting over video conference. I hope all of you are safe and in good health.
- As a notice of the meeting has already circulated to the shareholders, with your permission I take the notice convening the meeting as read.
- I would now request our Company Secretary to read out the Auditor's Report.
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
- Ajay, you're on mute.
- **Mr. Paul Alvares – Partner -S.R. Batliboi & Co.:**
- Ajay, you are on mute.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**

- Thank you, Sir. The Statutory Auditor's Report on the standalone financial statements and the consolidated financial statements are available on page number 128 and 214 of the Annual Report respectively. Secretarial Auditor's Report for the company and for Varroc Polymers Private limited, material subsidiary of the company, are annexed to the Board's report on page number 95 and 99 of the Annual Report respectively. The Auditor's report, which forms part of the Annual Report and which has been circulated to the shareholders, does not contain any qualification, reservation, or adverse remark on the financial statements for the year ended 31st March 2022. The Secretarial Auditor's Report of Varroc Engineering Limited, which forms part of the Annual Report, which has also been circulated to the shareholders does not contain any qualification observation or comment except for the following.

- Now, I'll read out the said observation. The gap between two Risk Committee meetings including the year 2021-22 exceeded 180 days which is not in compliance with Section 21 of SEBI (LODR) regulations 2015. The company submitted that 'the deviation was unintentional and would be taken care of in future', management's response to the above comment. The comment is self-explanatory. This deviation was unintentional and is being taken care by the company.

- Observation 2. As per regulation 54(2) of SEBI (LODR), 2015 the company is required to disclose the extent and nature of security created and maintained with respect to secure listed NCDs in the financial results. The company had received notice from BSE in this regard and vide email dated March 31st, 2022, imposing a fine of Rs.53,100 which the company paid on 4th April 2022 vide UTR#209413671694. Management's response to the above comment 'In view of the requirement of Regulation 54(2) of SEBI LODR, 2015. The company has taken rectificatory measures and has been ensuring adequate disclosure in the financials with respect and extent to the nature of security created and maintained for secure listed NCDs.

- During the year 2021-22, the company has paid remuneration to Mr. Rohit Prakash, Whole-time Director of the company, in terms of Schedule 5 of the Companies Act, 2013 in case of inadequacy of profits. However, the explanatory statement in the special resolution for approval of appointment and remuneration of Mr. Rohit Prakash which was passed in the AGM held on 14th August 2020 did not include the information as required under Part 2 Para B of Schedule 5 to the Companies Act, 2013. Management response to the above comment 'The matter with respect to the payment of remuneration to Mr. Rohit Prakash, Whole-time Director of the company, is now placed in the AGM for approval of the shareholders by way of special resolution and necessary information disclosure as required under Part 2 Para B of Schedule 5 to the Companies Act, 2013 in case of inadequacy of profits are made to the explanatory statement through the special resolution.

- Apart from the above, there are no further qualification, observation, or comments. Over to you, Sir.

- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**

- Thank you, Ajay. Before we take up the first item of the agenda, that is adoption of financial statements, I would like to proceed with the Chairman Statement.

- Dear Shareholders, It is my privilege to speak to you in the Annual General Meeting of your Company i.e., Varroc Engineering Limited. I hope all of you are in good health. Our Company continue to progress towards sustainable organisation in extraordinary circumstances. Over the last two years, businesses, and the society at large, have been faced with unique and unprecedented challenges. We have been living in a VUCA environment – volatile, uncertain, complex, and ambiguous. Looking at the past year, while we all were anticipating a rapid recovery in volumes, the second wave of the Covid-19 pandemic stuck, impacting both the supply and demand side. Just as we were coming out of the second wave, we saw a worsening of the supply side challenges, particularly the semiconductor shortages, which is continuing and might take till the end of FY23 to get normalized. Higher fuel prices, commodity inflation and tightening of financing has resulted in higher cost of ownership of vehicles, impacting demand. We are also witnessing Geo-Political issues like the Russia-Ukraine conflict impacting the global economic recovery. All this has made the operating environment for the business very challenging, impacting the profitability of the operations significantly. In the background of these challenges, the Company took the decision to divest its 4- wheeler lighting business in Europe & Americas and signed an SPA with Plastic Omnium in April'22. We informed all the stakeholders that the transaction will get completed by 4-6 months. We are on track of closing the transaction in first week of October'22 but the leftover equity value will be significantly lower than what we have emphasised earlier due to certain adjustments which we are finalising with the buyer and thus the Company will have borrowings in its books even after the transaction. This divestment will help the company to put its bandwidth in identified focus areas to drive future growth in continued business.

