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VARROC/SE/INT/2023-24/54

August 12, 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,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400001.
BSE Security Code: 541578
[Debt: 973455]

**Sub: Transcript of Investor / Conference Call pertaining to Unaudited
Financial Results for the quarter ended on June 30, 2023**

Dear Sir/Madam,

Please find Transcript of Investors / Conference Call held on Wednesday, August 9, 2023, in respect of the Unaudited Financial results for the quarter ended on June 30, 2023.

This is for your information and records.

For Varroc Engineering Limited

Ajay Sharma
Group General Counsel and Company Secretary
Membership No. A-9127

Encl: a/a



“Varroc Engineering Q1 Earnings Conference Call”

August 9, 2023



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



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Moderator: Ladies and gentlemen, good day, and welcome to the Varroc Engineering Limited Q1 FY '24 Earnings Conference Call hosted by Investec Capital Services. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aditya Jhawar. Thank you, and over to you, sir.

Aditya Jhawar: Thank you. Good afternoon to you all. From Varroc, we have with us Mr. Tarang Jain, Chairman and Managing Director; Mr. Arjun Jain, Whole-time Director; Mr. Mahendra Kumar, Global CFO; and Mr. Bikash Dugar, Head, Investor Relations.

We'll start the call with a brief opening remark from the management followed by a Q&A session. I would now like to hand over the call to Bikash to take it forward. Over to you, Bikash.

Bikash Dugar: Thank you, Aditya. Thank you, Investec, for hosting the call.

Before we ask the Chairman for his “Opening Remarks”, just a small disclaimer that today's discussion 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, expenditure and financial results are forward-looking statements.

Forward-looking statements are based on certain assumptions and expectation of future event and involve known and unknown risks, uncertainties and other factors. So, the actual result or performance or achievement may differ materially from those projected in any such forward-looking statements. So, no obligation is assumed by the company for the forward-looking statement made during the call.

So, over to you, sir.

Tarang Jain: Thanks, Bikash. Thanks, Aditya. And good evening to everyone and thank you to Investec for hosting the call. To start with, speaking about the global economy, it has been more resilient despite monetary tightening by most of the central banks as core inflation remains above the targeted levels. Despite turmoil in the financial markets, we still see a strong labor market and consumption in the developed economies.

The Indian economy, on the other hand, has sustained its growth momentum in FY '24 so far. Core inflation has started to moderate, which is helping RBI not to increase the interest rate



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further, thus supporting the economy. The automobile production in India during Q1 FY '24 grew on a year-on-year basis for most of the segments as momentum in economic activity is sustaining.

Two-wheeler has grown by 1.3%, passenger vehicles by 7%, 3-wheeler registered a strong growth of 24.3% and commercial vehicles showed a negative growth of 1.5% as we witnessed some pull ahead in buying activity in Q4 FY '23 due to the OBD 2 norms.

Generally, Q1 is sluggish and Q4 is the strongest quarter for automotive sales in any financial year, and the same has been witnessed in Q1. On a quarter-on-quarter basis, commercial vehicle has fallen by 12.7%, passenger vehicles by 6.4% and 3-wheelers saw a decline of 2.3%. Only 2-wheeler saw a growth of 12.1% on a Q-on-Q basis as demand was sluggish for 2-wheelers, both in domestic as well as the export markets in the previous period.

In terms of our operations in Q1 FY '24, we continued our journey of improving the performance. Our revenue from operations grew by 10% on a year-on-year basis to Rs. 17,924 million. Our EBITDA margin was at 10% in the quarter, and it improved on a year-on-year basis by 180 basis points due to improvement in Indian and the overseas operations and certain incentives from government. Sequentially also, the EBITDA margin has gone up by 50 basis points. The reported PBT for the quarter was Rs. 652 million, which includes profits from our joint venture of Rs. 61.3 million.

The ongoing monsoon and festive season will be key to watch out for the Automobile sector to continue its momentum. The reduction in FAME 2 subsidy from 1st June 2023 for EV vehicles impacted EV volumes sharply, but we are cautiously optimistic about the recovery in volumes in the coming months.

Our revenue from supplying to EV players in Q1 FY '24 was approximately Rs. 651 million, which is 4% of our overall revenue. We continue to build strong order wins in our operations in Q1 FY '24. Lifetime revenue from new order wins is Rs. 9,552 million in Q1 FY '24. Our effort to increase our technical capability was further enhanced in Q1 FY '24 as we filed 4 patents in India and 1 overseas.

We also have got approval from the Board to invest for procuring renewable energy of more than 37 megawatts received through Open Access under captive route. This will not only help increase our consumption from renewable sources but result in reducing the power costs from the next year.

