

Varroc Engineering Limited

Regd. & Corp. Office

L-4, MIDC, Industrial Area
Waluj, Aurangabad 431 136
Maharashtra, India

Tel +91 240 6653600
Fax +91 240 2564540

email: varroc.info@varroc.com
www.varrocgroup.com
CIN: L28920MH1988PLC047335



VARROC/SE/INT/2019-20/59

November 12, 2019

To,

(1) 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.

(2) The Manager - Listing
The Corporate Relation Department,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400001.

NSE Symbol: VARROC

BSE Security Code: 541578
Security ID: VARROC

Dear Sir/Madam,

Sub: Investor Presentation - Financial Results Q2 2019-20

Please find enclosed herewith a copy of Investor Presentation with respect to the Unaudited Standalone and Consolidated Financial Results of the Company for the Quarter and Half year ended on September 30, 2019.

Kindly take the same onrecord and note the compliance.

Thanking you,

Yours faithfully,

For Varroc Engineering Limited

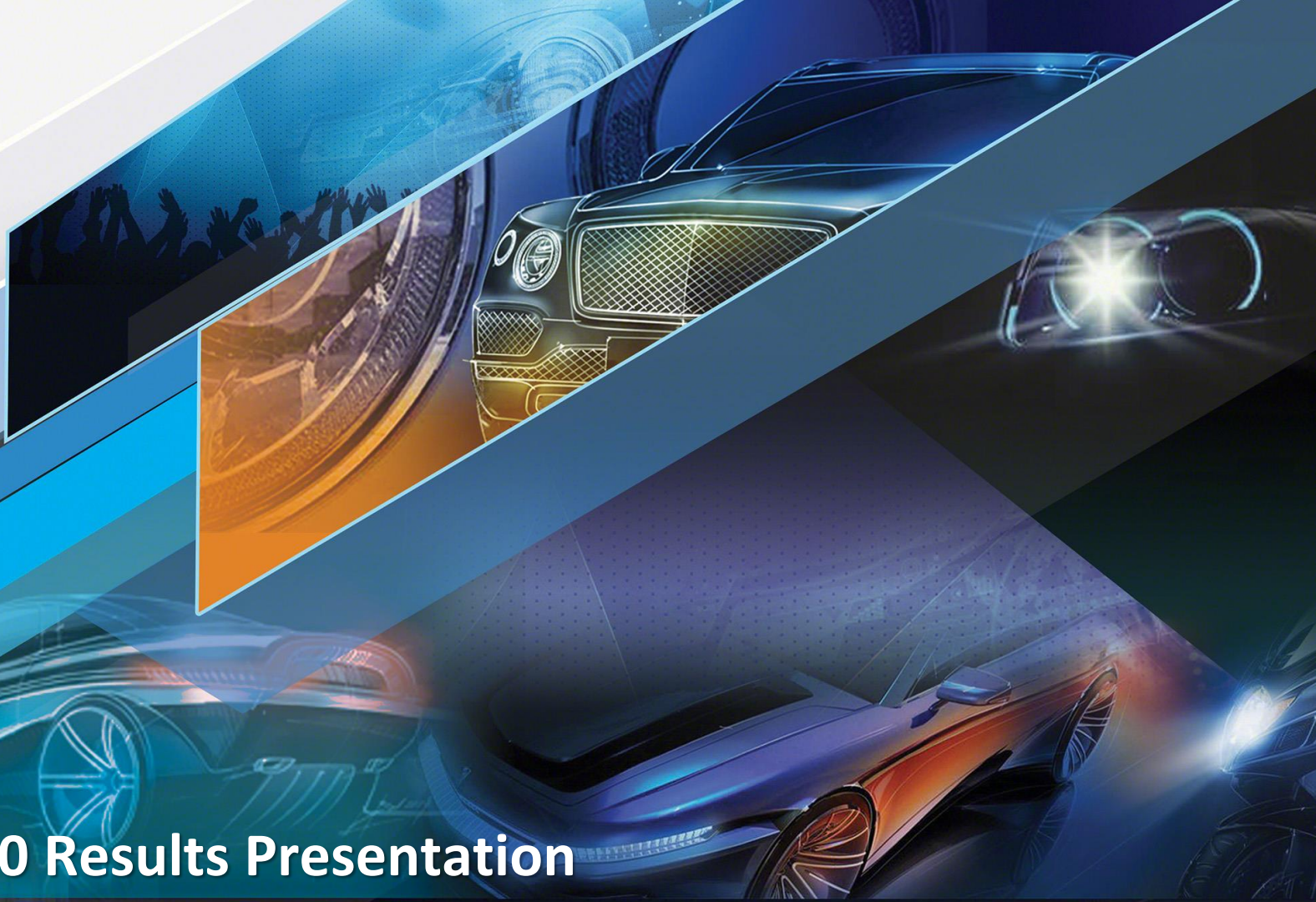
A handwritten signature in black ink, appearing to read 'Chetan Sharma'.

