Midas
Equities and Research

Varroc Engineering Ltd

Q2FY27 Result Update

05 Nov 2026

- ✓ Revenue grew 33.6% Y-o-Y to Rs. 2,947.9 cr, led by 130% Y-o-Y growth in EV revenue; EBITDA margin stood at 8.7% (-47 bps Y-o-Y).
- ✓ H1FY27 net new business wins of Rs. 1,013 cr annualised peak revenue (48% EV); overseas EBITDA near breakeven at -Rs. 0.5 cr.
- ✓ Management reiterated FY27 capex of Rs. 500–550 cr and its internal FY27 order-win target of Rs. 2,500 cr+; net debt stood at Rs. 555 cr.
- ✓ Expect H2FY27E to outperform H1FY27. Estimates remain broadly unchanged (FY27E/FY28E Adj. PAT: -0.4%/-0.5%); valuation multiple retained at 25x FY28E P/E.
- ✓ Maintain BUY with a TP of Rs. 1,083 (39% upside); governance concerns (qualified audit opinions, contested DTA, and factoring) remain key monitorables.

Rating	1Y Target Price	CMP
BUY Maintained	Rs. 1,083 Revised from Rs. 1,089 (-0.6%)	Rs. 779 1Y Upside: 39% | 18.1x FY28E P/E

Estimate Update: FY27E Revenue Rs. 11,308 cr (0.0%) | FY27E Adj PAT Rs. 420 cr (-0.4%) | FY28E Revenue Rs. 12,953 cr (0.0%) | FY28E Adj PAT Rs. 658 cr (-0.5%) | Midas valuation multiple maintained at 25x FY28E P/E.

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Spark Result Update Reports – Rebooted!

Outlining the framework from our desk

In our new, rejuvenated approach to publishing fundamental research ideas, we aim to balance a traditional, time-tested framework with a contemporary and, hopefully, refreshing approach to stock-picking. Accordingly, our Result Update reports will be presented in four sections: **(1) Business Assessment Scores, (2) Valuation Framework, (3) Decision Tree, and (4) Stock Buzz & Influencing Factors.**

This report is underpinned by three key beliefs: (1) business assessment should be separated from valuation frameworks, enabling equity research to calibrate the mix objectively when making stock calls; (2) the decision tree we publish makes this process simple and objective, highlighting the three major factors that underpin our recommendation; and (3) reactions to "buzz" and other factors that influence price action must be identified and given due regard when timing stock calls, particularly in the current environment, where information flow is incessant.

Business Assessment Scores

To address the question of whether a company's business can emerge as a long-term winner, we draw on Porter's Five Forces framework to examine key aspects such as revenue models, pricing risks, market positioning, and competitive moats. Our financial analysis and estimates are anchored in our assessment of both the company's current performance and its long-term potential. To ensure that this assessment remains objective and not influenced by subjective judgment, we employ a scoring model that captures the key drivers of business quality across five composite vectors. The resulting scores form the basis of our call on the business.

Valuation Framework

We have often observed how markets can make target multiples appear like the proverbial rabbits out of a hat. To avoid the temptation of retrospectively justifying valuations alongside the broader market, we returned to first principles while designing our Valuation Framework. Anchored in market, peer, and historical absolute benchmarks, our valuation scores incorporate Economic Value Added, return profiles, growth prospects, and leadership positions, mapped against relevant valuation multiples. Ultimately, the central question remains: given everything we know about the business, markets, and peers, does the current pricing appear attractive? This question forms the bedrock of stock-picking in equity research.

Stock Buzz & Influencing Factors

The **Buzz Chart** & Liquidity Chart track stock-specific news flow, events, and market activity to help identify **periods of elevated attention or sentiment shifts,** complementing fundamental and valuation analysis.

Decision tree

A schematic view of what we hinge our stock recommendation on. In our opinion a discerning investor identifies essence of our pitch from a limited, but reasonably exhaustive bunch of factors that can be organized as branches of a tree. The decision tree we publish makes that process simple and objective, highlighting the 3 major factors that underpin our recommendation.