Finally, we reached a settlement on the final closing adjustments with Plastic Omnium for the 4-wheeler lighting businesses, which we sold during October 2022. Based on that company has



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received EUR 13 million from the escrow amount. After meeting the cost of sales to the extent of EUR 5 million, we will be using the balance amount to reduce our net debt levels.

Our focus will remain to strengthen our competitiveness in India and globally by developing world-class products and services. We will enhance and leverage our global footprint as we are a global company with strong roots in India. During the current financial year, our businesses will continue to deliver growth and returns while maintaining strong fiscal discipline.

With this, now I'll ask MK – our Group CFO, who will walk you through the presentation, which is already uploaded on our website and submitted to the stock exchanges also.

Mr. Mahendra Kumar:

Thank you, Tarang. Good evening, everyone. Let me just take you to the highlights slide, which is Slide #4 in the Presentation. As our CMD mentioned, the industry growth was some kind of dull during Q1. So, despite that, I mean, the 2-wheeler grew only by 1% and then the passenger vehicle by 7%. Compared to that, we grew about 10.4% with a revenue of Rs. 1,806 crores approximately.

The EBITDA margin was at 10%, up by 1.8% compared to last year and about 50 basis points more compared to Q4 on a sequential basis. Our lifetime business won was about Rs. 9.6 billion, and then the revenue from EV customers contributed about 4% of our total revenue. Our net debt reduced by about Rs. 50 crores. We are now at about Rs. 1,228 crores. As you may recollect, when the divestment happened, we were at about Rs. 1,300 crores. So, from that time, we've reduced it by about Rs. 72 crores so far. Of course, this is without considering the inflow from the divestment settlement transaction, which happened in Q2. So, this is as of Q1 end.

On the last one, last highlight of the quarter is about the settlement, the divestment process. As we indicated earlier in our declaration to the stock exchanges, there was some kind of a dispute earlier, which we could amicably settle. So, that brought in about close to EUR 13 million of inflow into the Company. Of course, we have some expenses to be met. So, net of that, I think close to \$6 million to \$7 million is what we are expecting to see in India, which can reduce our net debt further.

So, going to the next slide, this is about the overall industry trend. Like what I mentioned earlier, the 2-wheeler grew quarter-on-quarter by about 12% and 3-wheelers and other segments actually had a degrowth compared to the previous quarter, which is Q4. But on a year-over-year basis, we really see 2-wheeler grew by about 1.3%. Three-wheeler and passenger vehicles also registered good growth. Commercial vehicles had a negative growth.



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So, going forward, the monsoon and festival demand will actually decide the momentum in Q2 and Q3, but we are expecting that that should actually continue the current momentum, but we need to keep a watch on that.

And then coming to the financials on the next slide. Of course, we talked about the revenue growth of 10.4%. In terms of the other financials, we really see EBITDA percentage terms came to 10%, just close to about Rs. 180 crores, which is the adjusted EBITDA.

Another important point this time is the PBT of 3.6%. And you might have also noticed a reduction in interest cost for the first time after many quarters. So, that's an interesting point to be noted. Of course, we are expecting that it will come down further in the coming quarters as we continue to repay the debt through cash generation from operations.

Then in the next slide, we have the business breakdown like how we had showed earlier. We see a marginal uptick in the Bajaj share of the business to about 42%. Earlier, it used to be below 40% because of the increased supplies to the electric vehicles. Then on the new lifetime order win, it is about Rs. 955 crores of lifetime win, which we did in Q1 in terms of new orders.

And predominantly, if you really see, more than 70% of that is in 2-wheeler space this time. In terms of other way of looking at it, there's about close to 60% comes from non-Bajaj customers and about 40% comes from Bajaj, and EV-related orders constitute about 11% of the total.

So, let me stop with this, and then we are happy to take any questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Aashin from Equirus Securities. Please go ahead.

Aashin: So, sir, my first question is regarding the lighting business. So, the lighting industry is seeing good tailwinds and it could shift towards LED. So, could you please help us understand how much of the lighting industry is from India and how much from Europe? And what sort of a growth do we see in this business considering that the industry is growing pretty strongly over there? That's my first question.

Arjun Jain: Hi, this is Arjun. So, I think in terms of product wise or segmental revenues for specific geographies of revenue. However, in general, right, I think as in India, in particular, industry moving towards LED. And that generally implies significant content growth per vehicle and that is very much a story that we are a part of, we've been a part of it from 2016, and we continue to be a part of it even today, whether in 2-wheeler or whether in passenger car.



