

STOP@NOTHING

ANNUAL REPORT 2020-21



What's Inside

Corporate Profile

- 02 Corporate Identity
- 04 Product Portfolio
- 06 Presence
- 08 Business Model
- 10 Key performance indicators
- 12 Chairman & Managing Director's perspective
- 14 Combating COVID-19
- 16 Operating landscape
- 18 Why Stop@Nothing
 - Expanding into high-growth Passenger Vehicle lighting markets
 - Capitalising on opportunities through strategic expansions
 - Enhancing technology and R&D capabilities
 - Nurturing and growing our businesses strategically
 - Increasing revenue in the Indian business
- 28 Governance
- 30 Risk Management
- 32 Health, Safety and Environment
- 34 Corporate social responsibility
- 36 Awards and Accolades

38 Statutory Report

- 38 Management Discussion and Analysis
- 46 Board's Report
- 82 Corporate Governance Report

108 Financial Statements

300 Notice

Key highlights of FY2021

Financial

₹113,028 mn Revenue

₹5,239 mn EBITDA

₹3,535 mn Cash profit

Operational

₹24,837 mn New order wins in a challenging external environment

Environmental

18.97 mn MW Units of power generated through renewable sources

STOP@NOTHING

The global automotive industry was undergoing a paradigm shift when a once-in-a-century pandemic emerged to effect a tectonic shift in the way of life for people worldwide. Lockdowns were imposed with severe restrictions on mobility and physical proximity, bringing economic activities to a near standstill and putting individual and business resilience to test.

At Varroc, we not only managed to navigate these extraordinary times by relying on the inherent strengths of our business model, but also have positioned ourselves favourably to shift gears for the next leg of our growth journey. In the past three years, we have added significant capacity to drive rapid revenue growth and expanded our product portfolio to capture the emerging trends in EV transition, emission norms and integration of lighting with electronics.

Our strong in-house technology and R&D capabilities are a result of our relentless focus on bringing the most technologically advanced solutions to the mass market. We are further sharpening our innovation focus to improve wallet share and further diversify our customer base while improving capacity utilisation and operational efficiency to drive up margins.

Inspired by the collective efforts of our people and other stakeholders, we continued to make progress on our social and environmental commitments while providing world-class services to our customers and supporting our suppliers in their time of need. As the world leaves the pandemic behind and looks for innovative, safe and environment-friendly mobility solutions for the future, we are ready to go full throttle in the auto component supply chain.

Corporate Identity

Innovation@Work

Varroc Engineering Limited (Varroc) is a global tier-I automotive component manufacturer. We are engaged in the design, manufacture and supply of exterior lighting systems, polymer components, electrical-electronic components, and precision metallic components to OEMs globally across vehicle segments – passenger, commercial, two-wheelers, three-wheelers and off-highway vehicles.

OUR ETHOS

Our thought foundation

SHIPS

- **Sincerity**
to speak and act from the heart
- **Humility**
to walk with everyone
- **Integrity**
to do what is right
- **Passion**
to go the distance against all odds
- **Self-Discipline**
to make it happen

Vision@Change

To be a leading supplier of innovative solutions for transportation and allied industries

Core business sectors to be exterior lighting and two-wheelers mobility

To be a partner of choice for vision, mobility and emission technologies

To be the fastest growing player in our core sectors

To be in leadership positions in both our core business sectors

Mission@Change

To bring leading-edge technologies to the mainstream markets with high quality and cost competitive solutions:

By delivering customised solutions with superior services

With speed, agility and creativity

And fostering an environment that empowers employees and encourages the pursuit of excellence



Extensive manufacturing footprint

Our manufacturing facilities are strategically located near major automotive markets across India, Europe, North America and China. We have recently expanded our manufacturing footprint into Brazil, Morocco, Poland and Turkey. This extensive presence enables us to stay closer to our customers and address their evolving needs while keeping costs low.

43

Total manufacturing units

Diversified product portfolio

Our wide and diverse portfolio of products acts as a one-stop destination for our customers while providing us cross-selling and up-selling opportunities across lighting, polymers, metallic and electrical segments.