- Our business model for continued operations remain resilient, and our strategic interventions enabled us to consolidate and grow in a disruptive year. We achieved a revenue of ₹58,422 million in FY2022, as compared to ₹43,739 million in the previous year, registering an annual growth of 33.6% for our continued operations.

- The past two years have witnessed immense structural shifts in the way mobility is experienced. Globally, the pandemic accelerated the push towards a more ethical mode of transportation, with growing awareness among consumers about the carbon footprint generated by automotives. This has led to increased demand for the adoption of EVs, both by users and regulators. We have enhanced our business operations to capitalise on the benefits arising from this shift, with the incorporation of EVs into our product portfolio. To capture the growth from Mega Trends, we are happy to announce that the

government has approved our application for Production Linked Incentive, and we will be investing around Rs.2800 million over 5 years under the scheme.

- The VUCA environment we have lived in has automatically made us nimble and agile. We have initiated a strategic exercise to usher in an era of sustainable growth at Varroc. The future of mobility is changing. We are changing with it. With the divestment of our 4W lighting business, we will have management bandwidth and are ready to deploy our futuristic products globally. We plan to leverage the heavy investment we have made in our R&D to expand our product portfolio and become a full system solutions supplier for OEMs. We are ready to initiate and deploy digitalization (automation and IOT) to strengthen our manufacturing capabilities and enhance our supply chain management. This will ensure the quality of our products and give us the ability to scale up at the lowest possible cost. The external business environment is expected to further normalise by the second half of FY2023. As we move ahead, we are confident that our business fundamentals remain strong and our operating performance is bound to reflect the resilience of our business model.
- We are focused on pursuing a combination of growth and margin improvements for our business units. There are several growth opportunities and favourable mega trends that will help secure our businesses. To this end, we will continue to focus on our medium to long-term strategic priorities and growth pillars. Business units such as electrical-electronics and polymer in India, and the electronics business in Romania, are geared up to capitalize on specific growth opportunities. We are looking to improve the profitability of some of the business unit like IMES in Italy, Metallic Business in India, 4W lighting business in India and 2W global lighting business by mix of improving internal efficiency, higher capacity utilization and price increase from customers. The future is ours. Together we can usher in an era of sustainable growth. Together we can make next happen.
- I express my sincerest gratitude to our customers, employees, bankers, and investors for placing their trust in our abilities, through an exceptionally difficult year. I look forward to your continued support as we keep pushing boundaries to reach newer heights. Thank you.
- I now request Mr. Ajay Sharma, our Company Secretary, to provide the necessary instructions to the shareholders regarding e-voting and the resolutions as set forth in the notice.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**
- Thank you, Sir. In compliance with the provisions of the Companies Act, 2013 and the rules prescribed there under and the SEBI(LODR) regulations, the company has provided the facility of remote e-voting to the members. The remote e-voting commenced on Monday, September 26th, 2022, at 9am and concluded on Wednesday, September 28th at 5pm. In compliance with the rules on e-voting framed under the Companies Act, 2013,

the voting at the AGM is being conducted by the same e-voting system of NSDL which was used during the remote e-voting. Members who have already cast their vote by remote e-voting are not eligible for voting again at the meeting. Members who have not cast their vote may please visit the e-voting page on the NSDL website and cast their votes during the meeting. Mrs. Uma Lodha, practicing Companies Secretary has been appointed as scrutinizer for the remote e-voting including the e-voting at the AGM. Since the AGM is being held through video conference, there will be no proposing or seconding of resolutions. The result of remote e-voting, including the results of the e-voting at the meeting, would be declared on or before October 1st, 2022, that is, within 48 hours of the conclusion of the AGM and will be placed on the website of the company and on NSDL website which will also be announced to the stock exchanges.