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- Aashin:** Sure, sir, and my second question is regarding this, so EV now contributes approximately 4% of our revenue. So, this bump up is majorly because of pre-buying in EVs and what sort of a revenue from EVs do we expect going ahead?
- Tarang Jain:** So, here, like, we said in the last quarter also that we are expecting revenues to be Rs. 1,000 crores in FY '25, and we do see the momentum going up. Going forward, we know that this FAME 2 subsidies have gone down in June announced by the government. But I think a lot of the OEMs are actually innovating. The lithium prices have also gone down. So, we do feel that the volumes will return. And we are also winning further businesses, whether it's on the EV powertrain or otherwise or the EV programs, whether it's 2-wheeler, 4-wheeler. So, we are quite confident that we'll achieve a Rs. 1,000 crore revenue out of our EV business in FY '25.
- Moderator:** The next question is from the line of Abhishek from Dolat Capital. Please go ahead.
- Abhishek Jain:** So, in the 4-wheeler business, we have seen a very fast growth quarter-on-quarter. Is it because of the revenue growth in the lighting business?
- Tarang Jain:** Can you repeat it? You're saying on the four-wheeler side, we've seen a growth in our business?
- Abhishek Jain:** Yes, sir. In quarter-on-quarter, we have seen a very impressive growth. Is it because of the revenue growth in the lighting business?
- Bikash Dugar:** Year-on-year or Q4 over Q1, you are saying?
- Abhishek Jain:** Q4 over Q1.
- Bikash Dugar:** Q4 over Q1 is mainly because of our BD2 operations overseas. So, January, February, March is a little dull, and then it picks up. And, so our Romania business has done better as compared to the previous quarter.
- Abhishek Jain:** Hello?
- Bikash Dugar:** Yes. So, it's mainly the Romania business in our overseas operation, which is mainly supplying to 4-wheeler, that has grown.
- Abhishek Jain:** In the lighting business, how much contribution from the domestic versus export now, domestic versus overseas?
- Bikash Dugar:** That's what Mr. Arjun said that further split on the domestic and overseas, we would not like to comment at this moment of time.



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Abhishek Jain: So, you have most of the business from 2-wheelers in the domestic side or you are winning the new business in the 4-wheeler as well?

Arjun Jain: So, over the course of the last financial year, I think we won businesses in both 2-wheeler and 4-wheeler. And I would say the split in revenue between 2-wheeler and 4-wheeler lighting is pretty even.

Abhishek Jain: And in the polymer business, you are showing a degrowth. How do you see business ahead?

Mr. Mahendra Kumar : Yes, in Q4, we had some tooling revenue and all, so that did not happen, or it came down actually in Q1. So, that's the reason.

Abhishek Jain: So, is it because of the fall in the net ASP, fall in this commodity prices?

Tarang Jain: Yes, that also will have some impact. The fall in commodity prices will have some impact also.

Bikash Dugar: And also, if you look at 4-wheeler sales from Q4 to Q1 has fallen by minus 6%. So, that has also resulted in polymer business not to grow in line with the other segment.

Abhishek Jain: Okay. And sir, in electronics business, your growth is quite impressive, around 21% Y-on-Y. So, just wanted to understand that what are the key triggers behind that, and how much the contribution from the instrument cluster had from this business?

Arjun Jain: Yes. So, in general, our electrical-electronics business, as we've talked about before, right, I think we have been very focused in 2-wheeler in terms of driving a content growth strategy. So, when I say content growth, really, the product lines that have grown significantly for us would be things like for IC engine, things like fuel injection, also more LED headlamps that had done very well for us.

Further, from an EV perspective also, I think we see significant growth in revenue versus the past period. So, I would say content growth in existing vehicles and a lot of the launches, not on the new product launches that we've had last year, starting to see some level of incremental sales and also EV volumes growing for us since. Cluster, I would say, of course, as part of content growth, Cluster have also seen some level, but really the more significant for us would be fuel injection and EV components.

Abhishek Jain: And in electronics business, basically, you are targeting around Rs. 1,000 crore kind of the revenue from EVs from FY '25. So, what would be the contribution from this motor and controller segment out of the Rs. 1,000 crore?



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Arjun Jain: So, motor and motor controller, I would say, are really primary products for us. But again, I think more than a number is that we've already talked about. I don't think we're not providing any further breakup. It's a majority.

Abhishek Jain: And then my last question is on the metallic business. In metallic business, what is your revenue target for FY '24 given the pricing of metal is going down? And what is the current margin in this business?

