

Varroc Engineering Limited

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CIN: L28920MH1988PLC047335



VARROC/SE/INT/2021-22/61

February 14, 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.

The Manager – Listing
The Corporate Relation Department,
Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400001.

BSE Security Code: 541578

NSE Symbol: VARROC

Sub: Press Release and Investor Presentation - Financial Results Q3 and Nine Months FY 2021-22

Dear Sir/Madam,

Please find enclosed a copy of Press Release and Investor Presentation on the Unaudited Financial results (Consolidated & Standalone) for the quarter and nine months ended on December 31, 2021.

Kindly take the same on record and note the compliance.

For Varroc Engineering Limited

Ajay Sharma
Group General Counsel and Company Secretary

Encl: a/a



Varroc Engineering Limited

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Press Release

- Consolidated Revenue from Operations improved 3.4% QoQ, VLS revenue (in Euros) increased by 10.7% QoQ and India revenue declined by 4.2% QoQ.
- Consolidated EBITDA margins improved by 220 bps QoQ. VLS EBITDA margin increased 510 bps QoQ
- Net Debt declined to ₹ 26.4 billion from ₹ 30.1 billion QoQ due to improve operating cash flow and weaker Euro.
- Order wins: ₹1.7 billion inflows in Q3 in India Business over past three months, good momentum in building order book for India. VLS order wins cumulative for the year at Euro 105 million

Pune, February 14, 2022: Varroc Engineering Ltd. (Varroc), a global tier-I auto component group, today announced its results for the quarter ended December 31, 2021

Summary Consolidated Financials

(₹ million)

Particulars	Q3 FY22	Q3 FY21	YoY % Change	Q2 FY22	QoQ % Change	9M FY22	9M FY21	% Change
Revenue from Operations - Reported	31,349.5	34,926.6	-10.2%	30,325.6	3.4%	91,091.1	76,834.9	18.6%
Other Income - Operating	146.2	193.5		87.2		379.4	531.1	
Other Income - non-Operating	1.9	25.8		12.0		21.4	419.8	
EBITDA: Reported *	722.0	2,456.9	-70.6%	38.2		936.5	3,322.9	-71.8%
EBITDA %	2.3%	7.0%		0.1%		1.0%	4.3%	
Depreciation & Amortisation	2,534.8	2,247.2	12.8%	2,373.7	6.8%	7,100.6	6,586.5	7.8%
Finance Cost	737.2	378.8	94.6%	538.4	36.9%	1,661.4	1,253.1	32.6%
Share of net profits of JVs under equity method	30.9	92.5		11.5		16.9	292.3	
PBT - Reported	(2,517.3)	(50.9)		(2,850.5)		(7,787.3)	(3,804.5)	
Tax	127.0	241.0		121.7		122.0	(39.0)	
PAT before exceptional tax asset impairment	(2,644.3)	(291.9)		(2,972.2)		(7,909.3)	(3,765.5)	
Exceptional tax asset impairment		1,077.8					1,077.8	
PAT after tax asset impairment		(1,369.6)					(4,843.2)	

*EBITDA = Profit before share of net profits of JVs plus depreciation plus finance cost less non-operating portion of other income; forex loss/gain on inter-company loans are part of Finance Cost. Forex loss on inter-company loans for FY 22 Q3 ₹ 218.30, Q2 ₹ 98.1 and for 9M ₹ 316.4 million, respectively.

Consolidated Financial Performance for the quarter

- Revenue from operations for the quarter was ₹ 31,350 million, a decrease of 10% over Q3 FY21 due to semiconductor shortage, soft 2W demand and Euro weakness. India Business revenue grew by 2% YoY. VLS revenue declined by 15% YoY (in Euro) due to the continuing semiconductor supply shortages.
- However, consolidated revenue increased 3.4% on QoQ basis, mainly driven by the 10.7% increase in VLS in Euro terms.
- The consolidated EBITDA for the quarter was at ₹ 722 million (excluding China). The EBITDA for India business was at ₹ 1,201 million (EBITDA margin 9.9%, impacted due to high commodity prices); VLS EBITDA margin improved QoQ basis by 510 bps.