- Now with the permission of the Chairman, following resolutions as set forth in the notice are being taken up at this AGM.
- Agenda Item 1a. Adoption of audited standalone financial statements of the company for the financial year ended 31st of March 2022 and the reports of the Board of Directors and auditors there on.
- Agenda Item 1b. Adoption of audited consolidated financial statements of the company for the financial year ended 31st of March 2022 and the reports of the auditors there on.
- Agenda Item 2. Appointment of Mr. Rohit Prakash as Director who retires by rotation.
- Agenda Item 3. Approval for payment of remuneration to Mr. Rohit Prakash whole-time Director of the company.
- Agenda Item 4. Approval for reappointment and remuneration of Mr. Tarang Jain as Chairman & Managing Director of the company.
- Agenda Item 5. Approval for reappointment and remuneration of Mr. Arjun Jain as whole-time Director of the company.
- Agenda Item 6. Approval for reappointment of whole time as Independent Director of the company.
- Agenda Item 7. Payment of remuneration to Non-Executive Directors including Independent Directors but excluding Nominee Directors of the company.
- Agenda Item 8. Ratification of remuneration of Cost Auditors for the company.
- Agenda Item 9. Issue of non-convertible debentures on private placement basis.

- Agenda Item 10. Which is the last item which is for appointment of Mr. Dhruv Jain as Non-Executive Director of the company.
- The text of the resolutions along with the explanatory statement is provided in the notice which has already been circulated to the shareholders. Thank you shareholders.
- There have been certain questions that we have received. We will request the management to probably answer them one after the other.
- So, the first question that we have received is with respect to Indian 2-wheeler lighting side. What is the breakup of the revenues between LED and traditional lamps? How is the mix shift expected to change with the advent of EV? Could I request Chairman to take this question.
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
 - So, if I would talk about FY22, we had a total revenue and we're talking about, I presume on the India 2-wheeler lighting side and not on the global 2-wheeler lighting side. So, India's 2-wheeler lighting side we had a revenue of Rs. 340 crores in 2-wheeler lighting in FY22. Of this, 55% of our revenues came from the LED side and this, in fact, is an increasing trend due to the premiumization of the 2-wheelers as well as the adoption of EVs. In the case of 2-wheeler EVs we can only use LED lighting because of the light weighting. So, we see an increasing trend towards LED lighting as we move forward. So, this 55% we increased it to grow as a percentage and we also, you know, not only with the incumbent customers but also we are discussing on the EV side and also the premiumization side with a lot of the new EV players as well as the incumbent players. So, we will see more use of LEDs, you know, which could benefit largely a company like us who are a significant player in this category.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**
 - Thank you for your explanation, Sir. The next question is a hypothetical one. It states, if a complete shift to EV was to occur tomorrow what percentage of Varroc revenue would be lost to disruption?
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
 - So, here what I would say is, that on a total continued operations basis which was last year about Rs. 1500 crores, about 12% of our business comes from scooters and 3-wheelers. Out of this, I can say that 70%-75% of this 12% is engine agnostic. So, we're not affected which means that only 3-4% is at risk. But, here, what I would like to say is that that 3-4%, frankly, when it comes to 3-wheelers here is where, you know, we have a significant EV product portfolio like Traction motors, Motor controllers, DC-DC converter,

Throttle position sensors etcetera whose content is more than 6-7 times that of that an IC engine. So, if there's a transition to the EV, our company actually in fact stands to benefit, you know, much more than the loss and the loss also, you know, it is only to the extent of 3-4% in this category.

– **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**

– Thank you sir. The next question again is on the EV part of it. How many 2-wheeler EV players does Varroc cater to currently on the lighting side? And what percentage of the revenue does the segment contribute currently?

– **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**

– So, presently I can say that we are dealing with two big incumbent players on the EV side lighting and we are in discussions now with both, all the incumbent players as well as some of the new players, to increase our market share on the LED lighting side.

– **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**

– Thank you, Sir. Now, the non-EV questions start coming in. The Imes which has been a drag on the company's financials. Given the turnaround of Imes separations, any plans to find a buyer and getting out of the business?

– **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**

– So, what I can say about Imes is, Imes is a company which we had acquired in January 2007. Yes, it's not a core business, you know, being not part of the automotive segment. So, yes, we are open to finding whatever there is the best solution going forward. But presently I would say that our team Imes in Italy is working very hard to improve the performance there so it doesn't become a drag on the overall company.

– **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**

– Thank you, Sir. The next question is, what are the financial parameters as a company you would want to achieve?

– **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**

– In terms of revenues, I think year-on-year we would like to grow 8%-10% more than the market growth. In terms of EBITDA, we want to move toward...this is for the total continued operations, we want to move to a double-digit EBITDA within the next 2-3 quarters and at about 12% plus on or before FY25.