Mr. Mahendra Kumar: No, we don't give those guidances by business. But yes, in every business, we are aiming for growth only. At the total company level, of course, we continue to aim for double-digit growth, but we don't give guidance for each segment separately.

Abhishek Jain: So, what would be the triggers for this double-digit growth, sir, in terms of the capacity addition or the product additions?

Mr. Mahendra Kumar: Yes. Basically, about the content growth, like how we explained earlier, both in terms of electric vehicles and also in terms of the ICE products also.

Tarang Jain: We have said that we are going to grow 8% to 10% more than the industry growth, and that's what we are trying to achieve as we move forward and largely because of the content growth strategy, which comes a lot out of the electronics side.

Moderator: The next question is from the line of Aditya Jhawar. Please go ahead.

Aditya Jhawar: My first question is that, recently, we have seen product launches by Bajaj, specifically Triumph and Hero's Harley. So, if you could give us some sense, are we present in these vehicles and what kind of content per vehicle EV are there in these two models?

Arjun Jain: So, we are present on both models. I would say the content on Triumph's would be quite significant. We have content on Harley, but it would not be as significant as the content that we would have on Triumph.

Aditya Jhawar: Yes. Arjun, if you have the number in mind, like, is it about Rs. 30,000, Rs. 40,000 or something per vehicle?

Arjun Jain: Rs. 30,000, Rs. 40,000? I think for an IC engine vehicle, and I don't think anybody's content reaches that level. But really, in terms of technology components, like lighting, we supply the lighting for Triumph. We also, of course, supply all the painted plastics and mirror as well also, right. So, the content I think would be at approximately Rs. 8,000.

Aditya Jhawar: Sorry, how much?



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- Arjun Jain:** Approximately Rs. 8,000.
- Aditya Jhawar:** That's helpful. Any EV component order wins you would like to highlight where we have entered a new OEM, whether incumbent or a new age OEM?
- Arjun Jain:** No, I would give you the same answer I've been giving you for some time now Aditya, but I can promise. I think soon you will hear more.
- Aditya Jhawar:** Now we have spoken about double-digit margin, and we have already at about 10%-odd. So, how should we think about margin expansion from here and what would be the levers of margin expansion?
- Mr. Mahendra Kumar:** Yes. So, Aditya, like what we mentioned earlier, we don't give any guidance, so don't take this as a guidance, but yes, we continue to aim for double-digit EBITDA margin. Now in terms of drivers, if you really see, obviously, the operating leverage should actually help us to a large extent. Plus, there are also several cost reduction actions, which we are targeting internally, both from sourcing point of view and also in terms of efficiencies point of view. So, these things should actually drive us to go for higher levels of EBITDA margin in the coming quarters and maybe next year also.
- Aditya Jhawar:** Now, on China, what kind of timelines we should have in mind with regard to the transfer of owner shares and any potential value unlocking that we can see, if you can give some sense on timelines?
- Mr. Mahendra Kumar:** So, it is difficult to put a timeline to it. But if you ask me, the arbitration process should come to a conclusion before end of this year, this financial year. but separately, there is a settlement activity also, which is parallelly progressing, but not at the estimated pace that we are expecting it to be at. So, it's difficult to put a specific timeline, but we would say maybe before end of the financial year, we'll have some good clarity.
- Aditya Jhawar:** Now, final question, if you can give some sense on what kind of CAPEX and debt repayment we should have in mind for FY '24?
- Mr. Mahendra Kumar:** Yes. So, first quarter, we spent about Rs. 50 crores. So, there could be maybe another Rs.100 crore to Rs. 150 crores of CAPEX in the remaining 3 quarters. So, that's on CAPEX. Debt repayment, I don't want to put a number to it, but then you have seen that about Rs. 50 crore repayment is what we did in Q1. So, all our efforts are basically to maximize the cash generation and then repay as much debt as possible before end of the year. But let's not put a number to it now.



