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: U28920MH1988PLC047355

VARROC/SE/INT/2018-19/37
November 24, 2018

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.

NSE Symbol: VARROC

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

BSE Security Code: 541578
Security ID: VARRROC

Dear Sir/Madam,

Sub.: Transcript of Investor Conference Call for Varroc Engineering Limited for Q2 & half year ended September 30, 2018

We submit herewith the transcript of Investor Conference Call of the Company, which was held on Tuesday, November 13, 2018 at 05:00 P.M.

Kindly take the same on your record.

Thanking you,

Yours faithfully,
For Varroc Engineering Limited

Rakesh Darji
Company Secretary and Compliance Officer

Encl.: Transcript of Investor Conference Call

“Varroc Engineering Limited Q2 and First Half FY’19 Results Conference Call”

November 13, 2018

MANAGEMENT: **MR. TARANG JAIN, MANAGING DIRECTOR**
MR. STEPHANE VEDIE, PRESIDENT & CEO, VLS BUSINESS
MR. ASHWANI MAHESHWARI, WHOLE TIME DIRECTOR AND CEO, INDIA BUSINESS
MR. T. R. SRINIVASAN, GROUP CFO
MR. NITIN KALANI, GM FINANCE AND HEAD INVESTOR RELATIONS

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Varroc Engineering Limited Q2 and first half FY '19 results Conference Call. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. Varroc Engineering Limited management is being represented by Mr. Tarang Jain – Managing Director along with Mr. Stephane Vedie – President & CEO, VLS Business; Mr. Ashwani Maheshwari, Whole Time Director and CEO, India Business; Mr. T. R. Srinivasan – Group CFO; and Mr. Nitin Kalani – GM Finance and Head Investor Relations.

I now hand the conference over to Mr. Tarang Jain. Thank you and over to you, Sir.

Tarang Jain: Thank you. Good Evening to everyone, I am Tarang Jain here. I would like to thank you for joining the quarterly earnings call of Varroc Engineering Limited. This quarter was characterized by significant developments across the globe with specific impact on the automotive industry. The political uncertainty about Brexit, US-China trade sanctions, and the Euro diesel regulations had a significant impact and the growth was negative in two of the major passenger vehicle markets, which are Europe and China. The changes in vehicle insurance requirements in India also impacted market sentiments. I am pleased to inform you that we have reported another quarter of strong revenue growth in these challenging conditions. The revenue growth for the quarter was healthy at 26.5% year-on-year excluding the impact of IndAS 115 and the discontinued North America interior plastics business. Under the IndAS 115, engineering design and development revenue and costs are to be recognized on a per piece basis over the estimated life of the programs as against the earlier practice of recognizing the revenue at the time of invoicing to customers after receiving approval for the design before start of production. While the reported EBITDA margin was higher than last year, EBITDA margin after adjustment for the impact of above items was an 8.6% as against 8.9% in Quarter-2 FY '18, a marginal decline. The reported EBITDA for Quarter-2 FY '19 was positively impacted by the adoption of IndAS 115 and the lower launch expenses in the current quarter, but was negatively impacted by the cost relating to setting up of new plants in Brazil, Morocco, and initial cost at other locations.

Now, I will go into a little bit of details on the performance during the quarter. On the revenue side, revenue in this quarter on a comparable basis increased to Rs. 29,744 million, a growth of 26.5% year-on-year. The revenue growth was strong across the board with India business growing at 27.4% year-on-year, VLS growing at 24.1% year-on-year and other businesses at 47.4% year-on-year. India business continued to benefit from the strong growth of our largest customer as well as increased share of business with other major OEMs. In our VLS business, revenue on a comparable basis increased by 14.4% in Euro terms. The decline in some of the key OEM markets more than offset by the increase in share of business with certain other key OEMs / markets. Speaking of margins, our reported EBITDA for the quarter was at 3202 million and the EBITDA on a like-for-like basis was at 2545 million, an increase of 21.7% year-on-year. EBITDA of the

India business increased by 32% year-on-year leading to a margin improvement of 40 basis points. The EBITDA of VLS business on a like-for-like basis increased only by 0.6% leading into a contraction in margins by 130 basis points. The VLS margins were impacted by the additional cost of rapid volume ramp up in the Czech operations. EBITDA margins for the other businesses Triom and IMES improved to 11% as against 5% in Quarter-2 FY '18.

