Midas
Equities and Research

Varroc Engineering Ltd

Initiating Coverage

16 Sep 2026

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Spark Initiating Coverage 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 segue into stock-picking. Accordingly, our Initiating Coverage reports will be presented in five sections: **(1) Annual Report Deep-dive, (2) Business Assessment Scores, (3) Valuation Framework, (4) Stock Buzz & Influencing Factors, and (5) Technical Analysis.**

This report is underpinned by three key beliefs: (1) Technical analysis, when combined with fundamentals, leads to better stock calls; (2) business assessment should be separated from valuation frameworks so that equity research can calibrate the mix objectively when making stock calls; 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.

Annual Report Deep-dive

Drawing on the time-tested but sadly, rarely-applied practice of drilling into historical annual reports, we dedicate the opening section to the **Analytical Perspective gleaned** from this exercise. A helpful forensic overlay provides a clearer view of the company's **historical operating performance, balance sheet behaviour, cash flow quality & governance structure**. By anchoring the analysis in reported numbers and disclosures, this section helps assess earnings quality and risk before progressing to any forward-looking calls with conviction.

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.

Technical Analysis

The report also includes a **Technical Analysis** section to capture prevailing price trends, momentum, and key support–resistance levels, offering additional insight into **market timing and near-term market behaviour.**

Source: Company, Midas Research

Report in Gist (1/3)

Last Day Close	1Y TP (Inc Div)	1Y Upside	Rating
Rs. 836	Rs. 1,089	30%	BUY

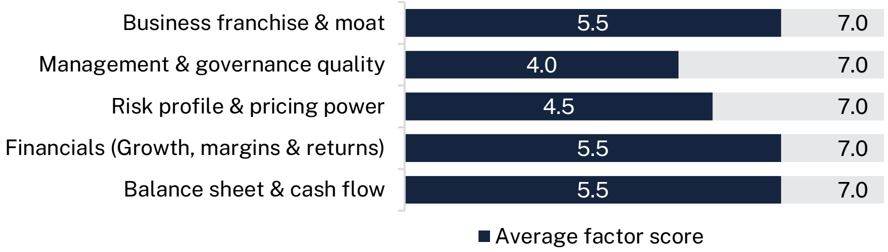
Varroc Engineering ltd.- About the company

- Varroc, incorporated in 1988, is a global Tier-1 automotive component supplier that designs, develops & manufactures advanced systems and components for leading OEMs across 2W, 3W, 4W passenger & commercial vehicles, and off-highway vehicles. The company operates through Business I, comprising E-Mobility, ICE Powertrain, Body Systems, Human-Machine Interface (HMI) & Aftermarket, and Business II, focused on advanced electronics & global lighting solutions, including Advanced Driver Assistance Systems (ADAS), Driver Monitoring System (DMS), surround-view, telematics and infotainment.
- The company creates value by increasing its content per vehicle through EV, electronics and advanced technology solutions, while leveraging new programme wins, scale and operating efficiencies to drive revenue growth, margins and returns. With ~89% of FY26 revenue from India, it has a presence across 8 countries, with manufacturing in 5 countries and R&D/engineering centres across India, Europe and Asia. 2W/3W contribute 76% of revenue, while 4W contributes 24%.

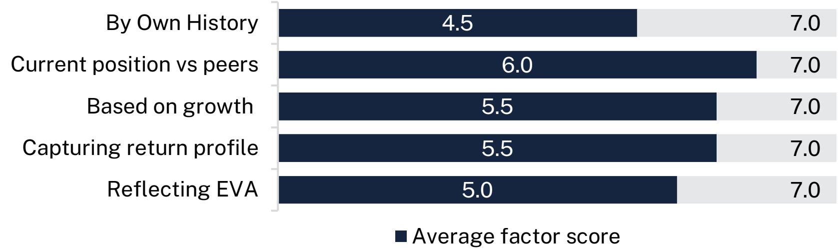
Annual Report Deep-dive

Reported PAT is a poor guide to Varroc's earnings — a different one-off swings it every year (a deferred-tax credit in FY24, restructuring and JV charges in FY25, and an FX gain in FY26), each big enough to move PAT by a third to a half. Strip these out and underlying PBT is improving, but only modestly — from ~Rs.315 cr. to ~Rs.385 cr. over FY24-26 (~22%), well short of what the headline swings suggest. And even that gain leans on aggressive accounting that flatters profit and understates leverage: a contested Rs.296.9 cr. deferred-tax asset (~17% of net worth) on an inter-company loan write-off; Rs.44.2 cr. of China-JV transition revenue booked under a live ICC dispute and a qualified audit opinion (FY25 & FY26); and ~Rs.699 cr. of factoring plus ~Rs.79 cr. of overseas guarantees kept off the balance sheet — debt-like funding close to reported net debt. With peer-high R&D capitalisation and IFCoFR/CARO control flags on top, reported PAT and leverage both need adjusting before being taken at face value.

Business Assessment Scores



Valuation Framework



Financials and Estimates Summary

Particulars(Rs. cr.)	Revenue	EBITDA	EBITDA %	Adj PAT	Adj EPS	RoE %	RoCE%	P/E	EV/EBITDA
FY24	7,552	759	10.1	547	34.4	44.2	15.9	23.4	18.2
FY25	8,154	789	9.7	209	13.7	13.6	17.8	61.2	17.2
FY26	8,890	830	9.3	269	17.6	16.1	19.8	47.5	16.1
FY27E	11,308	1072	9.5	422	27.6	21.4	28.0	30.3	12.4
FY28E	12,953	1386	10.7	661	43.3	26.9	36.2	19.3	9.3

16 Sep 2026

Industry	Auto Components & Equipments

Key Stock Data

Bloomberg	VARROC IN
Shares o/s (cr.)	15.3
Market Cap (Rs. cr.)	12,772
52-wk High / Low	Rs. 896 / 462
20D ADV (In '000)	376.5
Index	NSE SMLCAP 500
F&O	N

Latest Shareholding (%)

	Jun 26	Mar 26	Dec 25
Promoters	75.0	75.0	75.0
Institutions	15.5	15.8	16.8
Public	9.5	9.2	8.2
Pledge	0.0	0.0	0.0

Stock Performance (%)

	1M	6M	12M
VARROC IN	1.4	74.2	34.6
NSE SMLCAP 500	-1.8	23.6	5.4

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Source: Company, Bloomberg, Midas Research

Report in Gist (2/3)

Stock Buzz & Influencing Factors

- **The stock has re-rated alongside the Varroc 2.0 reset**, with major inflection points including the exit from the loss-making global lighting business & China JV, deleveraging of the balance sheet, record EV order wins, the Romania AC bi-directional charger contract (~Rs. 439 cr.), and record FY26 revenue with Adj PAT up 29% YoY.
- **Near-term stock performance is likely to be driven by execution of the record order book**, increasing EV-led content, new business ramp-ups and sustained margin expansion, while any delay in overseas turnaround or order start-of-production could lead to periods of volatility.
- **With deleveraging providing further support to earnings and return ratios, we do not expect meaningful equity dilution in the near term,** with growth ramp-up to be self-funded as net debt falls near to zero.

Technical Analysis

- The stock maintains a strong weekly uptrend characterized by **higher highs and higher lows**, comfortably holding well above its major **Symmetrical Triangle breakout level**.
- Trend integrity is further reinforced by price action trading above critical daily and weekly EMAs alongside positive RSI readings on weekly scale. Overall, the technical setup remains constructive and favors a **buy-on-dips strategy**.

Investment Rationale

- **Rebased platform, cleaner franchise** – Varroc 2.0 is a genuinely different company. The 2022 exit from the loss-making global 4W lighting business (sold to Plastic Omnium) and the subsequent China JV exit nearly halved the balance sheet, cut borrowings by ~55%, and lifted RoCE from ~7% to ~20%. The group is now India-centric (~89% of revenue), anchored in 2W/3W (~76% of sales) and EV/electronics, with promoter holding steady at ~75% through the reset
- **Inflection point ahead** — an earnings turn led by the balance sheet, not just margins. We forecast FY26–28E revenue/EBITDA/Adj PAT CAGRs of ~21%/~29%/~57%, respectively. Crucially, the profit inflection owes more to deleveraging than to operating margin expansion: EBITDA margin adds only ~140 bps (9.3% in FY26 to 10.7% in FY28E), while EBIT roughly doubles (Rs. 498 cr to Rs. 1,016 cr) as finance costs nearly halve (Rs. 134 cr to Rs. 70 cr) with net debt falling from Rs. 557 cr in FY26 toward Rs. 49 cr by FY28E. PBT margin nearly doubles (3.8% to 7.4%), RoE rises from ~16% to ~27%, and RoCE from ~20% to ~36% — all self-funded, with no equity dilution

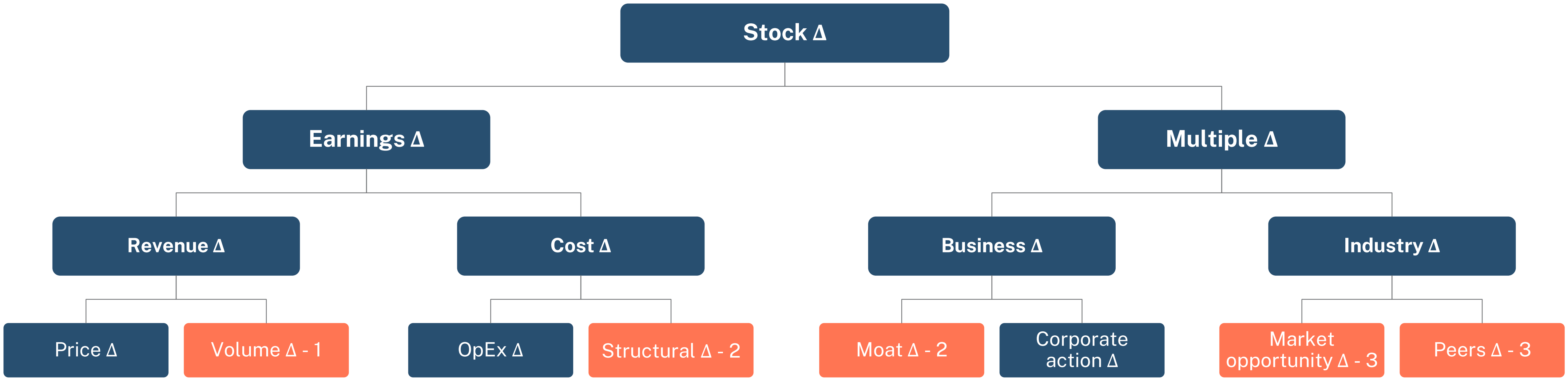
Multiple growth engines with strong optionality

- **EV powertrain:** EV revenue compounds ~88% (Rs. 1,147 cr in FY26 to Rs. 4,071 cr by FY28E), lifting the EV mix from ~13% to ~31% of sales. Growth is multiplicative — ~40% industry EV-penetration CAGR × Varroc's over-indexed EV share (13% vs. 6.4%) × 5–6× higher content per EV — while its rare-earth-free SynRM motors give OEMs supply security that China-dependent assemblers cannot match.
- **Order-book conversion:** A Rs. 3,609 cr order book (~41% of FY26 sales; 72% EV, 58% Bajaj, 75% 2W/3W) underpins the ramp-up, with Rs. 2,316 cr of programmes starting production in FY27 & Rs. 1,167 cr in FY28 — visibility, not hope.
- **Overseas turnaround & self-help:** The overseas EBITDA loss more than halved Y-o-Y; Romania is guided to break even by Q4FY27, and ~Rs. 115 cr of self-help (Optima, delayering, VRS, renewables) lifts the blended margin — the India standalone business already earns ~11.5%.

Valuation — With an FY26–28E EBITDA CAGR of ~29% and Adj PAT CAGR of ~57% — well ahead of peer averages of ~22% and ~32% — plus the highest FY28E RoE (~27%) and RoCE (~36%) in the peer set and the only clearly positive EVA spread, Varroc screens cheap at ~19x FY28E P/E, ~9.3x EV/EBITDA and a PEG of ~0.3x, versus a ~35x P/E peer average. The discount is partly earned, but too wide. We deliberately apply a discounted 25x FY28E P/E (below the ~35x peer average) to reflect thin absolute margins and a real earnings-quality/governance overhang — three straight qualified audit opinions, a contested ~Rs.297 cr deferred-tax asset (~17% of net worth), ~Rs.44 cr of disputed China-JV revenue in ICC arbitration, and ~Rs.699 cr of off-balance-sheet factoring. Even on that conservative multiple, the target is Rs.1,089, implying ~30% upside from the CMP of ~Rs.836. We rate the stock BUY, with governance the key monitorable; sustained clean execution and net-debt-to-zero could narrow the discount further.

Source: Company, Midas Research

Report in Gist-Decision Tree (3/3)



1 Reasoning 1

Volume Δ — EV content is the revenue engine

- EV revenue compounds ~88% (Rs.1,147 cr to Rs.4,071 cr), lifting the EV mix from ~13% to ~31% of sales and driving a ~21% group revenue CAGR to FY28E.
- Three multiplicative levers: industry EV penetration (~40% CAGR), Varroc's over-indexing (13% EV vs. 6.4%) and 5–6× content per EV (~Rs.35–40k vs. ~Rs.6k for ICE).
- A Rs.3,609 cr order book (72% EV, 58% Bajaj) makes the ramp-up visible — but ~46% Bajaj concentration keeps the base narrow until new top-5 OEMs scale.

2 Reasoning 2

Structural Δ —The earnings turn is balance-sheet-led

- Inflection is deleveraging, not margin: EBITDA margin to expand by ~140 bps (9.3% in FY26 to 10.7% in FY28E), led by the overseas turnaround; India already earns ~11.5%.
- EBIT to grow ~2x from Rs. 498 cr (FY26) to ~Rs. 1,016 cr (FY28E) as finance costs nearly halve (Rs. 134 cr to ~Rs. 70 cr) on falling net debt (Rs. 557 cr to ~Rs. 49 cr); PBT margin doubles to ~7.4% and RoCE rises to ~36%, with no dilution.
- Monitor earnings quality: PAT swings on one-offs (clean pre-exceptional PBT Rs.315 cr to 385 cr over FY24-26); capitalised R&D and ~Rs.699 cr off-book factoring flatter the optics.

3 Reasoning 3

Peers Δ — Cheap for a reason, but too cheap

- Best growth, strongest returns, lowest multiple: ~57% Adj PAT / ~29% EBITDA CAGR (FY26–28E) and FY28E RoE / RoCE of ~27% / ~36%, yet ~19x FY28E P/E vs ~35x peers (PEG ~0.3x)
- The discount is partly earned — thin margins plus governance: three straight qualified audits, a contested Rs.297 cr DTA (~17% of net worth), M&A, and ~Rs.44 cr disputed China-JV revenue.
- Re-rating levers = EV execution, overseas breakeven and net debt near to zero. A discounted 25x FY28E P/E implies a Rs. 1,089 TP (~30% upside). BUY; governance remains the key monitorable.

Source: Company, Midas Research

CONTENT

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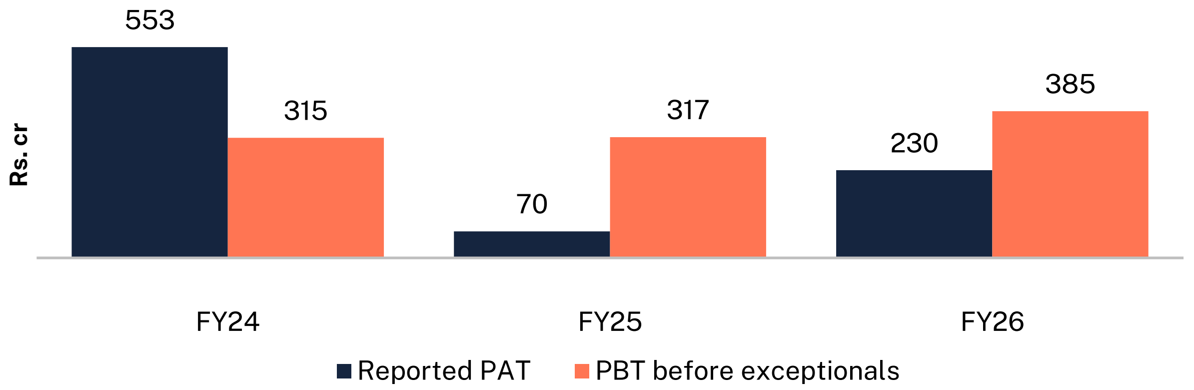
1 – Annual Report Deep-dive (1/4)

Reported profit swings on one-offs; PBT before exceptional items tracks the underlying trend

Reported PAT is volatile — PBT (pre-exceptional) is steadier

- Reported PAT has swung sharply — **Rs. 553 cr in FY24, Rs. 70 cr in FY25 and Rs. 230 cr in FY26** — but these moves reflect one-off items rather than the core business.
- FY24 PAT was lifted by a ~Rs. 277 cr deferred-tax credit and FY25 PAT was hit by Rs. 147 cr of exceptional charges, while FY26 has largely normalized.
- Profit before tax and exceptionals tells a steadier story, rising from **Rs. 315 cr to Rs. 317 cr to Rs. 385 cr** — a cleaner read on the underlying trend.

