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VARROC/SE/INT/2022-23/114

February 10, 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 Unaudited
Financial Results for the Quarter and Nine Months ended on December 31, 2022**

Dear Sir/Madam,

Please find Transcript of Investors / Conference Call held on Tuesday, February 7, 2023, in respect of the Un-audited Financial Results for the quarter and Nine months year ended on December 31, 2022.

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.
3QFY23 Results Conference Call”

February 07, 2023



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

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



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Moderator: Ladies and gentlemen, good day, and welcome to Varroc Engineering Limited 3QFY23 Results Conference Call hosted by Ambit Capital. 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. Karan Kokane from Ambit Capital. Thank you, and over to you, sir.

Karan Kokane: Yes. Thank you, Operator. Good evening, everyone. I welcome you all to the Varroc Engineering 3QFY23 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: Thank you, Karan, for hosting the call. Just a small disclaimer before we start the call that today's call might include the statement which might constitute forward-looking statements, all statements that address expectation or projection about the future, including but not limited to statement about the strategy for growth, business development, market position, expenditure and financial results are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events and involve known and unknown risks, uncertainties and other factors.

The company cannot guarantee these assumptions and expectations are accurate or exhaustive or will be realized. The actual result or performance or achievements could differ materially from those projected in such forward-looking statements. No obligation is assumed by the company to update the forward-looking statement contained herein. Thank you. I will now hand over the call to our CMD, Tarang Jain, for his openings remarks.

Tarang Jain: Thank you, Bikash. And thank you, Team Ambit for hosting the call and also a very good evening to everyone. Before talking about the operational performance of Q3 FY '23, I would like to again inform you that we have completed the divestment of our 4-wheeler lighting business in Europe and America on the 6th of October 2022. With the transaction behind us, the team in Varroc is now totally focused on the continued operations to reduce costs and invest in identified focus areas to drive future profitable growth. Speaking about the operational performance, in India, the automobile production for all the segments in 3QFY23 fell on a Q-on-Q basis because of the early festive season and reduction of inventory at the channel partners.

On a year-on-year basis, we saw good growth in most of the segments due to easing of the semiconductor issues and improving economic activity. But 2 wheelers saw tepid growth as the lower end of the segment is still not picking up. 2-wheelers production grew only by near 0.5%, 3-wheelers by 13.13%, passenger vehicles by 21.4% and commercial vehicles by 12% on a year-on-year basis. In terms of our operations, our revenue from operations grew by 15.3% to INR



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17,228 million on a year-on-year basis. Our EBITDA margins came in at 7.8%, and it improved on a year-on-year basis by 140 basis points due to improvement in the overseas performance.

Sequentially, the EBITDA margin has fallen due to lower revenue in India operations, whereas overseas operation EBITDA margin has improved. The reported PAT for the quarter was INR 218 million. We continue to add strong order wins for new businesses in the 9 months FY '23 across business units, enabling our future growth in India. During the 9 months FY '23, lifetime revenue from new order wins is INR 35,653 million. Out of this, business wins from 5 prominent EV customers is INR 8,917 million.

The order books also reflect our effort to diversify, as you see nearly 48% lifetime order wins from the 4-wheeler segment and 52% from the 2 and 3 wheeler segment. Diversification can also be seen in the order book from a customer perspective as the top customer new order book is only 19%. As stated previously also, profitable business wins, improving of the contribution margin, focusing on profit before tax instead of EBITDA margins, sweating of the assets, inventory reduction, commercialization of our R&D efforts, controls on overall costs, growing free cash flows and debt reduction and prudent capital allocation remains the focus of the company.

I'm now handing over the call to MK, our Group CFO, who will walk you through the presentation, which has already been uploaded in our website and also in the stock exchange. Over to you, MK.

Mahendra Kumar:

Thank you, Tarang. Good evening, everyone. So let me take you through the highlights first. If we go to Slide number 3 in the presentation. As our Chairman once again pointed out, we completed the sales transaction on October 6, so that's behind now. In terms of the revenue growth, we grew by about 15%, though the industry went down sequentially and of course certain segments grew year-over-year. So the revenue came in at about INR 1,723 crores. In terms of lifetime business won also, I think we could get about INR 35 billion of lifetime revenue through the orders, which we booked in the last 9 months.

Of that, nearly INR 9 billion is relating to the EV customers. EBITDA margin was about 7.8%, which is still 1.4% above what it was last year same time. Though sequentially, it went down or that's largely driven by the impact of the operating leverage caused by the lower revenue levels compared to previous quarter. Coming to the rating agencies, rating outlook, they actually rated it stable outlook. Earlier it was kept under watch because of the completion of the transaction.

