

Varroc Engineering Ltd.

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CIN: L28920MH1988PLC047335



VARROC/SE/INT/2020-21/66

February 9, 2021

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 FY 2020-21

Dear Sir/ Ma'am,

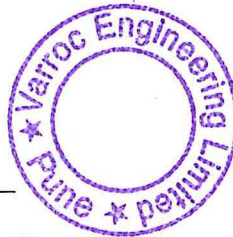
Please find enclosed a copy of Press Release and Investor Presentation on the Unaudited Financial results (Consolidated & Standalone) for the quarter ended on December 31, 2020.

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

- Revenue from Operations for the quarter increased by 25.0% YoY to ₹ 34.9 billion; India business revenue growth at 29% YoY and VLS at 9% (in Euro)
- Consolidated EBITDA for the quarter at ₹ 2,456 million declined by 8.8% YoY due to lower margins in VLS though India EBITDA grew by 49% YoY
- Net Debt reduced to ₹27.3 billion at end-December from ₹30.6 billion at end-September and ₹34.1 billion at end-June

Pune, February 9, 2021: Varroc Engineering Ltd. (Varroc), a global tier-I auto component group, today announced its results for the quarter ended December 31, 2020

Summary Consolidated Financials

(₹ million)

	Q3 FY21	Q3 FY20	% Change	9M FY21	9M FY20	% Change
Revenue from Operations - Reported	34926.6	28038.1	24.6%	76834.9	83771.2	-8%
Other Income - Operating	219.3	78.1		950.9	501.5	
Other Income - non-Operating	26.2	17.8		419.8	55.3	
EBITDA: Reported	2456.5	2693.7	-8.8%	3322.9	7975.3	-58%
EBITDA %	7.0%	9.6%		4.3%	9.5%	
Depreciation & Amortisation	2247.2	1940.3	15.8%	6586.5	5252.6	25%
Finance Cost	378.8	366.0	3.5%	1253.1	1029.8	22%
Share of net profits of JVs under equity method	92.5	81.1	14.1%	292.3	13.8	2018%
PBT - Reported	-50.9	486.4		-3804.5	1762.0	-316%
Tax	241.0	193.1		-39.0	365.9	-111%
Tax rate	-168.2%	47.6%		1.0%	20.9%	
PAT before exceptional tax asset impairment	-291.9	293.3		-3765.5	1396.1	-370%
Exceptional tax asset impairment	1077.8			1077.8		
PAT after tax asset impairment	-1369.6			-4843.2		

Consolidated Financial Performance for the quarter

- Revenue from operations for the quarter was ₹ 34,927 million, an increase of 25% over Q3 FY20.
- The India Business revenue increased by 29.2% YoY. The Global Lighting Business (VLS) revenue increased 9.0% YoY in Euro terms.
- The EBITDA for the quarter was at ₹ 2,456 million, a decline of 8.8% over Q3 FY20. EBITDA margins declined 260 bps YoY, mainly due to lower margins in VLS.
- The EBITDA for India business was at ₹ 1,588 million (EBITDA margin 13.3%; improvement of 180bps YoY) while VLS reported EBITDA of ₹ 936 million (EBITDA margin 4.1%).
- VLS margin declined due to:
 - COVID 2nd wave related heavy absenteeism, coupled with higher OEM demand for Czech plants, resulting in high overtime and premium freight to be able to meet the delivery schedules
 - continued losses in new plants – Poland and Morocco – due to slower ramp-up in production volumes

China JV

- China JV recovery from the Covid-19 impact continued. Revenue grew by 61.7% YoY and EBITDA margin was (+)11.6% for the quarter. Our share of the China JV profit was ₹ 110 Million, 10% higher than that of Q3 FY20.

Depreciation and amortisation

- Depreciation and Amortisation expenses were higher due to higher capitalisation at new facilities.

Finance Costs

- Finance costs were contained and were broadly in-line with Q3 FY20, as free cash flow generation in both India and VLS helped in reducing the borrowing level during the quarter

Tax Expenses

- The overall tax expenses were disproportionately higher than Consolidated PBT due to the losses in the new plants, on which we are not eligible to recognize deferred tax assets.