Speaking of depreciation and amortization, our depreciation on a year-on-year basis has gone up mainly due to capacity expansion at VLS, Czech facilities and the IndAS 115 impact on the engineering design and development. Full details of the impact of IndAS 115 are explained in our investor presentation for the quarter. On the tax side, the effective tax rate increased in Quarter-2 FY '19 due to higher share of profits from India business as well as the additional tax credits availed in Czech Republic in Quarter-2 FY '18. We expect additional tax credits for our Czech operations during the second half of this year leading to normalization of tax rates. Profit after tax for the quarter stands at Rs. 1009 million as against Rs. 926 million in the corresponding quarter last year, an increase of 9% year-on-year. On the net debt, our net debt at the end of the quarter was at 21,009 million higher than the debt levels at the end of Quarter-2 FY '18, end of FY '18. The net debt went up during the quarter due to borrowing for the Turkey acquisition, front loading of CAPEX in the first half, and normalization of working capital which had gone down significantly towards the end of FY '18.

Other key developments, our Turkey acquisition is progressing well. We have initiated integration of the same with Triom to leverage synergies from these two entities. The Bulgaria plant, part of the Turkey acquisition is likely to start production later this month. Our facility in Morocco which was scheduled to start SOP in April '19 is now likely to start the same in the month of February '19 itself. The Halol facility is now ready and is expected to start production later this month for Hero Motors. With this, I would like to thank you and now we would be happy to take your questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.

Ujwal Shah: Sir, just wanted your thoughts on the vision statement that you had shared in the annual report where you guide for a revenue of $ 200 billion in the next three years - four years as well as in terms of your margin expansion from here on. We know that this new plants have been impacting the margins for a while, so from this point to the levels where the top players are sitting in terms of margins, if you can throw some light, how does Varroc bridge that gap?

Tarang Jain: Last year, we had kind of touched a revenue including the China JV 50%, we had done about 11,000 crores, and you are right that our vision is about 20,000 crores by FY2021. I would like to reiterate that this vision is still intact. Let me say that as you know that we have got two large businesses, one is of course the Varroc Lighting System business and the other is our India

business. The good part is, yes, I can understand that there has been in India okay in the first six months, I think we have probably been meeting our budgets when it comes to revenues, the revenue growth. In VLS, though we have increased our revenues not to the level because I think this situation this year has been a little bit special, has been quite volatile for various reasons which we had not anticipated little earlier like the trace wars or the new diesel homologation, rising oil prices, there are so many issues at the moment, but in spite of that we had grown our revenues. This year also as you know even on a stated basis, our revenues have gone up 24%, which is quite good. In the last five years also, we have been growing at 20% so what is happening is that in both our businesses like in the VLS business what we have done is that traditionally we had customers which were Ford, JLR, Tesla, PSA.

Now, for the last year- and-a-half we have directed our attention more towards VW group and Renault Nissan and Mitsubishi groups are the two largest groups and there we see that we have been winning a lot of business from then last year and this year in fact some of the new plants which are coming up for Brazil and in Brazil and Morocco and other regions will be largely to also cater to these two people and if you see even this year in fact where we are concerned, for the VW and Renault we have anyway increased our volumes in spite of these issues, so being aligned to these bigger players is definitely helping us in revenue growth, so new business wins has been going as planned. We are winning new business even on the VLS side. On the India side, we are kind of already aligned with all the, 90% of business is two wheeler market and this business for us is growing. We are one of the largest players in India on a two wheeler space with Bajaj, with Honda, Hero, Yamaha, Royal Enfield, and now recently even TVS Motors were the only customer we were not supplying to are now also open to buying products from us and with a whole new range of new portfolio including some of the newer products which we are entering into like catalyst for BS VI and the electronic fuel injection systems, which is additional revenue stream for us, also the more penetration of LED lamps, more of electronic instrument clusters, and going forward we are also working on the electric power train, on the motor side and once the EVs also come in to the market, so I think we have a good strategy, we are very sticky when it comes to the two wheeler space in India which is about one-third of our business, 35% of our business, 65% I think aligning with the bigger players in the global market scenario. We are pretty confident, so our target still remains at that 20,000 crores, that is still on and I think we are doing well and this year also we are expecting a good growth in revenues, so to answer your question we are still very confident of achieving that objective.

Ujwal Shah: Sir, on the margin side if you can throw some light?