As some of you might have noticed already, India Ratings has given A1 rating to us on the commercial papers. This is, of course, ICRA was A2 or A2 plus. So India Ratings gave A1 for our commercial papers. So on the whole, as we explained earlier, now we are in a far better position to service our debt levels. And also, we are focusing heavily on improving profitability and cash flow. So going to the next slide, this is about the overall industry trend. As I explained earlier, the 2-wheeler grew marginally, we're about 0.5% or more or less flat. 3-wheeler and of course, other segments had double-digit growth compared to last year.



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On quarter-over-quarter, of course, every segment had only a degrowth, which is the reason why we also had some impact on the revenue. Now going to the next slide, Slide #5, where we talked about the overall consolidated financials. On a revenue of INR 1,723 crores we reported EBITDA margin of 7.8%, a PBT of INR 114 million or INR 11.4 crores and a PAT of INR 21.8 crores.

Now the reason why PAT was more than PBT was, we also had a couple of changes in the tax assumptions. We actually reflected the deferred tax asset in VPPL, our polymers business, which is basically a reflection of the lower tax rate from 35% we move to a 25% tax regime there. And then similarly, we also recognized the benefit of deduction on forex losses, which we booked last year. So because of that, the benefit actually resulted in a good PBT of INR 21.8 crores. Then on the next slide, we give the overall business split. Of course, 2 and 3 wheelers constitute 70% of the total business.

Bajaj, as a percentage of total business is now at 38%. Geographically, if you see, the total earnings coming in foreign currency constituted about 19% of the total. The remaining 81% is domestic. And if you see the business split also PBU accounts were 32%, almost 1/3 of the total. EBU and lighting account for 22% each, and metallics accounts for 12%, aftermarket 9% and the overseas IMES operation is about 4%. Going to the next slide, on Slide #7, we give the split of the total order book, which we got in the last 9 months.

The lifetime revenue is about INR 3,565 crores. Nearly 1/4 of this is relating to the electric vehicles. And in terms of the 2-wheeler, 3-wheeler split also if you really see, nearly half of it is from 2-wheeler and 3-wheeler and the remaining half comes from passenger vehicles and commercial vehicles. And similarly, if you will see the overall split also in terms of customer concentration. On these orders, Bajaj accounts for only 19% of the total.

So the other slides, of course, are backup slides only, which you would have seen earlier also. So let me stop at this level now, if you have any questions, we can take on. Thank you.

Moderator: The first question is from the line of Aditya Jhawar from Investec.

Aditya Jhawar: My first question is on EBITDA margin. If you can help us give a breakup of what is the EBITDA margin of India business and overseas business, which was not provided in this quarterly presentation, it would be good.

Mahendra Kumar: Yes. See, the reason why we see this is previously, of course, we had this confusion between continuing and discontinuing. Now it is largely India business only. So the EBITDA margin on overseas business certainly improved compared to what it was in Q2. But it is still a very small number compared to the overall scheme of things. So that's the reason we did not give the split. But compared to Q2, there was improvement.

Aditya Jhawar: I mean so I think this is the third time we have slightly changed the disclosure of India and overseas, both in terms of revenue and margins. Earlier we used to have discontinued plus IMES



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separately disclosed. From a modeling perspective, incrementally, what should we expect? Do we plan to report numbers separately, revenue as well as on EBITDA?

Mahendra Kumar: No, no, we don't intend to report separately for overseas hereafter. It will be reported at the total level only. And if you see our segmentation also, we do it only like automotive and others. So we don't do the geographical split in our segmentation. Again, once it becomes significant level, we'll start reporting, but as of now, it's not at all significant.

Aditya Jhawar: And what would be your share of -- so you mentioned that Bajaj's share in overall order book is about, say, 19%, what would be Bajaj's share in EV order book?

Mahendra Kumar: I don't think we will give that customer-wise specification on the new orders. So you have given it for new orders for total for a specific customer for -- similarly for EV. Yes, that's somewhat confidential. We don't want to give that kind of breakup between the sub-segment. We will give it at the total level.

Aditya Jhawar: And what is -- so Tarang if you can tell us, what is the road map of debt reduction that we have planned in FY '24 and '25?

Mahendra Kumar: Yes. See, as of now, we are focusing on improving profitability and improving free cash flow generation also. But any concrete debt reduction, I think, will most probably happen only next year or I would rather say maybe after H1 only. So in between, of course, we'll continue to improve operations, but a significant reduction, if we want to see, I think, it will start happening only from H2 onwards.