Exceptional Tax asset impairment

The Czech subsidiary of the company had, in earlier years, recognised certain tax credits as deferred tax assets under two different incentive schemes available to the company. The management has reassessed the recoverability of these tax assets as at Dec 31, 2020 based on revised business plans, taking into account the impact of Covid-19 on the business volumes and profitability of the Czech subsidiary in the current financial year as well as future years. Based on this assessment, management concluded that there is an uncertainty on the recoverability of the deferred tax assets recognised under the first scheme, which expire by March 2024. Accordingly, the company has prudently written-off these tax assets amounting to ₹ 1,078 million under the abovementioned scheme during the current quarter, and the same has been disclosed separately as “Exceptional Item” in the results. The management is working on various opportunities to utilize this benefit and this write off does not impact the eligibility of the Czech subsidiary to claim the incentive benefit in the event there are sufficient taxable profits available in subsequent years before expiry of the benefits.

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

“We have seen a strong recovery in Two-wheeler and Passenger Vehicle volumes across markets. We have seen robust demand in VLS business across regions as car manufacturers geared up their production schedules to cope with the pent-up demand.

COVID-induced high absenteeism rate, mainly in our Czech plants, led to delivery backlogs, overtime and premium freight costs impacting margins adversely. The volumes ramp-up in our newer plants was slower than anticipated due to delays in product launches

We have covered most of the production backlog and have rebuilt the pipeline of components and finished goods as we entered Q4. Our focus will be to steadily improve the margins in our VLS business on a sustainable basis in the coming quarters.

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 ₹ 11,200 crore (USD 1.5 Billion) in FY20. The group employs more than 14,300+ employees, has 43 global operating manufacturing facilities and has 185 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 FY21

::9th February 2021::

