"Varroc Engineering Limited
Q1 FY27 Post Results Conference Call"
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MODERATOR: **MR. MIHIR VORA – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY27 Varroc Engineering Limited Post Results Conference Call hosted by Equirus Securities. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mihir Vora from Equirus Securities. Thank you, and over to you, sir.

Mihir Vora: Thank you, Atharva. Good evening, everyone. We are pleased to invite you to the Q1 FY27 Post Results Conference Call of Varroc Engineering. The management team will be represented by Mr. Tarang Jain, Chairman and Managing Director Mr. Arjun Jain, Whole Time Director and CEO, Business Unit I; Mr. Dhruv Jain, Whole-Time Director and CEO, Business Unit II; Mr. Mahendra Kumar, Group CFO; Mr. Bikash Dugar, Head IR; and Vishal Raval, Head Finance Controller.

So without further ado, I now hand over the call to Bikash for the disclaimer. Bikash, over to you.

Bikash Dugar: Yes. Thank you, Mihir. Thank you, Equirus, for hosting the call. Just a small disclaimer that today's discussion may include statements which may constitute forward-looking statements or statements that address expectation or projection about the future, including, but not limited to statement about the strategy for growth, business development, market position, expenditures and financial results are forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events and involve known and unknown risks, uncertainties and other factors. The actual results, performance or achievement could differ materially from those spoken in any such forward-looking statements. No obligation is assumed by the company on forward-looking statement.

With this, I hand over the call to our Chairman, Mr. Tarang Jain.

Tarang Jain: Thank you, Bikash, and thank you, Mihir and team Equirus for hosting the call. I am Tarang Jain here, and good evening to everyone. India's economy has remained resilient in quarter 1 of FY27, April to June 2026, supported by a strong domestic consumption, improving rural demand, healthy infrastructure spending and accommodative financing conditions.

These macroeconomic tailwinds translated into one of the strongest quarters for the Indian automotive sector with passenger vehicle sales reaching record levels and broad-based growth across 2-wheelers, commercial vehicles, tractors and exports. Improved affordability, rising consumer confidence, robust freight activity and accelerating EV adoption supported demand, while rural recovery particularly benefited 2-wheelers and farm equipment.

For the auto component industry, the positive environment led to the higher production schedules, improved capacity utilization and stronger opportunities in electronics, EV systems, lighting and advanced vehicle technologies. Despite the ongoing risk from commodity price volatility and global geopolitical uncertainties, the overall outlook for financial year '27 remains positive with India continuing to be one of the faster-growing automotive markets globally.

In quarter 1 of financial year '27, we saw strong growth across all the automotive segments on a year-on-year basis. On a year-on-year basis, 2-wheelers grew by 22.8%, 3-wheelers grew by 39.1%, passenger vehicles grew by 16.8% and commercial vehicles grew by 15.2%. The EV 2-wheeler volume on a year-on-year basis grew by 91%.

Despite seasonality effect on a quarter-on-quarter basis, we still saw a growth on 2- and 3-wheelers -- and 2-wheelers grew by 2.7%, 3-wheelers grew by 3.4%, passenger vehicles degrew by 7.5% and commercial vehicles degrew by 16.9%.

In quarter 1 of financial year '27, the company registered a very strong growth of 29.9% and the consolidated revenue reported is INR26.3 billion. The growth was supported by both India operations, which saw a growth of 28.6% and also overseas revenue growth. The momentum of growth in the overseas business, which started in quarter 4 of financial year '26 and gathered further pace in quarter 1 of financial year '27, registering a 45.6% growth on a year-on-year basis. As emphasized in our last earnings call, our foremost priority remains accelerating revenue growth across both India and the international markets.

Our EBITDA for the quarter was around 8.5% as compared to 9.5% during the similar period last year. Our PBT before joint venture and exceptional items for quarter 1 FY27 came in at 4.3% of revenue, an improvement of 20 basis points on a year-on-year basis. The profitability in this quarter was adversely impacted by higher commodity prices due to war-related costs, higher tooling sales and the business mix.

Despite that, the Indian operations reported a 10.6% EBITDA margin and around a 7% PBT margin. The revenue from supplying to electric vehicles in this quarter was around 15.8% of revenue and grew by 87% on a year-on-year basis.

In the overseas electronics and lighting business, we have further won some business, notably for our lighting operations in Thailand. Sequentially, the losses from the overseas operations as well as from overseas R&D is reducing.

We hope to maintain this momentum of increasing revenue and hence, the profitability here. We continue to invest not only in technology, but also in people and strengthening our capability. Recently, we have appointed Mr. Eric Hammond as a Chief Technology Officer for our Business Unit 1. He comes in with 25 years of global automotive technology and engineering leadership experience with deep expertise in electrification, software-defined vehicles, connected systems, embedded software, functional safety and cybersecurity.

He has successfully led large-scale global R&D organizations, developed next-generation mobility technologies and partnered with leading automotive OEMs to deliver innovative and safety critical solutions.