162

Patents held globally (as on March 31, 2021)

Long-standing customer relationships

We work with our customers on value engineering projects for product cost optimisation, maintaining complete transparency in sharing the results. Further, we engage with our key customers on specifications for new product development, which enables us to co-create our innovation roadmap. The result of our customer-centricity is that we have never lost a major customer.

R&D focus

Our strong R&D emphasis since inception has enabled us to stay ahead of the curve in making advanced technology accessible to larger mass markets. We are leveraging our in-house capabilities that have been built over the years to develop products and solutions tailored to the evolving trends in the global automotive industry such as emission norms, autonomous driving, electrification and connectivity, among others.

1,106

R&D engineers (as on December 31, 2021)



World-class quality

Our products are known worldwide for their best-in-class quality, which has been the biggest catalyst of our growth story. We perform stringent quality checks to ensure that our products not only set industry benchmarks, but also exceed customer expectations.

6th largest

Global exterior automotive lighting manufacturer by market share in 2020

(Source: Yole)

2nd largest

Indian auto component group in 2020 (by consolidated revenue excluding TVS Motors Limited)

(Source: CRISIL Research)

Our brand spirit

At Varroc, our beliefs translate into actions that help us win over customers and define us as a brand. These are the dimensions that aid us achieve our end goal of excellence:

- Speed in adapting to customers' needs. We aim at being the first to come up with the best solutions in automotive components and systems
- Bringing new solutions to the market first. We make it a point to introduce the latest technology in automotive components and systems
- Consistently finding opportunities and fulfilling unmet needs. Across the automotive industry, we keep an eye out for new challenges and breakthroughs
- Nurturing a high-performance values-based culture. With a focused team and a culture that rewards performance, we push the bar for ourselves everyday
- First time right development. We aim at making every attempt count. We approach every new challenge with an accelerated learning curve so that we can get it right the first time, every time

132nd

Rank in 2020 Fortune India 500 list

130 bps

Increase in the global PV exterior lighting market share between 2016 and 2020, in a declining industry

Top 3

Among the Independent exterior lighting players in 2020 by market share

(Source: Yole)

Product Portfolio

Excellence across vehicle segments

VLS

PV & Global 2W/ Small Lighting

Global supplier of exterior lighting systems for passenger car OEMs of PV & Global 2W/ Small Lighting



Head Lamps

- Laser
- Xenon
- LED with AFS

Rear Lamps

- LED
- Light Guides

CHMSL

Fog Lamps

VARROC'S INDIA BUSINESS

Polymer

Offers polymer product solutions to the 2W OEMs with a Pan-India presence



- Air Filter Assemblies
- Mirror Assemblies
- Seat Assemblies
- Trims (Interior & Door)
- Painted Plastic Exterior Products

Electrical & Electronics

Offers complete solutions in electrical-electronics components, assemblies for automotive applications



- Body switches & CDI
- Speedometer
- Digital Instrument Cluster
- Battery Management System Offerings
- DC DC Converter



- Magneto
- Electronic Fuel Injection
- Regulator Rectifiers
- Traction Motor & Controller
- Onboard Charger

Metallic

- Supplies precision forged & machined parts for engines and transmissions
- Supplies engines valves in domestic and international markets



- Transmission Gears
- Crankshaft
- Connecting Rod
- Sun & Planetary Gears
- Engine Valves
- Crankpins

OTHER

IMES

Manufactures hot steel forged parts for the construction and oil & gas industries



- Undercarriage Links
- Drill bit cones & heads
- Undercarriage Segments

Manufacturing Facilities

Global PV lighting
12 Operating facilities Czech(2), China (2), India (2)*, Mexico, Morocco, Turkey, Poland, Brazil and Romania

Global 2W Lighting
3 Facilities - Italy, Romania and Vietnam

Manufacturing Facilities*

14 Facilities - India

Manufacturing Facilities*

8 Facilities - India

*One facility included in Polymer which is common for Polymer, Electrical and Metallic division

Manufacturing Facilities*

4 Facilities - India

Manufacturing Facilities

2 Facilities - Italy

Presence

Global footprint

43

Operating global manufacturing facilities

17 Global Business Manufacturing Facilities

across 12 countries
(Including 2 in India) optimising production and distribution for VLS and IMES business supported by 11 R&D centers