Disclaimers

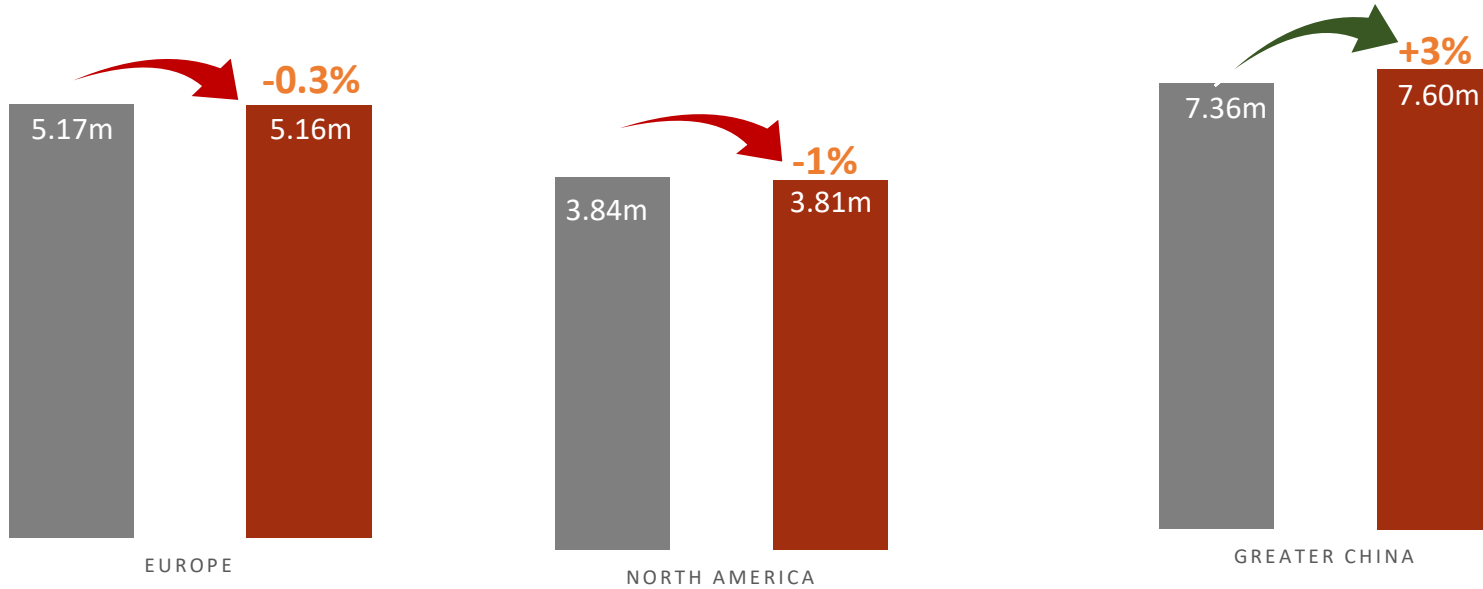
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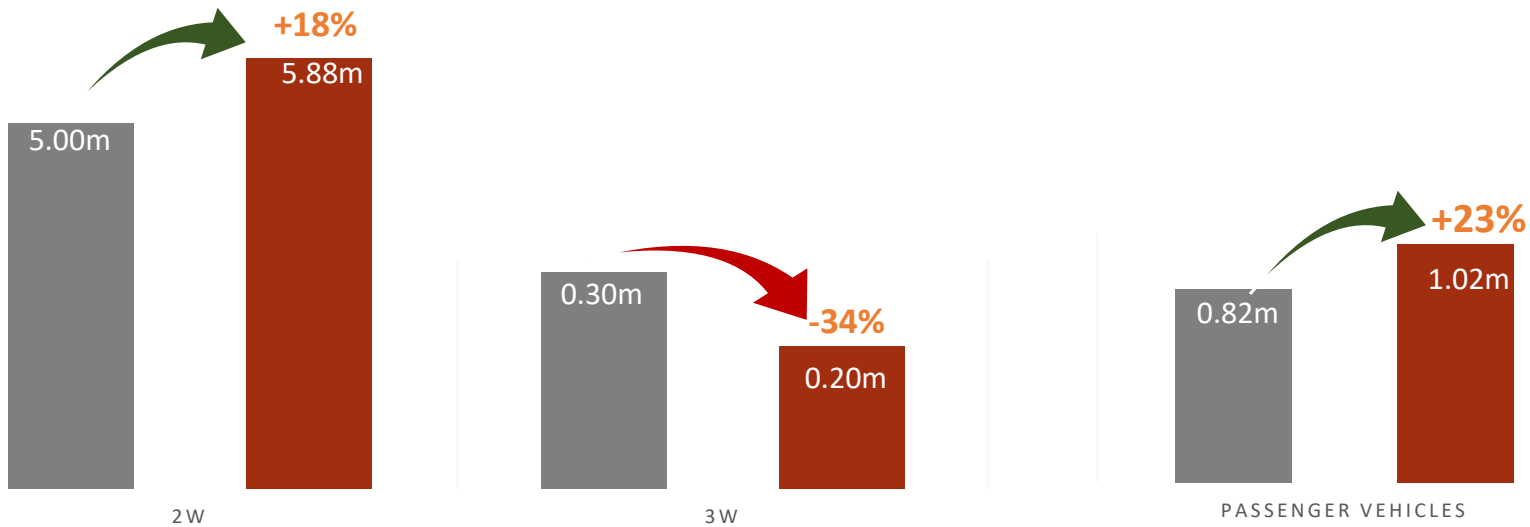
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Industry Trends in Q3 FY21

Global Passenger Vehicle Market Production



India Industry Trend : Production YoY



■ Q3 FY20
■ Q3 FY21

- Passenger Vehicle volumes in Q3 FY21 were nearly flat in Europe and North America
- China PV volumes saw a YoY growth as the industry recovery post COVID continued
- Domestic sales volumes grew YoY on back of strong market recovery post COVID; 2W volumes grew by 13.4% and PV volumes grew by 14%. 3W volumes continued to be weak - down by 59% YoY
- Exports for 2Ws showed YoY growth of 20%. PV and 3W exports declined by 11% & 22% YoY, respectively.