Source: Company, Midas Research

Q2FY27 Results Summary (consolidated)

(In Rs. cr)

Description	Q2FY27	Q1FY27	Q2FY26	Q-o-Q	Y-o-Y	Midas Est.	Beat/Miss
Net Sales	**2,947.9**	**2,634.2**	**2,207.3**	**11.9%**	**33.6%**	**2,827.0**	**4.3%**
RM Cost	1,956.5	1,717.8	1,421.0	13.9%	37.7%		
Gross Profit	**991.5**	**916.5**	**786.3**	**8.2%**	**26.1%**		
Gross Margin	**33.6%**	**34.8%**	**35.6%**	**-116 bps**	**-199 bps**		
Other Expenses	464.7	427.1	333.9	8.8%	39.2%		
Employee Cost	269.6	267.5	249.5	0.8%	8.1%		
EBITDA	**257.1**	**221.9**	**203.0**	**15.9%**	**26.7%**	**263.4**	**-2.4%**
EBITDA Margin	**8.7%**	**8.4%**	**9.2%**	**30 bps**	**-47 bps**	**9.5%**	**-75 bps**
Other Income	3.9	6.2	2.7	-37.0%	46.7%		
Depreciation	88.6	84.3	82.6	5.1%	7.3%		
EBIT	**172.4**	**143.8**	**123.0**	**19.9%**	**40.1%**		
EBIT Margin	**5.8%**	**5.5%**	**5.6%**	**39 bps**	**28 bps**		
Interest	32.3	30.7	31.9	5.5%	1.5%		
Share of Profit from JV	0.6	1.3	0.8	-53.0%	-29.2%		
Share of Profit from JV	0.6	1.3	0.8	-53.0%	-29.2%		
PBT before Exceptional Items	**140.7**	**114.4**	**92.0**	**23.0%**	**52.9%**		
Exceptional Items	63.1	0.0	0.0	NA	NA		
PBT	**77.6**	**114.4**	**92.0**	**-32.2%**	**-15.7%**		
Exceptional Items	63.1	0.0	0.0	NA	NA		
PBT	**77.6**	**114.4**	**92.0**	**-32.2%**	**-15.7%**		
Tax	44.1	36.7	28.8	20.3%	53.4%		
Tax Rate	56.9%	32.1%	31.3%	2480 bps	2561 bps		
PAT	**33.5**	**77.7**	**63.3**	**-56.9%**	**-47.1%**		
PAT Margin	**1.1%**	**2.9%**	**2.9%**	**-181 bps**	**-173 bps**		
Adj PAT	**96.6**	**77.7**	**63.3**	**24.3%**	**52.6%**	**99.1**	**-2.6%**
Adj PAT Margin	**3.3%**	**2.9%**	**2.9%**	**33 bps**	**41 bps**	**3.7%**	**-46 bps**
Adj PAT	**96.6**	**77.7**	**63.3**	**24.3%**	**52.6%**	**99.1**	**-2.6%**
Adj PAT Margin	**3.3%**	**2.9%**	**2.9%**	**33 bps**	**41 bps**	**3.7%**	**-46 bps**
Adj EPS	**6.2**	**5.1**	**4.0**	**22.6%**	**55.5%**	**6.4**	**-2.6%**

Revenue Y-o-Y
33.6%
Led by 130% Y-o-Y growth in EV revenue

Adj PAT Margin
3.3%
41 bps Y-o-Y mainly due to higher other income

Revenue vs Est.
4.3%
Beat, led by EV and overseas ramp-up

EBITDA Margin
8.7%
-47 bps Y-o-Y mainly due to war-related cost inflation

Source: Company, Midas Research | Adj PAT excludes exceptional items of Rs. 63.1 cr (Italy restructuring and Italy tax settlement)