26 India Business Manufacturing Facilities

Co-location with customers ensures cost effectiveness and efficient delivery Manufacturing facilities supported by 4 R&D centers

15

R&D centres

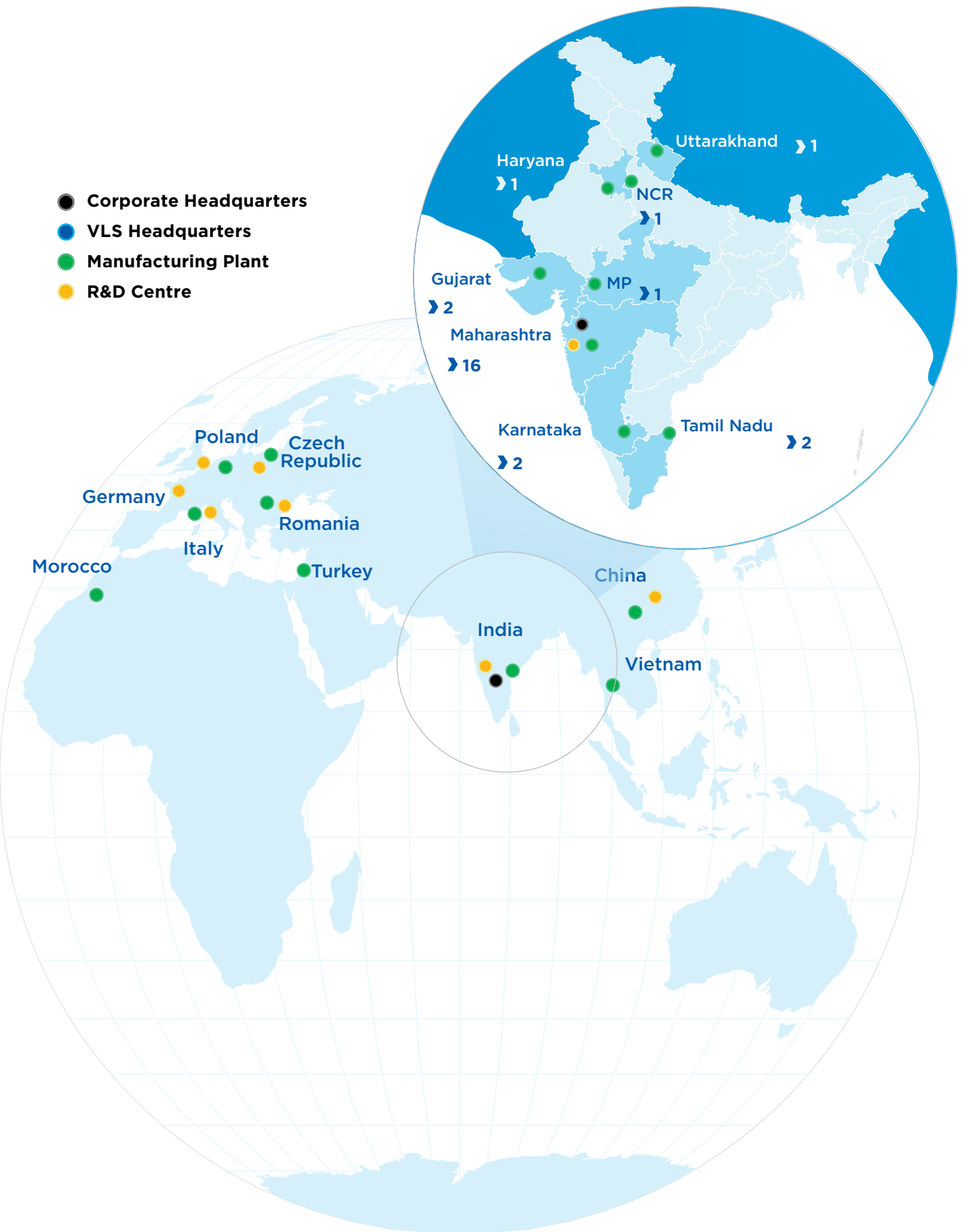
68%

Share of revenue from international sales

32%

Share of revenue from Indian business

Maps not drawn to scale



Business Model

Value creation model

Our core values are our biggest growth enabler

Sincerity

Humility

Integrity

Passion

Self Discipline

Our capabilities

Manufacture excellence

Our state-of-the-art integrated manufacturing facilities are equipped with world-class machinery, ensuring advanced quality products.