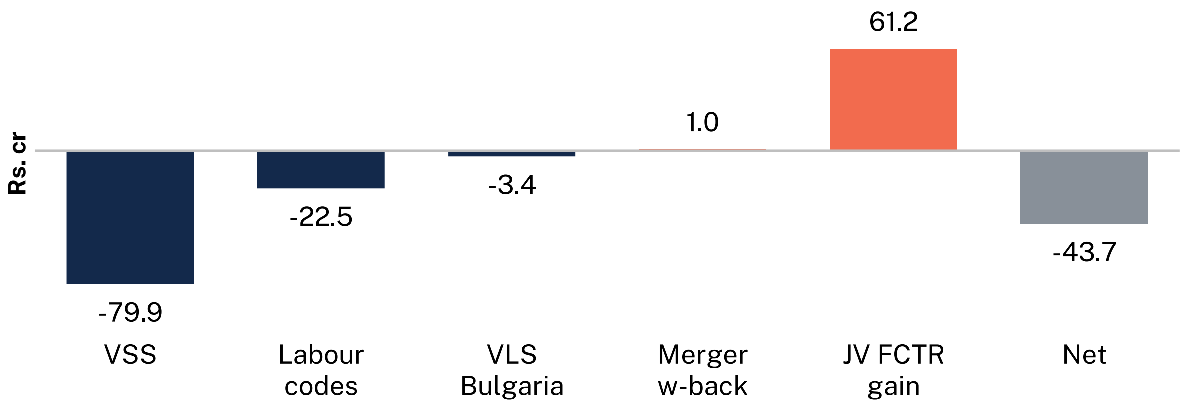
Reported PAT vs PBT before exceptional items



FY26 exceptional items — the JV gain was one of many items

- FY26 carried **Rs. 104.9 cr of exceptional charges**, chiefly Rs. 79.9 cr for voluntary separation of 411 workmen & Rs. 22.5 cr provided against the new Labour Codes.
- A **Rs. 61.2 cr non-cash forex credit** released on the JV exit offset much of this, leaving a net charge of **Rs. 43.7 cr.**
- So, the JV gain was not a standalone windfall; it largely masked real cash separation costs, and the Labour Codes figure is only an early provision booked ahead of the final rules.

FY26 consolidated exceptional items



Management read: reported earnings swing on one-offs, not operations — the cleaner gauge is normalised PBT (Rs. 315 cr → Rs. 385 cr), not headline PAT.

Implication: FY26's reported rebound overstates the underlying step-up, so forecasts and valuation should be on a cleaned-up base.

Source: Company, Midas Research

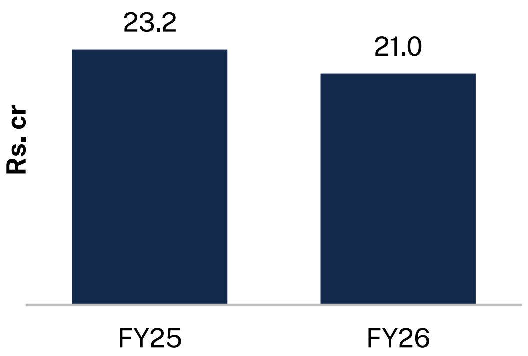
1 – Annual Report Deep-dive (2/4)

China JV exit was arbitration-led, not strategic — and revenue leans on transition fees the partner is contesting

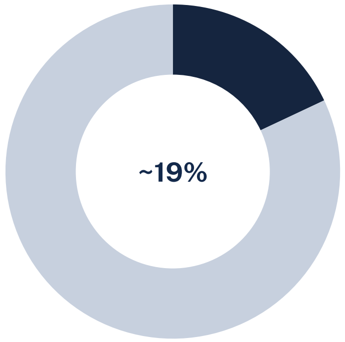
Disputed revenue under an audit qualification

- Transition-service fees from the former China JV, Chongqing Varroc TYC, are booked within **“Revenue from operations”** even as the JV partner disputes them in ICC arbitration, alleging a breach of the TMA.
- The statutory auditors have **qualified their opinion in both FY25 and FY26**, noting that the income was recognized “without sufficient appropriate audit evidence.”
- The sums are material at a **cumulative Rs. 44.2 cr**, equivalent to nearly a fifth of FY26 PAT, and an adverse ruling would force a retrospective reversal.

Qualified income



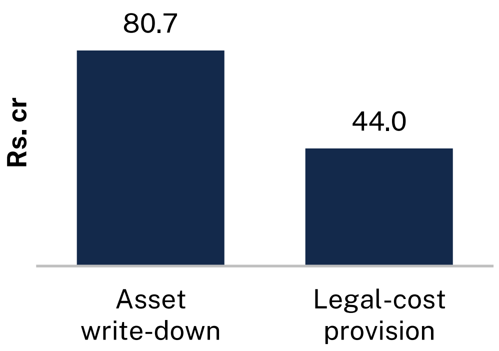
Share of FY26 PAT that could reverse in future



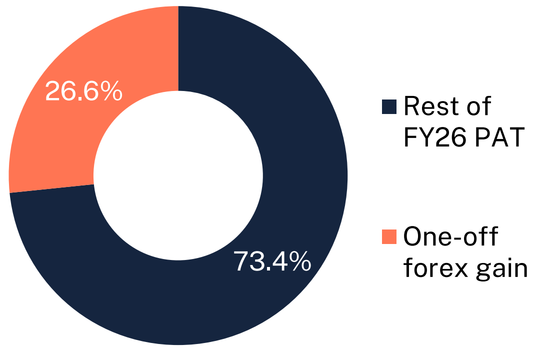
China JV exit — leakage behind the deleveraging story

- China exit was **not a strategic choice**: after its dispute with partner TYC, an ICC tribunal ordered Varroc to sell a 50% JV stake to TYC for RMB 310.5m (~Rs.360 cr).
- The deal reduced debt, but not for free — it carried an **Rs. 80.7 cr impairment** plus Rs. 44.0 cr of TYC’s legal costs that Varroc was ordered to reimburse, taking **FY25 China-JV-related charges to Rs. 124.7 cr.**
- FY26 then saw the reverse: a **Rs. 61.2 cr non-cash forex gain** was recycled from reserves into profit on completion, equivalent to ~27% of the year’s PAT.

FY25 China-JV- related exceptional charges



One-off forex gain as a share of FY26 PAT



Management read: aggressive revenue recognition — booking transition fees contested by the JV partner, on which auditors qualified their opinion.

Implication: an adverse ICC ruling would force a retrospective revenue reversal plus possible damages.

Source: Company, Midas Research

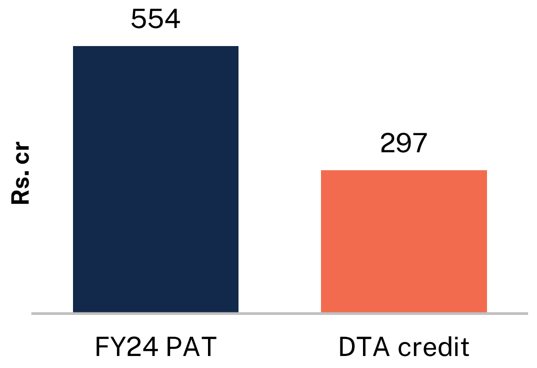
1 – Annual Report Deep-dive (3/4)

Reported earnings lean on an aggressive, contested deferred-tax asset and above-peer R&D capitalisation

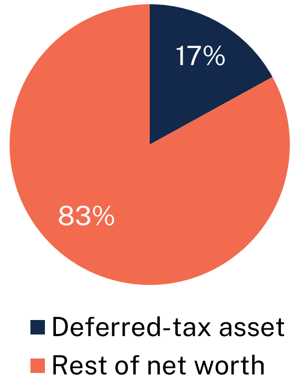
Aggressive deferred-tax asset on inter-company write-off

- Ahead of the Varroc Polymers merger in FY24, Varroc wrote off **Rs. 1,353.3 cr** of loans and interest owed by its Netherlands arm, Varroc Corp Holding BV.
- It treated this write-off as an “allowable business loss,” not as a non-deductible capital loss, and on that basis booked a Deferred Tax Asset of **Rs. 296.9 cr.**
- Flagged as a **Key Audit Matter in FY24, FY25 and FY26**, the position rests on management judgement and two counsel opinions — the kind of deduction tax authorities routinely challenge.

DTA credit vs FY24 PAT



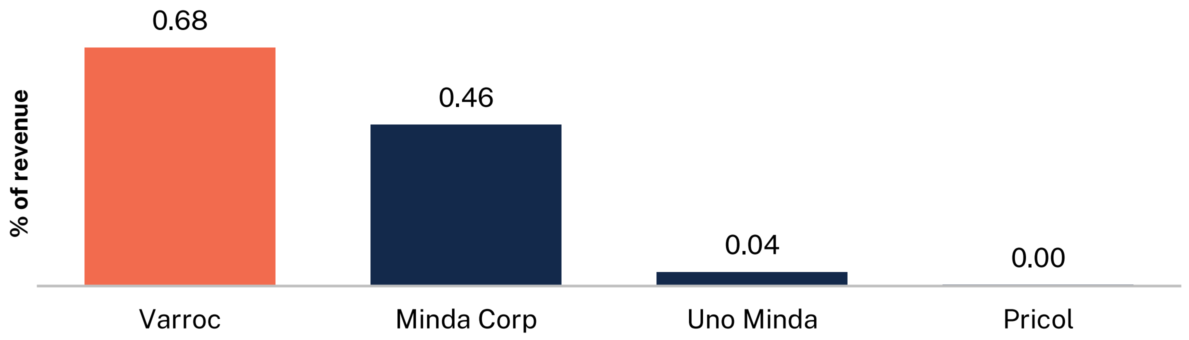
DTA as a share of net worth



R&D capitalisation — Varroc versus peers

- The policy itself is standard under Ind AS 38; what stands out is its scale — additions to intangibles under development jumped from Rs. 17.5 cr in FY24 to **Rs. 71.5 cr in FY26**, while the closing balance stood at Rs. 55.6 cr.
- Peers such as Uno Minda, Pricol and Endurance expense most product R&D, so capitalising **Rs. 71.5 cr keeps it out of the FY26 P&L**, supporting EBITDA and PAT.
- If EV or electronics programmes slip, that **Rs. 55.6 cr capitalised balance** is exposed to a future write-down.

Intangibles-under-development as % of revenue, FY26



Management read: an aggressive accounting posture that flatters earnings and net worth — a contested Rs. 296.9 cr DTA (~17% of net worth) and peer-high R&D capitalisation.
Implication: the DTA could reverse if the tax claim fails, while the Rs. 55.6 cr of capitalised R&D risks a write-down if programmes slip.

Source: Company, Midas Research

1 – Annual Report Deep-dive (4/4)

Additional monitorables — controls, overseas exposure, goodwill and off-balance-sheet funding, with a consolidated summary

Controls & disclosure

- **Varroc connect:** Outsourced accounting with no SOC report; the payroll system's audit trail (edit log) was not enabled, so the audit trail could not be confirmed.
- **IFCoFR qualified (FY24 & FY25):** SOC report for the group payroll processor was not available.
- **CARO:** Quarterly bank returns differed from the books by Rs. 148.5 cr (Jun-25) and Rs. 267.7 cr (Mar-26) — relevant to covenant compliance.

Related-party & capital allocation

- **Overseas exposure:** Guarantees/SBLCs to Romania Rs. 31.7→51.7 cr and Italy Rs. 27.2 cr (Rs. 78.9 cr off-B/S); Rs. 20.0 cr loan to Varroc European Holding BV fully impaired.
- **Off-B/S funding:** Non-recourse factoring took Rs. 614 → 699 cr of receivables off the books (FY24→25) — a debt-like line of similar scale to net debt (~Rs. 557 cr); flatters DSO and understates leverage.
- **Goodwill:** Rs. 45.7 cr across three CGUs remains unimpaired despite WACC being raised to 22.5%; TCPL headroom is down to Rs. 10.6 cr vs Rs. 18.4 cr carrying value.
- **Capital allocation:** Borrowing ceiling raised despite lower net-debt guidance; Rs. 400 cr of short-term funds shifted to long-term investments; top-20% suppliers ≈ 80% of spend.

Items to adjust for

Item	Rs. cr	Watch
TMA disputed revenue	44.2	High
DTA on write-off	296.9	High
Capitalised R&D (FY26)	71.5	Med
Goodwill at risk	45.7	Med
FX-gain one-off	61.2	Med

Consider adjusting reported PAT & EBITDA for these before applying valuation multiples.

Management read: collectively, an aggressive, judgement-heavy reporting posture rather than a conservative one, with some internal control gaps.
Implication: haircut reported earnings and net worth for the contested and capitalised items.

Source: Company, Midas Research

2 – Business Assessment Scores

Business Assessment Scores – Summary

2.1

Business franchise and moat:

- 28-year Bajaj-designed incumbency — a specified part supplies a platform for its full life, giving sticky, recurring revenue.
- One-stop supplier across five product lines (lighting, electricals-electronics, polymer, metallics, EV powertrain) lifts content per vehicle and switching costs.
- Genuine EV edge — fully localised, rare-earth-free SynRM e-powertrain; 130+ patents, 7 R&D centres, ~2.7% of sales in R&D.
- Moat is real but moderate — ~46% Bajaj concentration and OEM price power keep it a system, not a fortress. **We assign a rating of 5.5/7.0.**

2.2

Management and governance quality:

- Experienced promoter (Tarang Jain, 3 decades); board 50% independent and reconstituted in 2025; audit and NRC committees fully independent; promoters at 75%.
- Earnings quality is the concern — qualified audit opinions in FY24, FY25 and FY26 (China JV unaudited; ~Rs. 44 cr disputed TYC income) and an IFCoFR material weakness.
- Aggressive, contested ~Rs. 297 cr DTA (~17% of net worth), CARO bank-vs-books gaps (Rs. 148-268 cr) & rising related-party aid to overseas subsidiaries. **We assign a rating of 4.0/7.0.**

2.3

Risk profile and pricing power:

- High entry barriers (R&D intensity, 7+ technical centres, 130+ patents) keep the threat of new entrants low.
- But buyer power and industry rivalry are high — large OEMs, ~46% Bajaj concentration, and price competition cap pricing flexibility.
- Moderate supplier power (imported cells and electronics) and moderate substitution risk from the ICE-to-EV shift.
- Diversified portfolio across e-mobility, lighting, electronics, and HMI offsets legacy decline. **We assign a rating of 4.5/7.0.**

2.4

Financials (Growth, margins & returns):

- Strong, visible growth — ~21% revenue CAGR (FY26-28E) on a Rs. 3,609 cr order book (72% EV-linked); EV revenue compounds ~88% and RoCE climbs from ~20% to ~36%.
- Margins are recovering but thin — consolidated EBITDA troughed at 9.3% (FY26) vs India standalone 11.5-11.7%; the ~Rs. 70 cr overseas drag is easing, though earnings still carry one-offs. **We assign a rating of 5.5/7.0.**

2.5

Balance sheet and cash flow:

- Best-in-class deleveraging — net debt cut from ~Rs. 1,308 cr to ~Rs. 557 cr, and to ~Rs. 49 cr by FY28E; D/E falls from 0.7x to ~0.02x, while interest cover rises to ~14.5x.
- RoCE rises from ~20% to ~36% — all self-funded, with no dilution.
- Working capital is lean (near-neutral days); key monitorables are the contested ~Rs. 297 cr DTA and rising overseas guarantees. **We assign a rating of 5.5/7.0.**

Company Factsheet (1/3)

Corporate Snapshot	
Company background	▪ Incorporated in 1988, Varroc Engineering Ltd is a global automotive component group that designs, develops and manufactures advanced systems and components for leading OEMs worldwide. Its diversified portfolio spans e-mobility, body systems, lighting, HMI, ICE powertrain, and advanced electronics, serving 2W, 3W, passenger, commercial, and off-highway vehicles. ▪ With India contributing ~89% of revenue in FY26, Varroc has a global presence across 8 countries, with manufacturing in 5 countries and R&D/engineering centres across India, Europe and Asia. Its aftermarket business serves 30+ countries through 800+ channel partners, while Bajaj Auto remains its largest customer, contributing ~46% of FY26 revenue.
Business verticals	▪ The company operates through two verticals: Business I (domestic-focused) — E-Mobility, ICE Powertrain, Body Systems (polymer), HMI Solutions, and Aftermarket; and Business II (international) — advanced electronics and global lighting (ADAS, DMS, surround-view, telematics, infotainment, and 4W electronics). ▪ Revenue contribution by product vertical (FY26): Body Systems **(35.2%)**, ICE Powertrain **(25.1%)**, Lighting **(16.9%)**, Aftermarket **(10%)**, E-Mobility **(6.2%)**, HMI **(3.9%)**, and Connectivity (overseas) **(2.7%)**. ▪ Contribution by vehicle segment: 2W & 3W – **76%** and 4W – **24%.**
Manufacturing facilities	▪ Operates 37 manufacturing facilities, with a footprint spanning 8 countries — manufacturing in India (majority), Italy, Romania, Vietnam, and Thailand, plus R&D/technical centres in Poland, China, and Germany. ▪ India's footprint spans Body Systems (14 plants), Lighting (5 plants), ICE Powertrain (5 plants), HMI (3 plants), and E-Mobility (2 plants). Overseas manufacturing covers electronics (Romania), global lighting, and forging.
Key customers	BAJAJ, Mahindra, TVS, McLaren, Hero, Tesla, Royal Enfield
Promoter background	▪ Mr. Tarang Jain (Chairman & Managing Director) - A commerce graduate from Sydenham College with a business administration diploma from Lausanne and 30 years of automotive experience. ▪ Mr. Arjun Jain (Whole-Time Director) – Holds a bachelor's degree in Economics and Political Science from Vassar College, New York, and has prior experience with Bain & Company India Private Limited.
KMP	▪ Mr. Tarang Jain – Chairman & Managing Director ▪ Mr. Arjun Jain, Mr. Dhruv Jain, and Mr. Avinash Chintawar – Whole-Time Directors ▪ Mr. K. Mahendra Kumar – Chief Financial Officer ▪ Mr. Anil Ghatiya – Company Secretary & Compliance Officer
Auditors	▪ SRBC & Co. LLP, Chartered Accountants
IPO details	▪ Listing Date - 6 July 2018; Issue Size - Rs. 1,955 cr – 100% OFS; Price band – Rs. 965 - Rs. 967 per share.
Employee count	▪ Workforce: 6,100+