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Q2FY27 Conference Call – Key Takeaways

Financial highlights

- Revenue stood at Rs. 2,947.9 cr, up 33.6% Y-o-Y and 11.9% Q-o-Q. Per management, ~5–6% of the growth came from commodity pass-through, with the balance led by volumes.
- EBITDA rose 26.7% Y-o-Y to Rs. 257.1 cr, with a margin of 8.7% (Q2FY26: 9.2%; Q1FY27: 8.4%). Mgmt. cited an ~80 bps impact from the under-recovery of war-related inflation.
- PBT before exceptional items jumped 52.9% Y-o-Y to Rs. 140.7 cr; an exceptional charge of Rs. 63.1 cr (Italy restructuring: Rs. 49.4 cr; Italy tax settlement: Rs. 13.7 cr).
- Adjusted PAT surged 52.6% Y-o-Y to Rs. 96.6 cr, while reported PAT stood at Rs. 33.5 cr.
- Net debt increased to Rs. 554.7 cr (Jun-26: Rs. 526.8 cr), driven by capex and ~Rs. 114 cr of agreed war-related recoveries pending collection.

Operational highlights

- India revenue stood at Rs. 2,704.6 cr, up 29.5% Y-o-Y, with EBITDA margin at 10.3% (Q1FY27: 10.6%; Q2FY26: 11.5%).
- Overseas revenue stood at Rs. 243.3 cr, up 103.8% Y-o-Y, as Advanced Electronics wins converted into revenue. Overseas EBITDA was near break-even at -Rs. 0.5 cr (Q2FY26: -Rs. 10.2 cr).
- EV models contributed ~19% of revenue (Q1FY27: ~16%), with revenue growing 130% Y-o-Y. E-Mobility revenue stood at Rs. 277.3 cr (Q1FY27: Rs. 194.1 cr).
- Aftermarket revenue up 10% Y-o-Y to Rs. 250.0 cr, falling from 24–36% growth in the preceding four quarters. Management attributes the decline to war-related inflation.
- Revenue mix (H1FY27): Bajaj – 46%; 2W/3W – 75%; India – 87%.

Business updates & key deal wins

- **New business wins:** H1FY27 net new business wins represented annual peak revenue of Rs. 1,012.7 cr (48% EV; 55% Bajaj; 73% 2W/3W), compared with Rs. 599.1 cr in Q1FY27.
- **Order book:** Stood at Rs. 3,699.1 cr at H1FY27-end (Mar-26: Rs. 3,509.0 cr), with Rs. 2,155.7 cr, Rs. 1,387.1 cr & Rs. 156.3 cr slated to start production in FY27, FY28 & FY29, respectively.
- **Forsee Power India:** Varroc is acquiring a 45% controlling stake (with an option to acquire an additional 6%) for an initial consideration of €4.5 mn (up to €6.5 mn). The business will be consolidated as a subsidiary, adding battery packs and BMS to its EV portfolio.
- **Italy restructuring:** 2W lighting manufacturing will be shifted to Romania and Vietnam, with an estimated payback period of ~3 years. The restructuring is expected to be completed in ~6 months, with benefits accruing from FY28.
- **E-Mobility:** Traction motor supplies to a second (non-Bajaj) EV customer have been delayed due to a late-stage vehicle-integration issue, with start of production expected shortly.
- **Legal:** Management aims to resolve the TYC and OPmobility arbitrations before FY27-end.

Outlook

- **Order wins:** Management targets annual peak revenue of Rs. 2,500 cr+ from new order wins in FY27 (Rs. 1,013 cr secured in H1).
- **Capex & debt:** FY27 capex guidance of Rs. 500–550 cr maintained, with Rs. 300 cr+ spent in H1. Net debt is likely to remain at current levels in FY27 & decline by FY28-end.
- **Margins:** India EBITDA margin is expected to return to FY26 levels by FY27-end, provided the macro environment does not worsen. War-related under-recoveries are expected to be recovered in Q3–Q4.
- **Overseas:** Romania's electronics business is targeted to achieve EBITDA breakeven by FY27-end. Overseas performance is expected to improve from Q4FY27, with most of the benefits accruing in FY28.
- **Battery packs:** Management expects battery-pack revenue to cross Rs. 1,000 cr in the next 2–3 years. Thailand 4W lighting plant is scheduled to start production in mid-2027.