China JV

- China JV Revenue improved by 23% QoQ. Our share of the China JV EBITDA was at ₹ 177 Million with margin at 8.4%

Depreciation and Amortisation

- Depreciation and Amortisation expenses were at ₹ 2,535 million.

Finance Cost

- Finance cost for the quarter was at ₹ 737 million, including mark-to-market forex loss of ₹ 218 million on inter-company loans.

Project RACE

- Project RACE (Rapid Achievement of Competitive Edge) to bring VLS EBIT level in line with industry benchmarks is making good progress. An exhaustive list of improvement opportunities have been identified and are under implementation. The impact of the same on business performance is expected to be visible in the later part of FY23.

Mr. Tarang Jain, CMD, Varroc Engineering Ltd. commented,

The global automotive industry is going through a challenging period due to the ongoing semiconductor supply shortage situation, which continues to impact our business performance. We have taken a number of steps to make the business fundamentally strong at lower levels of revenue and are confident of turning around the business during FY23.

We have also received interest from certain parties for a strategic partnership in our Global Lighting Systems business. The Management is in the process of evaluating their interest with respect to scope, valuation, timelines, etc. The investors are currently carrying out due diligence of VLS, and no firm/ binding offer has been received by the Company as on date.

About Varroc Engineering Ltd.

Varroc Engineering Ltd is a global tier-1 automotive component group, ranked 124th in the 2019 Fortune India 500 list. It was incorporated in 1988. The group designs, manufactures and supplies exterior lighting systems, plastic and polymer components, electricals-electronics components, and precision metallic components to passenger car, commercial vehicle, two-wheeler, three-wheeler, and off-highway vehicle OEMs directly worldwide. The group revenue was close to ₹ 11,300 crore (USD 1.5 Billion) in FY21. The group employs more than 12,966 employees, has 43 global operating manufacturing facilities, and has 173 patents.

Varroc Engineering Limited's shares are listed on the National Stock Exchange (VARROC) and the Bombay Stock Exchange (541578).

Varroc Engineering Limited

Financial Results

Q3 FY22

::February 14, 2022::

Disclaimers

This presentation may include statements which may constitute forward-looking statements. All statements that address expectations or projections about the future, including, but not limited to, statements about the strategy for growth, business development, market position, expenditures, and financial results, are forward looking statements. Forward looking statements are based on certain assumptions and expectations of future events and involves known and unknown risks, uncertainties and other factors. The Company cannot guarantee that these assumptions and expectations are accurate or exhaustive or will be realised. The actual results, performance or achievements, could thus differ materially from those projected in any such forward-looking statements. No obligation is assumed by the Company to update the forward-looking statements contained herein.