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- Moderator:** The question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.
- Basudeb Banerjee:** A couple of questions. One, if I look at for almost last 7 quarters, your other expenses are more or less flat at around Rs. 280 crore. And, in the meanwhile, revenues have also recovered quite a lot and that's how margin has moved up from the lows of 5% to now 9.5%.
- Mr. Mahendra Kumar:** Sorry, can you please repeat it? It's not very clear.
- Basudeb Banerjee:** Yes. Sir, for last 7 quarters in your reported numbers, other expense line item has been centered around Rs. 280 crore, whereas revenue has moved up from Rs. 1,500 crore to Rs. 1,800 crore as such on a quarterly basis and that has also helped the margin improve from 5% to 9.5%. And as we said, operating leverage, cost management initiatives, et cetera.
- So, if you can highlight like how long the other expense line item can remain around this level so that one can have some idea about the incremental operating leverage benefit because 7 quarters is not a small-time gap.
- Mr. Mahendra Kumar:** Yes. See, other expenses is difficult to predict because, as you know, it comprises of both variable and fixed elements. So, there we have differently based on the scale-up operations. So, it is difficult to estimate how exactly it will move. It's a combination of both.
- Bikash Dugar:** And earlier said that certain efforts which the company is taken to reduce the fixed cost or reduce the variable component, it takes time to get a visibility on the effort to reduce other expenses. It will happen 2 quarters, 3 quarters down the line. So, yes, the other expenses have reduced, but as a percentage to the top line, but the efforts are there to further reduce and improve the profitability as the Group CFO said earlier.
- Basudeb Banerjee:** Sure. And second thing if I missed out, sir initially, you said EUR 13 million, you got back from the escrow account. And also, you said Rs. 50 crore of debt reduction. So, was this Rs. 50 crore exclusive of that EUR 13 million or that is because some mixed quarter will come because of that?
- Mr. Mahendra Kumar:** So, that money is yet to be considered because it happened only in July. So, we are talking about the numbers as of June end. So, that number is yet to be taken.
- Moderator:** Next question is from the line of Arvind Sharma from Citi. Please go ahead.
- Arvind Sharma:** Just wanted to understand the sale of the 4-wheeler global lighting business. Now in this quarter, again, you've given some discontinued operation-related expenses. Now since you got some money after the quarter ended, so in the second quarter, would we see some discontinued operation-related income coming in? Just wanted more clarification on the accounting part.



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Mr. Mahendra Kumar: We don't expect any income or expense from discontinued side hereafter. So, this particular adjustment which we took in Q1 was relating to some of those costs, relating to some management separations, relating to the erstwhile lighting business. Plus, earlier, we took a conservative view of how much we could get out of this escrow.

So, compared to that, that was about close to 1 million of shortfall, with this final settlement. So, that impact has also been taken. So, with this, as of now, we don't expect any further income or expense on account of discontinued operations in the coming quarters.

Arvind Sharma: Sure, sir. So, now that business is fully separated. Sir, I know it's a question which will be repeated, but if you could just give us a succinct sense of the total inflow that we've had after selling the business? How much has finally accrued to Varroc, including the initial cash payment and the escrow? What has been the total cash inflow and what was the final equity value of the business?

Mr. Mahendra Kumar: Yes. See, let's talk about the equity first. Initially, we estimated the equity to be at EUR 69.5 million. So, after the EUR 15 million settlement which we did, it finally ended up at EUR 54.5 million. So, that is as far as equity is concerned. Coming to the cash flow part of it, I think it has 2, 3 different parts. So, I think we also need to see the cash which came in and which we used to repay the overseas debt at the time of the transaction. So, that will be a larger number. But let's only talk about the equity part, which is now finally at EUR 54.5 million.

Arvind Sharma: Okay. And this includes the escrow, which you've got now?

Mr. Mahendra Kumar: Correct.

Moderator: The next question is from the line of Nisarg Vakharia from NV Alpha Fund Management LLP. Please go ahead.

Nisarg Vakharia: Sir, just a small question on the interest payment that we have. So, we are paying about Rs. 50 crore interest per quarter. When will this start coming down?

Mr. Mahendra Kumar: Yes. So, I think like how we explained earlier, we are already seeing some kind of a reduction sequentially. If you really see, this quarter, the interest burden was lower by about Rs. 3 crores to Rs. 3.5 crores compared to the previous quarter. Of course, the inflow from the final settlement should actually reduce the debt further in Q2 also.

And as and when we generate cash from operations and free cash flow, once we get it, we continue to repay the debt. So, it should continuously go down here after is the expectation that we have. But we don't give any guidance here, but that's what we are targeting.