Source: Company, Midas Research

Varroc Engineering Ltd. – Q2FY27 Result Update

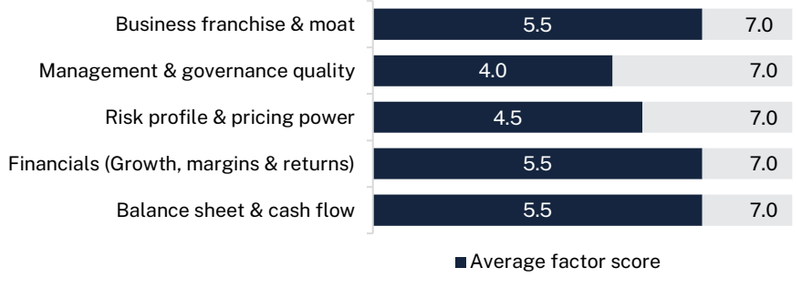
CMP **Rs. 779**

Rating **BUY**

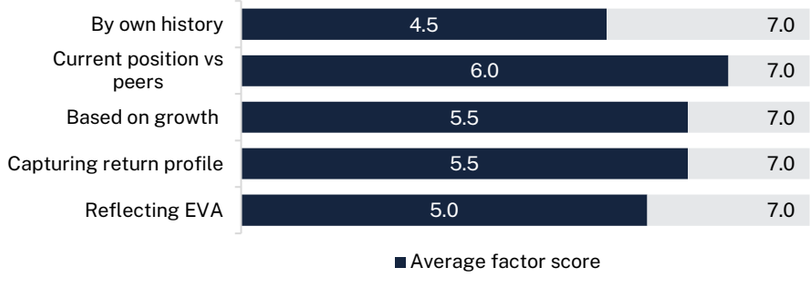
Varroc Engineering Ltd. - Our Commentary On Results

- Revenue grew 33.6% Y-o-Y & 11.9% Q-o-Q to Rs. 2,947.9 cr, 4.3% above Midas estimates and well ahead of 2W & PV production growth of 16% and 25%, respectively. With only ~5–6 pp from commodity pass-through (per management), the remainder was led by volumes, content & market-share gains.
- EV remains the growth engine: EV model revenue grew 130% Y-o-Y to ~19% of sales, tracking anchor customer Bajaj (EV volumes more than doubled to ~2 lakh units) and outpacing e-scooter industry growth of 75%+. Chetak capacity is expected to rise to 80k units/month in Q3, supporting H2 growth.
- Margins lag growth: EBITDA margin contracted 47 bps Y-o-Y to 8.7% (India: -120 bps to 10.3%) as raw material costs rose 37.7% amid war-related under-recovery. However, operating leverage lifted pre-exceptional PBT margin by 60 bps to 4.8%. Adj. PAT of Rs. 96.6 cr was 2.6% below estimates.
- Overseas operations are turning around: Revenue doubled and EBITDA reached break-even; the combined overseas and R&D PBT loss narrowed to Rs. 45 cr (Q4FY26: Rs. 69 cr), with Italy exit benefits expected from FY28.