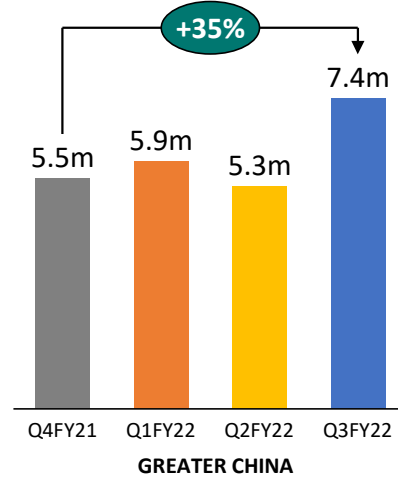
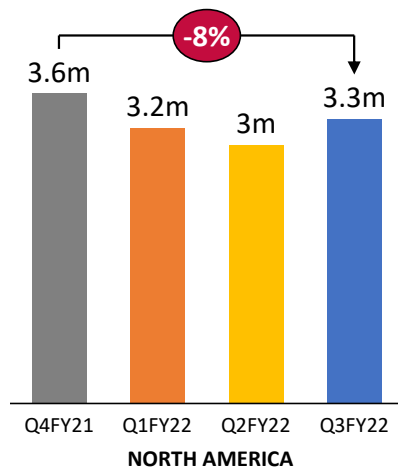
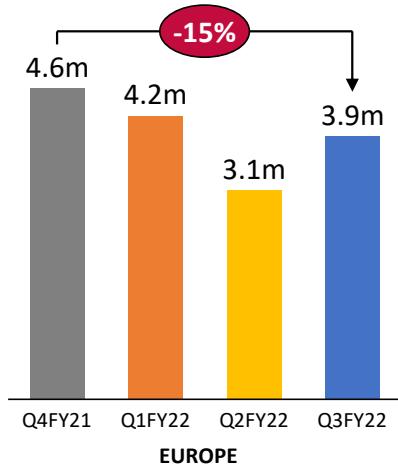
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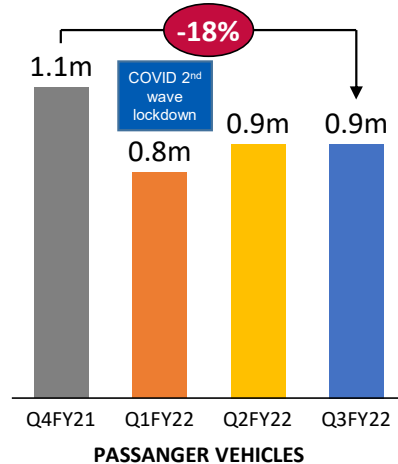
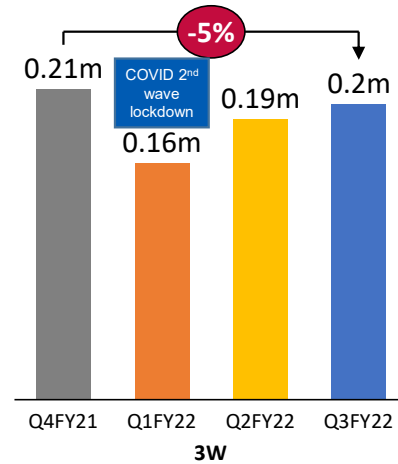
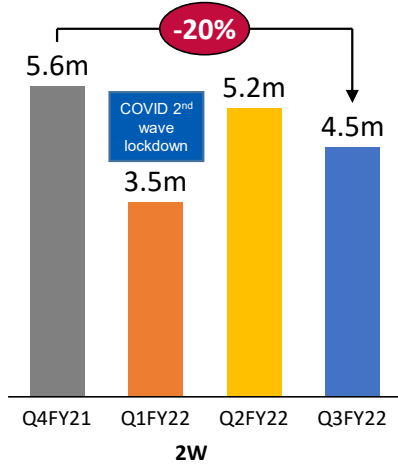
Industry Trends Q3 FY22 – both Global PV & India 2W/3W volumes still to recover

4 sequential quarters

Global Passenger Vehicle Production Volume



India Industry : Production Volume



- PV volumes in Q3 showed some recovery as compared to Q2 but still significantly below normal levels
- Semiconductor supply shortages continue to persist and is expected to normalise over the period of next 6-9 months
- Domestic 2W & PVs sales volumes declined 24.8% & 15.2% respectively YoY due to soft demand and semiconductor issue respectively
- Exports of 2Ws, 3Ws and PVs showed YoY growth

Business Highlights: Q3 FY22

- **Consolidated revenue increased 3.4% QoQ, constrained by continuing semiconductor shortage, soft 2W demand and Euro weakness.**
- **Consolidated EBITDA margin improved QoQ by 220 bps.**
- **India Business:** EBITDA margin declined marginally to 9.9% due to commodity price increases with delayed pass-through.
- **VLS:** Revenue in Euros grew 10.7% QoQ. EBITDA margin improved by 510 bps QoQ.
 - Semiconductor shortage continues to impact topline, though there is improvement over Q2; full recovery expected to take 6-9 months.
 - Customer recoveries (for lower volumes and commodity inflation), improved operating efficiencies and better cost control contributed to margin improvement.
- **VLS China JV:** Revenue improved 23% QoQ and EBITDA margins also improve 250 bps QoQ.
- **Net debt decreased to ₹ 26.4B from ₹ 30.1B** due to improved operating cash flow and weaker Euro.
- **Business wins:** VLS net business wins at € 105 Million YTD and India business wins at ₹ 5.8 Billion YTD; good momentum in building order book for EV components in India
- **Project RACE:** Strong progress in identification and implementation of improvement actions; on track to realise the targeted EBIT margin improvements in FY24; significant benefits have already started accruing and contributed to margin improvement in the quarter.