Chetan Sharma

Sr. Manager (Legal & Secretarial) & Compliance Officer

Encl: a/a





Q2 FY20 Results Presentation



Disclaimer



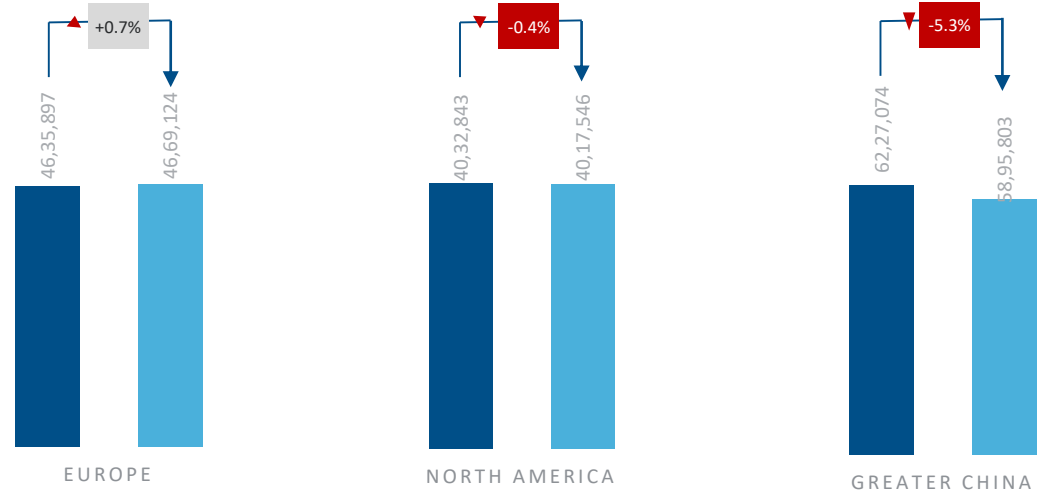
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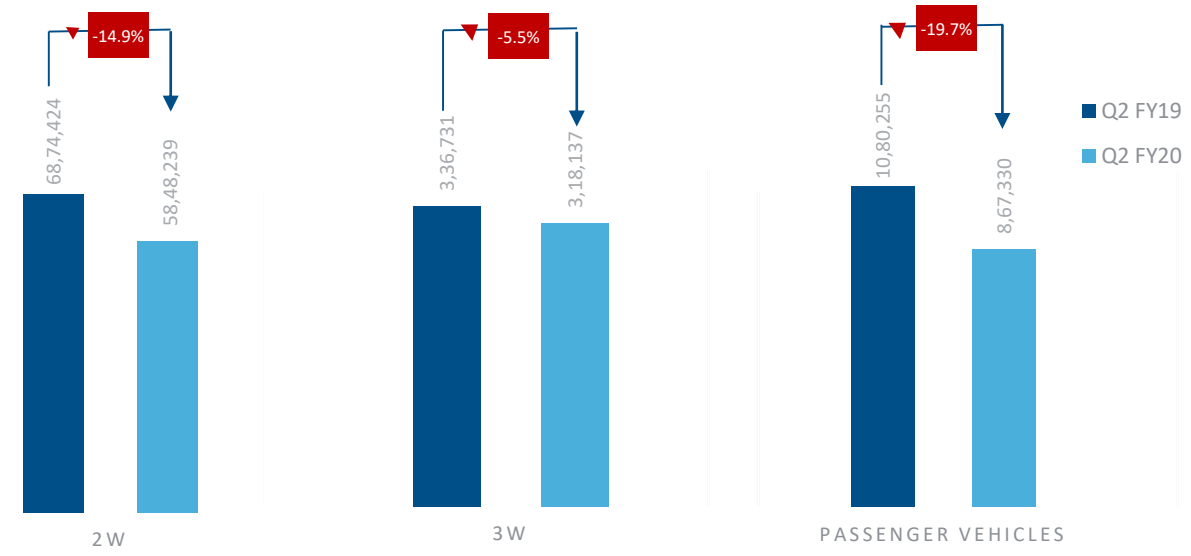
Industry Trends in Q2 FY20