Business Highlights: Q3 FY21

- **Revenue from operations for the quarter increased by 25.0% YoY to ₹ 34.9 Billion**
- **Consolidated EBITDA for the quarter at ₹ 2,456 Million declined by 9.0% due to lower margins in VLS**
- **India Business:** Revenue increased by 29.2% YoY, ahead of industry growth; EBITDA increased by 49% YoY and EBITDA margin continues to be very strong at 13.3%, an improvement of 180bps YoY
- **VLS:** Revenue grew 9.0% in Euro terms as against nearly flat YoY PV industry volumes; EBITDA margin at 4.1% impacted negatively by:
 - COVID 2nd wave related heavy absenteeism, coupled with higher OEM demand for Czech plants, resulting in high overtime and premium freight to be able to meet the delivery schedules
 - continued losses in new plants – Poland and Morocco – due to slower ramp-up in production volumes
- **VLS:** China JV continues to perform well with revenue growth of 46.7% YoY; Electronics unit in Romania started production in Q3 and is now 100% owned by VLS
- Tax credits in Czech Republic of €12.5 million, accrued in earlier years and expiring in March 2024, have been de-recognised on a conservative basis based on revised business outlook post COVID (explained in later slide)
- **Net debt reduction to ₹ 27.3 billion; on track to reach target net debt of ₹ 26 billion by March 2021*.**
- **Business wins encouraging; VLS net business wins at €152 Million and India business wins at ₹10 Billion till December 2020.**

Varroc Group: Financial Performance

₹ million

Particulars	Q3 FY21	Q3 FY20	Growth (Y-o-Y)	9M FY21	9M FY20	Growth (Y-o-Y)
Revenue from Operations - Reported	34,927	28,038	25%	76,835	83,771	-8%
Other income - Operating	219	78		951	502	
Other income - Non operating	26	18		420	55	
EBITDA - Reported *	2,456	2,694	-9%	3,323	7,975	-58%
EBITDA Margins (%)	7.0%	9.6%		4.2%	9.5%	
Share of net profits of JVs under equity method	92	81	14%	292	14	2018%
Depreciation	2247	1932	16%	6586	5244	26%
Finance Cost	379	366	4%	1253	1030	22%
PBT - reported	(51)	495		(3,804)	1,770	-315%
PAT - reported	(292)	299		(3,765)	1,402	-369%
PAT - post exceptional tax asset impairment	(1,370)			(4,843)		

Particulars	Q3 FY21	Q2 FY21	Change
Net Debt	27,315	30,644	(3,329)
Net Debt to Equity (Excl. Impact of Leases: Ind AS 116)	1.1	1.2	

*EBITDA = Profit before share of net profits of JVs plus depreciation plus finance cost less non-operating portion of other income

Varroc Group: Business Wise Performance Q3 FY21

₹ million

SBU	Q3 FY21			Q3 FY20			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
India Business	11,911	1,588	13.3%	9,217	1,064	11.5%	29.2%
VLS	22,749	936	4.1%	18,689	1,570	8.4%	21.7%
Others (IMES)	517	(65)	-12.5%	616	50	8.0%	-16.0%
Elimination	(251)	(2)		(483)	10		
Total	34,927	2,456	7.0%	28,038	2,694	9.6%	24.6%
China JV - 50%	1,733	200	11.6%	1,071	168	15.7%	61.7%

Euro Performance for VLS

SBU	Q3 FY21			Q3 FY20			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
VLS Euro	258	11	4.1%	237	20	8.4%	9.0%

Exchange rates : ₹/ € Average for Q3 FY21 = 88.06; ₹/ € Average for Q3 FY20 = 78.87