Varroc Group: Financial Performance

₹ million

Particulars	Q3 FY22	Q2 FY22	Q3 FY21	Growth (Q-o-Q)	Growth (Y-o-Y)	9M FY22	9M FY21	Growth (Y-o-Y)
Revenue from Operations - Reported	31,350	30,326	34,927	3.4%	-10.2%	91,091	76,835	18.6%
Other income - Operating	146	87	194			379	531	
Other income - Non operating	2	12	26			21	420	
EBITDA - Reported *	722	38	2,457			937	3,323	-71.8%
EBITDA Margins (%)	2.3%	0.1%	7.0%			1.0%	4.3%	
Share of net profits of JVs under equity method	31	12	92			17	292	
Depreciation & Engineering/Intangible amortisation	2535	2374	2247	6.8%	12.8%	7101	6586	7.8%
Finance Cost	737	538	379	36.9%	94.6%	1661	1253	32.6%
PBT - reported	(2,517)	(2,851)	(51)			(7,787)	(3,804)	
PAT - reported	(2,644)	(2,972)	(292)			(7,909)	(3,765)	
PAT - post exceptional tax asset impairment			(1,370)				(4,843)	

Particulars	Q3 FY22	Q2 FY22	Q3 FY21	Growth (Q-o-Q)	Growth (Y-o-Y)
Net Debt (Excl. Impact of Leases: Ind AS 116)	26,360	30,067	27,315	(3,707)	(954)
Net Debt to Equity (Excl. Impact of Leases: Ind AS 116)	1.1	1.2	1.1		

Net Debt reduction due to::

1. Better operating performance, including working capital management
2. Weaker Euro

*EBITDA = Profit before share of net profits of JVs plus depreciation plus finance cost less non-operating portion of other income; forex loss/ gain on inter-company loans are part of Finance Cost .
Forex loss on inter-company loans for FY 22 Q3 ₹ 218.30, Q2 ₹ 98.1 and for 9M ₹ 316.4 million, respectively.

Varroc Group: Business Wise Performance Q3 FY22

₹ million

SBU	Q3 FY22			Q3 FY21			Revenue Change YoY	Q2 FY22			Revenue Change QoQ
	Revenue	EBITDA*	% EBITDA	Revenue	EBITDA*	% EBITDA		Revenue	EBITDA*	% EBITDA	
India Business	12,150	1,201	9.9%	11,911	1,588	13.3%	2.0%	12,686	1,349	10.6%	-4.2%
VLS	18,805	(389)	-2.1%	22,749	936	4.1%	-17.3%	17,302	(1,258)	-7.2%	8.7%
Others (IMES)	717	(88)	-12.3%	517	(65)	-12.5%	38.5%	596	(53)	-8.9%	20.3%
Elimination	(323)	(1)		(251)	(2)			(258)	(0)	0.0%	
								-	-	0.0%	
Total	31,350	722	2.3%	34,927	2,457	7.0%	-10.2%	30,326	38	0.1%	3.4%
China JV - 50%	2,112	177	8.4%	1,733	200	11.6%	21.9%	1,716	102	5.9%	23.1%
Total (Incl. pro-rata JV share)	33,461	899	2.7%	36,659	2,658	7.2%	-8.7%	32,041	140	0.4%	4.4%

Euro Performance for VLS

SBU	Q3 FY22			Q3 FY21			Revenue Change YoY	Q2 FY22			Revenue Change QoQ
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA		Revenue	EBITDA	% EBITDA	
VLS -Euro	219.4	(4.5)	-2.1%	258.3	10.6	4.1%	-15.1%	198.2	(14.3)	-7.2%	10.7%

*EBITDA = Profit before share of net profits of JVs plus depreciation plus finance cost less non-operating portion of other income; forex loss/ gain on inter-company loans are part of Finance Cost .
Forex loss on inter-company loans for FY 22 Q3 ₹ 218.30, Q2 ₹ 98.1 millions, respectively.