Global Passenger Cars Market Production



- Passenger Vehicle volumes in Q2 FY20 were almost flat in Europe and North America
- The decline in China continued due to slowing economic growth and lack of govt. support.

India Industry Trend : Production YoY



- Domestic sales volumes continued to decline significantly over Q2 FY19; 2W volume declined 20.5%, PV by 28.7% and 3W by 6.1%
- Exports for PVs & 2Ws both showed YoY growth of 5.1% while 3W exports declined by 10.2%

Business Highlights: Q2 FY20

- Revenue from Operations for the quarter declined by 9.7% YoY*
- Consolidated EBITDA for the quarter at INR 2,202 Mn*; EBITDA margins at 8.2%
- **India Business:** Revenue declined by 12.0% as against 14.9% decline in 2W industry volumes; EBITDA margin at 10.2%* improved sequentially over the previous two quarters but were lower than Q2 FY19
- **VLS:** Revenue declined by 4.9% in Euro terms; EBITDA margin declined by 130bps YoY to 7.2%* due to negative margin (-24.5%) from new operating facilities; margin excluding new facilities at 9.6%
- **PAT for Q2 declined as a result of:**
 - Lower revenue, largely driven by market decline
 - Operating losses at new facilities during the ramp-up phase
 - Losses in China JV
 - Higher interest and depreciation costs
- **VLS business wins of Euro 262 Mn in the first 7 months; on track for another strong year**
- **Cost reduction/ rationalization initiatives rolled out in India as well as in VLS**

Definitions:

Upcoming facilities = Poland, Chennai & VEE JV; Not a part like-for-like numbers, termed as Start-up costs
 New Operating Facilities = Morocco, Brazil, Halol and H8 line in Czech; all part of like-for-like numbers
 Other Business= All other business; part of like-for-like numbers

Summary of Key Financials for Q2 FY20

(INR Mn)

Particulars	Q2 FY20			Q2 FY19	Growth (Y-o-Y)	H1 FY20			H1 FY19	Growth (Y-o-Y)
	New Operating Facilities#	Other business	Total (A)	Total (B)	(A) over (B)	New Operating Facilities#	Other business	Total (C)	Total (D)	(C) over (D)
Revenue from Operations - Reported	863	26,170	27,032	30,011	-9.9%	1,230	54,503	55,733	59,281	-6.0%
Revenue from operations : like-for-like	863	26,095	26,958	29,923	-9.9%	1,230	54,350	55,579	59,198	-6.1%
Other income - Operating	52	36	88	163		90	278	368	329	
Other income - Non operating	-	26	26	20		-	37	37	116	
		-					-			
EBITDA - Reported *	(184)	2,495	2,311	3,202	-27.8%	(270)	5,552	5,282	5,613	-5.9%
EBITDA : like-for-like §	(184)	2,386	2,202	2,969	-25.8%	(270)	5,261	4,990	5,773	-13.6%
EBITDA Margins (%) §	-21.3%	9.1%	8.2%	9.9%		-22.0%	9.7%	9.0%	9.8%	
		-					-			
Depreciation Reported	73	1,591	1,664	1,646	1.1%	131	3,180	3,310	2,729	21.3%
Interest Reported	91	261	351	313	12.4%	129	535	664	437	51.9%
Share of net profits of JVs under equity method	-	(66)	(66)	73	-189.7%	-	(67)	(67)	202	-133.3%
PBT - reported	(347)	604	256	1,422	-82.0%	(530)	1,807	1,278	2,765	-53.8%
PAT - reported	(347)	577	229	992	-76.9%	(531)	1,635	1,104	1,996	-44.7%
Net Debt (Excl. Debt due to Impact of Ind AS 116)			25,207	20,750				25,207	20,750	
Net Debt to Equity (Excl. Impact of Ind AS 116)			0.8	0.7				0.8	0.7	