As emphasized earlier, in India, we continue to leverage our strong customer relationships, technology capabilities and expanding product portfolio to capitalize on opportunities emerging from electrification and the premiumization trends. In our overseas markets, we are strengthening our presence through deeper customer engagement, enhanced engineering capabilities and focused business wins, positioning ourselves as a reliable global partner.

In quarter 1 of financial year '27, our net new business wins with an annualized peak revenues of INR5,991 million. The net debt of the company in quarter 1 of FY financial year '27 is INR5,268 million, which is an increase of INR316 million from the last quarter, mainly due to the increase in net working capital of INR441 million due to higher revenues.

The net debt to equity is very comfortable at 0.28. The average ROCE of the company is around 24% in quarter 1 of financial year '27. In this volatile new normal environment, we continue to strengthen our company for long-term growth and performance by taking appropriate decisions and meticulously executing them. Our endeavor remains to improve the contribution margin, control the fixed costs, generate free cash flow and improve on the return on capital from all the business segments in which we operate.

With this, I will now ask MK, our Group CFO, to walk you through the presentation and give more insights into the financial performance. We have uploaded the investor presentation to the stock exchanges as well as on the website. Over to you.

Mahendra Kumar: Thank you. Good evening, everyone. Let me take you to Slide number 7 in the presentation, which is on the highlights for Q1. As our CMD explained, Q1 revenue was at INR2,634 crores, which meant a growth of almost 30% year-over-year. But out of this, if you eliminate the inflation-related impact, it could be a 4% difference.

Within this 30%, Indian operations registered close to 29% growth and overseas operations by a growth of close to 46%. Now you may recollect that last quarter, Q4 also, we registered significant growth in the overseas operations. So that is continuing now also. So more than the percentage, it's the direction which is important here. And then revenue from EV models in Q1 was at 16% of total revenue, which again was a phenomenal growth of 87% year-over-year.

Coming to PBT during Q1, it was at 4.3% versus 4.1% shown last year. EBITDA came in at 8.5% compared to 9.5% last year, but this was largely impacted by the war-related impact. Basically, the war-related impact at EBITDA level was totally coming to about 0.75%. This has 2 parts actually. The genuine under recovery impacted us to the extent of 0.5%.

The remaining 0.25% at EBITDA level or PBT level was driven more by the numerator denominator effect. Then coming to net debt. Net debt was at INR527 crores compared to INR495 crores. This was largely because of the front-loading of capex, which we explained in the previous calls also. Regarding the order wins, in terms of net new business annual peak revenue, it was close to INR600 crores.

The prominent wins were relating to the 4-wheeler lighting business win for our Thailand operations from a prominent customer. We also restated the e-mobility volumes in India based on the recent trends. So that also increased the overall peak revenue potential.

Another significant improvement in terms of the capital efficiency metrics is relating to ROCE, ROE and of course, the EPS improvement also. So, if you take out the exceptional items in Q1 of last year, which was basically relating to the accounting adjustment which we had to do after the exit from China JV. If you compare the ROCE last year, same time, we were at 23.6%. It went up to 24.6% now. A significant improvement in return on equity also from 11% to 16.4% this time.

And in terms of EPS also, last time, it was INR11.5 on an annualized basis, which is now INR20.3 on an annualized basis. So that's a significant improvement compared to last time. Coming to the other points, of course, the patents filed continues to be strong at 135-plus patents. Going to Slide number 8 is about the industry performance. As all of you know, automotive industry continued the good run.

It started during the GST simplification exercise. So in Q1 also, the 2-wheeler grew by almost 23%, 3-wheeler by 39%, passenger vehicle by 17% and commercial vehicle by 15%. All these are year-over-year growth numbers. Within this EV 2-wheeler volume registered a growth of 91% year-over-year. And on a sequential quarter-on-quarter basis, 2-wheeler had a marginal growth of 2.7% and 3-wheeler by 3.4%.

Passenger vehicle had a degrowth of close to 7.5%. Going to the next slide, Slide number 9. So basically, EBITDA came in at 8.5% versus 9.5% last year. If you compare with the previous quarter also, it was 9.7%, now it is 8.5%. But if you really look at the reasons for this, we also had a significant tooling sale in Q1 at a lower margin, which is more like a significant one-timer.

Of course, there will be some tooling sales every quarter to a small extent, but this was a large number. So that impacted close to 0.8%. And other major reason was the related inflationary impact, which I spoke about. So that was about 0.8%. So that was the performance during this quarter.

And if you really look at PAT, if you take out the exceptional items in Q1, it is almost a 70% growth year-over-year in Q1. The next slide, we updated this information where you can see what happened in terms of geographical segmentation, India and overseas. India, if you really see, like 29% year-over-year growth and 10% sequential growth.

In terms of EBITDA also year-over-year growth was 22% and PBT was 41%. Overseas business also, we can see a continuing improving trend from the earlier quarters. The last box relates to the R&D investment, which we started largely from Q2 of last year. That's why it was significantly lower in Q1 of last year. But here again, we see improvement compared to the previous quarter.