43

Global manufacturing facilities

Financial prudence

Investment in R&D and manufacturing facilities enables us to expand our product portfolio, technical capabilities and geographic reach.

₹30,561 mn

Net worth

Technology

We focus on technology innovation and engineering excellence, prioritising and investing in next generation research and development programmes to deliver competitive solutions to meet our current and future customers' needs.

15

R&D centres

Qualified professionals

We have the best talent pool at our disposal, who have years of industry experience and are competent.

13,586

Total employees

Marketing

Our innovative marketing initiatives enables us to seamlessly connect with our customers.

Diversified product portfolio

We provide innovative end-to-end solutions for automotive OEMs through a wide range of products across lighting, polymers, metallic and electrical segments.

Relationships

Strong relationships with regulators and automobile authorities across all our markets, and successful collaborations with industry partners, enable us to achieve our growth objectives.

Our offerings



INDIA BUSINESS

Polymers/Plastics, Electrical/Electronic, Metallic components and Telematics solutions

GLOBAL BUSINESS

Design, manufacture, and supply of exterior lighting for passenger vehicles



Creating value for stakeholders



Customers

Value to customers by providing high-quality solutions



Employees

A safe, rewarding and inspiring place for employees to work in and develop their careers



Supply chain

Partnership opportunities for suppliers and subcontractors to contribute to, and share in, our success



Community

Improving the quality of lives; leadership in commitment to social and environmental sustainability



Shareholders

Enhancing value for our shareholders

Outcomes

₹113,028 mn

Revenue

Improved

Product portfolio

Launched

BS-VI and EV products in India

Expanding customer base

Our India business now caters to customers accounting for >95% of the 2W OEMs, after the addition of TVS

162

Patents granted globally

₹44.44 mn

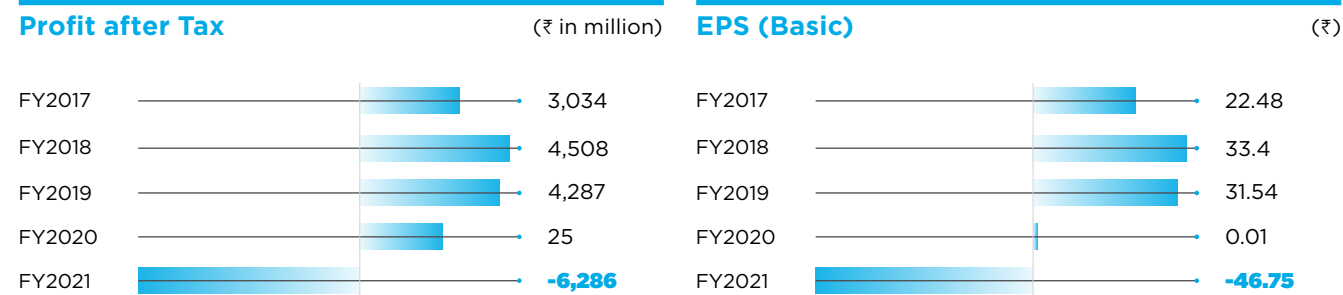
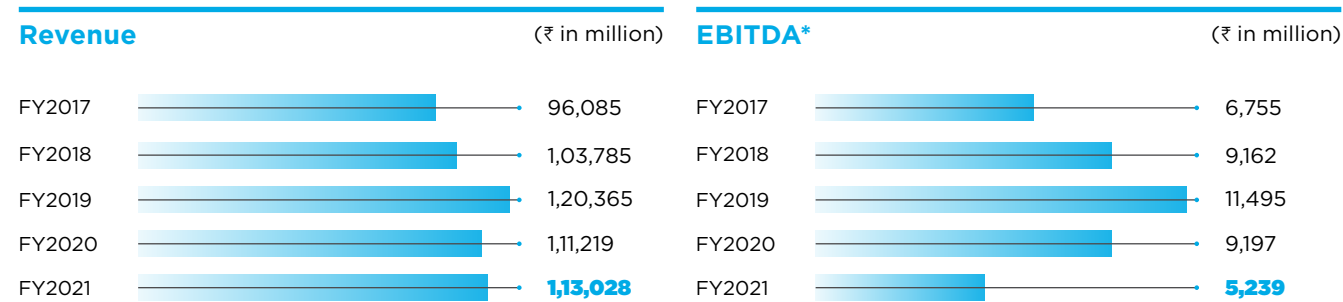
Spent on CSR activities