§ Like-for-like numbers at consolidated level include both old and new operating facilities but are adjusted for items such as start-up costs for facilities which are not yet operational, differential launch costs etc.

Outlook for New Operating and Upcoming facilities*



Facility	Revenue potential @ full capacity (Eur Mn)	Full potential sales year	Target Break-even	Confirmed orders as of Oct 2019 as a % of planned capacity
Brazil	30	FY22	Q4 FY21	100% sourced business
Morocco	180	FY23	Q2 FY21	~70% sourced business
Poland	200	FY23	Q4 FY21	~55% sourced business
Chennai	30	FY24	Q4 FY21	~60% sourced business
VLS-ELBA JV#	85	FY24	Q3 FY21	To reduce sourcing cost of Electronics
Czech New Line (H8)	90	FY22	Q2 FY21	100% sourced business
Bulgaria	10	FY22	Q2 FY21	100% Sourced Business
Total	625			

* Based on certain assumptions and estimates

Captive revenue

Varroc Group: Business Wise Performance

Q2 FY20



(INR Mn)

SBU	Q2 FY20					Q2 FY19					Revenue Growth YoY
	Revenue	Revenue like-for-like*	EBITDA	EBITDA # Like-for-like	% EBITDA	Revenue	Revenue like-for-like*	EBITDA	EBITDA # Like-for-like	% EBITDA	
India Business	10,058	10,058	1,076	1,024	10.2%	11,430	11,430	1,394	1,394	12.2%	-12.0%
VLS (Incl TRIOM)	16,373	16,299	1,239	1,181	7.2%	17,917	17,830	1,750	1,517	8.5%	-8.6%
Others (IMES)	620	620	11	11	1.8%	703	703	31	31	4.5%	-11.8%
Elimination	(19)	(19)	(15)	(15)		(40)	(40)	27	27		
Total	27,032	26,958	2,311	2,202	8.2%	30,011	29,923	3,202	2,969	9.9%	-9.9%
China JV - 50%	1,093	1,093	5	5	0.4%	1,122	1,122	150	150	13.4%	-2.5%

Euro Performance for VLS

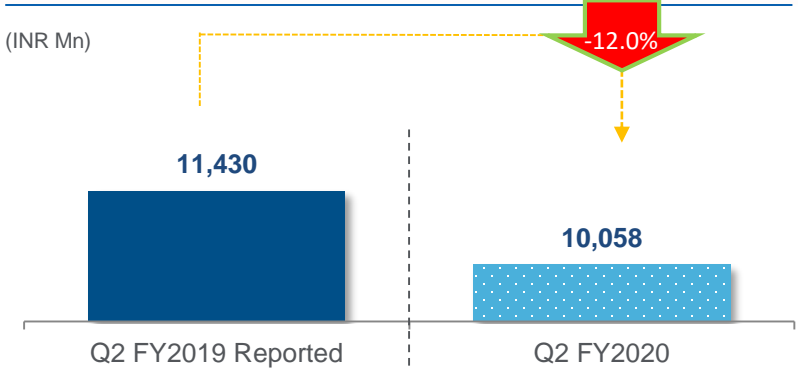
SBU	Q2 FY20					Q2 FY19					Revenue Growth YoY
	Revenue	Revenue like-for-like*	EBITDA	EBITDA # Like-for-like	% EBITDA	Revenue	Revenue like-for-like*	EBITDA	EBITDA # Like-for-like	% EBITDA	
VLS (Incl TRIOM)	209	208	15.8	15.1	7.2%	220	219	21.5	18.7	8.5%	-4.9%

Exchange rates : INR/Euro Average for Q2 FY20 = 78.20; INR/Euro Average for Q2 FY19 = 81.49