Coming to the next slide, which is about reduction in net debt. There was a marginal increase in net debt this quarter compared to the March end -- March end number. But like I explained, this was largely driven by the capex front loading, which this year is going to be a capex heavy year as we explained in the previous calls also. This is needed to support the growth. But even with this increase also the net debt to equity was below 0.3, at 0.28 and net debt to EBITDA was below 0.6.

The next slide is about the revenue breakdown and the customer breakdown, which is more for information. Slide number 13, we again gave the order book status. So we started with INR3,509 crores at the beginning of the year. Current quarter, we added close to INR600 crores. Out of that, close to INR500 crores has been taken to start of production already.

All this is in terms of annual peak revenue potential, not actual numbers for this year. So in terms of mix also, if you really see the Bajaj -- non-Bajaj mix shows -- a Bajaj mix of 58% in the annual peak revenue 75%.

So let me stop here. I'll be happy to take your questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question comes from the line of Shubham from Investec.

Shubham: Congrats on great set of numbers. First question, you had reported an order win of about INR600 crores this quarter. Can you please provide the split between the 4-wheeler lighting order and the e-mobility one?

Arjun Jain: Yes. So the bulk is e-mobility, which is a -- which is a volume expansion on our existing running programs. So I would imagine, I think two-third is e-mobility. And then the balance is a combination of 4-wheeler lighting. I would say the most significant portion of the balance is the 4-wheeler lighting business win. And then I would say different smaller business wins across product groups.

Shubham: And for your overseas order book, now there has been some reports of expected delay in launches by some overseas OEMs. So do you foresee a situation wherein you would face a delay in your order book execution?

Dhruv Jain: Just to answer this question, so we have reported some wins in past quarters, and it's really across multiple customers and multiple programs. So just to answer your question, our main message so far has been that we will be continuing to increase our revenue in our overseas locations. This will certainly still take place because we are not dependent on any one customer here.

Shubham: Also for your traction motor business, you had earlier indicated that you are in advanced discussions with an OEM other than Bajaj. When should we expect that order win to flow in?

Arjun Jain: So we've already announced one business win, which we will SOP begin immediately, I would imagine, in fact, in quarter 2. And then there is 2 further customers where I would say we are in fairly advanced discussion, where also I would expect SOPs to take place in this financial year.

Shubham: And also, so given the strong demand momentum that we are seeing across the automotive industry and more for the EV industry where we have a much higher content, how should we think about growth for Bajaj for the domestic business for this year, if you can put a number around it?

Arjun Jain: Honestly, it's difficult to -- I think it's difficult to predict a forward number, especially if we're talking about forward number for one particular customer. But of course, if EV penetration continues to grow at the rate at which it has been growing, I would definitely imagine that our e-mobility business would gain further significance in our overall revenue.

And hence, as a natural result of that, Bajaj would also become more salient than it is today in the overall revenue. But having said that, from an EV perspective, like we've just talked about, there is further customers also that we expect will come on board.

Shubham: Also, last one on margins. You mentioned about 50 bps of under recovery this quarter. Now how much of that you expect to recover from your customers going ahead? And how should we think about margins for the full year?

Mahendra Kumar: Yes. So the efforts are already underway. So we should be getting it between this quarter and next quarter, most of it.

Moderator: The next question comes from the line of Arvind Sharma from Citigroup.

Arvind Sharma: The first question, which you again indicated already is on the e-mobility segment. Based on the order book that you have, how sustainable do you think the growth is because this quarter was a very strong quarter?

Arjun Jain: So I would say it's -- the order book is fundamentally strong, right? We are a primary supplier to essentially the market leader when you combine 2-wheeler and 3-wheeler. So from that perspective, I think growth fundamentally depends also on EV penetration, which is something that we see gaining momentum.

Further to that, like we talked about, we have incremental customer gains also, which, in my mind, coupled with the fact that the content in an EV that we have is so high, I would imagine that, that growth really continues to take place.

Tarang Jain: And just to add to that, see, looking at the situation globally now due to this Iran war, we do see a very positive, maybe you can call it structurally a shift also in the consumer mindset to move towards EVs at least in the 2 and 3-wheeler space. And of course, the moment -- I mean, you see the main volumes are today more in the scooter segment, which is 20% to 30% of the market.

But now we're looking at OEMs also looking at motorcycles now. So going forward, we do expect that even the motorcycle segment will see EV penetration as we move forward. And we being one of the very significant players in this EV powertrain segment, I think we stand to gain from it going forward.

Arvind Sharma: Sir, the other question would be on the electronics Romania segment. You've given a separate slide on it. Could you please share the key customer segment? And we don't have a previous quarter or previous period revenue. How is the revenue trending there? What are the key drivers? Electronics Romania segment.

Bikash Dugar: Yes. So Bikash this side, Arvind. So earlier, our Romania location used to support was the captive for lighting business. So that was clubbed under the lighting revenue. But now since we are doing more related to E/E architecture, so that's why -- and the business which we have won is towards those only. So that's why we have segregated that. And the growth in that Romania business is going to grow. So because of that, we are showing that separately now.