Key Performance Indicators

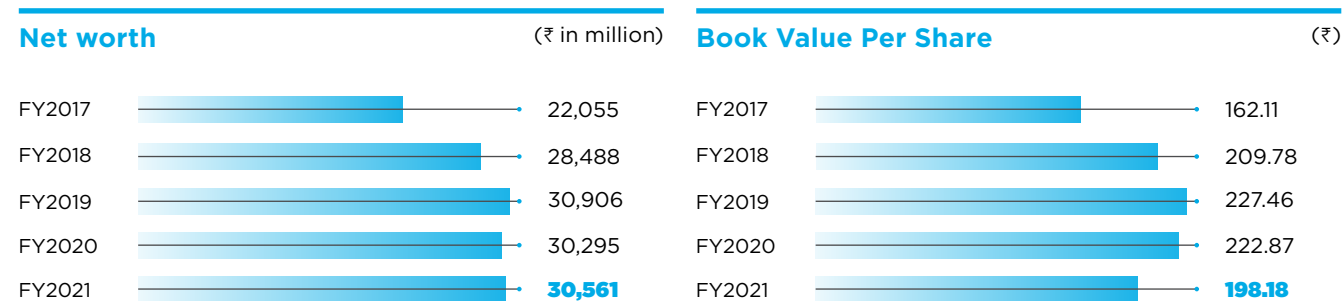
Cruising at steady speed



Profit and Loss Metrics



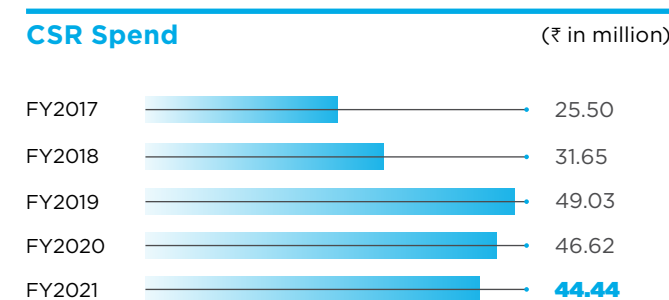
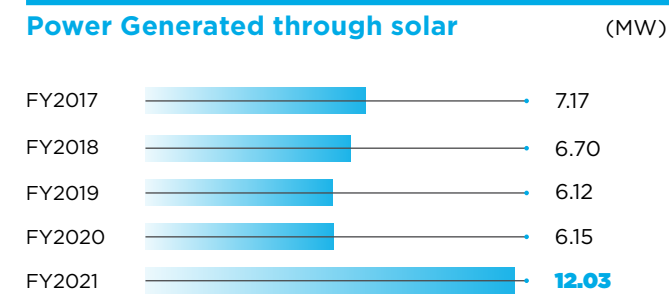
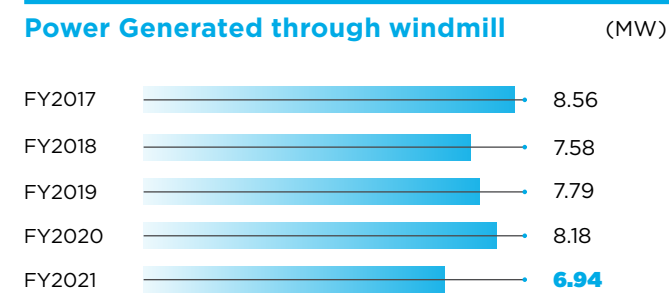
Balance Sheet Metrics



*EBITDA = Profit/(loss) before share of net profit/(loss) of investments accounted for using equity method, tax and exceptional items + Finance costs + Depreciation and Amortisation expenses



Sustainability Metrics



Key highlights of FY2021

Raised ₹6,992 million through Qualified Institutional Placement of Equity Shares
During Q4 FY2021, we raised ₹6,992 million through QIP of Equity Shares, at an issue price of ₹389 per share. The proceeds were utilised to meet the minimum public shareholding criteria. The proceeds were brought in the Company by the promoters for repaying ₹890 million of borrowings of the Group, and the balance will be used for business purposes in the future.