Tarang Jain: The margin side on the India side if you see the first six months, our margins expanded and there is a lot of work happening on the manufacturing efficiency side, on the purchasing side, and purchase side obviously because when your volumes grow you can get better purchasing efficiencies and of course with revenue growth you obviously are absorbing your fixed cost in a much better way which is the biggest driver of profitability I would say, so that is what is happening

in India. India I think is growing in a certain way. We have already kind of like we have expanded our margins, overall for Quarter-2 we were at about 12.1% EBITDA on the India side and I think it is doing well, kind of going forward I think we hope to kind of continue to do well on the India side.

On the VLS side, yes, we have had some headwinds. One is that though our revenues have grown they should have actually grown even more, but yes there has been headwinds with some of our bigger customers like JLR, JLR especially because of the Brexit issues and also because of the China-US trade wars, China market has actually also gone down, though we have grown with JLR this year but is less than budget and even we have had some headwinds with Ford also and also PSA has been flat for us, but VW and Renault we have grown, so because the revenues have not grown up to expectations that has impacted also our margins to some extent and more importantly to be honest I think the Czech operations where we had a huge buildup of capacity over last year, there we have had some operational issues. These operational issues now I think we have had. From September this year we have seen a lot of improvements in our Czech operation in our biggest plant which is in Moravia region, so we are very confident that we will now start getting better results in the Czech operations which are the biggest operations for us in our VLS business, that is the biggest region we play in today, so we are I mean I can say that we are kind of looking forward to better results going forward even on the VLS side and we are anyway winning a lot of business. On the VLS side, new business wins are still quite intact. We are doing quite well there, yes, on the operational side we have to be more consistent going forward which we are confident of.

Ujwal Shah: Sir, can we assume that 2Q margins the bottom end from here on we would see improvement?

Tarang Jain: Well, yes, I can definitely say that we will do better on the margins going forward in VLS.

Ujwal Shah: In terms of the gap between the top players and us, how do we intend to bridge that gap over the next two to three years if you can share some light on that?

Tarang Jain: Like all our bigger competitors because they have the scale, their margins are better, our scales were lower. Now, if you see this IndAS 115 also with this accounting because the way we were accounting for our engineering cost, we were doing it within a two-year timeframe at a time of SOP of the business, but all our competition whether it is Valeo, Hella whoever is, they do it over the life of the program, which is over may be at least five years, so by following that program today what you see the margins in the books, today if you see our overall margins have grown in VLS also because now after the second quarter if you take the first six months, now we aligned with the global players, so they are also accounting for it. Now, what has happened is that with this accounting change, it has been positive for us fortunately, but going forward it will all normalize, so basically we need volume growth, with new growth and with just stable kind of operational efficiencies, we will see like what is happening in India will also happen in VLS, I am pretty confident of that.

Moderator: Thank you. The next question is from the line of Aditya Jhavar from Investec. Please go ahead.

Aditya Jhavar: If you can give us a split between customer revenue ABC for VLS for the same quarter last year that is Q2 FY '18?

Management: You are talking about which customers?

Aditya Jhavar: The breakup of the top six customer contribution and VLS revenue that we have in the presentation, breakup in the same quarter last year?

Management: Customer A was 24.3% compared to 22.5% this year; customer B last year was 16.5, now it is 22.2; customer C was 15.7 last year, marginally improved to 15.9; customer D was 12% last year, it has gone down to 6.1% this year; customer E which was the fifth customer last year was 8.4, now it is 7.7; and customer F last year was 8.5, now it is 12.5.

Aditya Jhavar: On the margin, your expenditure was pretty good, so what we are trying to understand is that, yes, there was an increase in transportation cost and some scrappage cost, so what would be the factors which would not continue in Q3?

Stephane Vedie: Good Afternoon Gentlemen, about the margin two main things that will help us to show you improvements not only month after month but also quarter after quarter now. First, it is clear for everybody that we are investing in these new capacity because we have won significant incremental business, so this is what is driving the growth of Varroc Lighting System. We are well on target to reach our organic growth target for 2021 and 2022 for VLS, so because of this organic growth we are building this new plant. We are building Morocco, we are building Brazil. What we have done we have accelerated the pace for this new plant, so initially Morocco was supposed to start in April, now we are starting Morocco in February. I was there last week, we are 69 employees right now, we have passed the first quality audit, we are producing the first pieces, now we are in full validation with our first customer.