Exchange rates : ₹/ € Average for Q3 FY22 = 85.71; ₹/ € Average for Q3 FY21 = 88.06

VLS: QoQ performance by plant

€ million except otherwise mentioned

Region	Production Revenue					Q-o-Q	Y-o-Y
	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Change %	change %
Mexico	41	33	31	31	31	-1.1%	-25.7%
Czech	152	146	116	92	102	11.3%	-32.4%
Poland	13	16	16	14	20	43.9%	58.3%
Morocco	12	15	16	15	18	19.7%	50.8%
India	6	7	5	9	12	33.0%	96.2%
Brazil	2	2	2	3	2	-13.5%	18.9%
SL2W	20	23	22	19	18	-4.6%	-9.2%
Eliminations	(11)	(7)	(9)	(5)	(5)		
		-					
Production Revenue	234	237	199	178	199	12.1%	-14.8%
Tooling	17	26	15	15	14	-3.2%	-16.7%
Engineering	8	8	5	6	6	8.8%	-22.3%
Total Reported Revenue	258	270	219	198	219	10.7%	-15.1%

New plant financial performance (€ mn)

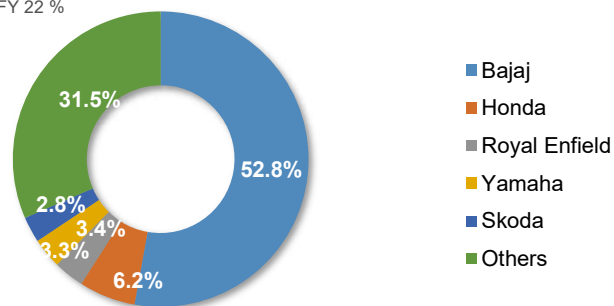
	Poland			Morocco		
	Q3 FY21	Q2 FY22	Q3 FY22	Q3 FY21	Q2 FY22	Q3 FY22
Revenue	14.5	17.7	22.3	14.9	15.3	20.0
EBITDA	(4.0)	(3.7)	(5.5)	(2.7)	(4.0)	(5.7)
EBITDA %	-28%	-21%	-25%	-18%	-26%	-28%
PAT	(5.3)	(5.9)	(7.8)	(4.9)	(8.0)	(9.1)

- Revenue levels in older plants still significantly below normal levels, adversely impacting margins.
- New plants' margins still under pressure due to commodity price inflation and supply chain disruptions.
- Implementation of Project RACE (Rapid Achievement of Competitive Edge) will be the key enabler for improved margins in upcoming quarters.

Revenue by Customers and Order Wins

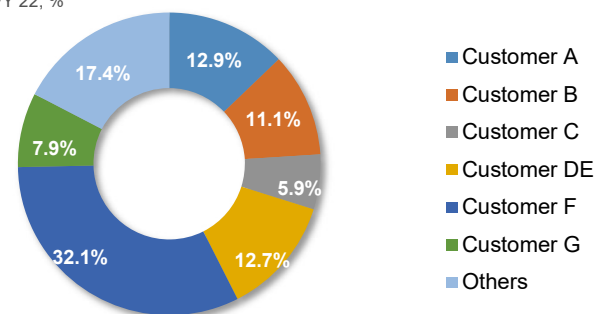
India Revenue Split by Customer⁽¹⁾

Q3 FY 22 %



VLS Revenue Split by Customer⁽²⁾

Q3 FY 22, %



Revenue in Europe increased 8.1% QoQ.

Revenue in Americas declined by 7.4% QoQ.