Acquired balance stake in Romanian Electronics JV
In December 2020, we acquired the balance 30% stake held by our Joint Venture partner, ELBA SA, Romania in Varroc Lighting Systems Electronics Romania SA (formerly Varroc - ELBA Electronics S.R.L), engaged in the manufacturing and sale of electronics lighting solutions.

Chairman & Managing Director's Perspective

Geared for the future

Dear Shareholders,

The world is going through a major health crisis and a resultant economic slowdown. As we were preparing to leave the pandemic behind, a more intense second wave led to renewed lockdowns, albeit impacts were mostly localised. We had to close our plants during the initial part of the year, and continued to face supply chain issues such as semiconductor shortages especially in the fourth quarter. During these testing times, we focused primarily on protecting our employees, customers and our business operations while extending support to other stakeholders such as suppliers and community to tide over the crisis.

That said, the automotive industry is going through rapid changes, with growing demand for personal mobility solutions that are safe and environment friendly, connected, autonomous and electric. These evolving trends present us significant opportunities, and we are well poised to capitalise on them with our extensive manufacturing footprint globally and strong innovation focus.

Performance review

In 2020, the global automotive production fell sharply, by 15.8% Y-o-Y, with the major auto markets of Europe, North America and China declining by 21.6%, 20.5% and 2.0%, respectively. The Indian automobile industry

saw negative growth across all vehicle segments with 2W industry registering a 12.8% Y-o-Y decline in production volumes. The 3W segment reported a 46.1% decline in the overall production volume during FY2021.

Against this extremely challenging backdrop, we reported a 1.63% Y-o-Y increase in revenue to ₹1,13,027 million in FY2021, despite Q1 being a washout quarter. Growth was mainly driven by higher rural demand in India and VLS. Our newly commissioned VLS plants also contributed to growth. Our India business witnessed a 4.3% Y-o-Y decline in revenue, offset by the lighting business (VLS) with a 5.3% increase.

We saw a strong recovery in two-wheeler and passenger vehicle sales in India. The global (ex. China) passenger vehicle volumes could not sustain its recovery owing due to semi-conductor shortages. As the current demand for chips is continuing

to outstrip supply, suppliers are adding capacities. This additional capacity is expected to come on stream in the second half of FY2022.

I am happy to inform you that in FY2021 our India business was able to secure overall net business wins of ₹13 billion equivalent annual revenue and almost ₹11 billion of these orders were new business wins. These orders include our new technology-driven products for EV, such as DC to DC converters, battery management systems and telematics – a sizeable portion came from a new customer, both in two wheelers and passenger vehicles. Our VLS business was able to secure orders worth €210 million, including new business wins of €162 million.

Equity fund raise to meet the Minimum Public Shareholding (MPS) requirements

In Q4 FY2021, we raised ₹6,992 million through a Qualified Institutional Placement (QIP) of Equity Shares, which validates the confidence of our investors

in Varroc's business model and growth prospects. We used a part of the net issue proceeds to pay down our borrowings.

Looking ahead

We continue to believe that the business in India will recover strongly as we come out of the second wave. In our global lighting business, the semiconductor issues are impacting our Europe and North America volumes. We are currently focusing on cost optimisation, positive free cashflow and debt reduction. Also, we are working to control our capex and working capital.

We recognise that there are several structural improvements required in our Lighting Systems business to achieve sustained profitability. We have launched an Integrated Turnaround Program (Project RACE) for VLS business, in Europe. This exercise will start with a comprehensive performance improvement plan for the business over the short to medium term. We expect the benefits of this programme to be visible within the next 12 to 18 months.

We intend to continue to improve our manufacturing processes and systems, as well as invest in new technology areas to further expand our business. Our goal is to bring leading technologies to the mainstream markets with high-quality, cost-competitive solutions.