VLS: New Plants – Current Status and Improvement Initiatives

₹ million except otherwise mentioned

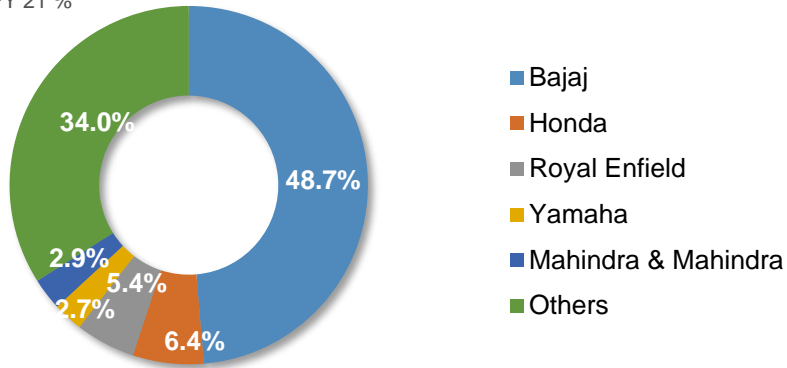
Plant name >>	Morocco						Poland					
	Income statement line items	Q3 FY21	Q3 FY20	YoY Change	9M FY21	9M FY20	YoY Change	Q3 FY21	Q3 FY20	YoY Change	9M FY21	9M FY20
Revenue from Operations	1,313	464	183%	2,540	1,102	130%	1,279	90	1317%	2,135	244	776%
Other income	(13)	(63)	-79%	0	9	-98%	134	21	531%	333	28	1088%
EBITDA - Reported	(240)	(131)		(575)	(181)		(353)	(60)		(729)	(129)	
EBITDA Margins (%)	-18.3%	-28.3%		-22.6%	-16.4%		-27.6%	-67.0%		-34.1%	-52.9%	
Depreciation & amortisation	140	43	224%	302	130	132%	75	64	17%	212	84	153%
Interest	49	25	97%	143	73	96%	36	37	-1%	100	49	105%
PBT	(428)	(199)		(1,020)	(384)		(465)	(161)		(1,041)	(261)	
PAT	(428)	(199)		(1,020)	(384)		(465)	(161)		(1,041)	(261)	

Parameter	Morocco	Poland
Revenue	<ul style="list-style-type: none"> Revenue run rate of ~€5 million per month in Q3; likely to improve in Q4 orders booked equivalent to €150 million in annual revenue (FY24) 	<ul style="list-style-type: none"> Revenue run rate of ~€5 million per month in Q3; likely to improve orders booked equivalent to €145 million in annual revenue (FY24)
Capex Status	<ul style="list-style-type: none"> €15 million of €45 million remaining; to be spent over 3 years depending on balance order booking 	<ul style="list-style-type: none"> €12 million of €33 million remaining; to be spent over 3 years depending on balance order booking
Current Challenges	<ul style="list-style-type: none"> Delayed program starts for a key order as customers pushed launch dates COVID related disruption Supply chain bottlenecks 	<ul style="list-style-type: none"> COVID Related disruption Inventory management and overall manufacturing process
Actions being taken	<ul style="list-style-type: none"> Improvement in supply chain/ in-sourcing certain manufacturing processes Focus on capacity utilization RM cost improvement initiatives Increase in vertical integration to improve margin Fixed cost optimisation 	<ul style="list-style-type: none"> Improving internal systems Focus on capacity utilization RM cost improvement initiatives Increase in vertical integration to improve margin Fixed cost optimisation
Outlook	New programs started in January; likely to pick-up in Feb/Mar which is likely to substantially improve the plant performance as impact of operating leverage kicks-in	<ul style="list-style-type: none"> Process improvement initiatives kicked-off Scale benefits likely to be visible next year