Brazil, we were supposed to start in March, now we have secured the start of production for January and we are even trying to produce the first part delivered to the customer already in December this year, so this upsides that are adding additional cost that we did not have last year in our P&L and as soon as we are able to start delivering from these new plants, we will benefit from the revenue that they will be generating, so that is one part to improve the margin on the short-term. The second part was already well communicated and commented by Tarang. Basically, we are focusing on our Czech operation mainly the North region plant that is our Number One plant, because of the high amount of launches we had several months to go, we had to also some activities. We add to also some plastic injection, some decorating and also some internal logistic activities, thanks to the efficiency that we have been able to generate now in the last couple of months. We are in a position

to integrate these activities, so we will be able to significantly reduce our cost base, thanks to the reintegration of injection molding but also the integration of this logistic services.

On top of this, we put in place a new leadership in this plant and with their push, we have been able to reduce the labor, the number of direct labor. We have shown a decrease in September, we are showing and confirming another decrease in October. Now in November for the third month in a row, we are showing another decrease, so this is showing you that we are in the right lane and this will translate in better numbers on our bottom line, so this combination of labor reduction, in-sourcing in addition to this cars that has well stabilized is what is showing the stability of the actions that we have put in place and will impact the margin of VLS.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments Advisors. Please go ahead.

Bharat Sheth: Sir, you have explained largely on the margin improvement which we believe that will start reflecting from FY '20 onwards because this continuous setup cost will continue till March '19 and that is one thing, so if my understanding is clear that improvement in EBITDA will be seen from FY '20 onwards?

Tarang Jain: We can see improvements in EBITDA, also in VLS from third quarter onwards, that is what we are saying not from '19 or '20 only. It will start happening because in the last quarter somebody had asked me, yes, till the last quarter we were like kind of really on the process of turning around. In September, we have turned around and now we will see better numbers also from the Czech plant where the major issues were from an operations angle, but yes, there are concerns on the revenue, we are still growing on the revenues so those revenues will be there for us and because of the improvements in the Czech facility, we will see better margins, but yes, one thing is still there that China, the revenues are still lower than budget when it comes in Europe and in China, that is something we do not know because till these trade agreements happened between the US and China that is the major one or till like say between US and Europe also trade agreement needs to happen, so unless some of these trade things kind of materialize, I am not very sure whether we can meet our budgeted volumes even in the third and fourth quarter, but yes there is going to be a sales increase in VLS also. India of course is there and we will see a margin improvement that much we can say from the third quarter onwards.

Bharat Sheth: Apart from now winning the new program, so can you just quantify how much program we won last year and the first half and how do we see that will play out at what timeframe, that is one? Second, what will drive the VLS business apart from the new program organically like adoption of LED and metrics LED in those whole process where we are?

Tarang Jain: I think we have got a very strong position, but I think I will let Stephane explain this point.

Stephane Vedie: About the programs, we launched last year about 140 programs worldwide, that is not the number of programs that was an issue, I think the main issue we had was that we had a significant amount of program that we had launched in the same facility in Czech Republic, so that is why also for us to another facility in Morocco to be able to better balance and better spread the program going forward, it is the right thing to do so that we do not have all the programs starting at the same time in the same geographic location. I think the second part of the question was about margin, so going forward in terms of margin improvement in addition to the short-term activities that we are having and that will impact short-term in the next quarter, our numbers. I think this is something we have commented in the past call and we have made an announcement recently. We have signed a JV agreement for electronics with a company Elba in Romania and it is our target to start producing our own electronics. Today, we have the capacity to fully design electronics, but we also send electronics to EMS company. With this joint venture, we are able to obtain significant portion of the manufacturing, unlike this we are able to generate significant savings. According to the feasibility studies we run, we are able to reduce by 10% the price of electronics compared to external purchase price from our EMS. In addition, this joint-venture will contribute also to the profit of our company, so this is a significant step for us and this will be another step towards improving the profitability on the margin of our business.

Bharat Sheth: Sir, without naming the client name, all European players are also going for EV vehicles, have you got any program from that?

Stephane Vedie: In terms of customer position, this is also something we commented in the past but we are focusing on the specific segment of the industry. We are trying to avoid the segments with lot of technology content, but low volume which is very consuming, draining in terms of engineering resources. We are trying to avoid the segment of very high volume, but no technology content where there is more players and also more pressure on the margin. We are focusing on the segments with volume and technology. A good example are the two main customers that are rising our growth right now, the Volkswagen group and Renault Nissan and Mitsubishi group. This is commented already by Tarang, this is where we are going, this is where we are playing, why. If you take the example of Renault, last year they produced 10.4 million vehicles. They had announced already that by 2021 they would produce 14 million vehicles. They have announced also that every Renault branded vehicle will have full LED headlamps, so this is the kind of customers we want, customers that are going and customers that are putting technology in our products. Also what is coming up, this is a big announcement for us and for industry. The ADB technology, the matrix technology that was only legal in Europe until now is becoming legal also in North America in the US. This is a big news for our industry because we will be able to increase the technology content of the product that we are selling in the US as early as next year, so we have already started with our main customers in North America. Today, we have products with ADB content, ADB technology.