I express my sincerest gratitude to our customers, employees, bankers and investors for their trust on our abilities even during an exceptionally difficult year. I look forward to your continued support.

Yours sincerely,

TARANG JAIN
Chairman & Managing Director

We are currently focusing on cost optimisation, positive free cashflow and debt reduction. Also, we are working to control our capex and working capital.



Against this extremely challenging backdrop, we reported a 1.63% Y-o-Y increase in revenue to ₹1,13,027 million in FY2021, despite Q1 being a washout quarter. Growth was mainly driven by higher rural demand in India and VLS. ”

Combating COVID-19

Adversity strengthens resilience

The onset of the pandemic took a toll on the entire operating landscape. It was imperative to evolve with speed to ensure business continuity as all our manufacturing plants had to be shut down.

To combat this unforeseen crisis, we were propelled to introduce a virtual workspace and reconstruct sections of the office to implement the necessary safety measures. Our proactive measures ensured that we were able to become a COVID-ready organisation.

Health of our employees

We provided a long medical docket, wherein all the necessary health regulations were mentioned to all our employees across all our plants. Besides this, considering the shortage of masks, we delivered trailered masks to all the workers in our plants. We also introduced a homeopathy dosage programme, which ensured the necessary medical immunity for all our employees as well as contractual labourers.

As a precautionary measure, we replaced our fingerprint-recognition systems with face-recognition systems for attendance monitoring; also oxygen, pulse rates and temperature of every employee is being monitored twice a day. We also had social-distancing regulatory marks made throughout all our plants and all the goods dispatched from our plants went through multiple rounds of sanitisation.



Seamless transition to work-from-home

Being an auto-engineering and manufacturing Company, we had envisaged the requirement of a work-from-home model. However, to cope with the challenges posed by the pandemic, we had to take adequate measures to ensure that we seamlessly transitioned into the new normal. We delivered computers to all our R&D team members to ensure that they were able to carry out their work without any hindrance. In addition to this, we enabled VPN access on every system to ensure that our employees always had access to the organisation's data. To mitigate the risk of data breach, we invested and improved our cyber security system as well.

Learning and development

At Varroc, the learning never stops. We continued with our comprehensive learning and development programmes virtually; we organised >40 virtual modules and imparted >11,500 hours of training during the year under review. Our quarterly townhalls were also organised virtually to ensure individual engagement with organisational goals.

>40

Virtual modules organised, FY2021

>11,500

Training hours, FY2021



Operating Landscape

Opportunities open up growth avenues

The Indian automotive industry is one of the biggest growth propellers of the economy and provides employment to ~37 million individuals directly or indirectly. The automotive industry was already undergoing a period of recession since the second half of 2018, mainly due to a culmination of factors like muted consumer sentiment due to the economic slowdown, the transformation towards BS-VI norms and the aftermath of the trade wars between the USA, China and the European Union, among others, which was further aggravated with the outbreak of the novel coronavirus.

18,615,588

Total automobiles sold in FY2021 in India

21,545,551

Total automobiles sold in FY2020 in India

Emerging trends

EV adoption

One of the biggest trends in the automotive industry is the global shift towards electric vehicles (EVs), catalysed by favourable government incentives, enforcement of stricter emission targets and the launch of new EV models. The electric vehicle market volume is projected to grow at a CAGR of 35.1% between 2020 and 2026.

(Source: CRISIL)



Rising connectivity in vehicles

Connectivity in vehicles is still in a nascent stage, but the entry of global OEMs in the Indian automobile market has catalysed this process. Consumers can access internet and share data with other devices, both inside and outside the connected vehicle.

Introduction of scrappage policy

The recently launched scrappage policy in annual budget will play a vital role in the recovery of the automobile sector in the post-COVID world. Under this policy, customers will be entitled to incentives to purchase new vehicles in exchange for scrapping their old vehicles. This initiative is projected to be a significant growth driver for automobile sales in India over the foreseeable future.

Other trends

Emerging trends like car subscription models, data monetisation and shared mobility is also projected to drive the demand for automobiles over the foreseeable future.

TRENDS@VARROC

For us, innovation is the ability to see change as an opportunity, not a threat.



GREENER



SAFER



SMARTER



CONNECTED

PERFORM@CHANGE