Aditya Jhawar: Sorry, from H2 of FY '24.

Mahendra Kumar: Correct.

Aditya Jhawar: Final question is about our capex plan for this year and next year, if you can give some sense.

Mahendra Kumar: Yes. This year, we may end up at around INR 150 crores of total capex. Next year, maybe slightly higher, maybe somewhere between INR 200 crores to INR 250 crores is what we may end up at.

Moderator: The next question is from the line of Anand Trivedi from Nepean Capital.

Anand Trivedi: Congrats on a good set of numbers. Just following up on the earlier question, what do you expect to end up this year within the debt side -- the debt number?

Mahendra Kumar: The net debt will more or less be around the current levels. So I think we have been maintaining it at INR 1,300 crores since the -- our divestment. It will more or less be around those levels. It may slightly go up or down by about INR 30 crores to INR 50 crores, depending upon various other factors. But there won't be a significant change from the current levels.



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- Anand Trivedi:** And I just want to understand the concept of lifetime new orders, what does lifetime mean?
- Mahendra Kumar:** Yes. So generally, we assume that there's a 5-year life cycle of the product, whatever we get. So we basically conclude what could be the probable revenue over the next 5 year period, once we start making the product.
- Anand Trivedi:** The numbers that you have in the presentation, they are value over the next 5 years.
- Mahendra Kumar:** So from the time they start -- so we have given the commencement of production also in the table.
- Anand Trivedi:** Right. So from, for example, we have 14,260 from FY '23 onwards. So that is what you expect starting from FY '23 over the next 5 years?
- Mahendra Kumar:** That is correct.
- Anand Trivedi:** And one last question from my side, for Tarang. Obviously, the 2-wheeler segment has been challenging. Are you seeing any green shoots what do you think will cause a turnaround? Just what's the macro view on this?
- Tarang Jain:** You're talking about the 2-wheeler segment?
- Anand Trivedi:** Yes.
- Tarang Jain:** Yes. The 2-wheeler segment actually is definitely subdued, as we know, and post this festive season. And I really don't see much of a -- though we see some improvement in January on the volume side. But frankly speaking, we'll wait and watch, I think, till the first quarter of FY '24. Because at the moment, I don't really see increasing volumes presently, because except maybe on the premium side of the 2-wheelers where we see a level of growth.
- But a larger portion, which is up to this 125 cc, I mean, there, we don't really see much of a traction at the moment. So we have to wait and watch how maybe we get into a monsoon season, and then there's an improvement. I don't really -- the moment we feel confident that things are going to really drastically go up. It will go up from the level of November and December, what we saw in the last quarter, but then that's not significantly up. So maybe we'll wait probably till the monsoons to really see a kind of a change happening. So that's what I feel at the moment. I don't really -- the next 3, 4 months, I don't really feel things are going to really change much.
- Anand Trivedi:** What do you attribute the slowdown to business? There's no pick up, in like you said, the premium side, there's been a pick up in EV side. Is there something that's holding this recovery back?
- Tarang Jain:** I think it's more the entry level, right? I think people are really saving the money. They don't want to, I mean, the lower middle class or other sections, they don't want to really -- they want



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to postpone the investment in 2-wheelers because maybe real incomes have not really gone up. And today, they have to save for health and other important reasons.

And today that's why they're postponing that buy as such. So that's where it is. And therefore, you see that everybody who's in the entry level is impacted. The other issue is, obviously, as you know, the exports are really down for everyone because of forex issues abroad. I mean, because of this issue, the war in Europe and for many other reasons and the oil prices going up. I mean, people are constrained.

In African countries, South America and other places, even in South Asia, I mean there are challenges. And therefore, the volumes that we have seen really degrow in this financial year. So that's the other impact which is happening also on the 2-wheeler, which is also in a way the lower end of the segment, largely, especially for us. So the export side and even the domestic side, both are challenged, I would say, yes, the challenge is today, we have faced some more of the reduction in the export volumes of our customers. But even on the domestic side, there is pain. There is pain for the reasons I mentioned.

Moderator: The next question is from the line of Rishi Vora from Kotak Securities.

Rishi Vora: Just on quarterly performance. If I look at your gross margins, it has declined on a sequential basis. So is it more to do with, let's say, product mix/geographical or business mix? Because I would have expected some RM benefit to come through in this quarter. So what has happened on the gross margin side for this quarter?