- *Q2 FY19 numbers exclude impact of Ind AS 115 for Q1 FY19 which was accounted in Q2 on a cumulative basis last year. This is to make results comparable
- #EBITDA : like-for-like is as explained in next few slides

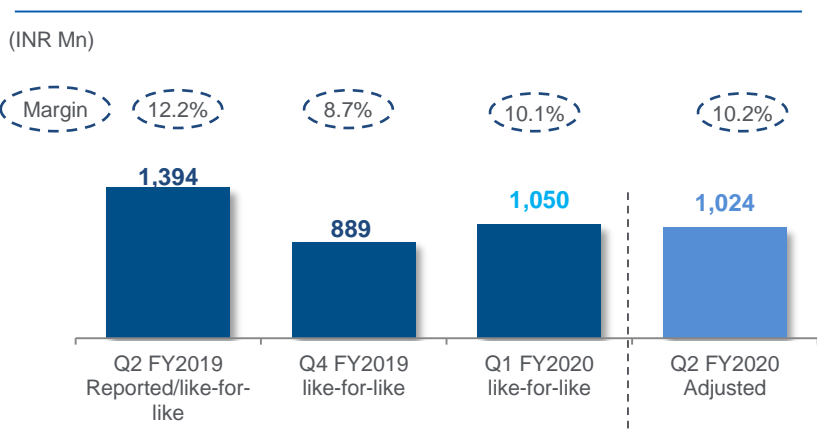
India Business : Financial Performance

Revenue



Revenue declined in a tough external environment

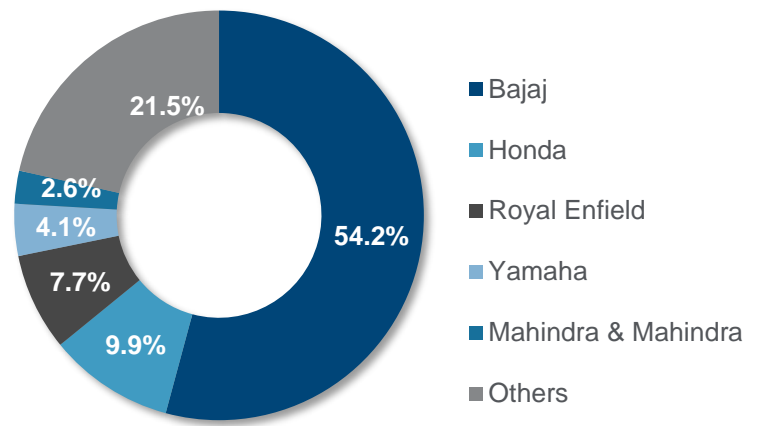
EBITDA trend



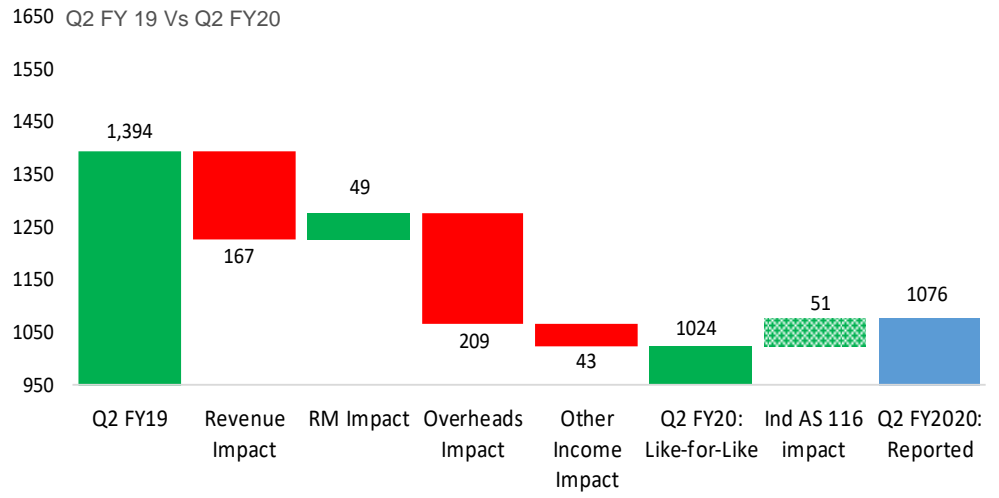
EBITDA margin improved sequentially over last two quarters

