

Varroc Engineering Limited

Regd. & Corp. Office

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CIN: L28920MH1988PLC047335



VARROC/SE/INT/2021-22/50

December 16, 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.

NSE Symbol: VARROC

BSE Security Code: 541578

Sub.: Clarification w.r.t. revised Credit Ratings received from ICRA

Ref: Our intimation dated December 10, 2021 & Circular issued by Securities and Exchange Board of India dated September 9, 2015

Dear Sir / Madam,

In continuation to our last intimation dated December 10, 2021 and pursuant to point no 3 – Annexure I of the captioned SEBI Circular; please find below the reasons / rationale provided by the Rating Agency for the revision in Credit Rating:

“For arriving at the ratings, ICRA has considered the consolidated financials of Varroc Engineering Limited (VEL) along with its subsidiaries/step-down subsidiaries together, henceforth referred to as the Group/ Varroc. The rating downgrade factors in the prolonged impact of the semiconductor chip shortage issue globally, that has resulted in weaker-than-expected operating and financial performance of the Group, especially in its global lighting business (under Varroc Lighting Systems or VLS). Owing to production cuts and subdued offtake from its key customers in major geographies like Europe and North America, amid continued cost overheads and commodity headwinds, Varroc's operating performance weakened, increasing its reliance on external borrowings and thereby weakening its credit metrics. During H1 FY2022, the company's consolidated revenues contracted by 16% from H2 FY2021 levels, while reporting a net loss of Rs. 525.1 crore. Additionally, the net debt levels (excluding financial leases) increased to Rs. 3,006.7 crore from Rs. 2,252.7 crore as on March 31, 2021, leading to higher-than-expected moderation in leverage and coverage indicators. While the chip shortage issues were earlier expected to be short-term in nature, the impact has been more prolonged and severe than initially envisaged. Furthermore, with the situation likely to normalise only gradually over the next year, the company's ability to curtail overheads and losses in case of further delays in resolution of the issues, or disruptions from further waves of the pandemic, remains critical, especially in the current inflationary environment.

The resultant weakening in cash flows in VLS, on account of the operational challenges, is likely to it reliant on external borrowings over the near-term and increase refinancing requirements for near-term debt obligations. While the Group has plans for raising funds through multiple routes (including debt or equity raise, asset monetisation, customer advances, etc), both in India and overseas, till the operational constraints subside, ICRA would continue to monitor developments on this front, and the consequent implications on its credit profile. Nevertheless, the relief measures negotiated by VLS with its customers in the form of customer advances and price increases are expected to offer some relief over the near-term.

Notwithstanding these challenges, the ratings continue to reflect Varroc's established position as a leading auto component supplier in India and as an eminent automotive lighting supplier globally. The ratings factor in VEL's large scale of operations, along with its diversified revenue

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mix across customers, products and automotive segments. It also has a diversified presence across geographies, including North American, European and Asian markets. The ratings draw comfort from its established relationship with customers such as Bajaj Auto Limited (BAL), Honda, Ford Motor Company, Tesla, Volkswagen AG (VW) and Jaguar Land Rover (JLR), among others. Despite the near-term constraints, ICRA expects the Group's revenue to grow at a healthy pace in the medium term, supported by increased share with the existing customers, new products launched in the recent past, customer acquisition in the domestic business and ramping up of operations in new geographies such as Poland and Morocco. Additionally, the ratings derive strength from the Group's strong financial flexibility, which is likely to support its near-term liquidity.

The Negative outlook on the long-term rating factors in ICRA's expectation that Varroc's financial risk profile is likely to remain pressurised by the ongoing challenges in the domestic and global automotive markets on account of the supply chain disruptions and steep commodity inflation. The Group's external borrowings are likely to remain elevated in absence of any significant equity issuance or asset monetisation, thereby constraining any material improvement in credit metrics. Nevertheless, ICRA would continue to monitor developments on these fronts, and take rating actions appropriately".

We request you to take the above on record and the same be treated as compliance under applicable provisions of the Listing Regulations.

For Varroc Engineering Limited

Ajay Sharma
Group General Counsel and Company Secretary