Arjun Jain: So it's primarily driven by the fact that we still have material and forex pass-throughs that need to go through forex, in particular, I think have seen a steep increase. But I think we should recover this over the course of the next few quarters.

Rishi Vora: So like next quarter also, you don't expect a material benefit because of RM market decline?

Arjun Jain: It will be spread over a period. Of course, every customer takes differing amounts of time, but we're confident we will recover, but hard to comment exactly when.

Rishi Vora: And this INR 9 billion of lifetime revenue from EV players. Can you just give us some indication on breakup for your order wins for EV component specific and not your ICE business per se?

Arjun Jain: so as our CFO has already said, we are not commenting on sub segments.

Moderator: The next question is from the line of Chirag Shah from Nuvama.

Chirag Shah: I have 2, 3 questions. First question is the order book data that you have.

Moderator: Sir, your audio is not clear, it's coming very muffled.

Chirag Shah: No, is it better now?



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- Moderator:** Yes, much better.
- Chirag Shah:** Sir, first question is the order book that you have shared, where you've indicated 48% from PV. Now this is significantly higher than your current revenue mix. So when do the transition start happening? Or is this a one-off event, where there is such a high order book in favor of PV or this is a new trend that one should look at?
- Tarang Jain:** See today, see, we are very much focused on also in the 4 wheeler segment. Yes, you are right, that 2- and 3-wheeler segment for us historically and even in the future will remain, of course, core to us. But at the same time, there are these product segments like lighting, the lighting space and the plastics space where actually we are a full-service supplier. And that where we are actually driving a lot of growth. And we are also getting a lot of traction with all the customers with a lot of the customers in India. And this is where we see a lot of order wins coming in, in the past 9 months. And this is going to continue going forward that you will see our order book on the 4 wheeler side, especially for lighting and polymer in these 2 product groups, very significantly improving.
- Chirag Shah:** So this order book is largely domestic, right? This doesn't include any exports to international business or anything like that?
- Tarang Jain:** No, this is domestic what we are stating here is largely domestic. But yes, we also have exports also, including mainly for maybe metallic products and electronics, which we are now exporting. But presently, this order book on 4 wheelers largely more to do with these 2 product segments of lighting and plastics, plastic molding.
- Chirag Shah:** The general perception is that the profitability in 4-wheeler, you expect it to be lower than 2-wheelers, given your legacy with 2 wheelers?
- Tarang Jain:** No, no, it's the other way around. It's the other way around. 2-wheeler is a very competitive business. I would say relatively 4-wheeler business, for us, is better.
- Chirag Shah:** The second is on the EV side, again, now, while I'm not interested in knowing the broad breakup, but on one of the slides, you have indicated the different components of EV, where you have won the business. Is it fair to assume that the INR 900 crores order that you indicated represents all the components? Or is some of the components are in early stage of development?.
- Tarang Jain:** So today, you can say that we are present and so these order wins -- I mean, we are today present in all these segments, what we have mentioned. And depending on which EV customer, whether it's startups or OEMs, the current OEMs, we are driving sales for -- particularly EV powertrain parts as well as the other parts, which are other electronics or plastics or seating, everything. But today, I'm saying already, we are supplying products like this for customers and whatever we have won for the future is across all these product lines.



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- Chirag Shah:** So it's across like right from traction motors to battery management and even on both chargers and all those stuff.
- Bikash Dugar:** Nearly 80%, 90% of all this what we have mapped, we have got the order books. On some of the new products are still under testing and validation at the customer end like BMS and chargers. But other than that, whether that is traction motor controller, DC-DC converter, telematics, other things or all the polymer and other legacy products. For most of the products we have got orders from the customers.
- Chirag Shah:** And sir, second question is, if you would wish to address that, how many EV customers did you have on board, including this order, in terms of number of EV customers, if you can highlight?
- Mahendra Kumar:** We have said that.
- Tarang Jain:** We have won from 5 EV customers, and we are also discussing with another 4 to 5.
- Moderator:** The next question is from the line of Vishal from Svan Investments.
- Vishal:** Sir, just one question regarding our demerger. It was said that there was some EUR 28 million, which were in the escrow account. So just wanted to have the status on that.
- Mahendra Kumar:** Yes, I think that will -- it will take some more time because there is some kind of cooling off period after the closure of the transaction. So most probably in Q4, we will have some indication of that amount. Actual cash flow may happen later, but at least the discussions will happen in Q4.
- Vishal:** Whether -- do you see the same thing happening in FY '24? Or it will be in '25?
- Mahendra Kumar:** It's difficult to predict now unless we see the details from the other side, maybe in the next call, we'll be able to provide some details.
- Vishal:** Sir, the second question is regarding the divestment plans of your IMES business or the Chinese operation, so can you throw some light where are we in those plans or we have shelved off?
- Tarang Jain:** See, IMES for us is presently see, we've been focusing of a better operational performance in IMES, and we have been able to do that I mean, we have been doing quite well in the past months. Our performance has been quite strong in IMES. Having said that, okay, from a future angle, it's not really a core business for us. So we have to see how things kind of progress. And if you talk about from a long-term angle, yes, it's not really a core business for us IMES. We'll see, as things go along. At the moment, it's not really the right time to do anything because of the war in Europe. So things are not looking so good. Those are, of course, we are doing quite well because it's more of a non-auto business, and that's doing fairly well.
- Coming to the China side, the China side, today, we have a joint venture partner. And this process is taking long, we are splitting from our joint venture partner in China. And this process