India Revenue Split by Customer⁽¹⁾

Q2 FY 20 %



EBITDA variation analysis



Revenue decline impact seen on operating profits

Note: (1) Based on management information system database
Non-operating portion of other income not considered while calculating EBITDA

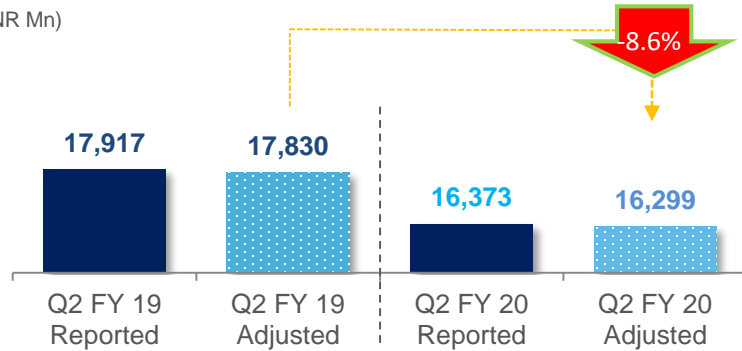
Global Lighting Business (VLS): Financial Performance



Revenue (1)

50% China Joint Venture:
Q2 FY 19 Revenue: 1122 Mn INR
Q2 FY 20 Revenue: 1093 Mn INR

(INR Mn)



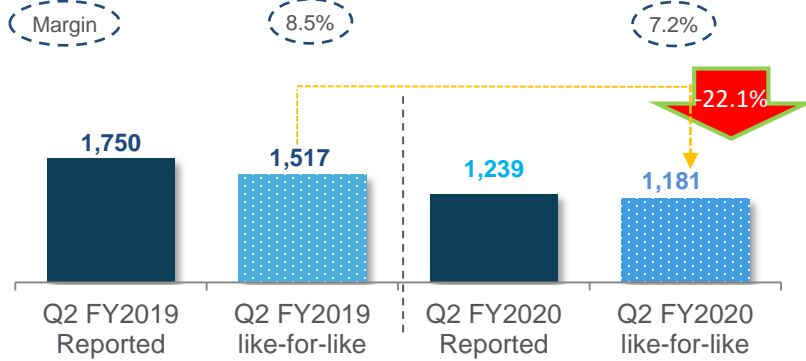
4.9% YoY revenue decline in Euro terms

EBITDA (1) & like-for-like EBITDA (2)

(INR Mn)

50% China Joint Venture:
Q2 FY 19 EBITDA / Margin: INR 150 Mn / 13.4%
Q2 FY 20 EBITDA / Margin: INR 5 Mn(3) / 0.4%

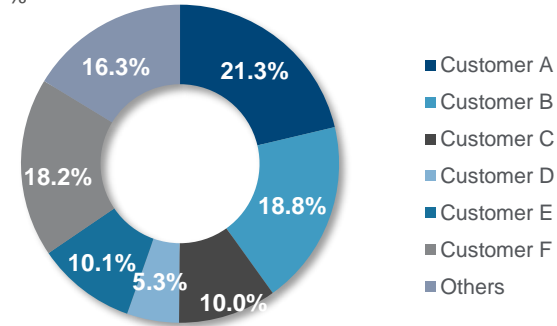
Margin



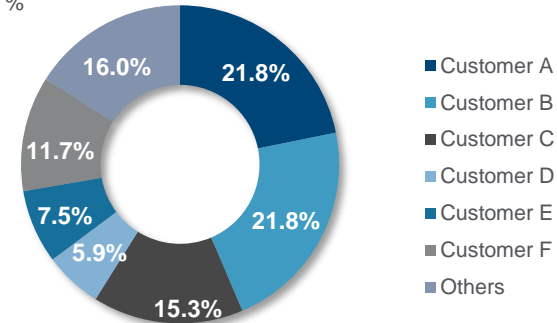
19% YoY EBITDA decline in Euro terms

VLS Revenue Split by Customer Q2 FY20 vs Q2 FY19 (2)