Business	New Business wins: VLS / Recent orders: India	Near term potentials
VLS (YTD Dec 21)	<p>Overall Net Business Wins YTD Dec'21 € 105 million</p> <ul style="list-style-type: none"> - New Business wins - € 103 Million net of givebacks/ cancellations - Re-wins - € 2 Million net of losses 	New ordering activity by OEM, at slower pace due to volume backlog for current models.
India Business (Q3 FY22)	<p>Overall Net Business Wins of ₹ 1.7 billion (YTD ₹ 5.8 billion)</p> <ul style="list-style-type: none"> Bajaj: Business of ₹ 0.1 billion for various products across businesses Mahindra & Mahindra : New orders of ₹ 0.1 billion Ducati : New orders of ₹ 0.1 billion Various orders from customers (VW,TVS, HMCL, Force Motors, Royal Enfield etc.) for ₹ 1.4 billion. 	Active ongoing discussion with both current OEM's and new entrance for partnership on their 2W EV platform.

Notes: (1) Based on management information system database

(2) Total Revenue break-up in Euro excl VTYC. Customer A is an American multinational car manufacturer, Customer B is a large British car manufacturer, Customer C is an American electric car manufacturer, Customer DE is an international automotive manufacturer, customer F is a global automotive manufacturer headquartered in Europe and Customer G is a leading light vehicle manufacturing group in the world

EV business won so far: Highlights & Updates

2W	Component	Industry product price expectations based on Investec Research (Rs per 2W) *	Total @ Installed Capacity (Rs Crs) #	Expected revenue in FY25 for current business based on SOB and industry price (Rs Crs)
		Traction motor	11,000	
Controller	5,000			
DC-DC converter	1,400	866	596	
Telematics	3,000			
Battery Management	4,500			
Other Products (VCU, On-board Charger, Switch and Polymer products etc)	13,000			
Total per vehicle (A)	37,900	866	596	

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

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

3W	Component	Product price expectations (Rs per 3W)	Total @Installed Capacity (Rs Crs)	Expected revenue in FY25 for current business based on SOB (Rs Crs)
		Traction motor		
Controller				
DC-DC converter				
Telematics	46,000	368	306	
Battery Management				
Other Products (VCU, On-board Charger, Switch and Polymer products etc)				
Total per vehicle (B)	46,000	368	306	
Total Varroc current business (A+B)	46,000	1,234	902	

Varroc Group: Business Wise Performance 9M FY22

₹ million

SBU	9M FY22			9M FY21			Revenue Change YoY
	Revenue	EBITDA*	% EBITDA	Revenue	EBITDA	% EBITDA	
India Business	34,316	3,277	9.6%	24,217	2,592	10.7%	41.7%
VLS	55,611	(2,190)	-3.9%	52,000	893	1.7%	6.9%
Others (IMES)	2,053	(149)	-7.3%	1,341	(159)	-11.9%	53.1%
Elimination	(890)	(1)		(723)	(2)		
Total	91,091	937	1.0%	76,835	3,323	4.3%	18.6%
China JV - 50%	4,986	331	6.6%	4,267	624	14.6%	16.9%
Total (Incl. pro-rata JV share)	96,077	1,267	1.3%	81,102	3,947	4.9%	18.5%