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- Nisarg Vakharia:** Sir, what is the net debt that we have today on our balance sheet?
- Mr. Mahendra Kumar:** Like how I explained earlier in the call, Rs. 1,228 crore is the net debt as of today.
- Nisarg Vakharia:** So, we are paying interest for a debt of almost Rs. 1,800 crore to Rs. 2,000 crore. Isn't it better to use the cash and pay off the debt and then get the interest cost down to Rs. 100 crores, Rs. 120 crores?
- Mr. Mahendra Kumar:** No, I don't understand this Rs. 1,800 crore number that you mentioned. But like what I said, we are anyway, that's what we are doing. As and when there is surplus cash, we are actually going and repaying the debt.
- Nisarg Vakharia:** Sir, I'm sorry, I'm going to repeat, maybe a little naive on my part, but I'm just trying to understand that if the net debt is Rs. 1,200 crore today, then why is the interest cost Rs. 200 crore, because the interest cost is not more than 10%, 11% anywhere.
- Mr. Mahendra Kumar:** No, the average interest cost comes to only around 9% to 9.5%, but it also has the discounting charges. So, we also do the discounting of the customer receivables. So, those discounting charges are also part of the interest costs.
- Nisarg Vakharia:** Okay. And what is the discounting charges that we have per annum or per quarter approximately?
- Mr. Mahendra Kumar:** We don't give that kind of breakup, but we can broadly work it out, right? I mentioned the interest rate to you and the debt levels.
- Nisarg Vakharia:** And these discounting charges will continue, or you will stop doing them as your balance sheet strengthens because it's an expensive charge for us?
- Mr. Mahendra Kumar:** No. See, as it stands now, this is one of the cheapest modes of finance that we have. Of course, obviously, the customers are all big OEMs, so that way the risk is less, so the bankers are also willing to give it at lower rates. So, if I have to take it out, this will be the last one that I would touch. My first preference would be to reduce the high-cost debt. And then towards the end, we will stop this also.
- Moderator:** The next question is from the line of Abhishek from Dolat Capital. Please go ahead.
- Abhishek Jain:** Sir, in aftermarket business, we are seeing a strong traction. So, if you can throw some more light on the product and the network expansion in last 6 months?

- Tarang Jain:** So, you see the aftermarket business continues to grow for us. Largely, we are more on the 2-wheeler products and whether it's for domestic or it's for export. And we continue to kind of increase the number of retailers or distributors we have on a quarterly basis, 6 monthly basis. So, we do see a good double-digit growth year-on-year, we're expecting as we move forward. And aftermarket for us is a profitable business, and that's something we will continue to do as we move forward. So, it's more like a steady growth that we are achieving in our aftermarket business, which today for us is maybe about 5%, 6% of our revenues.
- Abhishek Jain:** And in aftermarket business, how much is from the OEM channel, sir?
- Tarang Jain:** The aftermarket is purely non-OEM channel.
- Bikash Dugar:** The spare parts which we do to the OEMs is not included in the aftermarket.
- Tarang Jain:** That is not the aftermarket, and that's more like what you supply for their spares, OES market. So, that we count as OE business. This is purely through our retailers and distributors in India and for exports. This is what we call our aftermarket business.
- Abhishek Jain:** Okay. And, sir, your current capacity utilization is, I think, 60%, 65% and you are looking for another CAPEX of around Rs. 200 crores. So, is this CAPEX only for this EVs product expansion or in other segment as well?
- Tarang Jain:** So, here, I would say that this is more towards more our future products because for a lot of the traditional products, which we are doing, we are at 60%, 65%. So, it isn't only for more of the value-added products which we have. We see a future where we don't have a certain level of capacity, that those are the places actually, which includes EV also. So, those are the places where we are actually investing, and it includes also for tooling. So, basically, it is only largely more where we don't have a capacity which is more on the future product side, including EV.
- Abhishek Jain:** Sir, revenue from the non-Bajaj remained flat quarter-on-quarter. So, what is the reason and how would be the trend going ahead?
- Bikash Dugar:** Yes. So, it's not that it's remained flat. The growth in Bajaj has been higher than other customers because the supply of EV component to Bajaj has been much higher in Q1 as compared to Q4. Other segment, other customer includes customers related to 4-wheelers like Mahindra & Mahindra and VECV, Renault, Nissan and even Volkswagen Skoda and we know that passenger vehicle quarter-on-quarter has fallen by 6%. So, that's because of that.
- Moderator:** The next question is from the line of Prateek Poddar from Nippon AMC. Please go ahead.



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Prateek Poddar: Sir, I just wanted to ask if you could split your capacity utilization business-wise, business unit-wise?

Tarang Jain: See, what we are saying is largely, you can say, as a company, we are at between 60%, 65% of capacity utilization. That means we have a big upside with the current capacity, maybe some small incremental investments. And today, our focus is how to fill up these capacities. And we are getting some traction there also as we are in the last many months.

So, we are trying to do that with various customers, largely, more on the 2-wheeler side, some 4-wheeler also. So, this is where we have this kind of an upside available for us. So, whatever we fill up will be a big opportunity again for us. But singling out separately will be difficult for us to share.

Prateek Poddar: So, if I may ask the other way, because look, 60% would be a weighted average of all the 4 businesses. I'm just trying to understand, sir, where is the highest delta? In which business segment is the highest delta? That's my limited question.