Q2 FY 20, %



Q2 FY 19, %



Revenue in Europe grew by 7.6% YoY
Revenue in Americas declined by 24.9% YoY
Revenue in India declined by 29.9% YoY

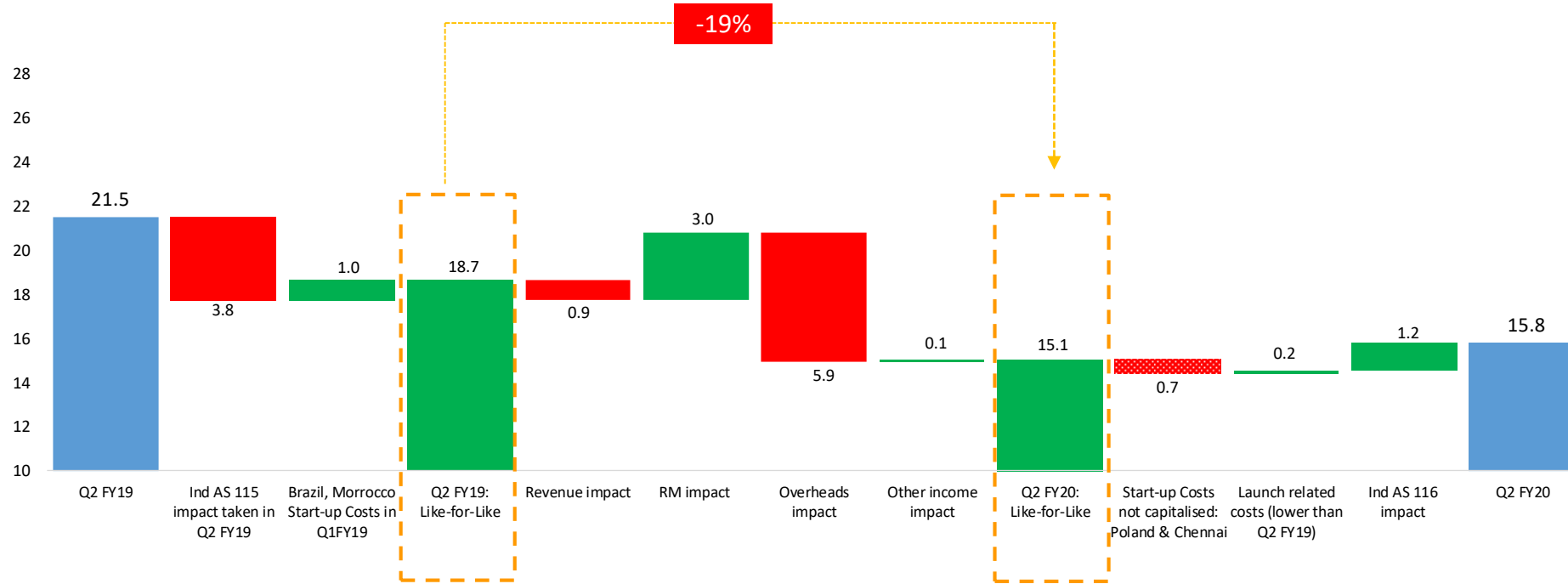
VLS EBITDA margin variation explanation on the next page

Note: (1) China JV revenue and EBITDA not included in the reported numbers; (2) Total Revenue break-up in Euro for Q2 FY20 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 D is an international automotive manufacturer, customer E is a large European car manufacturer & customer F is a global automotive manufacturer headquartered in Europe. (2) Adjusted for Ind AS 115 impact for Q1FY19 as entire H1FY19 impact was taken in Q2FY19, start-up costs and differential launch cost. Ind AS 116 impact excluded from Q2FY20 like-for-like EBITDA but it includes Turkey.