Category (Jun'26)	% Share
Promoter Group	75.00
FII	4.29
DII	11.18
Others (Public)	9.53
Total	**100.0**

Key Metrics	FY23	FY24	FY25	FY26
Revenue (Rs. cr)	6,863	7,552	8,154	8,890
Gross Profit (Rs. cr)	2433	2819	2945	3189
Gross Margin (%)	35.4%	37.3%	36.1%	35.9%
EBITDA (Rs. cr)	547	759	789	830
EBITDA Margin (%)	8.0%	10.1%	9.7%	9.3%
PBT (Rs. cr)	83	315	169	341
PBT Margin	1.2%	4.2%	2.1%	3.8%
PAT (Rs. cr)	39	553	70	230
Net Worth (Rs. cr)	976	1497	1565	1780
Net Debt (Rs. cr)	1308	1079	785	557
NWC - Ex Cash (Rs. cr)	66	381	534	348
Total Assets (Rs. cr)	4621	4560	4672	4875
RoE (%)	2.4%	44.2%	13.6%	16.1%
RoCE (%)	6.8%	15.9%	17.8%	19.8%

Source: Company, Midas Research

Company Factsheet – Story So Far (2/3)

Varroc emerged as a global automotive technology and manufacturing player through acquisitions, tech collaborations and product innovation

1988 - 2001

- Initiated the polymer business in Chhatrapati Sambhaji Nagar (erstwhile Aurangabad), marking the beginning of its journey.
- Partnered with Scarpa and Colombo to commence engine-valve manufacturing in India.
- Entered into a technical collaboration with Mitsuba Corporation, Japan, to develop electrical and electronic products for two- and three-wheelers.

2005 – 2007

- Entered into a technical collaboration with Delphi Corporation, Germany, to manufacture catalytic converters for two- and three-wheelers in India.
- Acquired IMES, Italy, to strengthen capabilities in critical large forgings for the earth-moving and oil-drilling industries.

2011 – 2014

- Acquired Tri.o.m., Italy, marking its entry into two-wheeler lighting.
- Acquired Visteon's global passenger vehicle (PV) lighting business, expanding its presence in automotive lighting.
- Received private equity investment from Tata Opportunity Fund.
- Acquired a 50% stake in Varroc TYC Corporation, China, strengthening its presence in the automotive lighting business.

2017– 2018

- Acquired a 90% stake in TCPL, an Indian manufacturer of automotive accessories, expanding its presence in the segment.
- Formed a joint venture with Dell'Orto to develop electronic fuel injection technology for two- and three-wheelers in India.
- Entered into a technical collaboration with Heraeus, Germany, for catalytic converter technology.
- Listed on the National Stock Exchange and Bombay Stock Exchange.

2019– 2023

- Acquired a 74% stake in CarlQ, a leading telematics solutions provider, strengthening its capabilities in connected mobility.
- Commenced localised production of EV components for two- and three-wheelers in India.
- Expanded its product portfolio to include ADAS, Driver Monitoring Systems and Video Telematics.
- Divested its passenger vehicle lighting business in Europe and the Americas to Plastic Omnium.
- Secured its first OEM programme for Driver Monitoring Systems, marking a key milestone in ADAS.

2024 – Present

- Expanded its product portfolio to include Integrated Starter Generators (ISG) and secured its first interior lighting programme.
- Increased renewable energy sourcing in India to over 36%, reinforcing its commitment to sustainable manufacturing.

Source: Company, Midas Research

Company Factsheet – Business Overview (3/3)

A vertically-integrated global auto-component group powering 2W/3W & 4W-led mobility across ICE, EV, lighting, body systems and electronics

What Varroc offers — A diversified core portfolio across automotive systems

Body systems
Polymer & painted body solutions built on lightweighting, 2K molding and 3i technology for durable, cost-efficient parts.

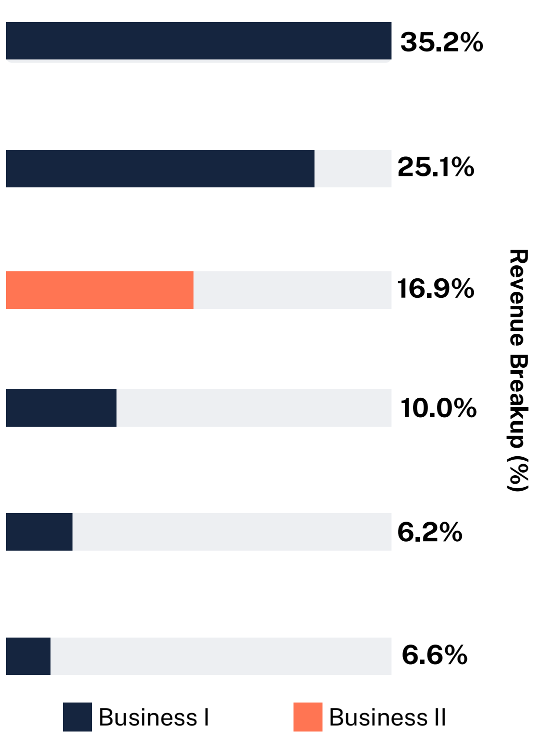
ICE powertrain
Precision engine, transmission & generator components meeting BS-VI norms; proprietary ISG, EFI and sodium-filled-valve tech.

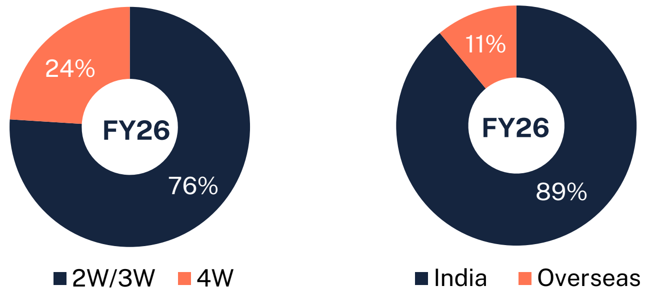
Lighting
Advanced exterior lighting across LED, matrix & Xenon; adaptive driving beam (ADB) and LiDAR-enabled, ADAS-ready designs

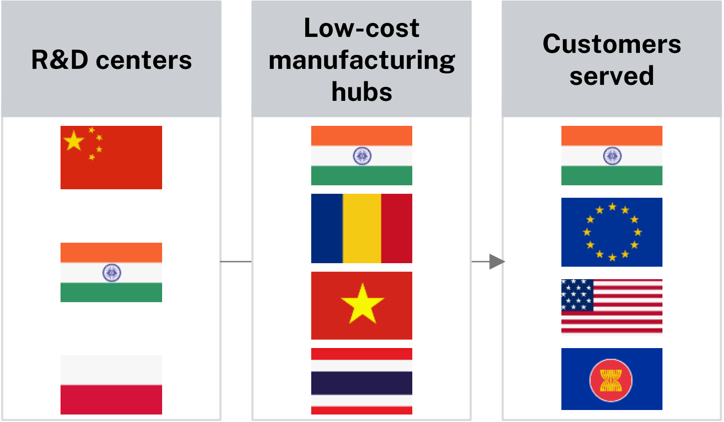
Aftermarket
Replacement business leveraging Varroc's OEM engineering; pan-India + export network with 8,000+ SKUs across 40+ product lines.

E-mobility
Locally designed, IoT-enabled EV powertrains with full vertical integration in electronics; in-house EMI/EMC & motor-dyno testing.

Other (HMI & Connectivity)
Human-machine interface solutions for rider control, connectivity & safety; high-precision molding and SMT electronic assembly.







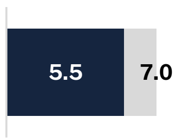
Engineering capabilities underpinning Varroc's moat

Varroc's approach to engineering	Faster time-to-market	Full system supplier capabilities	State-of-the-art processes & facilities	Robust technology roadmap	Design to manufacture & design-to-cost integration
Structural moat	R&D depth +	Low-cost structure +	QCD +	Proximity to customer =	Global capabilities

Source: Company, Midas Research

2.1 - Business Franchise & Moat (1/3)

Why we assign Varroc a 5.5 / 7.0 moat rating — five reinforcing barriers, not five separate ones



Varroc's moat rests on 28-year designed-in OEM incumbency, a one-stop five-product-line platform, and a fully localised, rare-earth-free EV powertrain backed by 130+ patents and ~2.7% of sales in R&D. But ~46% Bajaj concentration and OEM price power keep it a real-but-moderate moat, not a fortress. We assign a **5.5/7.0** rating.

Five reinforcing advantages — each one feeds the next

1 **Designed-in incumbency:** 28-year Bajaj relationship; once a part is specified into a vehicle platform, Varroc supplies it for the model's entire life, creating sticky, recurring programme revenue.

2 **One-stop full-system supplier:** Cross-selling five product lines onto the same platform — lighting, electricals-electronics, polymer, metallics and EV powertrain — lifting content-per-vehicle and switching friction.

3 **EV powertrain leadership:** Localised, end-to-end e-powertrain for India's 2W/3W EV leader; rare-earth-free SynRM motors remove China supply dependence — a genuinely hard-to-copy edge.

4 **Deep engineering & IP:** First in India with LED tail-lamps, TFT clusters and localised traction motors; 130+ patents, 7 R&D centres and ~2.7% of group sales reinvested in R&D, well above the industry median of ~1.86%, providing a strong runway for innovation-led growth.

5 **Low-cost India footprint:** 37 plants located near customer clusters provide a structural cost and proximity advantage over global tier-1 suppliers.

To conclude: a real but ***moderate*** moat — Engineering depth and designed-in stickiness build durable relationships, yet ~46% Bajaj concentration and OEM price power cap pricing flexibility. A system, not a fortress.

Source: Company, Midas Research

2.1 - Business Franchise & Moat (2/3)

The EV powertrain edge — why localisation is the moat, not the motor

The e-powertrain system is the heart of the moat

End-to-end localised system

Designs, develops & builds the full e-powertrain in India — traction motor, controller/inverter, BMS, charger, DC-DC — an integrated supplier, not a parts assembler.

Rare-earth-free SynRM motors

Indigenous 48-400V, 2.5-70 kW platforms; SynRM topology eliminates China rare-earth-magnet dependence — the exact shock that constrained the industry in H1FY26.

Content multiplies with EV

EV content is ~5-6x an equivalent ICE variant; premiumisation also lifts clusters, switches and painted parts across the vehicle.

Localised system vs import-dependent assembler

Varroc — localised system supplier

- ✓ Designed, developed & manufactured in India
- ✓ Vertically integrated electronics (SMT, IoT lines)
- ✓ In-house motor-dyno & EMI/EMC test labs
- ✓ Co-develops with OEM at design freeze

Import-dependent assemblers

- ✗ Reliant on imported motors / controllers
- ✗ Exposed to rare-earth & forex shocks
- ✗ Longer development cycles
- ✗ Weaker OEM co-development

~Rs.35,000

content per 2W EV (~Rs.40,000 per 3W EV) — disclosed, rising with premiumisation

Why it holds: (1) primary e-powertrain partner to the 2W/3W EV leader (Bajaj); (2) rare-earth-free + full localisation = the supply security OEMs increasingly demand. *The edge is the system design and localisation — not the assembly — which converts an EV order win into a durable, high-content relationship.*

Source: Company, Midas Research

2.1 - Business Franchise & Moat (3/3)

Pedigree & switching costs — why the relationships last, and where the moat is thin

Evolution — each phase compounded capability

1990s — **Bajaj captive supplier**
Magnetos & electricals; deep two-wheeler engineering DNA.

2012 — **Global scale**
Acquired Visteon lighting -> world's #6 lighting supplier.

2021-22 — **Refocus**
Divested loss-making 4W global lighting (EUR 520m); India 2W/3W + EV core.

2023-25 — **Repair**
Net debt Rs.1,308 -> 785 cr; exited China JV; CTO appointed 2026 (ex-Valeo).

FY26-27 — **EV inflection**
Record Rs.3,289 cr order wins (65%+ EV); Romania HV electronics (8-year, Rs. 800 cr peak).

Why designed-in relationships are a moat

Program-life stickiness
Parts are locked in at design freeze; re-sourcing mid-cycle is rare and costly, converting wins into multi-year recurring revenue.

Re-sourcing friction
A new supplier needs re-tooling, re-validation and PPAP sign-off; OEMs avoid this unless quality or cost fails.

Multi-line lock-in
Five product lines on one platform deepen integration and raise the cost of switching any single line.

The flip side: stickiness is strongest where Varroc is already an incumbent (Bajaj) — the same dynamic makes winning share at ***new*** OEMs a slow process.
Diversifying beyond ~46% Bajaj is key to widening the moat.

Source: Company, Midas Research

2.2 - Management & Governance Quality (1/3)

4.0 | 7.0

The board is 50% independent, with fully independent audit and NRC committees, promoters aligned at 75%, and a strong deleveraging record. But governance is clouded by qualified audit opinions for three years running, an internal-control material weakness, and a contested ~Rs. 297 cr DTA (~17% of net worth). We assign a below-average **4.0/7.0** rating.

✅ : Positive ☑ : Neutral ❌ :Negative

Rating		Corporate factsheet
☑	**Board of Directors- Independence & diversity**	▪ The Board of Directors comprises eight members: one Promoter Chairman & Managing Director, 3 Executive (Whole-time) Directors & 4 Independent Directors. ▪ Only one of the four Independent Directors is a woman – meeting the bare statutory minimum but leaving board gender diversity well short of good-governance norms. ▪ The board is led by experienced promoter family members and complemented by Independent Directors with diverse professional expertise. ▪ Independent Directors constitute 50% of the board, providing balanced oversight and governance.
☑	**Board of Directors- changes in directors**	▪ Three Independent Directors – Mr. Gautam Khandelwal, Mrs. Vijaya Sampath & Mr. Marc Szulewicz retired upon completion of their second term on 19 July 2025. ▪ Three new Independent Directors – Mrs. Liselott Kilaas, Mr. Akshaykumar Chudasama & Mr. Padmanabh Sinha were appointed for an initial 5-year term in FY26. ▪ Mr. Vidyadhar Limaye stepped down as Whole-time Director on 30 June 2025 following early retirement for personal reasons.
✅	**Board of Directors- independence in board committees**	▪ The Nomination & Remuneration Committee comprises three directors, of whom all are Independent Directors ▪ The Audit Committee comprises three directors of which all are Independent Directors.
☑	**Changes in Key Managerial Personnel**	▪ Mr. Ajay Sharma stepped down as Group General Counsel & Company Secretary, with Mr. Anil Ghatiya replacing him as Company Secretary & Compliance Officer, effective 31 July 2025. ▪ Mr. Arjun Jain was re-appointed as Whole-time Director effective 7 August 2025 for a further term, with the re-appointment subsequently approved by shareholders through a special resolution. ▪ Mr. Avinash Chintawar was appointed as Whole-time Director & Occupier effective 12 November 2025 for a three-year term through 11 November 2028.
✅	**Management continuity**	▪ Mr. Tarang Jain has been associated with the Company since its incorporation and has served as Managing Director since 2001. ▪ Mr. K. Mahendra Kumar has served as Group Chief Financial Officer since his appointment on 28 September 2022. ▪ SRBC & Co. LLP has served as the Company's statutory auditor since FY23 and was appointed for a five-year term through FY28.
❌	**Promoter remuneration**	▪ Chairman & MD Mr. Tarang Jain received remuneration of Rs. 14.31 cr in FY26, equivalent to ~6.2% of consolidated PAT. ▪ Promoter-family Whole-time Directors Mr. Arjun Jain and Mr. Dhruv Jain received Rs. 3.16 cr and Rs. 1.79 cr, respectively in FY26, taking total promoter-family remuneration to ~Rs. 19.3 cr (~8.4% of consolidated PAT).
✅	**Promoter holding**	▪ Promoter & Promoter Group hold 75.00% (11.46 cr shares) – the maximum permissible under listing norms.
☑	**Stock-based compensation**	▪ No material ESOP grants/share-based compensation were recorded for KMPs in FY26, with all employee stock option disclosures appearing routine.
☑	**Related-party transactions**	▪ The Company extended loans/advances of Rs. 17.79 cr to its subsidiary, Varroc Connect Pvt Ltd during FY26.