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will take another probably 1 to 2 quarters to materialize. I know we were expecting things to happen sooner. But yes, these things do take its time. But from a long-term future angle, China will be for 4-wheeler lighting, it will be a part of our overall business. Today, we don't consolidate it. But post-split, with our partner, it will be 100% subsidiary, a part of the company. So we are looking at, of course, China as a good growth market going forward, on the 4 wheeler lighting side.

Vishal: Sir, whether the China business whether it will be a ROCE accretive or a ROCE dilutive business going ahead in, if you foresee the plan for FY '24 and '25.

Tarang Jain: See China is that way a very profitable it's the most important market in the world. And we have a very good business model in China. So I would say that it would be over accretive only to our overall business. It will be a positive once we consolidated that to our rest of the business.

Moderator: We'll move on to the next question that is from the line of Basudeb Banerjee from ICICI Securities.

Basudeb Banerjee: Three questions. One, if I look at your P&L in the initial comments, you said net debt is still somewhere around INR 1,300 crores, INR 1,350 crores, am I right?

Tarang Jain: Yes, that's right.

Basudeb Banerjee: Last 2 quarters, if I look at average interest outgo is roughly INR 50 crores, annualized INR 200 crores. So on an INR 1,300 crores debt, INR 200 crores interest outflow implies a rate of almost 16%-odd. So where is the misconnection if you can help. And post debt reduction after selling off of VLS interest was expected to go down. So when should we expect that? And what should be a stable level of interest outlook?

Mahendra Kumar: Yes. Thank you, that's a good question. See in addition to the debt, we also do the discounting of receivables wherever needed. So the discounting charges are also grouped there. So that's on top of that, and IND AS 116 accounting requires the lease rentals to be split between depreciation and interest. So the interest component also goes up. So it's a combination of everything. Yes. But bottom line, yes the interest rate also, of course, have gone up in the last 6 months. So this also contributed to it. So it's a combination of all these factors.

The second question, when it is going to go down. Of course, initially, as you all know, we expected that the net debt will be zero, but it did not happen that way. So now of course, we are working on operational improvement as we explained here in this call. But all those efforts to materialize and convert into cash will take some time. That's how, earlier in the call, to other questions I mentioned that if you want to see some significant net debt reduction, we should wait until H2 of next year.

Basudeb Banerjee: Next question is, sir, if I look at your revenue trajectory is more or less somewhere around that INR 1,650-odd crores centered in last 4 quarters. So whereas...