Arvind Sharma: Who would be the key customers out there?

Dhruv Jain: So maybe I'll try to answer this one. So basically, our Romania electronics plant is focused on passenger vehicle electronics. And as Bikash mentioned, the focus is on a variety of low voltage and high-voltage electronics, and we've already announced some order wins in past quarters, and we believe this will continue.

Arvind Sharma: I have a very small data query. When I look at the revenue breakdown that you have in Slide 13, I believe the overseas forging, which is 3.3%, that is a part of the ICE powertrain business when we move down and you have the actual numbers?

Bikash Dugar: Yes. That's right. That's correct.

Moderator: The next question comes from the line of Rahul Kumar from Vaikarya Fund.

Rahul Kumar: You briefly discussed about this, but can you tell us the progress on the top 3 EV player discussion?

Arjun Jain: So, I would say there is a top 3 in 2-wheeler and also the top 3 in 3-wheeler. So today, we are essentially engaged in terms of business relationship with each of the 3, right? We've also been able to win business not necessarily for e-powertrain, but for other product lines with another one of these top 3 players.

So really, I think across the board, I think the engagement with the market leaders here has been extremely strong, and we expect that, that will convert into more significant revenue, like I said, through the financial year.

Rahul Kumar: Now actually, I meant -- I think in the last con call, actually, we had discussed about the progress on the 2-wheeler EV side for the EV powertrain products. So on that, we had mentioned that we are in advanced stage with one of the top 3. So do we understand that we are now in discussion with both the top 3 players?

Arjun Jain: Yes. So again, I will repeat, right? With one of them, we are in discussion for the e-powertrain. With another one of them, we've already won business for another technology product, which we have declared in Q1.

Rahul Kumar: And the SOP, which is starting in Q2, this is with another EV player, right? Am I right in understanding?

Arjun Jain: Yes. But it's another EV player with investment from an extremely significant global OEM.

Rahul Kumar: Second question is on the overseas actually. I think there was one project which is expected to start from H2 of this fiscal. So are we on track for that? And given the second question is on the overseas again, given the robust business we have done so far, the progress which we have done. So do we expect the breakeven for the overseas earlier versus the previous guidance of Q4?

Mahendra Kumar: So maybe just to clarify the second question. So the second question, I believe that our message stays the same. So we are not changing our message from the past. And regarding the first question in terms of the launch that you're mentioning in midyear this year. So we've already had a few new launches this year in our Romania electronics location.

I believe that's the one that you are referring to. And this is also why we have seen an increase in revenue quarter-on-quarter in our business overseas. And this will continue to increase in subsequent quarters. So basically, it's progressing well.

Moderator: The next question comes from the line of Siddhant Dand from Goodwill.

Siddhant Dand: Our largest customer has taken over a global OEM KTM. So is there any potential for business over there that we have gotten any inquiries?

Arjun Jain: Yes, of course. So we already do -- even prior to this, we did a fair amount of direct business with KTM. And post this, I would say, more complete takeover, there is incremental opportunities that arise in line with the strategy that Bajaj Auto follows with KTM now. So yes, there's definitely a couple of immediate opportunities, and we hope over time, this translates to more.

Siddhant Dand: Could you quantify them or too early?

Arjun Jain: It's too early to quantify because-- it's too early to quantify because KTM is a brand with a very high SKU mix, right? So you go at this really step by step in terms of how you grow in there.

Moderator: The next question comes from the line of Naman Maheshwari from Shanghvi Family Office.

Naman Maheshwari: Congrats on a very robust set of numbers, and I hope this trend continues sustainably. Just 2 quick questions more from a forward-looking point of view. We onboard Mr. Eric. So now how does the strategy change with him coming on Board? Are there some new avenues that we are looking to come in basically into e-powertrain or would it focus more on ADAS?

And if you could throw some light that what sort of a market are we trying to chase and how to look at customer wins happen? I know it's not going to happen overnight, but how do you see that from a structural point of view for the company? I think it's a very important and a very good appointment. So how does it move the needle or help. So that's one question.

Arjun Jain: Yes. So I would say the strategy does not necessarily change. I think Eric comes on board and I think really complements with his experience, the path that we have set out for ourselves. Eric has a vast experience with e-powertrain, and this is also where when it comes to 2 and 3-wheeler EV, I would say really we are e-powertrain market leader.

So from that perspective, I think strengthening our position in this core segment, which as we see also is an extremely high-growth segment, I would say, is a critical priority. Of course, as a part of the road map, we look to expand this capability into other market segments. And I would say Eric would definitely -- Eric definitely comes with the experience to really lend to that.

So whether it is in terms of addressing higher voltage systems, whether it is in terms of addressing, let's say, really more X-in-1 kind of concepts, we believe this is where the market is moving towards. We believe we have the core capabilities required to execute it. And I think with Eric, I think we also achieved the experience of having seen and done that. So yes, like you, we are also very excited by the appointment. So yes.