Source: Company, Midas Research
Note: All information is sourced from the FY26 Annual Report

2.2 - Management & Governance Quality (2/3)

Key Managerial Personnel — Committed & experienced leadership driving Varroc's growth

Senior management comprises highly skilled professionals with decades of industry experience

Mr. Tarang Jain

Chairman & Managing Director

- Mr. Tarang Jain is the Chairman & Managing Director of Varroc and has been associated with the company since its inception.
- He holds a bachelor's degree in Commerce from Sydenham College of Commerce and Economics, University of Bombay, and a diploma in Business Administration from the University of Lausanne, Switzerland.
- He co-founded Varroc in 1988 and brings over three decades of experience in the automotive industry.
- He provides strategic leadership to the Group, with expertise spanning automotive manufacturing, business strategy and global operations.

Mr. Arjun Jain

Whole-Time Director

- Mr. Arjun Jain is the Whole-time Director and CEO – Business I of Varroc.
- He holds a bachelor's degree in Economics and Political Science from Vassar College, New York, and was previously associated with Bain & Company India.
- He joined Varroc in 2013 as General Manager – Business Excellence and became Business Head of the Electrical Division in 2015.
- He has led the India Business as CEO since 2022 and has been on the Board since 2018.

Mr. Avinash Chintawar

Whole-Time Director & Chief Operating Officer

- Mr. Avinash Chintawar is the Whole-time Director & COO of Varroc, overseeing operations within Business I.
- He holds a Bachelor of Engineering from Visvesvaraya National Institute of Technology and a Postgraduate Diploma in Management from IGNOU; he has also completed ICWA (Inter).
- He brings extensive automotive and manufacturing experience, having previously served as Managing Director of Bosch Chassis Systems India.
- He has held senior leadership roles across the Bosch Group, including Director of Operations at Robert Bosch Bamberg, Germany, and Managing Director of Bosch Electrical Drives India.

Mr. K. Mahendra Kumar

Chief Financial Officer

- Mr. K. Mahendra Kumar is the Chief Financial Officer of Varroc.
- He is a Commerce graduate from Vijayawada University and a qualified Chartered Accountant from the Institute of Chartered Accountants of India and Management Accountant from CIMA, UK.
- He brings over two decades of experience in finance, having worked with leading European and American MNCs and Indian conglomerates across chemicals, automotive, IT, wind energy and elevators.
- His areas of expertise include M&A, risk management, digital transformation, cost reduction, long-term strategy, debt reduction, stakeholder management and profitability improvement.
- Prior to joining Varroc, he was Executive Vice President & CFO of Tube Investments of India.

Source: Company, Midas Research

2.2 - Management & Governance Quality (3/3)

Board of Directors - Ensuring strategic governance and risk management

Tarang Jain
Managing Director (Promoter & Chairman)

- Commerce graduate from Sydenham College of Commerce & Economics, with a diploma in Business Administration from the University of Lausanne, Switzerland.
- Co-founded Varroc in 1988 and brings over three decades of experience in the automotive industry, providing strategic leadership to the Group

Arjun Jain
Whole-time Director & CEO – Business I

- Economics & Political Science graduate from Vassar College, New York; previously associated with Bain & Company India.
- Joined Varroc in 2013 and has led the India Business since 2022, with responsibility for Business I.

Dhruv Jain
Whole-time Director & CEO – Business II

- Holds a bachelor’s degree in Economics from the University of Chicago.
- Leads Business II and the Electronics business, overseeing business performance and driving the ADAS and lighting electronics strategy.

Avinash Chintawar
Whole-time Director & COO

- Bachelor of Engineering from VNIT, PG Diploma in Management from IGNOU and ICWA (Inter).
- Former Managing Director of Bosch Chassis Systems India; held senior leadership roles across Bosch in India and Germany, with extensive manufacturing and operations experience.

Dr. Vinish Kathuria
Non-Executive Independent Director

26+ Years of Experience

- Chemical Engineering graduate from IIT Delhi, with a Master’s in Science from Case Western Reserve University and an MBA from Duke University.
- Co-founded RANK Software and brings extensive experience across technology, digital businesses and entrepreneurship.

Liselott Kilaas
Non-Executive Independent Director

40+ Years of Experience

- MBA from IMD Business School and a Master’s degree in Mathematics & Statistics.
- Has held senior leadership and board positions across global organisations, with expertise in strategy, operational efficiency, corporate governance and sustainability.

Akshaykumar Chudasama
Non-Executive Independent Director

35+ Years of Experience

- Holds a BA from St. Xavier’s College, Mumbai and an LLB from the London School of Economics; enrolled as an Advocate in India and Solicitor in England & Wales.
- Managing Partner at Shardul Amarchand Mangaldas & Co., with expertise in cross-border M&A and private equity deals.

Padmanabh Sinha
Non-Executive Independent Director

35+ Years of Experience

- Computer Science graduate from BITS Pilani, MBA from IIM Calcutta and Executive Program in Private Equity from Harvard Business School.
- Managing Partner & Co-founder of LaunchBay Capital; previously held senior investment roles at NIIF, Temasek and Tata Opportunities Fund.

Source: Company Information

2.3 - Risk Profile & Pricing Power

Varroc's strong engineering capabilities, high entry barriers, long-standing OEM relationships and diversified portfolio across emerging automotive technologies provide meaningful competitive advantages. However, the high bargaining power of OEM customers, significant customer concentration and intense industry rivalry constrain pricing power and margins. We assign a balanced **4.5/7** rating.

Porter's Five Forces

Threat of New Entrants — Low

High entry barriers due to significant R&D and manufacturing investments, stringent quality standards, and OEM qualification requirements. Varroc's 7+ technical centres, 130+ patents, and long-standing OEM relationships further strengthen its moat, although regional players can still enter less technology-intensive segments.

Bargaining Power of Supplier — Moderate

Moderate supplier power due to reliance on imported battery cells and advanced electronic components, creating supply-chain and cost pressures. Varroc's in-house capabilities and growing localisation help mitigate these risks, although specialised inputs remain a potential source of disruption and cost inflation.

Bargaining Power of Buyer — High

High buyer power due to large OEMs' scale, stringent requirements and global sourcing options. Customer concentration further increases risk, with one automotive customer contributing ~46% of FY26 revenue, although long-standing OEM relationships and early product involvement provide some offset.

Threat of Substitutes — Moderate

Rapid technology shifts, particularly the transition from ICE to EVs, can reduce demand for conventional powertrain components and change product requirements. However, Varroc's diversified portfolio across e-mobility, lighting, electronics, ADAS, HMI and connectivity allows it to participate in emerging technologies and offset the decline in legacy products.

Industry Rivalry — High

Industry rivalry is high due to intense price competition and the presence of both global and local suppliers. Competition is more led by technology, engineering capabilities, quality, and execution, particularly in EVs, electronics, and advanced lighting. Despite Varroc's strong global footprint, its overseas operations remain exposed to market weakness and cost pressures.

Source: Company, Midas Research

2.4 – Financials: Three Levers Driving EV Growth (1/4)

EV adoption doesn't add to revenue linearly — it multiplies through rising penetration, Varroc's over-indexed EV share, and 5–6× content per vehicle.

Growth is strong and visible — ~21% revenue CAGR (FY26-28E) on a Rs. 3,609 cr order book (72% EV-linked), with EV revenue compounding ~88%. PBT margin nearly doubles to ~7.4% and RoCE climbs from ~20% to ~36% on operating leverage and deleveraging, though absolute margins remain thin and earnings carry one-offs. We assign a **5.5/7.0** rating.

Market grows

EV penetration ~40% CAGR to FY31

×

Varroc over-indexes

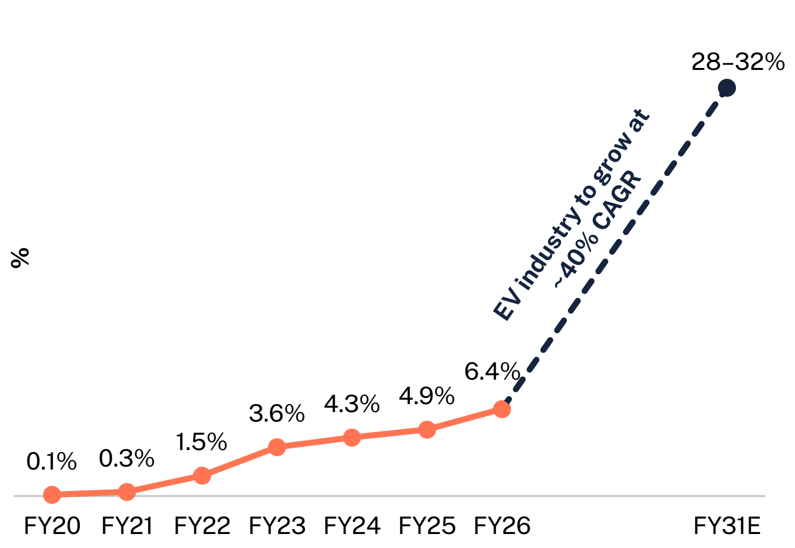
13% EV sales vs 6.4% industry

×

Content multiplies

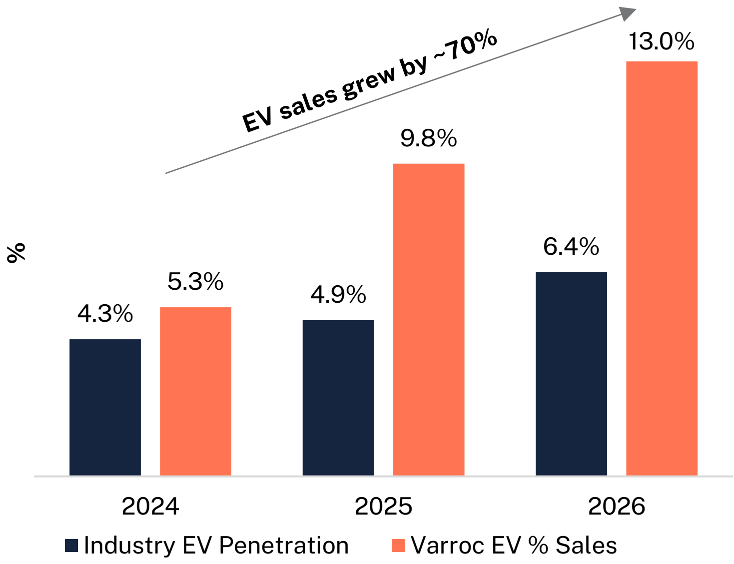
5–6× per EV vs ICE

EV industry penetration



Total EV: *0.1% (FY20) → 6.4% (FY26) → 28–32% by FY31E*
e2W: *5.1% (FY24) → 5.8% (FY25) → 22% by FY30E expected to grow at 40% CAGR as well*

Varroc EV sales vs industry



Content per vehicle (Rs.)

EV 2-wheeler ~**Rs. 35,000**

3-wheeler ~**Rs. 40,000**

ICE 2-wheeler ~**Rs. 5,000–8,000**

= 5–6× more content captured per EV

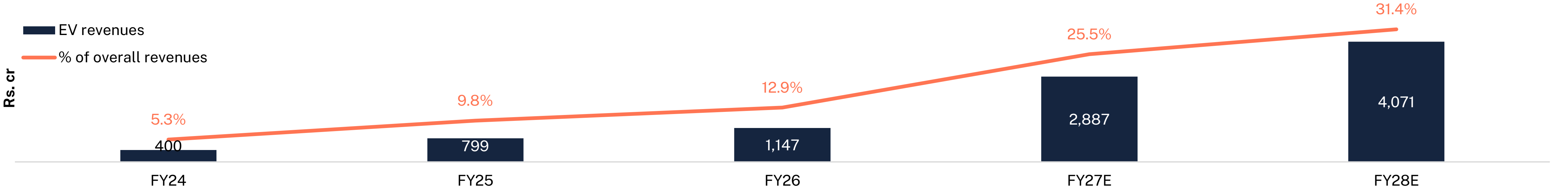
= EV revenue is estimated to grow at ~88% CAGR: Rs. 1,147 cr (FY26) → Rs. 4,071 cr (FY28E), lifting EV mix from 13% to 31%

Source: Company, Midas Research, Dhoot Transmission DRHP

2.4 – Financials: The Payoff — And How Much is Contracted (2/4)

The re-rating isn't a hope: much of the FY27–28 step-up is already contracted through order-book programmes approaching start of production

EV revenue (Rs. cr) on track to ~quadruple by FY28E



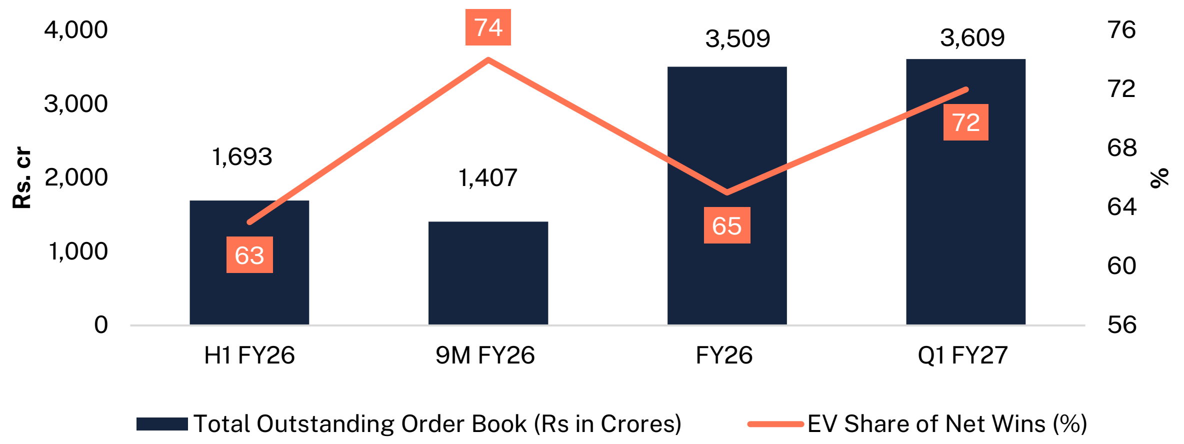
TWO REASONS

1. Order book already locked in

Order-book programmes at the start of production: **Rs. 2,316 cr** in FY27 and **Rs. 1,167 cr** in FY28. **72%** of recent order wins are EV-linked — visibility, not assumption.

2. Bajaj-led EV volumes scaling

Bajaj Chetak **+61.7%** and 3W-EV **+178.5%** CAGR (FY24–26). Bajaj accounts for ~¾ of EV revenue today; **two further top-5 OEMs** are expected to reach SOP by FY28E, broadening the base.



Bajaj EV to grow at robust pace driving Varroc's EV revenues

Segment (Units)	FY24	FY26	CAGR	Management outlook
Chetak	115,702	302,674	61.70%	"Chetak, it will be about 60,000 units per month in the immediate term" implying a CAGR of roughly 33.5% in next 3 years
3W – ICE	451,182	424,888	-3.00%	Expected to remain broadly flat
3W – EV	12,231	94,894	178.50%	Growth is expected to moderate to ~50%. Bajaj launched E-Rick as an entry into the L3 zone, with a TAM of 45,000 units p.m.
EV Sales	2,000	8,000	100.00%	

Source: Company, Midas Research

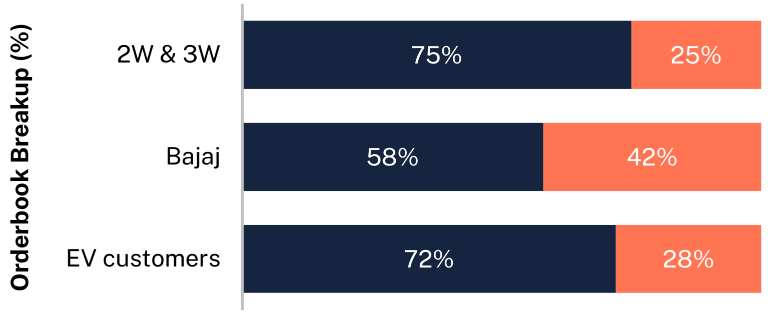
2.4 – Financials (3/4)

Order book creating strong visibility for EV and Non-EV revenue growth over the medium term

Rs. 3,609 cr order book ≈ 41% of FY26 sales — EV & Bajaj weighted

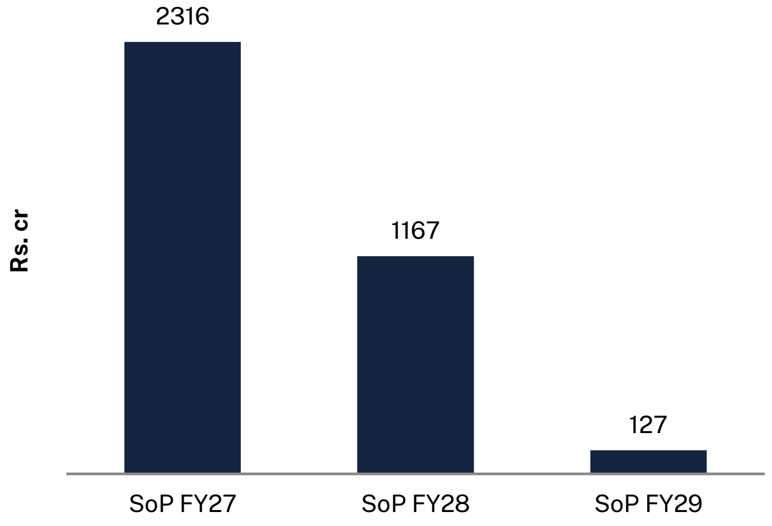
Rs. 3,609 cr outstanding order book

Annual peak revenue, end Q1FY27 · ~41% of FY26 sales · net new win Rs. 599 cr in Q1FY27 alone



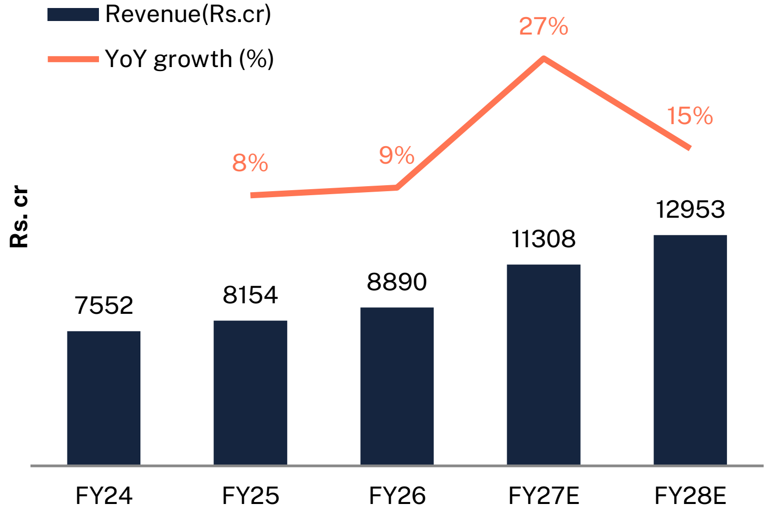
EV · Bajaj · 2W/3W share of the order book (balance = ICE / non-Bajaj / 4W & others)

It converts on schedule — most programmes start production in FY27–28



Intake (Rs. 599 cr) outpaced conversions (Rs. 499 cr) in Q1FY27 — the book is still growing.