Global Lighting Business (VLS): EBITDA variation analysis



(Eur Mn)



- RM costs lower due to purchasing efficiencies and customer/product mix change
- Overheads higher due to new locations and infrastructure being built to support future revenue growth
- Launch activity during the quarter was slightly lower as compared to Q2 FY19

Varroc Group: Business Wise Performance

H1 FY20



(INR Mn)

SBU	H1 FY20					H1 FY19					Revenue Growth YoY
	Revenue	Revenue like-for-like	EBITDA	EBITDA # Like-for-like	% EBITDA	Revenue	Revenue like-for-like	EBITDA	EBITDA # Like-for-like	% EBITDA	
India Business	20,417	20,417	2,142	2,074	10.2%	21,861	21,861	2,457	2,457	11.2%	-6.6%
VLS (Incl TRIOM)	34,214	34,060	3,098	2,874	8.4%	35,964	35,881	3,014	3,173	8.8%	-5.1%
Others (IMES)	1,197	1,197	45	45	3.7%	1,539	1,539	129	129	8.4%	-22.2%
Elimination	(95)	(95)	(3)	(3)		(83)	(83)	13	13		
Total	55,733	55,579	5,282	4,990	9.0%	59,281	59,198	5,613	5,773	9.8%	-6.1%
China JV - 50%	2,102	2,102	68	68	3.2%	2,727	2,727	364	364	13.4%	-22.9%

Euro Performance for VLS

SBU	H1 FY20					H1 FY19					Revenue Growth YoY
	Revenue	Revenue like-for-like	EBITDA	EBITDA # Like-for-like	% EBITDA	Revenue	Revenue like-for-like	EBITDA	EBITDA # Like-for-like	% EBITDA	
VLS (Incl TRIOM)	437	435	40	37	8.4%	446	445	37	39	8.8%	-2.1%

Exchange rates : INR/Euro Average for H1 FY20 = 78.27; INR/Euro Average for H1 FY19 = 80.68

- #EBITDA : like-for-like is as explained in next few slides

Highlights of Major Order Wins and Near Term Potential



Business New Business wins: VLS / Recent orders: India

Near term potentials

<p>VLS (YTD Oct)</p>	<p><u>Overall Net Business Wins of Eur 262 Mn (68% of target for FY20)</u> - New Business wins - Eur 145 Million - Re-wins (net) - Eur 117 Mn</p>	<p>North America: 50%+ Business wins are in North Americas where revenue has de-grown in last quarter. Europe: Exploring major orders with PSA/FCA. We believe that the PSA/FCA deal is positive for Varroc China: Focus on locally strong players to continue</p>
<p>India Business (Q2 FY20)</p>	<p>Bajaj: New business of INR 122 Mn/ re-wins INR 68 Mn in Q2 FY20. M&M: won our first IP FSS (Full System Supplier) design program within polymer BU CNH: Body parts business of INR 120mn Yamaha: New order for polymer body parts and metallic parts INR 180 Mn Polymer Tools Business of INR 200mn from various customers</p>	<p>Traction Motor & Controller: In discussion with multiple customers TVS: In discussion for more Electrical products Hero: In discussion for more Electrical and Lighting products VW: In discussion with VW for additional Polymers business</p>

R & D / Business Updates – Q2 FY20

Global Lighting Business

- **VLS participated in the International Symposium on Automotive Lighting (ISAL) in Germany which is the largest conference held worldwide dedicated to automotive lighting. During this event :**
 - Presented various new technologies, and unveiled its latest innovations on Surface-LED which provides the appearance of OLED, utilizing traditional LED's for improved cost and reliability
 - demonstrated a technical solution for DRL by making significant improvements in optical efficiency, with very low power consumption and ultra homogeneous appearance using this new patented technology. This now allows VLS to offer Surface-LED technology for all signal functions for both headlamps and rear lamps.
- **Morocco Plant Phase 2 work complete.** Launched one more program this quarter from this plant
- **Brazil** two new programs launched with no quality or launch issues. Second program to start shipments in Q3

India Business

- **EBU:**
 - Traction Motor:** Specification change to current traction motor version to accommodate a potential customer; new version of the prototype to be ready by Dec'19.
 - Telematics** – First internal hardware prototype will be ready by end of Feb 2020; In discussion with OEMs to provide CarIQ platform
 - Instrument Cluster for two wheeler with Turn by Turn navigation** multiple prototypes ready. Request for Development (RFD) received from a customer

Thank You