Just few comments to piggyback on what Tarang already mentioned earlier. We had success in the past month to continue to deploy this growth strategy, so we worked again with VW, with Renault

but also in China. In China, we have won significant new businesses with Shanghai Volkswagen, we won new businesses with SVW. This customer were in the past and these are customers that did very well in the same ones wherever want to play. In China, these are customers that are growing, that are leaders in their business, so they bring volumes and they bring technology. Recently as well an important win for us was new launch on the Geely vehicles, so Geely is the fastest growing car manufacturer in China. They are producing their first vehicle in Europe and they have chosen Varroc for their launch with specific technology, very advanced technology that we had patented, that we are the only one able to deliver to the market, so these are good signs that this strategy is working that the customer are receptive to us and they continue to trust us.

Bharat Sheth: If you can throw, currently we do not have any Japanese or Korean player as our customer in VLS, so what are our initiatives to win the program from them?

Stephane Vedie: In Korea, there are two strong lighting companies already, but we are very close with Hyundai right now because what we bring to Hyundai is a footprint that their current supplier do not necessarily have. Right now, with our acquisition in Turkey, we are able to support Hyundai in Turkey. With our positioning in India, especially now in the South in Chennai, we are able to ship of them in the right location in India. With our new plant in Brazil and there are no right now supplier in Brazil, they are forced to import the lighting, so with this new footprint of Varroc or VLS, we are becoming an important potential supplier for Hyundai, so with this we have good momentum and I believe very close we will be able to enter Hyundai.

Bharat Sheth: On this side are we doing any initiatives?

Stephane Vedie: We have done a tech show recently in Hyundai. We have also opened a small office in Korea where we have a representative that is helping us also to make the link and navigate better the Hyundai purchasing organization that we are familiar with, so he is a local guy. He is a former Hyundai key purchasing executive, so he has the right connection as well and he is helping us to develop and grow this momentum.

Tarang Jain: Let me add on the Japanese part, on the Japanese part we already have won a program from Nissan, so that has been a start, the part of Renault-Nissan group, so Nissan we have already won a platform where there are Japanese OEM and also we have had some interest also from some other Japanese OEMs, I will not name them at this point of time and we have also opened a Japan office, so we are looking forward to taking also this, Japanese are also big players in the global market and you are absolutely right that we have to be with the Korean and the Japanese also because they together control at least 20% to 25% of the total car market, so we are taking initiatives both with the Koreans like Stephane said and the Japanese we have already won a program with Nissan and we have got interest also from other Japanese OEMs and that is something we are taking forward and I think our Japanese office will help in this regard, which will open earlier this year.

Bharat Sheth: In your initial remarks you said that we are looking for a electronic fuel injection system as well as catalytic converters, so can you elaborate little more on the opportunity that we are looking?

Tarang Jain: This is for the India business on the two wheeler side, so for two wheeler today we already have huge product range of 16 types of products across our three divisions in India, polymer, electrical, electronic, and metallic. Now, because of the new emission regulations, this gives us opportunity to be also because of the new BS VI from April 1, 2020, this has given us an opportunity to be also a player in some of these high technology items like the electronic fuel injection, which are high cost items with lot of electronics in it and here we have tied up with an Italian company and we have already won a business with one of the large two wheeler OEMs in India. Similarly, in the catalytic front also because for the BS VI, we have also won programs on the BS VI catalyst front, so these are some new products which we have entered which will add to our revenue stream going forward. Today, it is not part of our revenue stream, but going forward these two products will add to our revenue stream.

Bharat Sheth: Sir, now how much CAPEX we plan to have in these three years since we have upfronted the lot of CAPEX and for next two to three years to reach our goal which we are looking for achieve our vision statement?

Tarang Jain: Totally, I think we have budgeted each year not counting any acquisitions, I think it could be anywhere between let us 800 to 1000 crores of CAPEX we would be incurring every year to be able to reach that kind of objective year-on-year which we have and reached our 20,000 crore vision.

Bharat Sheth: What kind of capital output ratio that we look for in these 3000 crores CAPEX?