Business Assessment Scores*



Valuation Framework*



Financials and Estimates Summary

Particulars (Rs. cr)	Revenue	EBITDA	EBITDA %	Adj PAT	Adj EPS	RoE %	RoCE %	PE	EV/EBITDA
FY24	7,552	759	10.1	547	34.4	44.2	15.9	21.8	17.1
FY25	8,154	789	9.7	209	13.7	13.6	17.8	57.1	16.1
FY26	8,890	830	9.3	269	17.6	16.1	19.8	44.3	15.0
FY27E	11,308	1,072	9.5	420	27.5	21.7	27.9	28.3	11.6
FY28E	12,953	1,386	10.7	658	43.0	27.4	36.1	18.1	8.7

05 Nov 2026

Industry: Auto Components & Equipments

Key Stock Data

Bloomberg	VARROC IN
Shares o/s (cr)	15.3
Market Cap (Rs. cr)	11,903
52-wk High/Low	Rs. 912 - Rs 462
20D ADV (In '000)	155.4
Index	NSE SMLCAP 500
F&O	N

Latest Shareholding (%)

	Sep 26	Jun 26	Mar 26
Promoters	75.0	75.0	75.0
Institutions	15.3	15.5	15.8
Public	9.7	9.5	9.2
Pledge	0.0	0.0	0.0

Stock Performance (%)

	1M	6M	12M
VARROC IN	(6.2)	41.9	24.6
NSE SMLCAP 500	(2.0)	NA	NA

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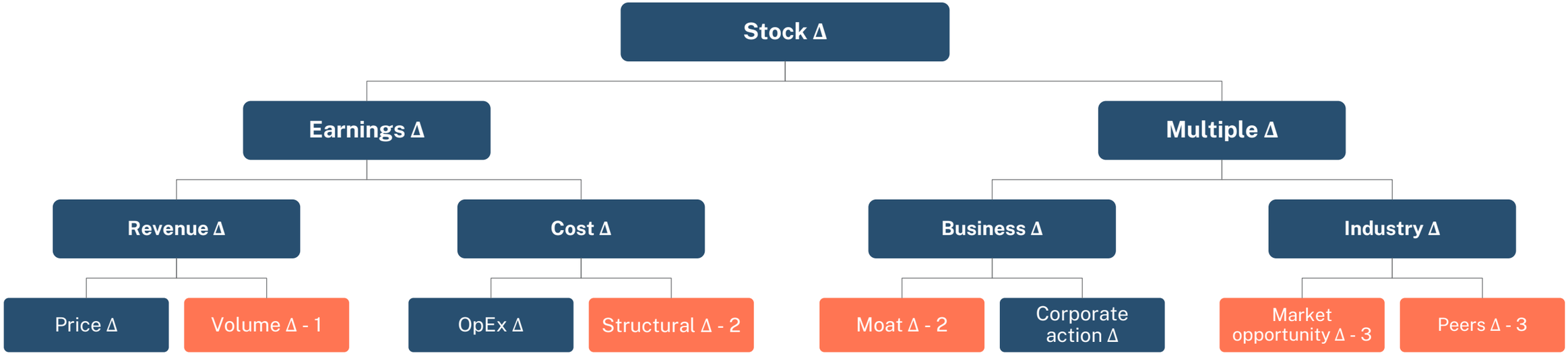
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Source: Company reports, Bajaj Auto Q2FY27 earnings call, Bloomberg, Midas Research

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Decision Tree – Stock call

CMP	Rating
Rs. 779	**BUY**



1 Reasoning 1

Volume Δ — EV content is the revenue engine

- EV revenue is expected to compound at ~88% (Rs. 1,147 cr to Rs. 4,071 cr), lifting its share of sales from ~13% to ~31% and driving a ~21% group revenue CAGR through FY28E.
- Q2FY27 validates the ramp-up: Revenue from EV models grew 130% Y-o-Y to ~19% of sales (FY26: ~13%), with management estimating EV content at 7–8x that of ICE models.
- The Rs. 3,699 cr order book, with H1FY27 wins comprising 48% EV & 55% Bajaj, provides visibility. However, Bajaj's ~46% share of revenue points to customer concentration until new OEMs scale up.