Naman Maheshwari: And sir, just one more part on the order wins, right? We see a good traction coming on. So how do we look at new engagements that are taking place, right? There are some new OEMs which have set up their shop in India in the EV system like VinFast and everyone. So do you see that incrementally we can get in that supply chain also and we are also having a very large expansion plan so we could be part of it. So just wanted some thoughts on that?

Arjun Jain: Yes, of course. And with, let's say, the customers you name and also the customers you allude to, we're already engaged, and we would expect to see some action in those spaces.

Moderator: The next question comes from the line of Jyoti Singh from Haitong.

Jyoti Singh: Congrats on the beat on the revenue side. So first question on the revenue as well, like it's nearly 2x that we have delivered and we have guided mid- to high teens for '27. So this is the first quarter we have delivered this kind of growth. So what kind of expectation we can build going forward?

Tarang Jain: I think that this year seems to be very strong for us. And though we have grown 30% this quarter, we do believe that probably for the whole year, we could be achieving about at least between a 20% to 25% growth in this financial year, looking at how things are moving at the moment. So that would be our expectation because the second half last year was fairly good. So considering that, I think 20% to 25% would be the right level of growth we would be achieving this year.

Mahendra Kumar: We don't take it as a guidance, but it's more like our ambition.

Jyoti Singh: And sir, also, like earlier participant was asking a question around VinFast and other player. So can you guide us any new client that we have in panel or any other that it is in the pipeline so that we are seeing the visibility for even FY28?

Arjun Jain: I think especially in any new customer engagement, I think we generally cannot talk about that before there is actual certification of SOP. But having said that, right, I think it is clear there is entrants. It is clear there are people entering the market. It is clear also that existing incumbents in the market are looking to build more vehicles also for export. So wherever those opportunities are, we will look to participate.

Tarang Jain: And we've already won some business from new customers also in this year. But the thing is that we cannot disclose the names at the moment. But we are engaged. And definitely, one of the objectives is to get in new customers also, not just rely on existing customers who are very important to us. But yes, we are expanding our customer base also in India as well as abroad.

Jyoti Singh: So sir, going forward, we are targeting diversification of the customer and some certain percentage that we are targeting from each customer or Bajaj will be continue a major customer for Varroc?

Arjun Jain: And we said this before, but I would say our path is not necessarily a customer diversification strategy. I think our path forward is really a product line -- a product line and competence-driven strategy. So there is clear product lines where we look to drive growth and where we look to drive focus. And as those materialize, I think it really depends on how the end customers also perform in the market, which determines the customer mix for us.

Tarang Jain: Yes. But the point here is that like we have said before that the Bajaj Auto continues to remain a very important customer for us and will be always. But having said that, I think we are actually kind of also kind of growing with quite a few other customers. So going forward, you will see that increased revenues coming in from many other customers also, not just from Bajaj.

Jyoti Singh: And sir, just last question on the order book side, like this time, we have a major win around 70% -- 72% from the EV side versus ICE was 28%. So we are going to see this kind of revenue shift on the segmental side keep getting like I understand we are 95% powertrain agnostic. So we are seeing much demand from the EV side and as well as on ICE or how it is going on?

Arjun Jain: So I think there's a few different questions in there. Firstly, I would say we are not 95% powertrain agnostic. In fact, I would say where we're I think only around 70% powertrain agnostic. The balance comes from our ICE powertrain, e-powertrain business.

But yes, I think like we said earlier also during this call, we expect the balance to move more towards EV product, really driven by the fact that EV penetration is increasing, right? So this does not mean that ICE is declining in absolute terms, but it means that in terms of the percentage of our growth, we would expect more to come from.

Moderator: The next question comes from the line of Ankur Poddar from Svan Investments.

Ankur Poddar: Congrats on a good set of numbers. My question is regarding our overseas business. Firstly, can you let us throw some light on how the order wins do we see going forward? And secondly is on our margins, we see that the losses have come down. So by when do we expect to breakeven in terms of EBITDA as well as on PBT? And what do we see steady-state margins going forward?

Mahendra Kumar: Yes. So to the first question regarding what we're projecting in the future as order wins -- so I'll just say again that when it comes to the past year, I believe we have mentioned certain significant order wins. And certainly, we are expecting to see this also in the future. So in subsequent quarters, we believe we will be mentioning certain significant order wins, both in the electronics as well as in the lighting space overseas.

Yes. So as far as the margins are concerned, previously also, we explained in 2-wheeler, we already make money. We are on the positive side already, 2-wheeler overseas. Only in Romania, we have been having challenges. So earlier also, we explained that by end of this year or by Q4.

In Romania, we will reach EBITDA breakeven. Coming to the overall guidance, we generally go by PBT targets. Our long-term strategy is to take it to 10% PBT in the next 3 to 4 years.

Moderator: The next question comes from the line of Mihir Vora from Equirus Securities.

Mihir Vora: So sir, my question was basically on the EV powertrain products. Here, if you see the revenue grew around 56%-odd on a year-on-year basis. But if you see the industry volume growth has been in the range of 80% to 90%-odd kind of range. So sir, just breaking it into what kind of ASP decline are we seeing because of the sales increasing and throw some light here whether what is happening in terms of volume growth and ASP growth.