- In terms of ROC, we want to achieve also a 22% ROC before or by FY25. So, this we want to deliver on a consistent basis in the coming quarters and all steps are being taken so that we can achieve on our above targets.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**
- Sir, continued question from that one, what would drive the growth of Varroc?
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
- So, there are certain areas where we feel will drive our growth, you know, in a much more significant way. One is our aftermarket which is doing extremely well and continues to grow in a significant way. Then, of course, the introduction of new products, whether it's on the electronic side or on the heavy side. We're looking at the current customers to increase our share of business. Also, we are expecting a lot of content increase, you know, in our product portfolio due to the premiumization and due to regulatory push and scaling of business for EV products and also electronic business in Romania will also help ride this overall growth.
- For this also, we are now strengthening our key account management structure, in our sales to help us achieve more customers for product and more products for customer. On the back of this, we are confident that in the coming quarters and years we will be at least 8%-10% higher than the customer growth.
- As a company, we're not only looking to grow our revenues but the growth should be value accretive implying that the revenue growth should drive higher EBITDA margins, ROC and free cashflows.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**
- Thank you, Sir. The next question is asking for the rationale for the disinvestment of the 4-wheeler lighting business.
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
- I think, seeing the overall environment which we're seeing the last two years, and I spoke in my speech about the VUCA environment, I feel this divestment will be beneficial, you know, for Varroc. First is, of course, it will greatly help in deleveraging our Balance Sheet. And at the same time, I think, it is only fair to say that it's good that this business is in hands of a larger global player and that's what I feel will happen, you know, through the acquisition by Plastic Omnium of this business.

- Also, this actually frees up the management bandwidth of the of the top management which can be utilized now to kind of focus on the continued business where we see a huge amount of growth, as mentioned earlier, especially in India.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**
- Thank you, Sir. The next question is pertaining to why do you think that the growth momentum in aftermarket would continue?
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
- Aftermarket for us has been a high growth business and also a very profitable business. If you look at quarter one, we achieved a revenue of about Rs. 150 crores which was 46% more year-on-year and we expect that the aftermarket business for us for the next 3-5 years will grow at least 20% CAGR.
- What we are actually focusing on to achieve this is, we have a focused approach at the target market for demand generation. We have also already worked on minimizing regional disparity in sales, maximizing sales in potential cities and part lines. We have maintained and are maintaining a very good connect with the primary, secondary and the tertiary market. We are introducing and introduced a lot of high potential parts through product range extension and we are also now focusing in a greater way on the export side of the aftermarket. Further, spending the brand Varroc in the aftermarket by including new products augurs very well for the group as a whole going forward.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**
- Great. Going forward, the next question is also with respect to what's the management focus as far as the company's concerned?
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
- The overall, I think, the focus is definitely, like I mentioned, on sustainable. It should be sustainable growth with the right level of governance. For ROC, free cashflow purposes we want to do the right capital allocation going forward. We want to be extremely consistent, you know, in our operational performance. We want a much-improved operational performance and we have set out strong targets in this regard for each and every plant of ours. So, continuous improvement, like I mentioned in EBITDA, ROC, free cashflow, probably there will be a very detailed and regular reviews on these parameters as we go forward.

- Also, the kit value per vehicle will go up which will also help increase our Market Share. 'More customers for products and more products for customer', is something we'll be focusing on. So, these are the major areas of focus for Varroc as we move forward.
- Of course, the most important is that whatever we do all our improved performances must be sustainable and that's what we're going to be focusing.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**
- Thanks for the explanation, Sir.
- We have tried to answer all the questions which have been raised by the shareholders to the best extent possible. I now hand over the further proceedings to the Chairman.
- **Mr. Tarang Jain- Chairman & Managing Director, Varroc Engineering Limited:**
- Thank you, Ajay. Now, the shareholders who have not cast their vote on the item set out in the notice of the AGM are requested to exercise their vote through e-voting facility available on the NSDL platform which will be available for the next 15 minutes. Members who have not cast their vote yet are requested to do so.
- Further, I hereby authorized Mr. Ajay Sharma, the Company Secretary, to disseminate the results of the voting and place the results on the website of the company.
- The resolutions, as set forth in the notice, shall be deemed to be passed today subject to receipt of requisite number of votes.
- With your consent, I and other Board members would like to now leave the meeting. I thank you for all your participation, valuable suggestions, and comments.
- **Mr. Ajay Sharma- Company Secretary, Varroc Engineering Limited:**
- Thank you sir. Can we have the 15 minutes time on the screen?

(E-voting commences)

END OF TRANSCRIPT