2 Reasoning 2

Structural Δ — The earnings turn is balance sheet-led

- Inflection is deleveraging, not margins: EBITDA margin is expected to expand ~140 bps (9.3% in FY26 to 10.7% in FY28E), led by the overseas turnaround (Q2FY27 EBITDA near break-even); India earned ~11.8% in FY26.
- PBT is expected to nearly triple to ~Rs. 950 cr in FY28E from Rs. 341 cr in FY26, aided by lower finance costs (Rs. 134 cr to ~Rs. 79 cr), net debt reduction (Rs. 557 cr to ~Rs. 111 cr) and margin improvement. PBT margin is projected to rise to ~7.3% from 3.8%, with RoE reaching ~27% from 16.1%.
- Monitor earnings quality: PAT is exposed to one-offs (Q2FY27 exceptional charge: Rs. 63.1 cr); capitalised R&D and ~Rs. 699 cr of off-book factoring also flatter the optics.

3 Reasoning 3

Peers Δ — Cheap for a reason, but too cheap

- Best growth, strongest returns, lowest multiple: ~56% Adj. PAT and ~29% EBITDA CAGR (FY26–28E), with FY28E RoE/RoCE of ~27%/~36%, yet valued at ~18x FY28E P/E versus ~34x for peers (PEG: ~0.3x vs. 1.2x).
- The discount is partly justified by thin margins and governance concerns: qualified audit opinions, a contested Rs. 297 cr DTA (~17% of net worth), M&A-related risks and ~Rs. 44 cr of disputed China-JV revenue.
- Re-rating triggers include EV execution, overseas breakeven, and net debt nearing zero. A discounted 25x FY28E P/E yields a TP of Rs. 1,083 (~39% upside). BUY, with governance remaining the key monitorable.

Source: Company, Midas Research

Change in Estimates

Context: Estimates broadly unchanged; FY27E/FY28E Adj. PAT trimmed by 0.4%/0.5%.

	New estimates		Old estimates		Change	
Description	**FY27E**	**FY28E**	**FY27E**	**FY28E**	**FY27E**	**FY28E**
Net Sales (Rs. cr)	11,308	12,953	11,308	12,953	0.0%	0.0%
EBITDA (Rs. cr)	1,072	1,386	1,072	1,386	0.0%	0.0%
EBITDA Margin	9.5%	10.7%	9.5%	10.7%	0 bps	0 bps
Adj PAT (Rs. cr)	420	658	422	661	-0.4%	-0.5%
PAT Margin	3.7%	5.1%	3.7%	5.1%	-1 bps	-3 bps
Adj EPS (Rs.)	27.5	43.0	27.6	43.3	-0.4%	-0.5%

Why we have kept estimates broadly unchanged: Q2FY27 revenue was 4.3% ahead of our estimate, while EBITDA and Adj. PAT were 2.4% and 2.6% below, respectively, due to war-related cost under-recovery, which management expects to recover in Q3–Q4. We retain our revenue and EBITDA estimates; the marginal Adj. PAT cut reflects higher interest costs due to slower debt reduction in FY27. FY27E reported PAT also factors in the Rs. 63.1 cr exceptional charge.