Arjun Jain: Yes. So I would say -- I would say a couple of things here. I think, one, definitely, I think ASPs have declined. But I would say this is really driven by improvement in the product composition. Honestly, I don't know the exact number on the top of my head versus the comparable period, but I would imagine maybe high single-digit kind of decline in ASPs.

The second topic also that we have here is especially through the early part of the quarter due to labor challenges, both in our own plants and also in our -- and also in our supply chain, we were definitely challenged for April and also maybe a little bit of May, but that is now really fully recovered. So I think that has also probably contributed -- that has also probably contributed a slightly lower number over there.

Mihir Vora: And just a follow-up here, sir, that going ahead, we know EV volumes are expected to grow at a good 30%, 35% kind of a CAGR for next 5 years. But here, given the volumes increasing, what kind of ASP because of product engineering or because OEMs also will be pressurizing you in terms of reducing the cost or some sort of stuff.

So, in terms of this, what could be a sort of a trajectory year wherein I definitely think revenue growth will not align with the volumes, but some color on how the OEM contracts happen or in terms of the costing of the product?

Arjun Jain: I mean, you ask me, I don't think OEMs anymore are really insecure about what is the cost of their product. I think there's a fair amount of work that has gone in over the last 5 years to really bring product to a far more cost optimal level.

Now of course, there will be -- there is always scope for improvement and opportunities for improvement, and I think that will continue to happen. But I don't expect -- I mean, I wouldn't expect some very material change in terms of what -- when I say material, I mean, I wouldn't expect double-digit changes in ASPs that will take place.

In fact, I think potentially the opportunity for us is really comes through, let's say, more integration of components into smaller boxes. And that's actually an ASP increase opportunity. So I think the end answer will be a balance in between both somewhere. So I don't -- so to cut it short, there's a few different trends running, but I wouldn't expect significant ASP decreases taking place.

Mihir Vora: Sir, lastly, given the speed at which the electric vehicle growth is increasing right now, so what would be the capex strategy here? Are we increasing the allocation here, some color on that?

Arjun Jain: Yes. So this year, we will definitely see significant -- this year, we will definitely see higher capex expenditure than what we've seen over the last 2, 3 years. And a large portion of that is, yes, in terms of our e-mobility capacity expansion and also capacity expansion to service the EV models that we are supplying to even with our engine-agnostic product.

Mahendra Kumar: And that's the reason we front-loaded also the capex.

Mihir Vora: All right. So can you quantify the capex guidance for this year and next year?

Mahendra Kumar: It will be INR500 crores to INR550 crores in that range. This includes both India and overseas.

Moderator: The next question comes from the line of Aditya Jhawar from Investec.

Aditya Jhawar: Congrats on great set of numbers. My first question is on our customer split. So while we understand that Bajaj volume has grown the content in Bajaj has also grown for us. How should we assess our progress in other OEMs? In the past, you had mentioned that there is a possibility of further acquisition of land to support Japanese OEM and South India OEM. How should we assess our progress both in ICE as well as EV powertrain products in non-Bajaj?

Arjun Jain: So there is definitely -- I think if you look at the progression of our order book, there is definitely a very large amount of outside of Bajaj Auto business wins that have taken place. And even today, we see -- I think also given the fact that the market is growing, even today, we see significant demand for product lines across our product categories taking place outside of Bajaj Auto as well.

Having said that, I would definitely say given the content we have in EVs and given the fact that we are a primary source at Bajaj Auto for EV and the growth rate of EV. I would expect that the absolute revenue there also would continue to grow and grow fairly quickly. So where we end up as a percentage, honestly hard to predict past a point. But yes, I would -- I mean, the expectation is that we grow whether with Bajaj Auto, whether outside of Bajaj Auto.

Aditya Jhawar: But if you can help us understand that the number of products you are supplying to Japanese OEM and there the share of business of went from A to B. Some quantification and is there a necessity of setting up a manufacturing facility in Southern India for supporting these. So any quantification you can do in terms of number of products or how we have grown in few OEMs, whether Japanese or the South India or the new OEMs that we have entered, some quantification would be helpful as well?

Arjun Jain: I think the simplest quantification I could probably give you right now is in terms of maybe what we've done in Q1, right, where if we look at our India business, we've grown, let's say, I think, 30% and we've seen the phenomenal growth in e-mobility, but I would not say that our customer mix percentage has really changed too dramatically, right? So I think the easiest way to put it is we're growing fast, but we're growing fast in Bajaj Auto, but also outside of Bajaj Auto.

Aditya Jhawar: My second question is on margin. Now when we look at EV business. Now it has come to a scale where possibly we can assume or you can correct me that the margin could be sustainable. So how different are EV margins versus ICE margin? And considering you have a strong line of sight with the customers considering the pricing dynamics that are expected to play out when customers come down the pricing curve on EV, how should we expect the margin trajectory to change?