Revenue by Customers and Order Wins

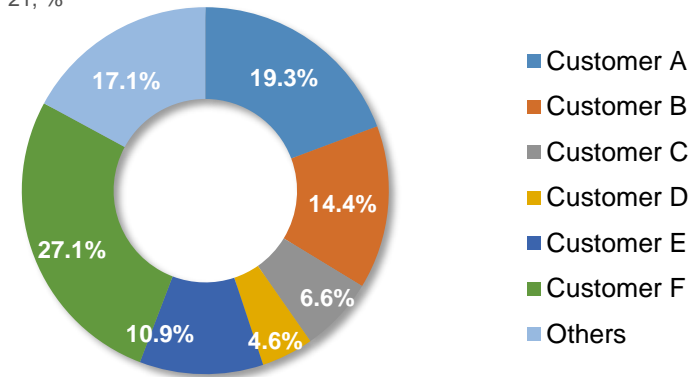
India Revenue Split by Customer⁽¹⁾

Q3 FY 21 %



VLS Revenue Split by Customer⁽²⁾

Q3 FY 21, %



Revenue in Europe increased by 3.5% YoY

Revenue in Americas increased by 17% YoY

Revenue in India increased by 19% YoY

Business	New Business wins: VLS / Recent orders: India	Near term potentials
VLS (9m till Dec)	<p>Overall Net Business Wins of € 152 Mn;</p> <ul style="list-style-type: none"> - New Business wins - € 110 Million net of givebacks/ cancellations - Re-wins - € 41 Million net of losses 	<p>Pipeline ~€ 75 million</p> <p>Ordering activity is picking-up gradually and some of the potential orders will add to the already strong visibility for the VLS business</p>
India Business (9m till Dec)	<p>Overall Net Business Wins of ₹ 10 billion</p> <p>Bajaj: Business of ₹ 4.1 billion for various products across businesses</p> <p>HMCL: Various Polymer and Electrical & Electronic product orders of ₹ 1.4 billion</p> <p>HMSI: Various Metallic and Polymer product orders of ₹ 1.1 billion</p> <p>Various orders from customers (VW, Yamaha, MG Motors, Royal Enfield and Mahindra & Mahindra etc.) for ₹ 3.4 billion</p> <p>Ordering activity picked-up in second half of FY21</p>	<p>In discussion with major customers for Electrical products, Traction Motor and Controller, Telematics, lighting, Catalytic Convertor and Polymer products.</p> <p>Active engagement with new customers for couple of more product categories for BSVI engine and EV products</p>

Notes: (1) Based on management information system database

(2) Total Revenue break-up in Euro excl VTVC; 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 D is an international automotive manufacturer, customer E is a large European car manufacturer & customer F is a global automotive manufacturer headquartered in Europe.

Varroc Group: Business Wise Performance 9M FY21

₹ million

SBU	9M FY21			9M FY20			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
India Business	24,217	2,592	10.7%	29,634	3,206	10.8%	-18.3%
VLS	52,000	893	1.7%	52,902	4,668	8.8%	-1.7%
Others (IMES)	1,341	(159)	-11.9%	1,813	94	5.2%	-26.0%
Elimination	(723)	(2)		(579)	7		
Total	76,835	3,323	4.3%	83,771	7,975	9.5%	-8.3%
China JV - 50%	4,267	624	14.6%	3,116	235	7.5%	36.9%