...Underpinning revenue of ~Rs. 12,950 cr by FY28E



FY26–FY28E revenue CAGR ~20.7% (Midas estimates; FY27E–FY28E forecast)

1 **Visibility, not hope.** The Rs. 3,609 cr. book equals ~41% of FY26 sales; net new wins of Rs. 599 cr in Q1FY27 outpaced Rs. 499 cr of start-of-production, so the book kept growing even as it converted to sales.

Non-EV incremental growth is supported by **28% of the order book linked to non-EV programmes**, broadly in line with industry growth.

2 **Aimed at the fastest-growing pools.** 72% of the book is with EV customers and 58% with Bajaj (whose EV sales compound ~100%); 75% sits in 2W/3W, where Varroc is strongest — aligning the book with rising EV penetration and higher content per vehicle.

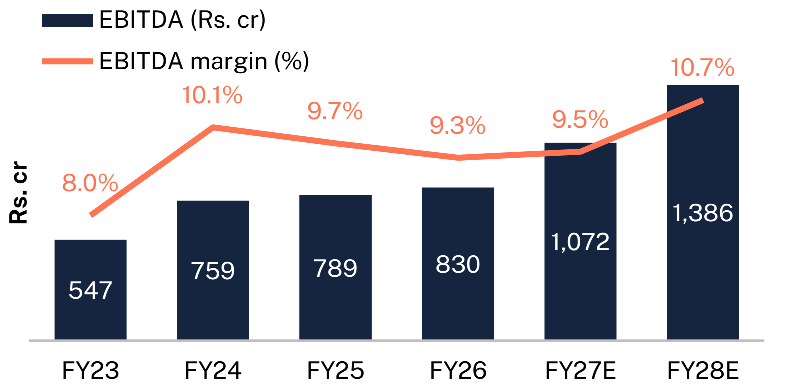
3 **Feeds the FY27–FY28 ramp-up in revenue.** Rs. 2,316 cr of programmes start production in FY27 and Rs. 1,167 cr in FY28, underpinning our revenue build to ~Rs. 11,300 cr (FY27E) and ~Rs. 12,950 cr (FY28E) — a ~21% FY26–28E CAGR on a low FY26 base.

Source: Company, Midas Research

2.4 – Financials (4/4)

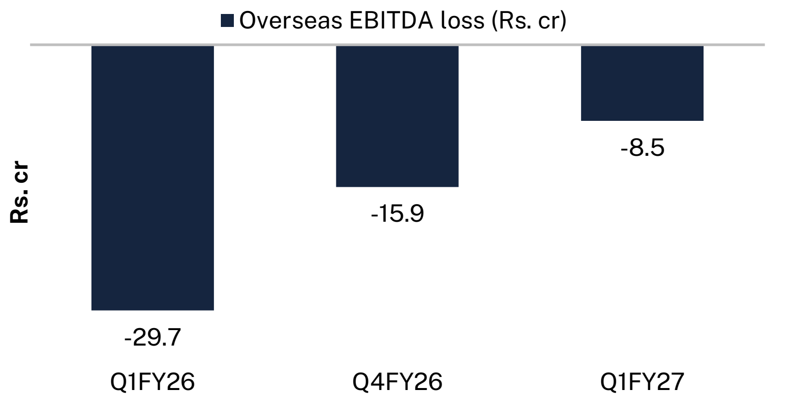
Operating leverage lifts the top; deleveraging does the heavy lifting

EBITDA troughed in FY26; operating recovery is real but modest



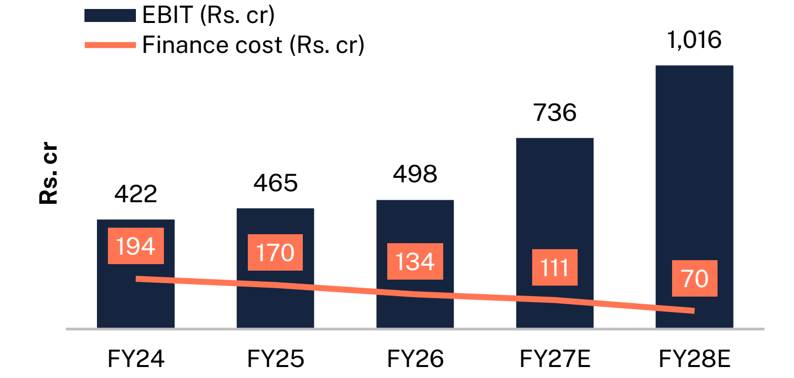
EBITDA rises every year to Rs. 1,386 cr by FY28E, but the margin troughs at 9.3% in FY26 before recovering to 10.7%. The drag is entirely from overseas operations (~Rs. 70 cr); **India standalone business already earns 11.5–11.7%.**

Overseas drag is easing; ~Rs. 115 cr of self-help is kicking in



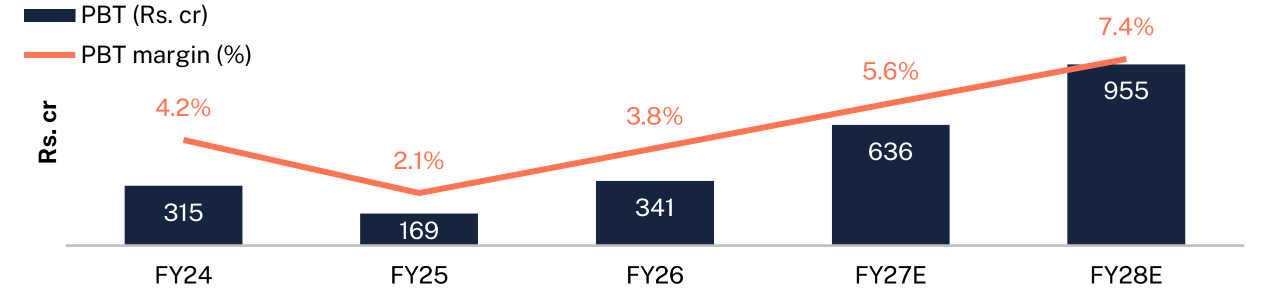
Overseas EBITDA loss more than halved in a year, from Rs. 29.7 cr (Q1FY26) to Rs. 8.5 cr (Q1FY27), with Romania reaching breakeven by Q4FY27. Backed by ~Rs. 115 cr of self-help: Optima 50, delayering 25, VRS 20, and renewables 20.

EBIT up ~2x while finance cost nearly halves



EBIT roughly doubles to Rs. 498 cr (FY26) to ~Rs. 1,016 cr (FY28E), while finance costs nearly halve from FY26–28E (Rs. 134 → Rs. 70 cr) as net debt is repaid. The two move in opposite directions, so the widening gap flows straight to PBT.

THE RESULT - PBT margin nearly doubles — an earnings turnaround driven far more by the balance sheet than by operating margin



PBT margin more than doubles, from 3.8% (FY26) to 7.4% (FY28E), and absolute PBT climbs from Rs. 341 cr to Rs. 955 cr. The FY25 dip to Rs. 169 cr reflects one-off transition and restructuring drag, not a weakening of the underlying business — the clean read is the trajectory from FY26 onward.

~140 bps	**EBITDA margin gain FY26→FY28E (9.3% → 10.7%)** Modest — operating leverage + EV mix + overseas normalization
+360 bps	**PBT margin gain over the same window (3.8% → 7.4%)** ~2.6x the EBITDA-margin move — deleveraging is the lever
Rs. 194→Rs. 70 cr	**Finance cost as net debt falls from Rs. 557 cr → ~Rs. 49 cr.** Near-zero net debt targeted by FY28; 25% minimum project IRR hurdle

Source: Company, Midas Research

2.5 - Balance Sheet & Cash Flow (1/2)

Varroc 2.0 — how the 2022 reset de-risked the balance sheet

One of the sector's cleanest deleveraging stories — net debt cut from ~Rs. 1,308 cr to ~Rs. 557 cr and targeted at ~Rs. 50 cr by FY28E, D/E falling to ~0.02x and interest cover rising to ~14.5x, all self-funded. The key monitorables are the contested ~Rs. 297 cr DTA and ~Rs. 78.9 cr of overseas guarantees. We assign a **5.5/7.0** rating.

Pre-2022, Varroc was an asset-heavy, structurally loss-making global 4W-lighting major (FY22 EPS Rs. (72.6), ~Rs. 11,000 cr of assets). Exiting that business in 2022 rebased the group around India 2W/3W and EV — nearly halving assets, cutting borrowings, and lifting returns.

PRE-2022 · THE LEGACY BURDEN

- Global 4W-lighting major (Europe & Americas) — asset-heavy and highly leveraged.
- Structurally loss-making: FY22 EPS Rs. (72.6), operating margin ~6%, ~Rs. 11,000 cr of assets.

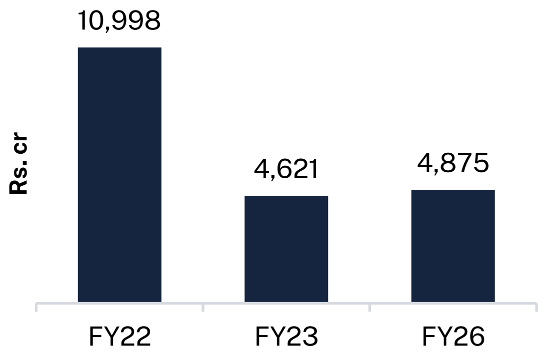
2022

VARROC 2.0 · THE RE-BASED PLATFORM

- India-centric 2W/3W (~76% of sales) + EV / electronics; residual overseas now just Romania electronics + a new Thailand 4W win.
- E-Mobility the fastest-growing line; promoter holding steady ~75% through the reset.

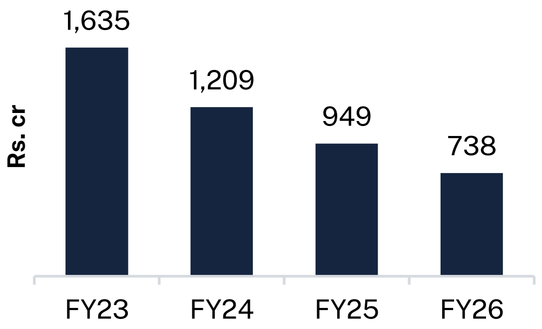
2022 — the cash-burning global 4W-lighting business (Europe & Americas) was divested to Plastic Omnium

1 · Balance sheet nearly halved



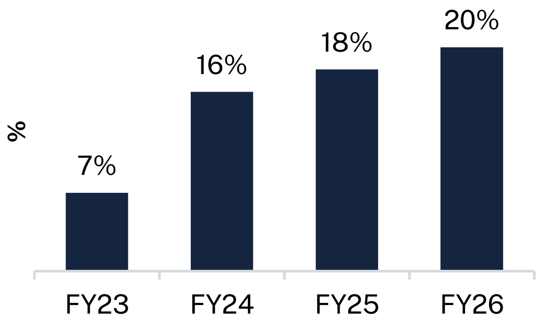
The 2022 exit stripped out the capital-heavy global lighting assets.

2 · Divested for debt reduction



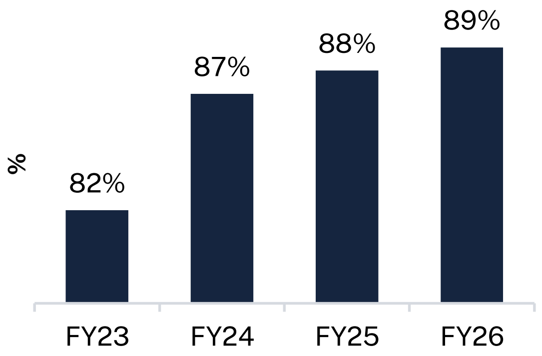
Proceeds + India 2W/3W cash cut borrowings ~55%.

3 · ...and RoCE inflects 7% → 20%



A leaner base + better mix lifted capital efficiency — and it keeps rising.

4 · Re-based around India (89%)



Geography re-centred on India as the overseas footprint was rationalised.

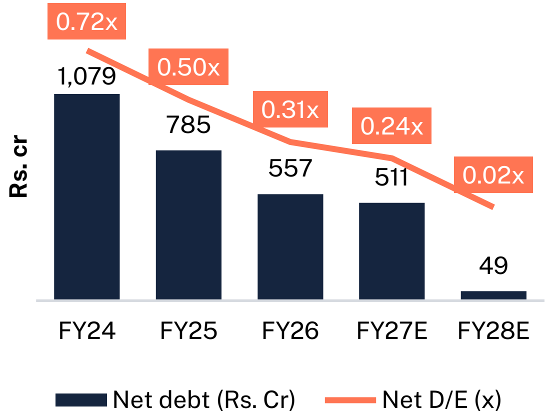
Source: Company, Midas Research

2.5 - Balance Sheet & Cash Flow (2/2)

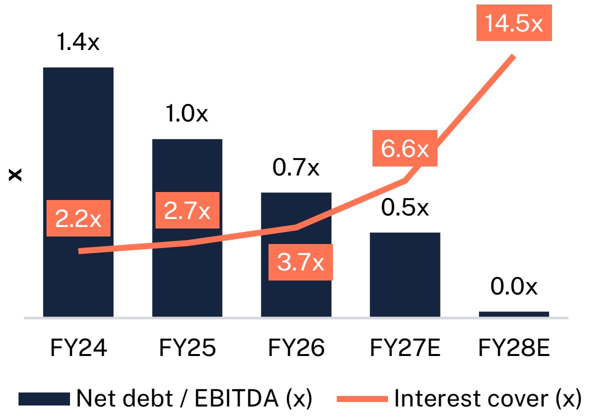
...and from here the reset completes — net debt to zero, returns compound

Having halved the balance sheet and cut borrowings post-2022, the de-risking now finishes — net debt falls from Rs. 557 cr (FY26) toward ~Rs. 49 cr by FY28E, gearing to ~0.02x and RoCE from ~20% to ~36% — all self-funded, with no dilution.

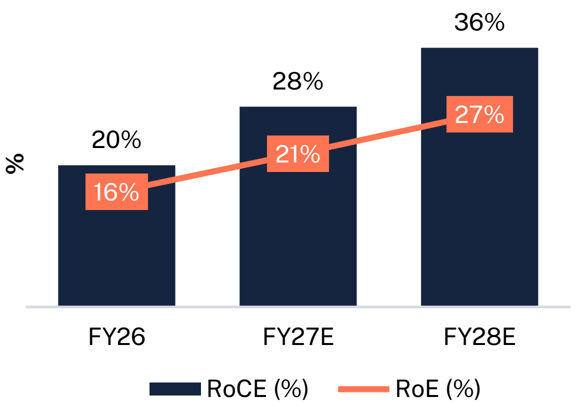
Net debt runs to a net-cash-like position



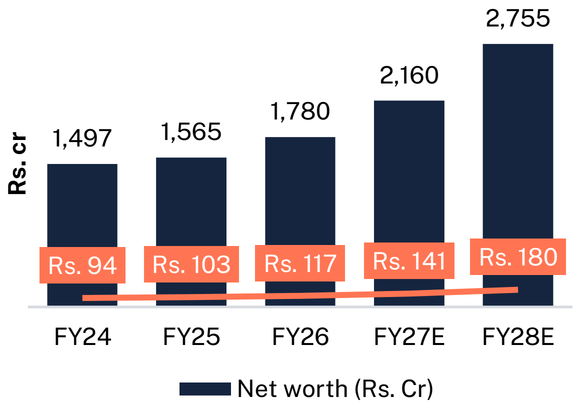
Gearing and coverage transformed



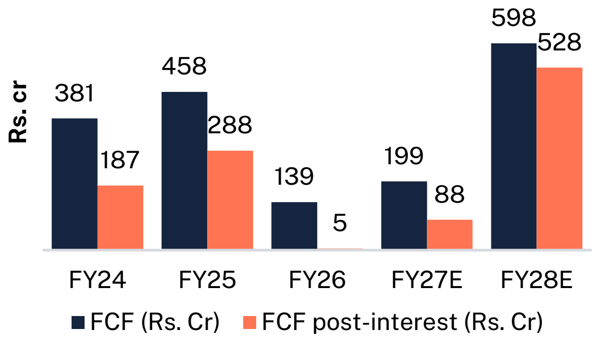
RoCE keeps climbing past the reset



Equity compounds — no dilution



Net positive FCF funds debt repayment



- Net debt of Rs. 557 cr (FY26) runs to ~Rs. 49 cr by FY28E, with D/E easing from 0.3x to ~0.02x.
- Funded entirely by internal cash, not equity.
- Nearly there already — FY26 net debt of just Rs. 557 cr against a near-zero-net-debt target for FY28.