Euro Performance for VLS

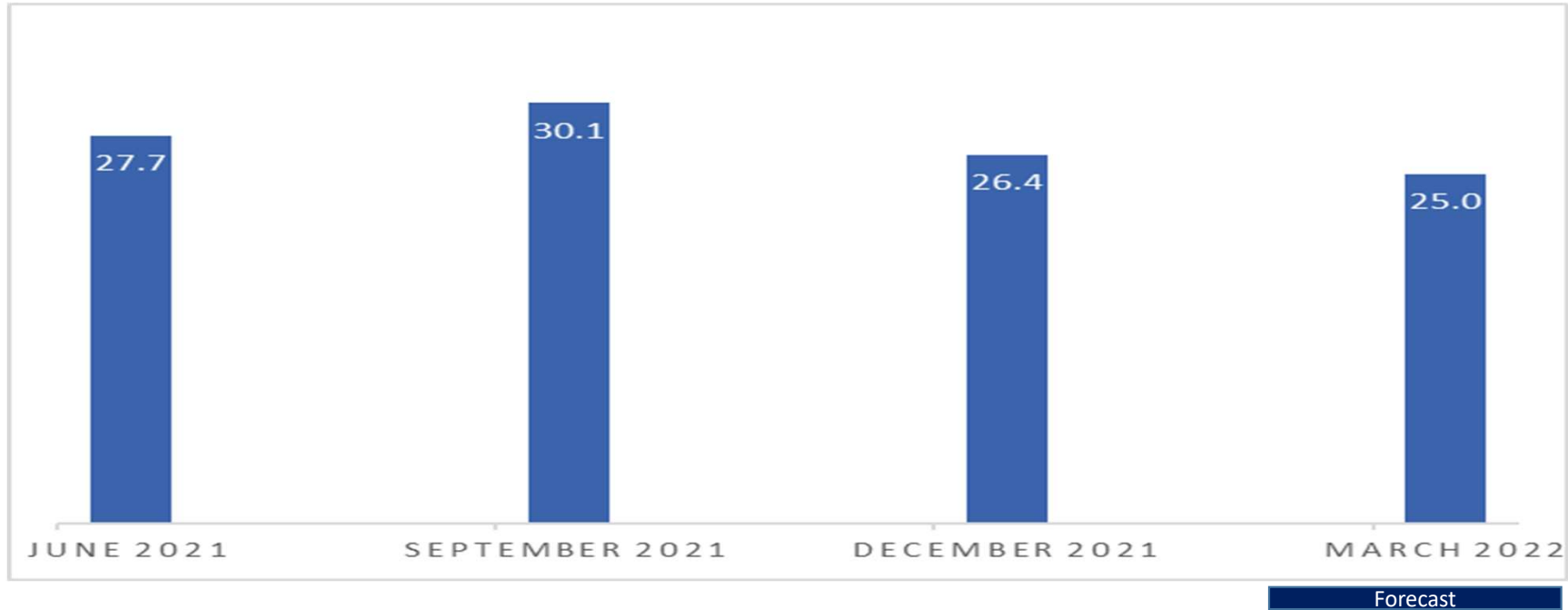
SBU	9M FY22			9M FY21			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
VLS -Euro	637	-25	-3.9%	603	10	1.7%	5.6%

*EBITDA = Profit before share of net profits of JVs plus depreciation plus finance cost less non-operating portion of other income; forex loss/ gain on inter-company loans are part of Finance Cost .
Forex loss on inter-company loans for FY 22 9M ₹ 316.4 millions.

Exchange rates : ₹/ € Average for 9M FY22 = 87.30; ₹/ € Average for 9M FY21 = 86.22

Net Debt Situation Status Update and Outlook for FY22

₹ Billion



Net Debt Reduction is mainly driven by :

- Improved operating performance, including better working capital management
- Euro weakness

Update on Current Business Environment

- **Current Situation**

- India : 2W volumes continue to be sluggish due to higher cost of ownership and soft rural demand. PV volume impacted by semiconductor shortages. Commodity prices seem to be stabilizing
- VLS : some uptick seen in OEM volumes due to improving semiconductor availability

- **Outlook**

- **India:** demand revival expected during CY22, with 2W EV segment expected to witness strong growth on the back of a slew of new product launches and Govt support for better infrastructure
- **VLS :** revenues to improve gradually due to improving semiconductor availability; full normalization expected to take 6-9 months
- **Focus on cost optimization, positive free cashflow and debt reduction to continue**
 - Good progress in Project RACE; expected to add significantly to bottom-line in FY23

THANK YOU



TO SPEAK
& ACT
FROM
THE
HEART

SINCERITY



TO WALK
WITH
EVERYONE

HUMILITY



TO DO
WHAT
IS
RIGHT

INTEGRITY



TO GO
THE
DISTANCE
AGAINST
ALL
ODDS

PASSION



TO MAKE
IT
HAPPEN

SELF DISCIPLINE