Arjun Jain: So, if I was to take that for a second, right? I think the way to really think about it is, we supply almost 20 products into 2-wheeler mobility, right, 2 and 3-wheeler mobility. The capacities that we would have built over the years would have been for a certain level of industrial volume.

Now, of course, as you know, that level of industrial volume has not appeared since maybe FY '19. So, it's hard to, let's say, break it down specifically in terms of which product, which particular business unit, because every business unit also has several products within, right?

But 60% to 65% is a fair number where the investment level delta to productionize that capacity would not be significant, right? So, again, I know I'm not giving you a clear answer. But really, what I'm trying to say is where the capacities are available, is generally where the 2-wheeler market has been, for the kinds of capacities they've got, right, for a 2-wheelers and 3-wheelers.

Prateek Poddar: So, if the 2-wheeler market, let's say, going to go to FY '19 levels in the next couple of years, you have enough capacity to cater to that, right, that's a fair understanding?

Arjun Jain: Exactly.

Prateek Poddar: Okay, fair enough. The second question is just on improving the EBITDA margins, which was one of the key focus areas. Q-o-Q, we had seen some moderation in employee expenses as well as other operating expenses. And I remember last quarter, MK talking about H2 of this year being very strong, wherein we could see sharp deleveraging. So, is it fair to say that the path



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continues in terms of operational improvement. And in H2 is where we start seeing a material improvement?

Mr. Mahendra Kumar: Yes, that's the plan as of now, but don't take it as a guidance. But yes, that's what we are aiming for.

Prateek Poddar: And last question, sir, if you can help me understand, look, on a Y-o-Y basis, when I see 2-wheeler industry growth and your growth, there has been a decent outperformance in terms of content or industry growth. But when I see it sequentially, two-wheelers on a Q-o-Q basis is up 12%, and we are up just 6% at least on the overall revenue side. And what am I missing, sir, if you can just help me understand this? That would be really helpful.

Tarang Jain: See, largely, just to let you know that we have seen a strong growth from our 2-wheeler segment. Most of our customers have grown quite well at a decent double-digit. But the problem has been more the commercial vehicle and passenger car where we have seen the degrowth. And that's on the average, it has only been 6.2% or 6.4% because of that reason because 2-wheelers do very well, also including EVs, but the same thing did not happen, unfortunately, this quarter on the 4-wheeler side, where we saw a very weak performance.

Mr. Mahendra Kumar: Industry itself.

Tarang Jain: Industry itself, overall, I would say.

Prateek Poddar: And lastly, when you start new orders worth Rs. 577 crore as called out in the presentation, is it fair to say that these orders would be margin accretive to you versus what the legacy orders are? And to that extent, mix will help you and we'll see gross margin expansion?

Tarang Jain: Yes, definitely.

Moderator: The next question is from the line of Dhiral Shah from Phillip Capital PCG. Please go ahead.

Dhiral Shah: Ma'am, actually, I'm out, but just wanted to know, ma'am, what kind of increase we are looking in the content per vehicle over next 2 to 3 years?

Arjun Jain: So, again, I'll break that down. I think the way to think about it is, right, we look at EV separately and we look at IC engine separately. EV fundamentally, the content that as Varroc based on the product lines that we have, we could expect to have would be I think around Rs. 30,000 to Rs. 35,000 in the past, right? So, I think as EV grows, that is a content level that we can address in a vehicle and of course, we do contract businesses wins in different customers in line with that, right?



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But for example, again, on the Chetak, that would be the amount of content that we would have. On an IC engine, really the technologies that drive content growth would be fuel injection, LED lighting, potentially electronics, and digital clusters.

So, as OEMs keep converting their 2-wheelers vehicles, if you look at new launches that OEMs have made, almost all of them generally come with this type of content, right? So, as they keep driving those vehicle launches, we expect our content to be growing. Beyond a point it's difficult for me to comment exactly when which OEM will look to convert which segment of vehicles into, let's say, LED, for example.

But as that takes place in the industry, we will definitely be at the forefront of it. All of that put together, I think the total addressable content that we could have on a 2-wheeler would be even, let's say, in mass volume segments around Rs. 10,000.

Dhiral Shah: So, this Rs. 10,000, is it currently the content per vehicle?

Arjun Jain: No, the average content per vehicle we would have today would be significantly lower.

Bikash Dugar: In Bajaj, it will around Rs. 6,000 to Rs. 7,000. With other customers, it's much lower.

Dhiral Shah: And sir, EV, you talked about the content per vehicle is Rs. 35,000, if I'm not wrong?