Tarang Jain: Last year we were 11,000 crores, so we are going to go to 20,000 crores, so you can work it out, so normally we look at a ratio of 1:2.5 to 3, that is the normal ratio on the average we have, so that is what we will be looking to kind of sustain going forward also.

Bharat Sheth: This whole CAPEX will be for setting up the new plant and additional plant?

Tarang Jain: Capacity expansion, new plants these kind of things, also for some new products, also some capacity in the electronics also we are setting up a JV abroad. There will be further electronics because there is more and more electronics in products now, so we are also putting a world-class electronics facility in Chakan in Pune, so all these future things which are coming in, I mean in the global market place of ours and two wheelers.

Bharat Sheth: What kind of debt equity ratio that you will be comfortable going ahead?

Tarang Jain: We will not cross 1:1, today we are about 0.7 and we will not cross 1.

Bharat Sheth: So there is a possibility of further borrowing I mean increasing in one or two years?

Tarang Jain: I am just saying that our borrowings may go up, but our debt to equity ratio will not cross one, we have that fine line, we have those rules in our company that we do not cross those kind of boundaries.

Moderator: Thank you. The next question is from the line of Rakesh Jain from Asit C Meheta. Please go ahead.

Rakesh Jain: Sir, my first question is can you give me the composition in the VLS, what is halogen versus the LED?

Stephane Vedie: I do not know which stand from you are interested, but I can give you some of the main plans for the quarter. For the quarter, it is very significantly divergent, but the penetration of LED continues, we are in the range of 47% of LED penetration for the quarter. There is still a little bit of a HID and the remaining halogen technology, but it varies also between headlamp and rear lamp. Now, in terms of rear lamp technology, we are more than 60% of LED penetration and going forward, every new rear lamp that we are developing has some kind of LED content. I think this is becoming the norm. Very interesting is that for the many driven in Europe by the new emission norm. Every OEM knows he is pushing to have more LED content on the front lighting. By implementing full LED lighting on the front, they are able to get credit of 1 g of CO2 per kilometer which is significant for them because everybody has been struggling in Europe to reach this emission technology, so for example recently, with our customer Ford, we have switched or we are in the process of switching the Fiesta and Focus that are smaller cars, so historically with more halogen content, we are switching to full LED content, so this is a very good opportunity for us and we will start to see this incremental revenue and incremental margin as early as next fiscal year, so we are accelerating this deployment.

Rakesh Jain: What I want to know more is that one of our electric car manufacturer for whom we used to supply model, now they have come with a new model and when we see the production numbers, the earlier model for which we used to supply lighting has been coming down, so what is the kind of scenario out there and are we trying to push in for the new model as well?

Stephane Vedie: I am not sure if you are referring to a specific electric car manufacturer, but the beauty of our product is that it is somewhat same lamp ECE engine, IC, electric engine, hybrid vehicles so we are very flexible compared to the engine technology. We have very good momentum with electric car manufacturers because we have been one of the early suppliers in this field, and usually this electric car manufacturers, they are looking for flexibility for agility in their suppliers. We have been able to meet standards or timing, that is why we are not so common in our industry like launching the new lamp within 12 months, that was kind of a recall that we established with some electric car manufacturers. These guys they do not want to apply the old fashion way of making the cars, they are always trying to find a way to be more efficient to reduce the time to market and

this has been a good score for VLS. We have learned a lot of things by being an important player in this electric car market.

Rakesh Jain: Could you give me the breakup of what was the revenue between electric vehicles and the diesel engine vehicles in VLS?

Stephane Vedie: Last year we had 21% of the electric vehicle lighting market, we had 21% of this market. This was putting us in the Number One, Number Two position, very close to Number One, the Number One has 22%, so we are definitely a leader in the electric lighting vehicle. To answer better to your question in the last quarter my understanding is that electric vehicles were present close to 19% to 20% of our revenue of VLS.

Rakesh Jain: Next is with respect to domestic market in the India business, what has actually happened, which are the particular segments for example polymer or metallic which has grown significantly in this Q2 FY '19?

Tarang Jain: I think we have grown significantly across board because for the reason that 50% of our revenues in India come from Bajaj and with Bajaj as you know across all products we have a significant share of business and they have been pretty aggressive as you know in the marketplace this year, so riding on their back we have grown very well across segments and also with the other customers whether it is with Honda, with Royal Enfield even with Hero and with also the other customers also especially in the first quarter the growth was more, it has slowdown a little bit in the second quarter, but fortunately for us, our major customer has grown much faster than the rest of the players and to grab market share, that has really helped our growth across all segments, across all our divisions, product segments also.