- RoCE is likely to climb from ~20% (FY26) to ~36% (FY28E); RoE is expected to rise from ~16% to ~27%.
- Driven by margin recovery and falling capital intensity.
- FY24–25 ratios were distorted by one-offs; the clean inflection starts from FY26.

- Net worth compounds ~24.5% p.a. purely on retained earnings.
- Book value per share rises from Rs. 116.5 → Rs. 180 on a flat share count.
- A near-debt-free balance sheet by FY28 frees up firepower for the FY31 Rs. 20,000 cr vision.

Source: Company, Midas Research

3 – Valuation Framework

Valuation Framework - Summary

3.1

By Own History:

- Forward multiples have re-rated above historical bands: 1-yr fwd P/E ~33x vs ~17x median, EV/EBITDA ~14x vs ~8x, P/B ~6x vs ~3.7x.
- But this is a structural re-rating, not simple expensiveness — the market is repricing Varroc 2.0, unlike its legacy global-lighting past.
- Near-term P/E still normalises to ~19x on FY28E. **We assign a 4.5/7.0 rating.**

3.2

Current Position vs Peers:

- Trades at a steep discount to auto-component peers — FY28E P/E ~19x vs a ~35x peer avg.
- Yet posts the highest Adj PAT CAGR (57% vs 32%), EBITDA CAGR (29% vs 22%) and FY28E RoE (26.9% vs 16.3%).
- Thin margins & earnings-quality overhang justify part of the discount, but the gap looks too wide — a discounted 25x target implies a Rs. 1,089 TP (~30% upside). **We assign a 6.0/7.0 rating.**

3.3

Based on Growth:

- Strongest earnings growth at the lowest growth-adjusted valuation — ~57% Adj PAT & ~29% EBITDA CAGR at ~9.3x FY28E EV/EBITDA and ~0.3x PEG.
- Growth quality is the caveat: Adj PAT CAGR is amplified by deleveraging and normalisation off a one-off-hit FY26 base.
- Order-book-backed revenue growth still underpins the case. **We assign a 5.5/7.0 rating.**

3.4

Capturing Return Profiles:

- Return ratios inflect sharply — RoE to ~27% and RoCE toward ~36% by FY28E, the highest in the peer set, despite the lowest FY28E P/E (~19x).
- The near-term TTM P/E screens high on a depressed FY26 base, masking the inflection.
- Cash conversion is best-in-set (CFO/PAT ~2.0x), normalising after a working-capital-heavy FY26. **We assign a 5.5/7.0 rating.**

3.5

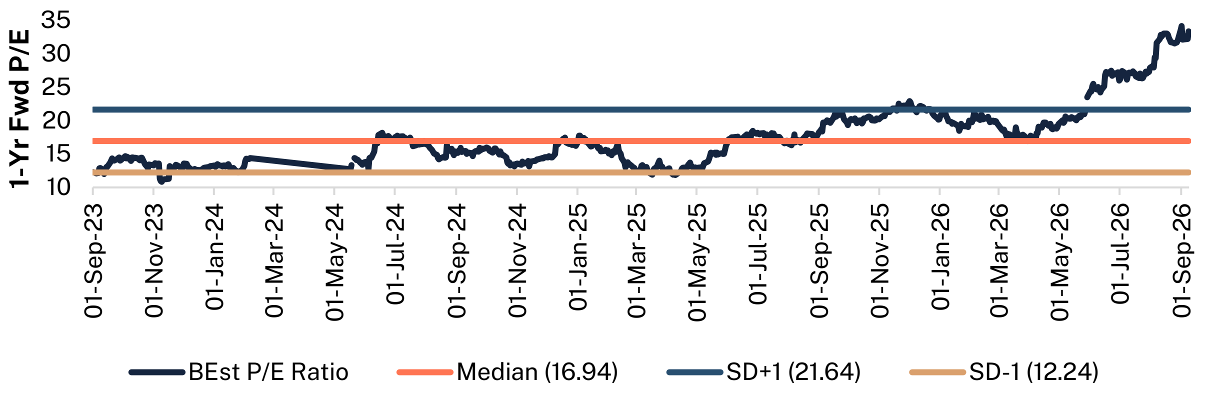
Reflecting EVA:

- Varroc generates a positive economic value spread (~+5% in FY26) — the best in a peer set that mostly sits around or below zero.
- EVA spread improves from ~5% (FY26) to ~15% (FY28E) as returns rise and net debt falls.
- The track record is volatile: EVA swung from +22% (FY24) to -8% (FY25) before recovering, so the spread is improving but not yet proven durable. **We assign a 5.0/7.0 rating.**

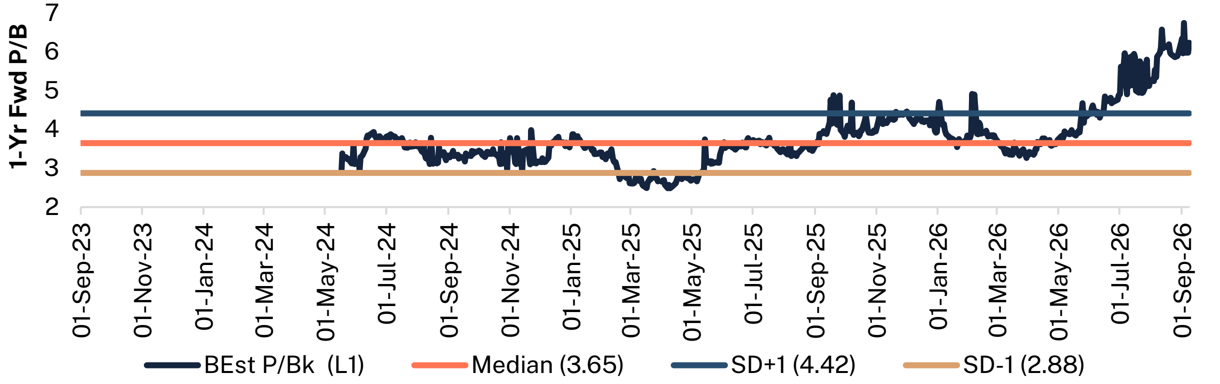
3.1 – By Own History (in charts)

Varroc's forward multiples have re-rated above their own history — P/E ~33x vs ~17x, EV/EBITDA ~14x vs ~8x and P/B ~6x vs ~3.7x — but this is a structural re-rating rather than simple expensiveness. The market is repricing Varroc 2.0 — a deleveraged, India 2W/3W + EV business whose earnings and return profile look nothing like its legacy global-lighting past. Near-term P/E still normalises to ~19x on FY28E. We assign a **4.5/7.0** rating.

Forward P/E re-rates to ~33x vs ~17x historically — market is repricing Varroc 2.0, a deleveraged India 2W/3W + EV business whose earnings trajectory is unlike its past

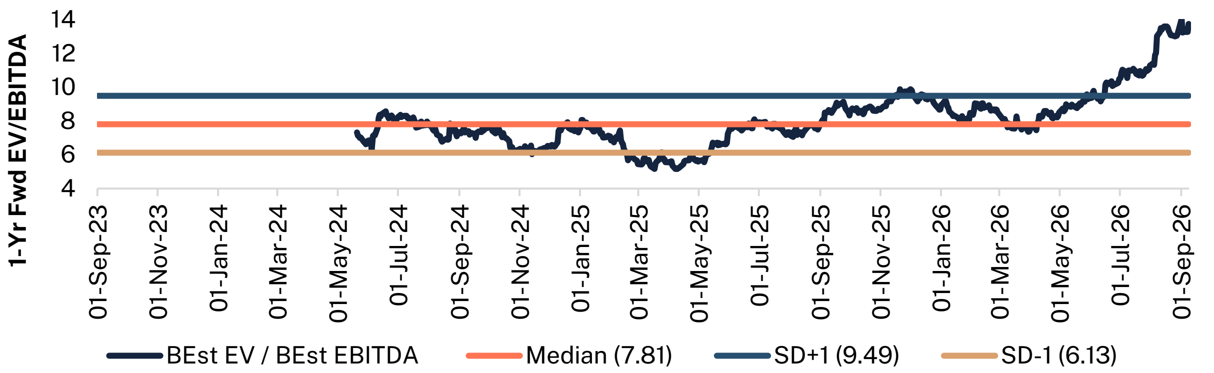


P/B at ~6x vs ~3.7x historically, as the market rerates the reset balance sheet — near-zero net debt and a sharp RoE inflection make old book-value range less relevant



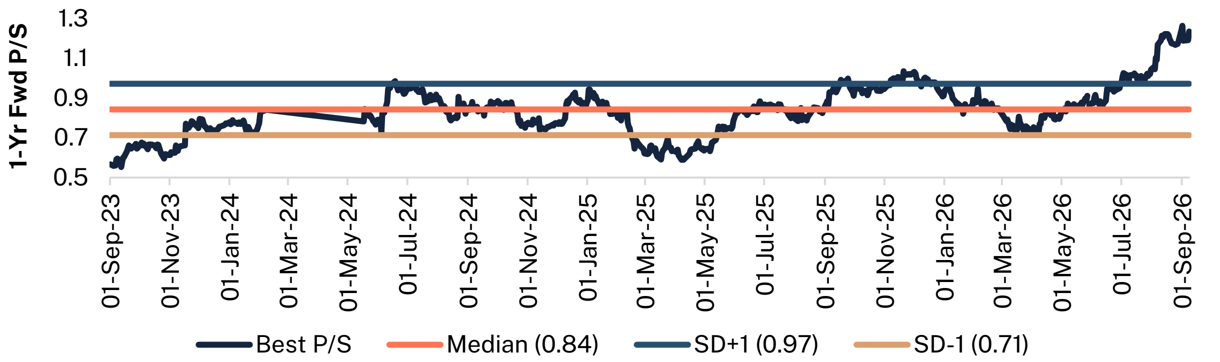
Note: 1-year forward valuation metrics are shown only for the last two years due to unavailability of historical forward estimates.

EV/EBITDA at ~14x vs ~8x historically, pricing in structural margin recovery and EV-led growth of Varroc 2.0 rather than the legacy, loss-making global-lighting company



Note: 1-year forward valuation metrics are shown only for the last two years due to unavailability of historical forward estimates.

P/S at ~1.2x vs ~0.8x historically, as the market rerates a high-quality revenue mix — rising EV/electronics content & order-book-backed growth the historical band missed



Note: Higher Line - +1 S/D & Lower Line - -1 S/D
Source: Company, Bloomberg, Midas Research

3.2 – Current Position vs Peers

Against its peer set, Varroc trades at a steep discount — FY28E P/E ~19x vs a peer average of ~35x — despite the highest Adj PAT CAGR (57% vs 32%) and highest FY28E RoE (26.9% vs 16.3%). Thinner margins and the earnings-quality/governance overhang justify part of the discount, but the gap looks wider than warranted: a discounted 25x target multiple still implies a Rs. 1,089 TP (~30% upside), while sustained execution could narrow the discount further. The risk-reward skews favourably, so we assign a **6.0/7.0** rating.

- Varroc 2.0 is driving a structural re-rating. The exit from the loss-making global lighting business has reshaped Varroc around India 2W/3W, EV, and electronics, while narrowing overseas losses and deleveraging have strengthened the balance sheet. Recent execution is validating the reset, with margins and return ratios improving.
- Earnings are inflecting faster than revenue. We expect FY26–28E revenue/EBITDA/Adj PAT CAGRs. of 21%/29%/57%, respectively, driven by growth, the overseas turnaround, operating leverage and lower finance costs. While PAT growth is amplified by the low FY26 base and deleveraging, RoE is expected to rise to ~27% by FY28E, signalling a meaningful improvement in business quality.
- Valuation remains attractive despite a meaningful discount. Varroc trades at ~19x FY28E P/E vs ~35x for peers. We apply a **discounted target multiple of 25x FY28E P/E** to account for thinner margins and earnings-quality/governance concerns, implying a **Rs. 1,089 TP (~30% upside)**. Sustained execution and continued improvement in business quality could narrow this discount further, providing additional re-rating headroom. Beyond the near-term earnings catch-up, growth should normalise toward industry levels over the long term, but improving returns and a stronger balance sheet support a more sustainable long-term compounding story.

Particulars	CMP Rs.	Mkt cap Rs. cr.	Revenue (Rs. cr.)			EBITDA(Rs. cr.)			PAT(Rs. cr.)			EBITDA margin		RoE (%)		P/E
			FY26	FY28E	CAGR	FY26	FY28E	CAGR	FY26	FY28E	CAGR	FY26	FY28E	FY26	FY28E	FY28E
Varroc Engineering Ltd	836	12,772	**8,890**	**12,953**	**21%**	**830**	**1,386**	**29%**	**269**	**661**	**57%**	**9%**	**11%**	**16.1**	**26.9**	**19.3**
UNO Minda Ltd	1,160	66,969	19,658	27,395	18%	2,254	3,171	19%	1,194	1,776	22%	11%	12%	19.1	19.4	37.1
Endurance Technologies Ltd	2,615	36,778	14,596	19,399	15%	1,991	2,691	16%	967	1390	20%	14%	14%	15.2	16.6	26.1
Sansera Engineering Ltd	3,872	24,161	3,498	5,084	21%	632	1,006	26%	324	568	32%	18%	20%	11.1	15.3	43.3
Craftsman Automation Ltd	11,099	29,029	7,663	11,498	22%	1,252	1,975	26%	394	914	52%	16%	17%	12.5	14.1	31.8
Average					**19%**			**22%**			**32%**	**15%**	**16%**	**14.5**	**16.3**	**34.6**

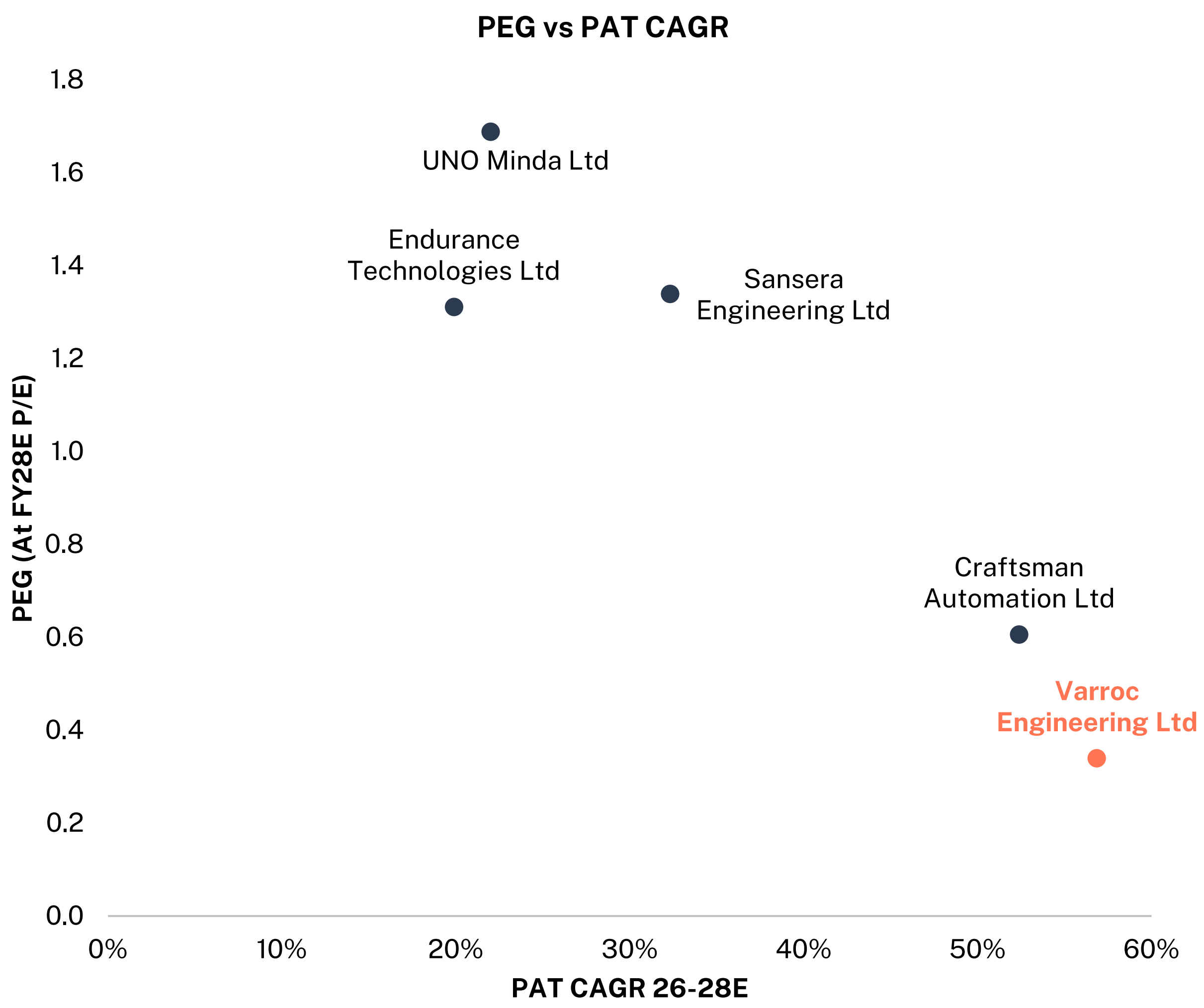
Source: Company, Bloomberg, Midas Research