Arjun Jain: Yes.

Dhiral Shah: And sir, what kind of increase we are looking in the EV particularly?

Arjun Jain: So, we're very focused again on 2-wheeler and 3-wheeler, because that is our core market. Today, EV 2-wheelers are generally scooters, right? So, that is definitely the segment of focus for us. The one other thing also that I will add from a content perspective is use of passenger car, right? We look to integrate our capabilities to drive more system-level solutions. So, for example, on a VW Tiguan. Today, the tailgate is a product that is built by both our polymer and lighting business, right? So, we integrate the rear lamps into the tailgate and supply the entire module to VW. Similar to that, we pursue further businesses also. So, that is outside of 2-wheeler and 3-wheelers in other vehicles, or in other, let's say, channel of content growth for us.

Moderator: The next question is from the line of Prateek Poddar from Nippon AMC. Please go ahead.

Prateek Poddar: Well, just, could you double-click on the kind of efficiency measures you are working at so as to improve our margins?



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Mr. Mahendra Kumar: Yes, let me answer this question. Of course, I don't want to give you any specific numbers here, but if you want to understand the areas we are looking at, Energy is one area where we are looking at. Currently, the sourcing that we make from renewable energy is very less, so that we are trying to improve. There are also areas like packing material, logistics and of course, in the overall fixed cost itself is what we are actually looking at and various opportunities to reduce it. So, these are the main areas we are targeting.

Prateek Poddar: And just on fixed costs, sir, possible to double-click and help us understand how you try to reduce fixed costs?

Mr. Mahendra Kumar: I mean, there are various areas. We are looking at every single line item, whether it is consultants or retainers or advisers or there could be some opportunities to eliminate some discretionary elements. So, we are looking at every single line item and trying to see what could be a 0-based kind of approach to the fixed cost here. And based on that, how much is the fact that we can actually cut. But this will take some time. It won't happen immediately. So, for the next 1 to 2 years, we are trying to actually reduce it as much as possible.

Prateek Poddar: That would also mean that the breakeven points reduce right?

Mr. Mahendra Kumar: Right, that's the intention.

Prateek Poddar: Okay. And what is the level of breakeven point today and where do you aspire it to be?

Mr. Mahendra Kumar: We can't reveal that, but I think you can work it out based on our annual report and financials.

Prateek Poddar: I can work out the current, but the aspiration is what I was trying to --

Mr. Mahendra Kumar: Our aspiration, again, I don't want to put a number, but we're aiming for significant reduction. But again, this won't happen in a month's time. Over the next couple of years, we are aiming for a significant reduction in the breakeven levels.

Bikash Dugar: And I will also emphasize in previous call, we have said that the first target remains to improve the PBT margin to 5%. Last year, we did 1.7%. So, our endeavor remains to go to 5% in the next 1 to 2 years and then to high-single-digit.

Moderator: The next question is from the line of Aditya Jhawar. Please go ahead.

Aditya Jhawar: Just had one question. So, post the sale of our global lighting business, how should we think about our aspirations in the 4-wheeler lighting in India? Are we seeing engagement with customers on future product launches or are you seeing that there is an engagement with OEMs,



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which are not present in India, you are having a dialog with them. How should we look at the space post-PLS sale?

Arjun Jain:

So, again, I think the divestment that we drove was we hived out the geographies of Europe and North America, and we retained India and China. Now, today, in India, fortunately for us, maybe. But I think in particular, when it comes to technology in the future and largely LED, we have a significant amount of content that is already on the road, right? And I think customers really understand and appreciate that, right?

So, some of the products that we already have on the road would be on the XUV 700, we do all the lighting. On the 2 new Renault Nissan models that launched maybe 1.5 years ago, we do all the lighting. All the Skoda VW, we do tail lamps. So, this is really already localized capability across design, development, manufacturing, which customers can see and appreciate.

Even through last year, right, after it was clear that the divestment is going to take place, we've been able to continue to win programs. And further, from a technology perspective also, I think we are largely covered, and I think customers understand and appreciate that. So, there is no reason why we will not be able to capitalize on this early mover advantage that we have in the market already.

Moderator:

Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Tarang Jain for his closing comments.

Tarang Jain:

Yes. Thank you, everyone, for joining the call. In the end, I would say that we are cautiously optimistic about our business and are working to further improve performance. We're grateful for your unwavering support in the past and look forward for continued encouragement for an exciting journey ahead. Thank you.

Moderator:

Thank you, members of the management team. Ladies and gentlemen, on behalf of Investec Capital Services, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.