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- Tarang Jain:** Can you speak louder.
- Basudeb Banerjee:** If I look at your revenue figure, it's more or less centered around INR 1,650 crores, INR 1,700 crores for last 4 quarters. And so whereas in Q3, you see that staff cost has moved up almost to INR 183 crores, which is the highest in last 4 quarters. So any one-off in this line item because Q2 revenue declined and Q-o-Q staff cost is up some 5%, 6%. So any one-offs in that, sir?
- Mahendra Kumar:** No in terms of our revenue recognition in this quarter, these are all operational revenue only.
- Basudeb Banerjee:** No, because I was asking where revenue is slightly down or seasonally down, right way to put - staff cost is up and highest in last 4 quarters. So is this the quarter of annual pay hike for bonuses or any one-off is that from a staff cost line item perspective?
- Mahendra Kumar:** Okay. Sorry, I'll take your -- so your question was about employee costs?
- Basudeb Banerjee:** Yes, sir.
- Mahendra Kumar:** Yes. So employee cost was higher during this quarter for a couple of reasons. One, we also added some R&D resources in the overseas markets. So we strengthened the R&D resource skills there. If you attended the auto show, I think you would have seen the products which we showcased there. To support all those products, we have added some R&D resources. Plus in Q2, there was also some kind of transfer of costs to the buyer as part of the transaction. So there were some credits also. So it's a combination of both. But primarily, it's because of the resources which we added.
- Basudeb Banerjee:** And last question, sir, as I don't want to go into the deeper disclosures.
- Moderator:** Mr. Banerjee, sir, your audio is breaking up.
- Basudeb Banerjee:** No, it's fine now.
- Moderator:** No, sir, it's still the same. May we request that you use the handset mode while speaking and not the speaker phone.
- Basudeb Banerjee:** So it is audible?
- Moderator:** Yes sir, please go ahead.
- Basudeb Banerjee:** Yes. So last question, I just don't want to dig deeper as per disclosures are concerned, but I just wanted to understand like as per past disclosures, our India margin is to hover around that 9.5%-odd, where it is now this quarter?
- Mahendra Kumar:** Yes. See, whatever EBITDA margin we represented there is largely driven by India only. So the overseas thing is very negligible.
- Moderator:** The next question is from the line of Priya Ranjan from HDFC AMC.



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Priya Ranjan: So just one thing, I mean, what should we look at your future direction of margin? Should we just consider it like say, high single-digit margin company now? Or I mean, can we consider it, say, lower double-digit also? Because I mean after say split also, we have not seen meaningful improvement in operating leverage of operational efficiency, although we have been keep talking about operational efficiency, et cetera, but we have not seen any kind of improvement in that. So can you just throw some light on the margin trajectory?

Mahendra Kumar: Yes. So there are 2 parts to it. One is, of course, driven by the volumes. So definitely, Q3 being a very low quarter for the industry as a whole. This is not the right quarter to actually to look at improvement so because of the operating leverage working against us, there was a dip in margins. But having said that, yes, we are also working on operational efficiencies. But as you know, these things don't happen overnight. So we'll have to put the structure in place. We need to keep working on the various actions. Over a period of time only, we will see the benefits. So most probably in the later part of next year, I think we should see some kind of improvement, but we are working on that.

Priya Ranjan: And in terms of the cash flow, so how should we look at the improvement in free cash flow generation because that is also crucial for your future deleveraging because whatever deals, et cetera, has happen has already happened. So I mean, the smaller pieces are actually left. So we can't get significant amount of deleveraging from those assets?

Mahendra Kumar: Yes. See, the free cash flow improvement, as you know, depends upon various factors. First of all, I think we need to get the revenues up and we need to improve the profitability. So that remains the focus area. We are also taking various actions to limit our working capital. In fact, we are trying to reduce them from the current levels, things like inventory reductions, collection of our due receivables.

So these are the areas which are getting a lot of focus. Plus, we are also now very prudent on capex. As I mentioned earlier in the call, we are limiting the capex of this year to about INR 150 crores. And next year also, it could be maybe around INR 200 crores to INR 250 crores. So with all these actions, and of course, the improved operating leverage giving us the benefit from increased volumes next year. I think we should expect some kind of decent free cash flow generation next year. But again, we have to wait for a couple of quarters to see a concrete reduction in debt a concrete improvement in the free cash flow.

Priya Ranjan: And in terms of the last one, on the new lifetime order wins. So you have indicated around INR 35 billion of worth of new order. So when can we expect revenue growth. I mean, whatever order you have already won, when can we expect that those numbers will be coming into your number? I mean, the top line?

Mahendra Kumar: I think that's explained in the slide, we gave a table when that revenue will commence, and we gave the number also. You can refer to that slide. So we explain how much will come next year and the following year.