3.3 – Based on Growth

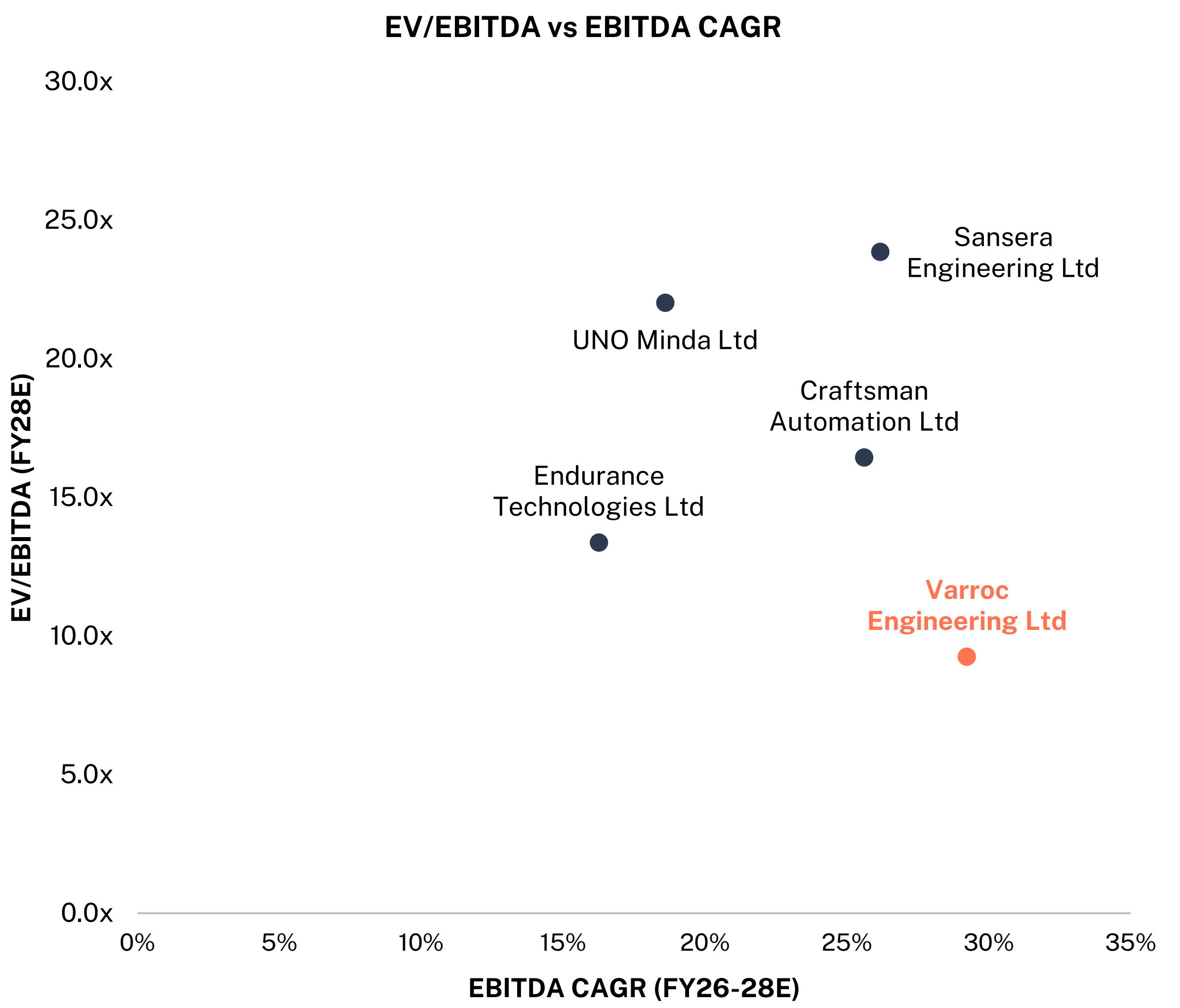
5.5 7.0

Varroc offers the strongest earnings growth in the peer set — a ~57% Adj PAT CAGR and ~29% EBITDA CAGR over FY26–28E — at the lowest EV/EBITDA (9.3x) and a PEG of ~0.3x. The caveat is growth quality: part of the Adj PAT CAGR is amplified by deleveraging and normalisation from a one-off-hit FY26 base rather than pure operating compounding. We assign a **5.5/7.0** rating..

Varroc pairs the highest Adj PAT CAGR (~57% over FY26–28E) with the lowest PEG in the set — strong growth at an attractive growth-adjusted valuation



Despite a sector-leading ~29% FY26–28E EBITDA CAGR, Varroc trades at the lowest EV/EBITDA (~9.3x), leaving clear room for re-rating

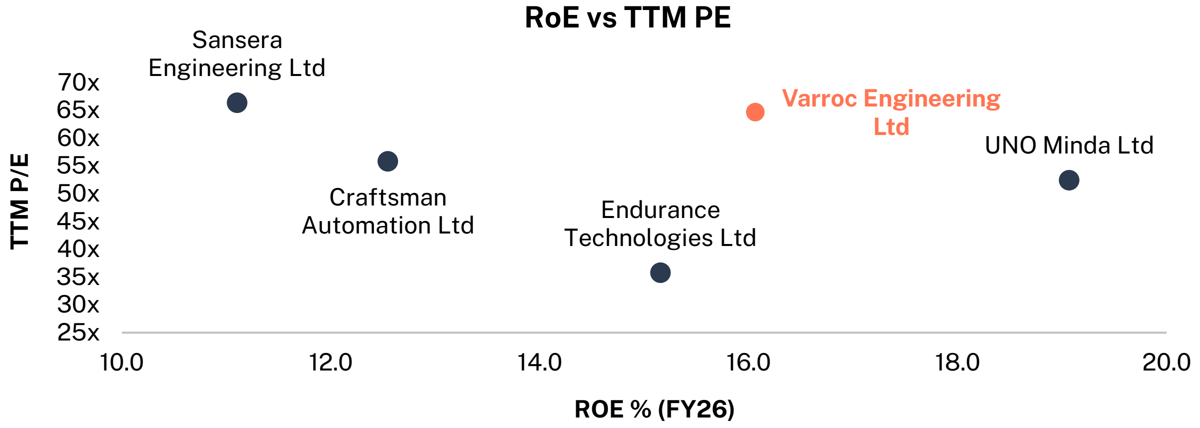


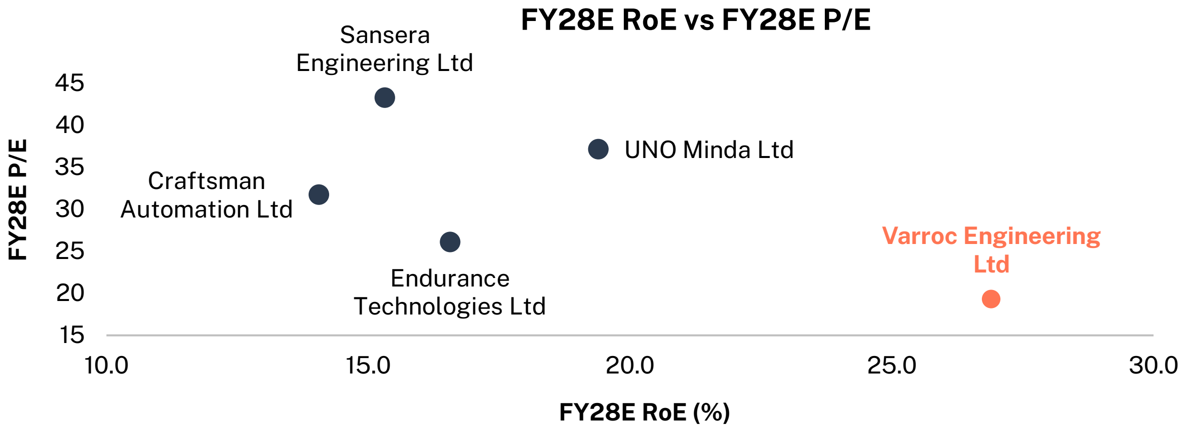
Source: Company, Bloomberg, Midas Research

3.4 - Capturing Return Profiles

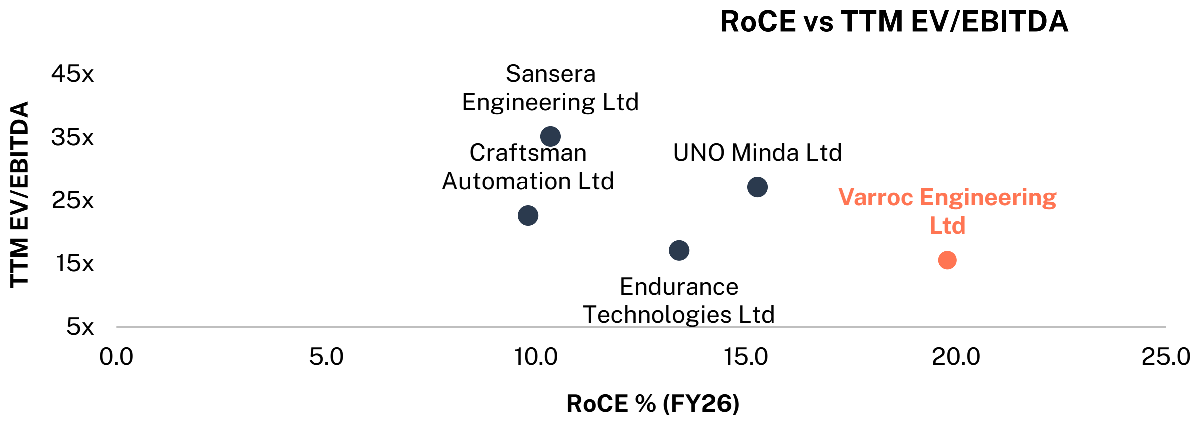
Return ratios inflect to the highest in the peer set — FY28E RoE ~27% and RoCE ~36% — while the stock trades at the lowest FY28E P/E (~19x), leaving clear re-rating headroom. Cash conversion is best-in-set (CFO/PAT ~2x), normalising after a working-capital-heavy FY26; the main watch item is the optically high near-term TTM P/E on a depressed FY26 base. We assign a **5.5/7.0** rating.

Varroc's return ratios inflect sharply — RoE rises to ~27% and RoCE to ~36% by FY28E, the highest in the peer set — yet the stock trades at the lowest FY28E P/E (~19x vs ~35x peer average), leaving a clear return-to-valuation gap

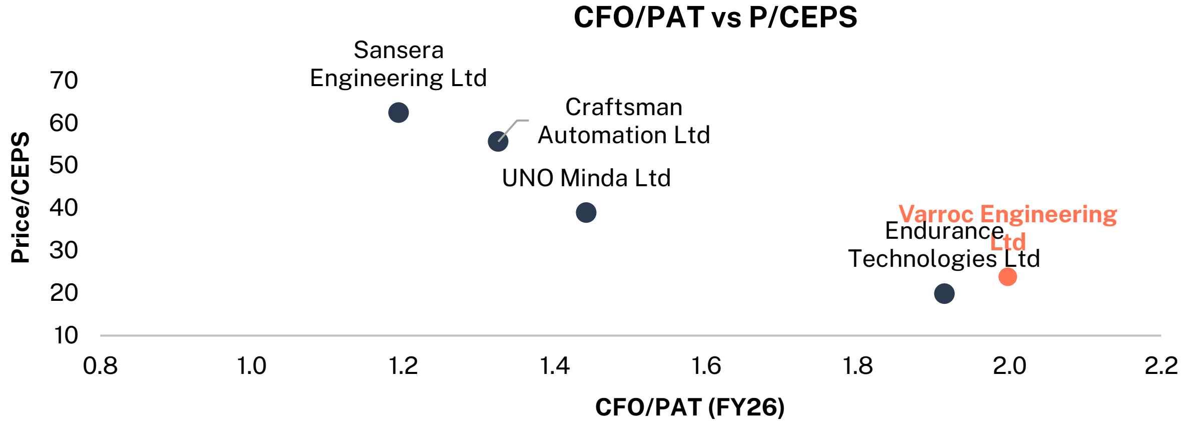




Peer-leading RoCE (~36% by FY28E) underpins the re-rating case, with the current multiple not yet reflecting it



Cash conversion normalises to the best-in-set — CFO/PAT ~2.3x — after a working-capital-heavy FY26