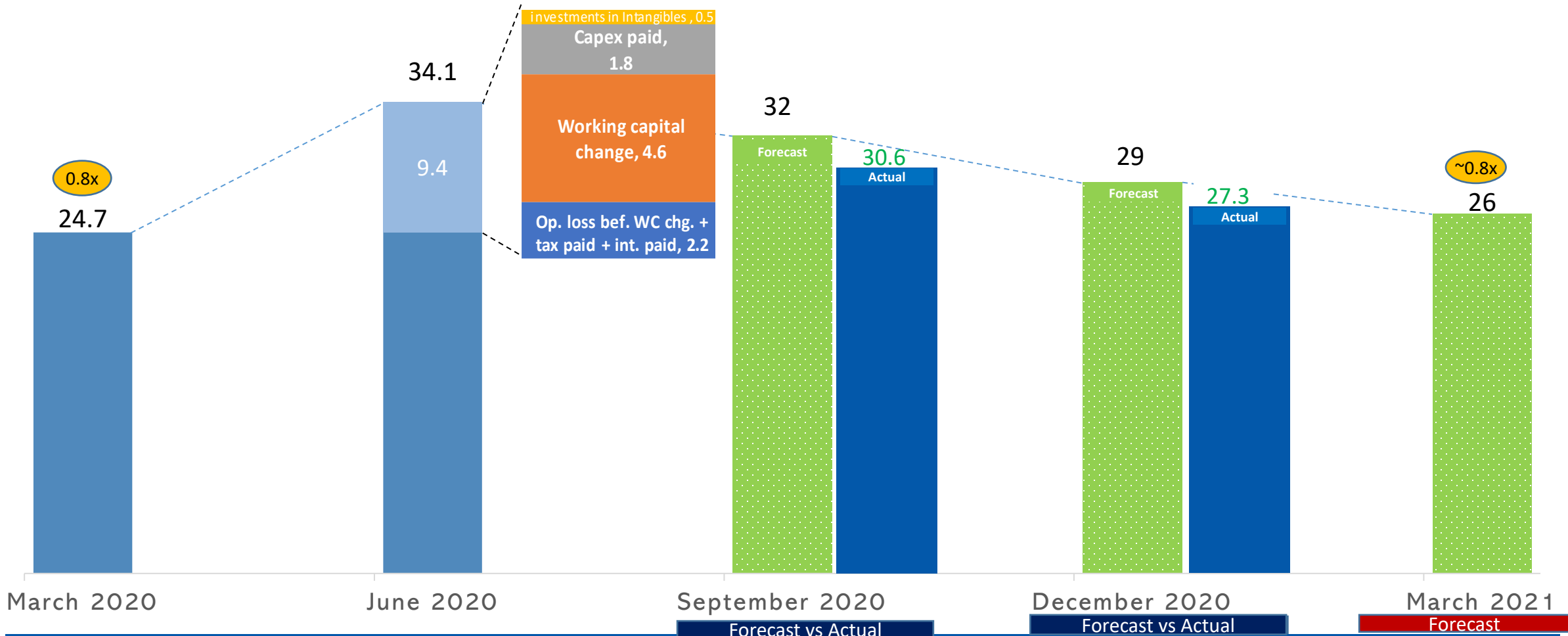
Euro Performance for VLS

SBU	9M FY21			9M FY20			Revenue Change YoY
	Revenue	EBITDA	% EBITDA	Revenue	EBITDA	% EBITDA	
VLS - Euro	603	10	1.7%	674	59	8.8%	-10.5%

Exchange rates : ₹/ € Average for 9M FY21 = 86.22; ₹/€ Average for 9M FY20 = 78.47

Debt Situation Status Update and Outlook for FY21

₹ Billion



D/E

Debt Reduction by March 21 to happen through -

- Restoration of normal working capital cycle which has fully happened in Q3
- Positive operating cashflow generation which started in Q2 and continued in Q3
- Significant reduction in Capex intensity and other initiatives

Exceptional Item: Tax Assets Impairment in Czech Republic

- VLS Czech is entitled to certain tax credits against eligible capital expenditure under the Capital Investment Incentive Scheme agreed with the Czech Government.
- VLS Czech had accrued ₹ 1,078 mn towards these tax credits over the last few years. These tax credits are due to expire by March 2024.
- The company had re-evaluated the probability of utilisation of these credits prior to their expiry based on the revised business outlook for the current and future years, taking into account the COVID impact.
- Accordingly, on a conservative basis the management has decided to de-recognise the tax credits due to the uncertainty associated with the utilization in the current quarter, and the same has been disclosed as “Exceptional item”
- The de-recognition does not impact the right of Varroc to avail the tax credits, if there is sufficient taxable profit prior to their expiry
- We are representing to relevant authorities in Czech Republic for extension of the time period to utilize such tax benefits

Update on Current Business Environment

- **Current Situation**

- January – good volume growth across locations in India; semi-conductor shortages impacting OEM operations and resultant revenue for VLS
- Soft schedules as a result of semi-conductor shortages helping clear backlog and avoid premium freights at VLS
- Worker absenteeism in Europe at high level; likely to improve as number of COVID cases start to reduce

- **Outlook for current quarter**

- **India business continues to see YoY growth and stable business environment**
- **VLS Revenue growth driven by end customer demand but constrained by semi-conductor shortages**
- **Focus on cost optimization, positive free cashflow and debt reduction to continue**
 - Recurring SG&A reduction measures completed
 - Reduction in Capex target; VLS capex at € 45 million* - to be 47% lower than FY20
 - Working capital cycle normalisation completed; tooling collections broadly on track
- **Reiterate target of consolidated net debt reduction from ₹ 34 billion end of June to ₹ 26 billion by year end**

THANK YOU



TO SPEAK & ACT FROM THE HEART

SINCERITY



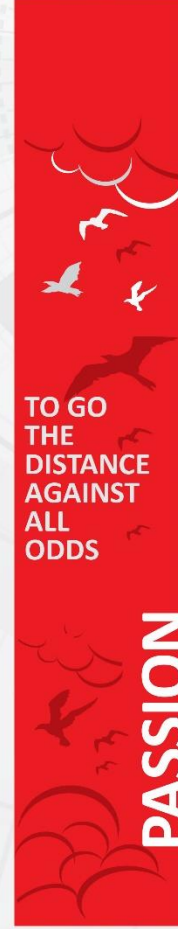
TO WALK WITH EVERYONE

HUMILITY



TO DO WHAT IS RIGHT

INTEGRITY



TO GO THE DISTANCE AGAINST ALL ODDS

PASSION



TO MAKE IT HAPPEN

SELF DISCIPLINE