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- Priya Ranjan:** And these are mostly incremental or how much is replacement and how much is incremental?
- Bikash Dugar:** These are all new. So nothing replacement. And that's why you see that our revenue growth has been better than the industry. That is the trend which you can see in terms of our revenue growth. And this gives us the confidence that our revenue growth will be better than the industry. But then it's not a guidance, but this is our expectation.
- Moderator:** The next question is from the line of Abhishek Jain from Dolat Capital.
- Abhishek Jain:** Sir, you have started supplying motor and controllers to Bajaj Auto and the content per vehicle is around INR 15,000 to INR 17,000. So have you started to supply these products to other players?
- Mahendra Kumar:** So just can you please repeat your question?
- Tarang Jain:** Audio is not clear, I'm sorry.
- Abhishek Jain:** As you started supply motor and controller to Bajaj Auto and that content per vehicle is around INR 15,000 to INR 17,000. Have you started to supply these products to other players?
- Tarang Jain:** No, we've not entered batch production for any other player so far.
- Abhishek Jain:** So you have a right to start production for the other players of these products, motor and controller?
- Tarang Jain:** Yes, yes, of course.
- Abhishek Jain:** So Bajaj is the only player to whom you are supplying motor and controller, right?
- Mahendra Kumar:** We don't know want to give that kind of customer breakup, but yes, predominantly yes.
- Abhishek Jain:** And sir, what is the current revenue from the EVs on a quarterly basis?
- Mahendra Kumar:** As of now, it is just about 2%, very specific number, but it is set to reach higher levels in the coming quarters, coming years.
- Abhishek Jain:** So what is the -- what is your target for the FY '24 in overall revenue terms in -- from EVs? And what would be the breakeven points in EVs?
- Mahendra Kumar:** Yes. So it's difficult to put a number to it because we continue to win these orders. So all these things add up to the revenue potential for the future. But maybe a couple of years down the line, we should see around INR 1,000 crores revenue coming from EV products.
- Tarang Jain:** Definitely, it's a growing -- as you know that there is it's a growing segment, the EV segment for 2-wheelers. And also now the 3-wheelers also where we are present, that also will start next year. So definitely, whatever we're doing it, we do expect the revenues from EVs to actually



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double for us. So it's going to be a growing market for us. And like by FY '25, we've already said the 2 and 3 wheeler segment, we will get almost INR 1,000 crores in revenue just from the EV side.

Abhishek Jain: And in terms of the gross profit and EBITDA, what is your target on the INR 1,000 crores kind of the revenue?

Mahendra Kumar: No, we do not give any guidance on the segment level.

Tarang Jain: We can only say that it's a fair margin. It's a fair margin, and we are happy with those margins, which we can derive out of the products.

Abhishek Jain: But most probably that margin would be lower than the existing business?

Tarang Jain: No, no. The margin won't be lower than the existing business.

Abhishek Jain: And sir, in electronics and components business, how is the current revenue mix in 2-wheelers and 4-wheelers? And how do you see the changes going ahead?

Tarang Jain: Are we talking about electronics in general overall.

Mahendra Kumar: Yes, you are talking about the outlook for electronics business?

Abhishek Jain: Sir, actually, I want to know the -- what is the mix in terms of the 2-wheelers and 4-wheelers and how the mix will change in the coming days?

Mahendra Kumar: See, we explained this trend at the total level, but not at the segment.

Abhishek Jain: And how is the trend now on a total level, sir?

Mahendra Kumar: The total level, as I explained on the slide, about 70% comes from 2 and 3 wheelers. The remaining 30% comes from others.

Abhishek Jain: And what is your target by '25 or '26 to change the overall revenue mix?

Mahendra Kumar: I think there is no target as such and as you can see, the order books reflect that we are getting more orders from 4-wheeler. So gradually, our dependency on 2-wheeler will reduce. But as a company, there is no target, our motto remains to improve the performance and the profitability of the company.

Operator: The next question is from the line of Jyoti Singh from Arihant Capital Markets Ltd.

Jyoti Singh: Sir, my question is on the inventory loss side. So sir, how much inventory we lost during the quarter, if you can comment on that?

Mahendra Kumar: Inventory loss. What do you mean by that?