Arjun Jain: So again, I would say from a pricing and margin standpoint, right, I think the right metric to look at is not necessarily EBITDA because EBITDA even within different product lines we do for ICE is very different based on the capital intensity of the product, right? But really, I would say at a PBT level, I would imagine today, ICE is really EV to be comparable because ultimately, again, we've talked about this before, but ultimately, pricing even for an EV needs to be sustainable and OEMs recognize that because otherwise, how do you drive capacity increases in a growing market.

Aditya Jhawar: Final question for Tarang. Tarang, looking at our balance sheet has significantly improved over a period of time. Now clearly, possibly we can become net cash next year. So keeping that in backdrop, are we considering expanding into new growth avenues, looking at inorganic opportunities? What are the areas that we are considering to expand inorganically?

Tarang Jain: See, inorganically, honestly, we would be more keen on either it could be electronics or e-powertrain, these areas and also in the area of aftermarket. Aftermarket also, we are experiencing a strong growth. So -- and I would say more on the 4-wheeler or the exports front. So aftermarket, we are more keen over there if we get an opportunity with the right company.

And otherwise, we are very keen, of course, of any acquisition opportunity or a joint venture where it comes to e-powertrain or the kind of electronics where -- which could be for e-power -- it could be e-electronics or it could be also other electronics where we are playing even for the ICE engine.

So it all depends where there could be some customer acquisition also. And yes, exports focus is definitely there. When we're making an acquisition, we should be able to get also into some export markets. So this would be critical for us. But that is only -- I mean, that's something we are very open to whether JVs in India or it could be some acquisitions where there's an export opportunity in these areas.

But what we see also is a lot of opportunities on organic growth, whether it's in India or our plants abroad. So we'll be focusing on because nowadays it's pretty expensive also to go in for acquisitions. It's pretty expensive. But you're already looking at a 20%, 25% growth organically, then we have to like see whether inorganic makes sense. So we'll have to weigh have a balancing approach.

We'll only go for something inorganic, which makes some sense financially where we can see that exponentially grow that already existing business to a good level. So unless that is there, we will not go into any inorganic. Organic, definitely, there is a strong focus to grow strongly year-on-year.

Aditya Jhawar: Yes. And largely, acquisitions would be in India?

Tarang Jain: Yes, yes. We are interested largely in acquisitions in India.

Aditya Jhawar: Yes. Final question to MK. Sir, you used to give us some PBT margin kind of a number that we can expect by end of the year. Any sense you can give on that front?

Mahendra Kumar: Yes, we don't give that kind of guidance, but we have this medium term to medium-term target of touching 10% soon. So that one holds good. You can extrapolate based on the current performance.

Aditya Jhawar: Sure. medium term would be 2 years.

Moderator: The next question comes from the line of Neha Garg from Zenflow Finance.

Neha Garg: Sir, my question is on the working capital, you have mentioned that it has increased. So has there any change in the receivable days from OEM customers or it's mainly from the inventory side?

Mahendra Kumar: Yes. there is no change receivable days. Yes, inventory went up to some extent, largely in preparation to the peak season, which is coming up. Second thing is the war-related recoveries, which we just spoke about. So they need to be now converted into invoices and they need to be collected. So it's a temporary increase which we see because of that.

Neha Garg: And sir, earlier you have guided that the company is going to achieve a zero debt in FY28. I mean so with the debt increase, so is the target being still -- I mean, can you see that it will still be pulled a little?

Mahendra Kumar: We'll stay with that for now. But yes, we will always try to do it as soon as possible.

Neha Garg: And sir, can you please just specify what -- I mean, if you can -- how much like INR360 crores that you have spent so far. So can you just split -- where have you spent like new capacities or any new EV lines? Can you specify.

Mahendra Kumar: INR350 crores, you're talking about last year?

Neha Garg: No, the debt that has been increased due to capex, INR316 crores.

Mahendra Kumar: No, no, no. Yes, it's not entirely because of capex spending. So capex during quarter 1 was about INR160 crores. Most of it went into the capacity increases. Moreover, the debt increase is INR 316 million and not Crore.

Moderator: The next question comes from the line of Apurva Mehta from AM Investment.

Apurva Mehta: Congratulations on a good set of numbers. Just wanted to know your next 2, 3 years of overseas, how do you make overseas turnover? And can you just split the margins of how can the margins directionally be in Romania kind of thing and the 2-wheeler, which we are profitable, but on the Thailand 4-wheeler lighting.

And where do we see this journey happening in next 2, 3 years? What kind of orders we are bidding are larger orders we are bidding going ahead or just we can get some sense how big this overseas business can become?

Dhruv Jain: Yes. So I'll try to answer your question. So if you compare to last year, we believe that this year, the -- our revenue in the overseas business can and I'm sure I'm referring to the overseas electronics and lighting business. This can be double. So this is something that we can say.