Rakesh Jain: Sir, I remember that in the last call we had mentioned that the margins could improve to 150 BPS by the end of this year 100 to 150 BPS, so would we be able to maintain that kind of target seeing that how the first half has been?

Tarang Jain: If you see the second quarter compared to the last year, we have already achieved that 150 BPS increase because our EBITDA is 12 and last year we were probably at about 10.5% to 10.6% or something as a whole on a full-year basis and this year already the second quarter is we have already achieved 12% EBITDA, so we have already crossed that actually in the second quarter itself and we are hoping that we are able to sustain it till the end of the year and I am talking about the India business now.

Rakesh Jain: On a consolidated business, what would be that?

Tarang Jain: Consolidated I think at the moment like-for-like is 8.9, but on a stated basis compared to the previous year first six months we are ahead kind of thing, but I think going forward for the rest of

the year whatever our budgeted targets are on EBITDA this thing, we will try to see that we are able to achieve it on the EBITDA side.

Rakesh Jain: Sir, just referring to the inorganic growth opportunities, there are very few opportunities which you come across in the lighting market and sometimes the buyer tend to pay a higher price, so you see that there is too much competition and you would be in order to achieve the target would be kind of aggressive in buying the target?

Tarang Jain: I will tell you, to be honest with you, we are not at all keen to buy at these kind of valuations which are there 10 times multiples which are there today as a minimum in the lighting segment and there are very few people who are available for sale kind of thing, so that is not actually our objective to buy something so expensive because then the upside is very limited for us, so unless it is something like in the range of six or seven times multiple it makes no sense to get into an acquisition mode at all. We rather be more aggressive on the organic side, grow organically in a much better way by offering innovative, affordable solutions to our customers, that is our objective. Inorganic will only take place if it is something which is affordable, otherwise we are not in the game for inorganic growth anywhere.

Moderator: Thank you. The next question is from the line of Aditya Jhavar from Investec. Please go ahead.

Aditya Jhavar: Starting with the VLS, what we understand is that we have grown pretty well with JLR in excess of 60% as well as in VW, however, for FCA what we can interpret is that we have reviews of decline by more than 40% on a YOY basis, if you can help us understand what happened in FCA?

Stephane Vedie: With FCA, it is very simple, it is our interior plastic business that we keep referring to in North America was an FCA business, that was the interior, the console for the Dodger van. We decided last year that was rising for us to exit this business and this was on the gap in terms of revenue that you see compared to last year is this specific business, this interior business.

Aditya Jhavar: You know Stephane, adjusted for that would there be a growth in FCA in this quarter?

Stephane Vedie: I do not see a growth with FCA, we have not launched recently any new models with FCA. We have models that have been on the market for a while, so they are stable we do not see a growth, we do not see also decrease, it is a pretty stable customer for us.

Aditya Jhavar: Renault, is it classified in others?

Stephane Vedie: Right now, Renault has been small with us, yes it is inside the others and then you will see them in the next three years being in the top spot of three customers for VLS.

Aditya Jhavar: There is others proportion has also come down, so there is a decline of about four percentage point in Euro terms, has that been a relatively bigger decline because since Renault is growing, will there be other customers which has reported a bigger decline in others?

Stephane Vedie: In others, the impact that we have seen specifically in the last quarter is mainly driven by China. China was volatile the last quarter, we have seen decrease notably from our local customers like Shanghai Ford for example. The good news about China is I think you have all seen this, recently the local Government has decided to give some incentive to the new car buyers to divide by two the tax that you have on new vehicles, so when they have done this in the past we have seen a boost in the new car sales. All the actors in the automotive industry, we are following this very closely and we hope that this time the incentive will work again, so this is not yet official, but we know they are working to make it official in the next week.

Aditya Jhavar: Secondly, moving onto the India business, if you can remind us what is the kind of out of the 16 products that we have, how many we supply to Hero and Honda, any development in first half of this year?

Tarang Jain: With Honda, there has been no increase except for the fact that some of the new products we got into like instrument clusters, we have seen now the volumes coming in this year. Now, presently we are in discussion with three other products with them, like see today we supply about six products to them today to Honda, so we will be discussing three other products with them that is something which I think will take another maybe six to seven months to materialize because this will be post April 2020 when the new norms kick in, so that is something we are in discussion with them. Hopefully, we should see traction at least two or three products by the end of this year. When it comes to Hero, we will be starting the lighting facility for them in Halol this year and this month it starts the production, so that is more about to start with a million sets for vehicle sets for them, so that is after our painting business, this is a second product we have got into them. We are in discussion already for another five or six products with Hero and that is something I think which is close to finalize, a lot of these are close to finalization within the next three to four months, so I think that we will have some wins probably within the next three to four months with Hero.