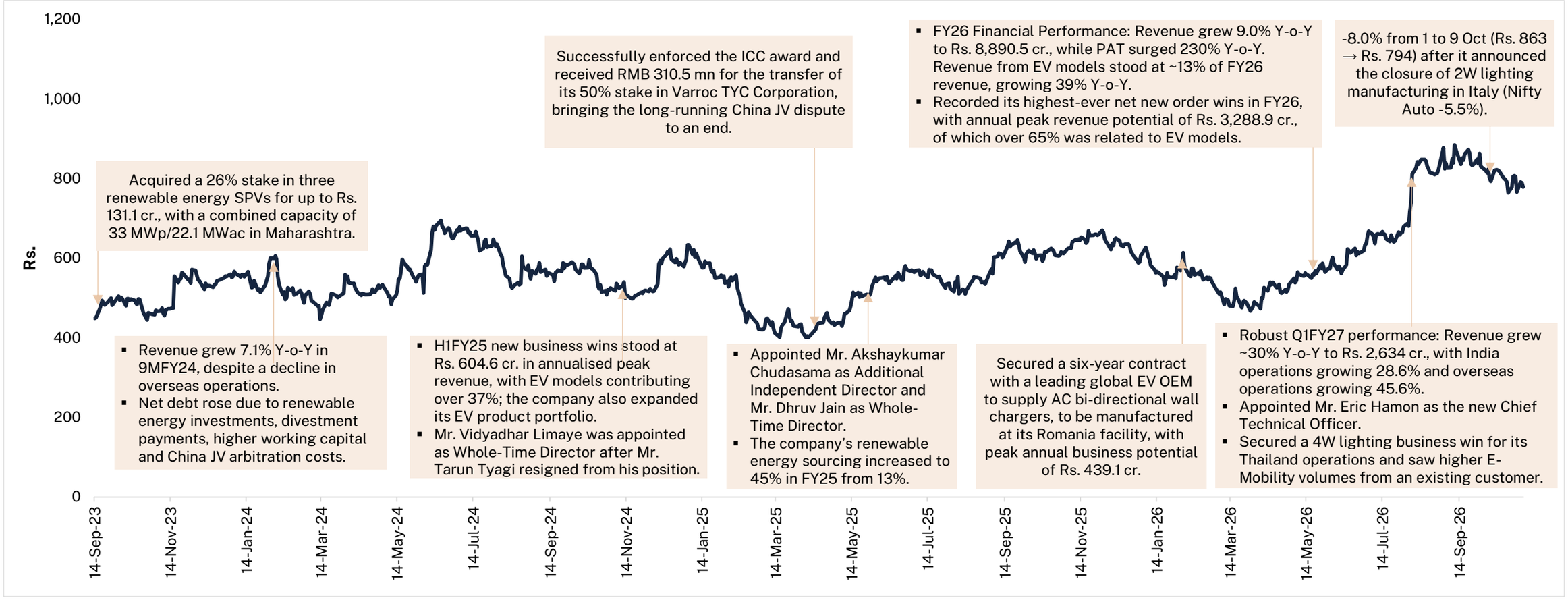
Valuation Summary

Target Multiple	Target EPS	1Y TP	PEG Ratio	1Y Upside
25x FY28E P/E	**Rs. 43**	**Rs. 1,083**	**0.3x on CMP**	**39%**
Maintained	FY28E EPS	Incl. dividends	Attractive vs peers 1.2x	From CMP

Source: Company, Midas Research

Stock Buzz & Influencing Factors

Varroc Engineering Ltd.



Near-term stock performance is likely to be driven by execution against the record order book, increasing EV-led content, new business ramp-ups along with deleveraging providing further support to earnings and return ratios.