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- Tarang Jain:** I couldn't understand. There is no inventory loss.
- Jyoti Singh:** Sorry, you did mention starting -- when the call started.
- Tarang Jain:** No, we said that we are working on to improve our net working capital.
- Mahendra Kumar:** Inventory reduction, you mean.
- Tarang Jain:** Reduction in our inventory levels. The free cash -- to improve our cash flows. That's what we mentioned.
- Jyoti Singh:** So like how much inventory reduction we did during the quarter?
- Mahendra Kumar:** We don't want to put a number to it, but we are looking for a significant reduction. So -- but it takes time. So we need to see how it develops.
- Jyoti Singh:** And sir, what's your view for the Q4 FY '23?
- Mahendra Kumar:** Sorry, what is the -- you're asking about the forecast? No, no, we don't give that kind of guidance. But yes, it depends upon how the industry performs. Generally, Q4 should be better than Q3. That's the way it has been. So obviously, the benefits of operating leverage should help us, but we don't want to give any guidance.
- Jyoti Singh:** So sir, as we are targeting to reduce our 2-wheeler revenue mix going forward. And 2-wheeler is also not doing very well. So can I expect going forward in Q4 and Q1 FY '24, we will see a reduction on 2-wheeler revenue mix side and increase on the other segments like passenger vehicle and EV side? And -- or still we have time to decide on that?
- Mahendra Kumar:** Yes, it will take some time. I don't think it changes so drastically in the near term or short term. So maybe over a period of time, the mix may change as we continue to win more orders in our passenger vehicles. But definitely not in the next 1 or 2 quarters.
- Jyoti Singh:** And sir, currently, how much we are doing on the capacity utilization front?
- Mahendra Kumar:** See it varies from plant to plant, product to product. But broadly, we can say in the range of around 70% to 75% across multiple businesses.
- Operator:** The next question is from the line of Deepak Pawar from Vasuki India Fund.
- Deepak Pawar:** Congratulations on a good set of numbers. My question would be in line with the previous question, which was asked, but can you give us an idea that splitting up the China JV and still remaining -- continuing your business in China. So you will be doing it on a stand-alone basis by year 1?
- Tarang Jain:** Yes, that's right.



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- Deepak Pawar:** And what kind of business -- I mean, as the split has not been disclosed, what kind of percentage of the bottom line that contributes from China?
- Mahendra Kumar:** Too early to add on that. I think we should wait for the split to happen. So maybe once we are close to the reality, then we will talk about it.
- Deepak Pawar:** I might have missed this part, but the current revenue share or for the 9 months revenue share, whatever you have, we have what -- which -- how much part or how much percentage does it come from EV?
- Mahendra Kumar:** EV. I think rightly currently now, it's about 2%. That's what we mentioned.
- Deepak Pawar:** 2% for 9 months also, the complete 9 months?
- Mahendra Kumar:** Yes, yes, correct.
- Moderator:** The next question is from the line of Chirag Shah from Nuvama.
- Chirag Shah:** Sir, I had a question on inventory, which can be. So one, what is this nature of high inventory that you have? Is it finished products or it's more raw material. And secondly, either you shouldn't be sitting on a very high inventory, right? Yours is a B2B business. So you can adjust your production schedules based on OEM indication, right? So why are you running with -- what is driving your high inventory? If you can explain.
- Mahendra Kumar:** Yes. See, the inventory obviously comprise of all the components, including raw material, work in progress and finished goods also, maybe more in terms of raw materials and work in progress, that's in terms of finished goods. Yes. So ideally, what you are speaking about is an ideal world, but it's not so perfectly linked in terms of OEM schedules. So at times, there will be some fluctuation, which is what we are trying to correct and bringing it down.
- Arjun Jain:** If I go a step further, right, in general, the supply chains that we operate in have been fundamentally challenged, right. I think that in particular, I think is an extremely well-known issue. And for us, if we are looking at customer lines growing, it invariably also help drive sales for ourselves. Which meant that we were on higher inventory levels for a while. Also, I think, as you know, I think the market has also been challenged versus what has been the expectation. However, I think that is the trend now we look to correct. So that is really what is giving the reduction in inventory now going forward.
- Chirag Shah:** This is more of finished goods that is there, right? Or more semi-finished goods? It's not raw material.
- Tarang Jain:** No, it is. Honestly, it is -- it will be a split in the rate that you would normally assume a split. But in general, we've been holding higher levels of inventory.
- Mahendra Kumar:** It will be more in raw materials that's what we are trying to tell.



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- Moderator:** The next question is from the line of Vignesh Iyer from Sequent Investments.
- Vignesh Iyer:** My question is on the debt side of it. I just wanted to know what is the cost of debt, as things stand. And is there any -- and I wanted to know about this INR 695 crores loan that is due in next 12 months. Are we planning to refinance or anything of that sort?
- Mahendra Kumar:** Yes, yes. So see, interest rates, you know where they are right now. Most of them are in the range of 9% to 9.5%. Coming to this refinancing, yes, we are working on the refinancing option. A major part of this INR 695 crores is in NCDs, which are coming up for repayment in Q1 and Q2 of next year. Further than that, we have a few more loans there. But we are working on various proposals. We already got a few proposals from the bankers. So we are working on them. We are trying to optimize them.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Tarang Jain:** So thanks again for joining, listening and asking all your questions. We continue to pursue excellence in our day-to-day life for creating value for our stakeholders. Thank you.
- Moderator:** Thank you, ladies and gentlemen, on behalf of Ambit Capital, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.