Aditya Jhavar: Srini, if you can tell us that what would be our potential investment in Romania that Varroc would have to invest?

T. R. Srinivasan: Romania JV, the investment will be in a gradual manner so initially we are envisaging a total investment of 2 million Euros out of which about 70% we will be putting in and JV partners will put in the balance 30% and over the next 12 to 18 months as we step up the capacity in the range of product, investments will go up, but overall we expect about 100% investment in the JV would be around 12 million Euros or thereabouts, out of that 70% will be ours.

Aditya Jhavar: So now we start with 2 million Euros and it will gradually scale up to about 12 million Euros, so 12 million Euros you said till what time?

T. R. Srinivasan: Next 12 to 18 months, up to year-and-a-half depending on how quickly we are able to scale up.

Tarang Jain: We are hoping to start in a year's time, in a year's time we want to start a SOP, but we are just saying on the safe, the total investment is anyway about 12 million, of which 70% is our share which is a part of our CAPEX plan.

Aditya Jhavar: Okay, so this organic CAPEX is about 800 to 1000 includes this amount?

Tarang Jain: Yes.

Moderator: Thank you. The next question is from the line of Vibhuti Jain from Quest Investment Advisors. Please go ahead.

Vibhuti Jain: About the electronic JVs which we were talking about, so if you could tell me what is the share of electronics as a total cost of lighting today?

Stephane Vedie: Electronic if we include also LEDs as part of electronics because they are electronic components, it is coming closer to 40% today of our total purchasing amount. What we call electronic and what the JV will be doing is LED and PCB assembly, so we will take the different electronic components including the LEDs and then assemble them on PCB boards, so this is closer to let us say 15% to 20% of our total purchasing amount.

Vibhuti Jain: You were saying that it will give you 10% cost savings, so does that mean that there will be margin improvement of 2% when the production ramps up, is my understanding correct?

Stephane Vedie: It is 10% cost saving on the electronic purchase and also it is important to have in mind that this JV will also generate some profit, we will also be generating profit to the shareholders, so all the benefit we are expecting from the JV it is a significant impact on our bottom line.

Tarang Jain: Let me add one thing on this, we are not going to be manufacturing all the electronics which we need in-house, we will be only manufacturing about 30% of the requirement. Is that correct, Stephane?

Stephane Vedie: Absolutely Tarang, yes.

Tarang Jain: It is only 30% of the requirement to start with, so it is not on the full electronics and going forward also I mean like our other competition nobody buys 100% in-house, so we will of course increase that percentage going forward what we do in-house, but it will never be 100%, some will buy critical electronics from outside.

Vibhuti Jain: If you could give me the revenue share of the Turkey company which was acquired and the margin share of the Quarter-2 figures?

Tarang Jain: On the average I think revenues are about 2 to 2.5 million Euros, we have to pull out the exact numbers, but it is about 2 to 2.5 million Euros a month we do and the EBITDA there is high in that business, but revenues are at the moment small 8 to 9 million for the quarter was the revenues from Turkey.

Vibhuti Jain: And 18% to 20% margins?

Tarang Jain: Margins we are not supposed to comment, but anyway I think I have let it out.

Vibhuti Jain: About the ADB technology and you have also developed the surface LED technology, have you been able to win any programs for that or is it still under work?

Stephane Vedie: ADB, we have already similar vehicles on the road already with our own ADB technology. For surface LED, we have won our first product already and we are very close to win the second one right now.

Vibhuti Jain: ADB you said that you already have vehicles on road with that technology?

Tarang Jain: Yes. There are different kind of ADB, some low cost ADB. We have LED in some Jaguar and Ford products. Then we have let us say more advanced ADB that we can call metrics, it is also ADB technology and we have several other products with matrix, for example.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Tarang Jain for his closing comments.

Tarang Jain: I just would like to thank all present on the call today and I really Welcome all your questions and we were very happy as a team to answer all your questions. Just want to say one thing that we remain confident of our business both on the VLS side as well as on the India side. Yes, there have been some headwinds in the last four to five months, but that is something we know very well how to negotiate it and anyway we remain committed and we will do our best going forward to say that we are able to deliver on the numbers. Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Varroc Engineering Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.