Source: Company, Bloomberg, NSE, Midas Research

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Financial Summary

All figures in Rs. cr

Particulars	FY24	FY25	FY26	FY27E	FY28E
Profit & Loss					
Revenue	7,552	8,154	8,890	11,308	12,953
Gross profit	2,819	2,945	3,189	4,060	4,650
EBITDA	759	789	830	1,072	1,386
Depreciation	337	323	332	335	370
EBIT	422	465	498	736	1,016
Other Income	42	18	18	11	10
Interest expense	194	170	134	116	79
Share of profit of JV / associates	44	4	4	4	4
Exceptional items	0	-147	-44	-63	0
PBT	315	169	341	572	950
Reported PAT	553	70	230	363	665
Adj PAT	547	209	269	420	658
Adj EPS (Rs.)	34.4	13.7	17.6	27.5	43.0
Balance Sheet					
Net Worth	1,497	1,565	1,780	2,102	2,694
Total debt	1,209	949	738	658	179
Other liabilities and provisions	1,854	2,158	2,357	2,823	3,306
Total Net worth and liabilities	4,560	4,672	4,875	5,583	6,179
Gross Fixed assets	3,579	3,822	4,302	4,852	5,252
Net fixed assets	1,685	1,685	1,867	2,082	2,112
Capital work-in-progress	76	100	95	107	116
Intangible Assets	0	0	0	0	0
Investments	434	31	27	27	27
Cash and bank balances	130	163	181	88	68
Loans & advances and other assets	0	0	0	0	0
Net working capital	2,235	2,692	2,705	3,278	3,856
Total assets	4,560	4,672	4,875	5,583	6,179
Capital Employed	2,706	2,514	2,518	2,760	2,873
Invested Capital (CE - cash - CWIP)	2,500	2,250	2,242	2,564	2,689
Net debt	1,079	785	557	569	111
Cash Flows					
Cash flow from Ops (pre-tax)	715	728	563	910	1,297
Cash flow from Ops (post-tax)	638	737	537	701	1,012
Capex	-257	-279	-397	-562	-409
Free cashflows	381	458	139	139	603
Free cashflows (post interest costs)	187	288	5	23	524
Cash flows from Investing	-167	-246	-123	-562	-409
Cash flows from Financing	-664	-490	-405	-232	-624
Total cash & liquid investments	**130**	**163**	**181**	**88**	**68**

Particulars	FY24	FY25	FY26	FY27E	FY28E
Growth ratios (%)					
Revenue	10.0	8.0	9.0	27.2	14.5
EBITDA	38.8	3.9	5.2	29.1	29.3
Adj PAT	1,416.0	-61.9	28.8	56.4	56.4
Margin ratios					
Gross	37.3%	36.1%	35.9%	35.9%	35.9%
EBITDA	10.1%	9.7%	9.3%	9.5%	10.7%
Adj PAT	7.2%	2.6%	3.0%	3.7%	5.1%
Performance ratios					
Pre-tax OCF/EBITDA	94.2%	92.2%	67.8%	84.9%	93.6%
OCF/IC (%)	25.5%	32.7%	23.9%	27.4%	37.6%
RoE (%)	44.2%	13.6%	16.1%	21.7%	27.4%
RoCE (%)	15.9%	17.8%	19.8%	27.9%	36.1%
Fixed asset turnover (x)	2.1	2.1	2.1	2.3	2.5
Total asset turnover (x)	1.7	1.7	1.8	2.0	2.1
Financial stability ratios					
Net Debt to Equity (x)	0.7	0.5	0.3	0.3	0.0
Net Debt to EBITDA (x)	1.4	1.0	0.7	0.5	0.1
Interest cover (x)	2.2	2.7	3.7	6.4	12.8
Working capital days	-2	4	9	9	9
Valuation metrics					
Fully Diluted Shares (cr.)	15.9	15.3	15.3	15.3	15.3
Market cap (Rs. cr.)			11,903		
P/E (x)	21.8	57.1	44.3	28.3	18.1
P/OCF (x)	18.6	16.2	22.2	17.0	11.8
EV (Rs cr) (ex-CWIP)	12,982	12,689	12,460	12,472	12,014
EV/EBITDA (x)	17.1	16.1	15.0	11.6	8.7
EV/OCF (x)	20.3	17.2	23.2	17.8	11.9
FCF Yield	1.6%	2.4%	0.0%	0.2%	4.4%
Price to BV (x)	7.95	7.61	6.69	5.66	4.42
Dividend pay-out (%)	0.0	7.3	8.5	8.5	10.0
Dividend yield (%)	0.0	0.1	0.2	0.3	0.6
Cash as a % of CE	4.8%	6.5%	7.2%	3.2%	2.4%

Source: Company, Midas Research

Disclaimer (1/2)

Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon	**REDUCE**	Stock expected to provide returns of <5% – -10% over a 1-year horizon
ACCUMULATE	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon	**SELL**	Stock expected to fall >10% over a 1-year horizon

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