In terms of, let's say, if you talk about, let's say, margins, here, I believe our CFO already mentioned that in 3 to 4 years, yes, we are targeting also to get to a 10% PBT number in our overseas business. So that's what we can say as of right now. In terms of what our strategy is for overseas, here, of course, the focus is on electronics, particularly on the passenger vehicle side. And also on lighting, this will be both for passenger car as well as for 2-wheelers.

And where we're expecting the biggest growth is going to be when it comes to passenger car electronics and passenger car lighting. When in terms of why do we feel this will happen, it's mainly because in passenger car electronics today, there is a big change in the evolution in the electronics architecture.

There's a lot more electronic content in vehicles, both when it comes to high-voltage parts more to do with the of course, the electric powertrain or low-voltage parts such as body controllers, ADAS, infotainment, etc. This is a space that we are trying to play in. We've already announced certain large orders in past quarters, and we believe this will continue.

We're not giving you an exact number right now in terms of how big this business can become in the next 3 to 4 years. But certainly, we're expecting to grow significantly compared to where we are today.

Apurva Mehta: But what kind of aspiration we have by FY30 this number can be can be close to INR3,000 crores, INR4,000 crores kind of thing or just a ballpark number?

Mahendra Kumar: I think our CMD also explained earlier that by FY31, our intention is to double our overall revenue to INR20,000 crores from around INR10,000 crores that we do this year.

Apurva Mehta: Yes. But in that overseas would be how much.

Mahendra Kumar: Yes, I'm coming to that. 20% would be overseas, 80% would be India.

Apurva Mehta: And this quarter, we had tooling revenues, what's the revenue of tooling revenues this quarter?

Mahendra Kumar: About INR70 crores.

Apurva Mehta: And that impacted 0.8% of your margins?

Mahendra Kumar: Correct.

Apurva Mehta: That means it's how does it mean 0.8% is that there is a loss on the sting revenues?

Mahendra Kumar: No, no, no. 0.8% on the overall impact. compared to the normal business, there is a significant lower margin, which we may come to because this is basically to generate revenue in the future. So these are like onetime things which come every now and then in 1 or 2 quarters.

Apurva Mehta: But ballpark, the 12% margin, which normally we do in the India business is likely that Q2, we can see that coming?

Mahendra Kumar: Yes, it has basically a couple of parts. The one-timers like tools and all, of course, should not come to this extent in the subsequent quarters or at least in Q2. But there are things like the inflation recovery, which is more like an arithmetical impact because the same number goes up in numerator and denominator. So to recover that this advantage, it may take maybe 1 or 2 quarters. But otherwise, the other impacts, we should be able to see a recovery in Q2, most of it in Q2.

Apurva Mehta: Sir, one request is there, why can't we provide a breakup of number of clients which we are only showing Bajaj and rest of Bajaj. Is there anything which is most of the auto ancillary if you see, they would be showing us the kind of client breakup there. And this would help us to know that how the pie is moving. This becomes very difficult for us to judge that where the pie is moving, which client we are concentrating, which client we are gaining market share or something like that. It would be really helpful?

Mahendra Kumar: We'll look into that.

Moderator: The next question comes from the line of Naman Maheshwari from Shanghvi Family Office.

Naman Maheshwari: The balance sheet was -- the annual report was very well articulated, right? It definitely gives a direction of INR20,000 crores ballpark revenue right in FY31. That number just wanted clarification that is solely based on the current product profile and the organic business growth, correct? Any inorganic would be on top of this? Is that the right understanding?

Mahendra Kumar: No, there will be about maybe 10% of that, which will come from inorganic route also. And maybe something from non-auto.

Naman Maheshwari: So if I understand, just join the connect the dots together. So 10% PBT at a INR20,000 crores revenue FY31 is probably the management vision to grow, right? In a nutshell. And we'll invest for preparing for FY31 revenue, the order book has to get built probably say by FY28, FY29, right? Is that the right understanding?

A large extent. So that means that we are working in that direction to fill up the order book and we are that close to the customers that we will be able to fill up and deliver on this guidance. So in a nutshell, what I'm trying to imply is that there is a very solid customer relationship that's getting built right now, and we are getting the right traction from the targeted clientele. Is that the right implication of all of these things?

Mahendra Kumar: Yes, that's true, but it also includes the organic growth on the existing business also.

Moderator: The next question comes from the line of Rahul Kumar from Vaikarya Fund.

Rahul Kumar: Just data question, out of this EV revenue of 16%, which we have disclosed, how much is that from Bajaj and how much is that non-Bajaj. And what was it last quarter?

Arjun Jain: Yes. So I would imagine 3 quarters would be from Bajaj Auto. And honestly, last quarter, I will not know at the top of my head, but I would imagine a similar-ish kind of pattern, right, a few percentage points here.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments. Thank you, and over to you. Yes.

Tarang Jain: Thank you, everyone. I would like to again reiterate that the journey ahead is filled with opportunity backed by strong capabilities, strategic clarity and the passion of our people. We are confident of achieving our aspirations while creating lasting value for every stakeholder associated with Varroc. Thanks again for joining the call and for your continuing support.

Moderator: Thank you. On behalf of Equirus Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.