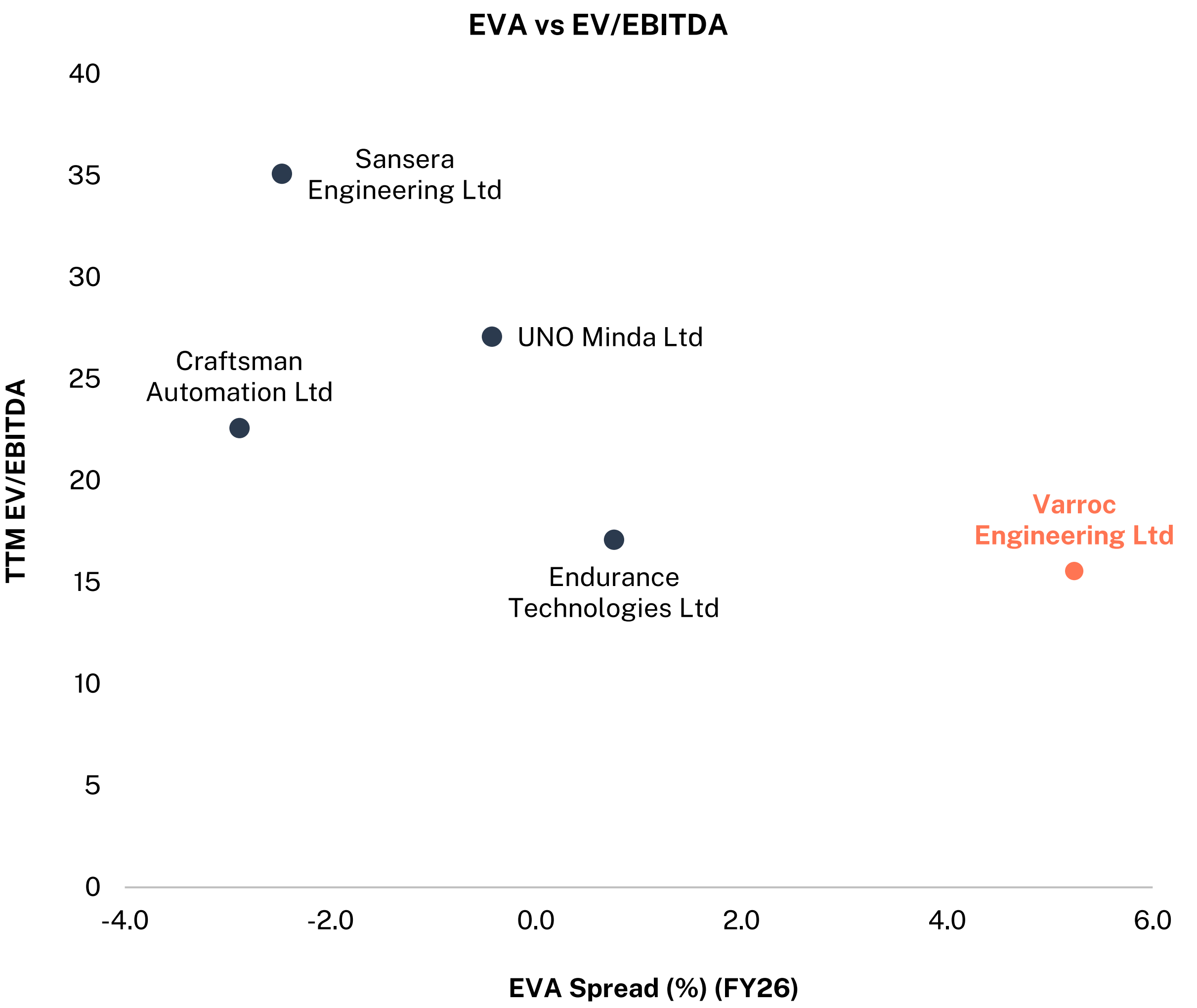


Source: Company, Bloomberg, Midas Research

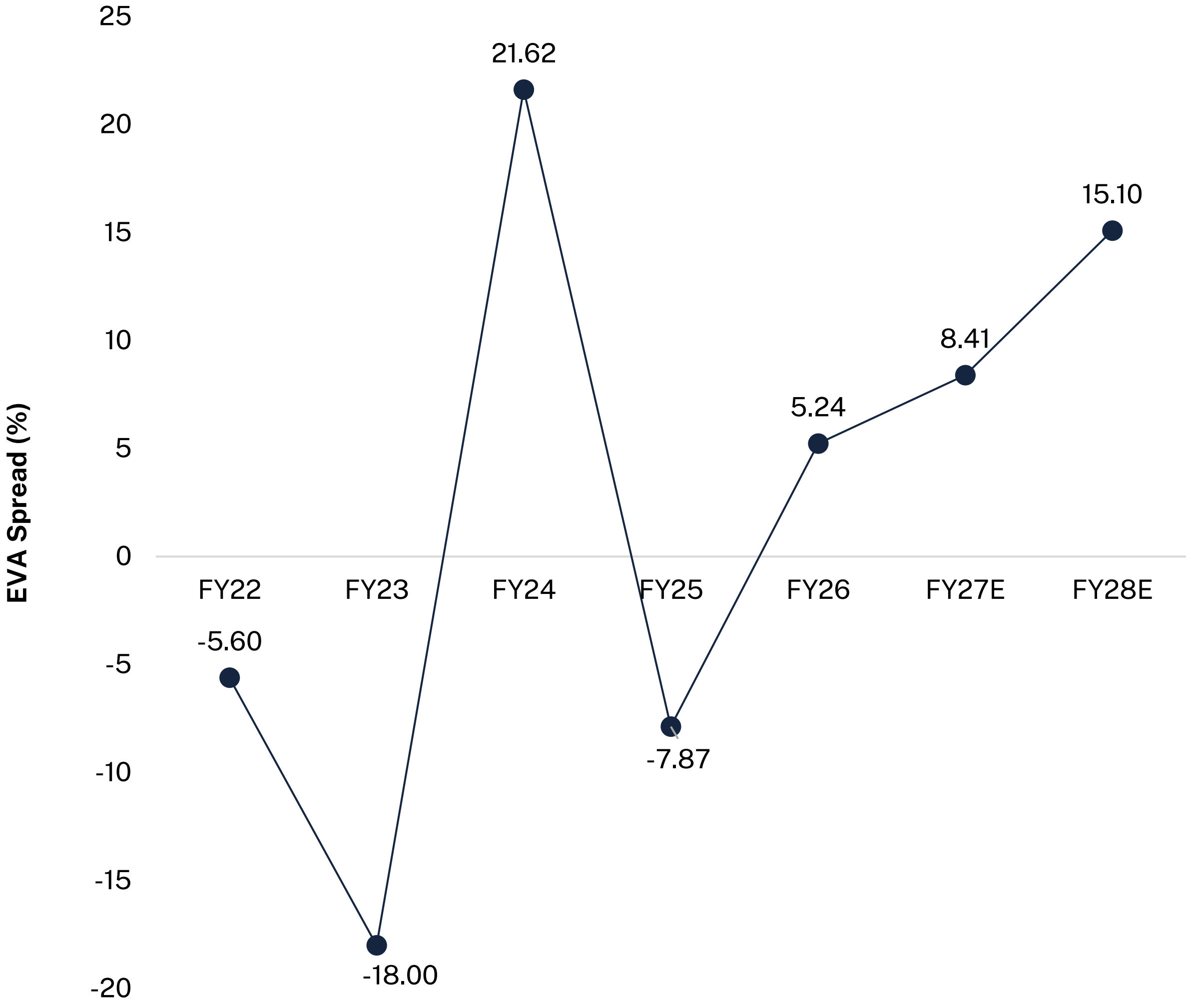
3.5 – Reflecting EVA

5.0 / **7.0**	Varroc generates a positive economic value spread (~+5% in FY26) — best in a peer set mostly at or below zero — with EVA spread improving from ~5% (FY26) to ~15% (FY28E) on rising returns and falling debt. The track record is volatile: EVA Spread swung from +22% in FY24 to -8% in FY25, so the spread is improving but not yet proven durable. **We assign a 5.0/7.0 rating.**

Varroc is the only name in the set with a clearly positive EVA spread (~+5% in FY26), versus peers clustered around or below zero



EVA spread has turned positive and is set to scale from ~5% (FY26) to ~15% (FY28E) as returns rise and net debt falls



Source: Company, Bloomberg, Midas Research

Valuation Rationale

Conclusion

Priced for the past, not Varroc 2.0

STRONGEST VALUATION ARGUMENT

- **Growth at the cheapest valuation:** Varroc pairs the highest earnings growth in the peer set — FY26–28E Adj PAT / EBITDA CAGR of 57% / 29% versus a peer average of 32% / 22% — with the lowest multiples: FY28E P/E of ~19x and EV/EBITDA of ~9x vs peer averages of ~35x and ~21x, respectively, implying a PEG of just ~0.3x.
- **Superior returns, no premium paid:** FY28E RoE of ~27% and RoCE of ~36% are the highest in the set (peer average ~16% RoE), yet the stock trades at the steepest valuation discount — a mismatch that should narrow as Varroc 2.0's execution proves durable.
- **Target multiple & price:** We assign a **25x FY28E P/E** — above Varroc's historical 1-year-forward band to reflect the structural re-rating into Varroc 2.0, yet below the peer-average multiple to factor in thinner margins and the earnings-quality overhang — arriving at a target price of Rs. 1,089 (~30% upside) from the CMP of Rs.

Why the re-rating is earned

SUPPORTING ARGUMENT

- **A genuinely re-based business:** The 2022 exit of the loss-making global 4W-lighting arm re-centered Varroc on India 2W/3W + EV/electronics (~89% India), halving assets, cutting net debt from ~Rs. 1,308 cr. to ~Rs. 49 cr. and lifting RoCE from ~7% to ~36% from FY23 to FY28E.
- **EV is a structural content multiplier:** EV content is 5–6x that of ICE and Varroc over-indexes the industry (13% EV sales vs 6.4%); EV revenue compounds ~88% (Rs. 1,147 → 4,071 cr.) on a Rs. 3,609 cr. order book that is ~72% EV-linked — visibility, not hope.
- **Best-in-set economics beneath the multiple:** The only positive economic value spread in the peer set (~+5% in FY26, rising), best-in-set cash conversion (CFO/PAT ~2x), and self-funded, no-dilution growth underpin the quality of the re-rating.

Valuation Verdict:

Varroc offers a rare combination — the highest earnings growth and the best return ratios in its peer set at the cheapest multiple — underpinned by a genuine structural reset into Varroc 2.0, a deleveraged, India 2W/3W + EV business. Our **25x FY28E P/E** is set above its own history to reflect that re-rating, yet below peers to discount thinner margins and the earnings-quality overhang flagged in our forensic review (qualified audit opinions, a contested deferred-tax asset and internal-control gaps). Execution on the overseas turnaround and resolution of the earnings-quality items remain the key monitorables. We initiate with a **BUY** rating and a Target Price of **Rs. 1,089** (25x FY28E EPS), implying **~30% upside.**

Future Lens

- Management has set out an ambition to build Varroc into a **>Rs. 20,000 cr. revenue business by FY31E**, at a ~10% PBT margin, with ~90% of growth organic and the balance from selective inorganic and non-automotive expansion. We see this long-term road map as credible, underpinned by several structural drivers.
- **First, the electrification of India's 2W/3W market** — industry EV penetration, only ~6.4% in FY26, is expected to compound toward ~28–32% by FY31E, broadening from scooters (today ~20–30% of the market) into motorcycles and enlarging the addressable pool, with Varroc positioned as the 2W/3W **e-powertrain market leader** with 5–6x the content of an ICE vehicle. **Second, growth diversifies beyond Bajaj** — a majority (**~71%**) of FY26 net-new order wins came from non-Bajaj customers, and management has guided to the start of production of e-powertrain programmes for **other leading EV OEMs beyond FY28E**, with new customer SOPs already lined up and further customers in advanced discussion, alongside Japanese, South-Indian and new domestic OEMs and optionality from Bajaj's KTM takeover. **Third, content per vehicle keeps rising** through premiumisation (halogen-to-LED, digital-to-TFT clusters, ADAS and connectivity), while the normalising overseas business shifts from a drag to a margin-and-growth lever and the aftermarket scales.
- On the back of these drivers, we expect Varroc to deliver a **revenue and PAT CAGR of ~18% and ~44%, respectively, over FY26–30E.**

Entry at **Rs. 836** @ 19x FY28E P/E

Exit multiple at **25x** on FY30E P/E

+

Cumulative Dividend of **Rs. 19/share**

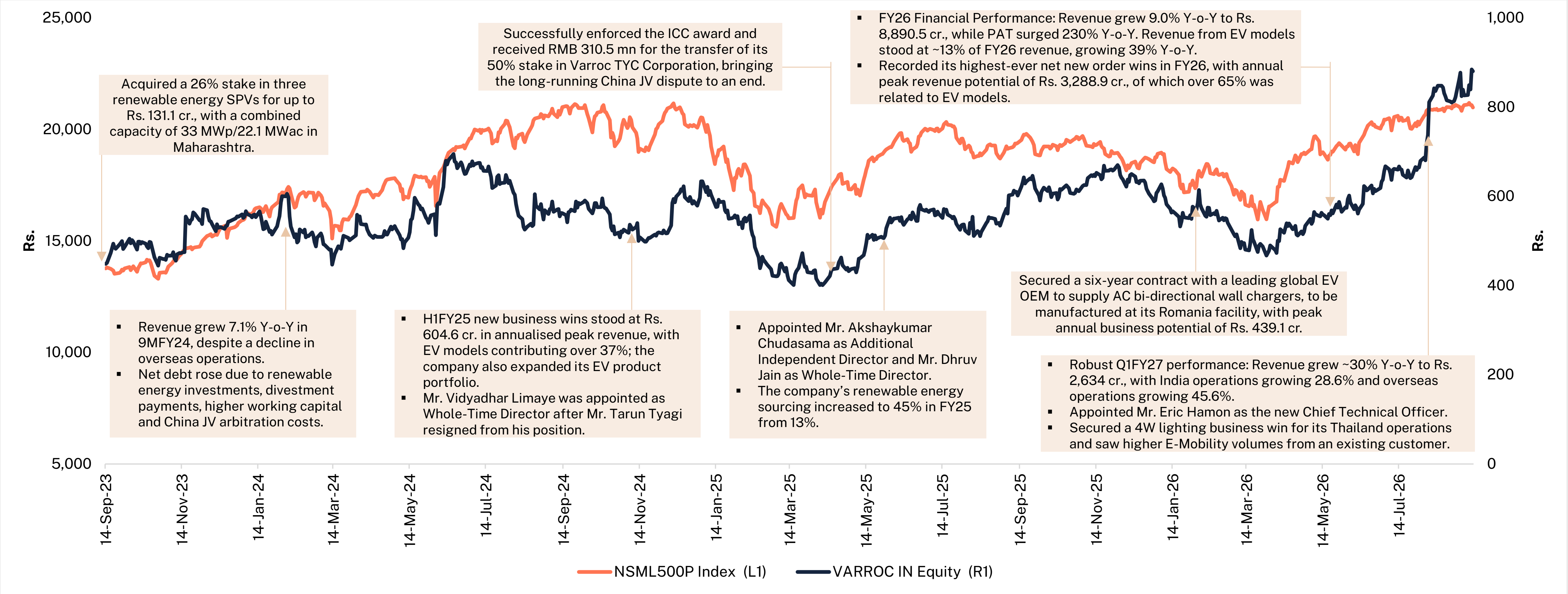
Total returns **94%**

Sensitivity of 3-yr TP

PE Multiple	EPS	Target Price	Dividend	Total Upside
23x	64	1,475	19	79%
25x	64	1,603	19	94%
27x	64	1,731	19	109%

4 - Stock Buzz & Influencing Factors

Follow the money



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

Source: Company, Bloomberg, Midas Research

5 - Technical Analysis

Continuation in ongoing bullish momentum

Technical View (Weekly Chart)

Technical View

- The stock maintains a primary uptrend on the weekly timeframe through a consistent sequence of **higher highs and higher lows.**
- Price action continues to sustain a comfortable buffer above a major **Symmetrical Triangle breakout** level, solidifying structural buyer control.
- The stock is trading well above its Symmetrical Triangle breakout level, **which certainly bodes well for the bulls.**
- Trend integrity is further reinforced by the price comfortably holding above critical exponential moving averages, including the **50, 100 and 200 EMAs** across both daily and weekly intervals, alongside positive RSI readings on weekly scale.
- The constructive technical structure favors a buy-on-dips strategy, with immediate support identified at **800** mark and then crucial support at **690 - 710 zone**, and overhead resistance anticipated around the **1,100 to 1,150 zone**.

Auto Components & Equipments	
Reco/View	**Buy**
Last Day Close	**Rs. 836**

RESEARCH ANALYST

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Source: Falcon, Midas Research

Financial Summary

All figures in Rs. cr.

- Revenue grows at ~21% CAGR over FY26–28E (Rs. 8,890 cr. to Rs. 12,953 cr.), led by the EV/e-mobility ramp-up on a ~Rs. 3,609 cr. order book, with steady ICE, lighting and electronics growth and a recovering overseas business.
- EBITDA grows faster at ~29% CAGR (Rs. 830 cr. to Rs. 1,386 cr.) as operating leverage, a richer EV/electronics mix and self-help (Optima, VRS, delayering, renewables) lift the margin from ~9.3% (FY26) to ~10.7% (FY28E); the India standalone business already earns ~11.5–11.7%.
- PAT inflects — adjusted PAT compounds ~57% (Rs. 269 cr. to Rs. 661 cr.) on margin expansion and a steep fall in finance costs (Rs. 134 cr. to Rs. 70 cr.); reported earnings carry one-offs, so PBT-before-exceptionals (Rs. 385 cr. to Rs. 955 cr.) is the cleaner read.
- Cash generation scales — post-tax OCF rises from ~Rs. 537 cr. to ~Rs. 1,007 cr. over FY26–28E, comfortably funding front-loaded FY27 capex (~Rs. 450–560 cr.) while keeping FCF positive (~Rs. 598 cr. by FY28E).
- Returns and the balance sheet transform — RoCE rises from ~20% to ~36% and RoE from ~16% to ~27% by FY28E, while net debt falls from Rs. 557 cr. to ~Rs. 49 cr. (net D/E ~0.02x) & interest cover climbs to ~14.5x — a near-debt-free, high-return profile, all self-funded.

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	111	70
Share of profit of JV / associates	44	4	4	0	0
Exceptional items	0	-147	-44	0	0
PBT	315	169	341	636	955
Reported PAT	553	70	230	428	669
Adj PAT	547	209	269	422	661
Adj EPS (Rs.)	34.4	13.7	17.6	27.6	43.3
Balance Sheet					
Net Worth	1,497	1,565	1,780	2,160	2,755
Total debt	1,209	949	738	588	109
Other liabilities and provisions	1,854	2,158	2,357	2,823	3,307
Total Net worth and liabilities	4,560	4,672	4,875	5,571	6,171
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	77	60
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	5,571	6,171
Capital Employed	2,706	2,514	2,518	2,748	2,864
Invested Capital (CE - cash - CWIP)	2,500	2,250	2,242	2,564	2,688
Net debt	1,079	785	557	511	49
Cash Flows					
Cash flow from Ops (pre-tax)	715	728	563	969	1,294
Cash flow from Ops (post-tax)	638	737	537	761	1,007
Capex	-257	-279	-397	-562	-409
Free cashflows	381	458	139	199	598
Free cashflows (post interest costs)	187	288	5	88	528
Cash flows from Investing	-167	-246	-123	-562	-409
Cash flows from Financing	-664	-490	-405	-304	-615
Total cash & liquid investments	130	163	181	77	60

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	57.1	56.7
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%	90.5%	93.4%
OCF/IC (%)	25.5%	32.7%	23.9%	29.7%	37.5%
RoE (%)	44.2%	13.6%	16.1%	21.4%	26.9%
RoCE (%)	15.9%	17.8%	19.8%	28.0%	36.2%
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	0.2	0.0
Net Debt to EBITDA (x)	1.4	1.0	0.7	0.5	0.0
Interest cover (x)	2.2	2.7	3.7	6.6	14.5
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.)			12,771.6		
P/E (x)	23.4	61.2	47.5	30.3	19.3
P/OCF(x)	20.0	17.3	23.8	16.8	12.7
EV (Rs.cr.) (ex-CWIP)	13,850.7	13,557.1	13,328.5	13,282.8	12,820.8
EV/ EBITDA (x)	18.2	17.2	16.1	12.4	9.3
EV/ OCF(x)	21.7	18.4	24.8	17.4	12.7
FCF Yield	1.5%	2.3%	0.0%	0.7%	4.1%
Price to BV (x)	8.53	8.16	7.17	5.91	4.64
Dividend pay-out (%)	0.0	24.9	10.2	10.0	10.0
Dividend yield (%)	0.0	0.1	0.2	0.3	0.5
Cash as a % of CE	4.8%	6.5%	7.2%	2.8%	2.1%

Source: Company, Midas Research

Key Risks

Customer concentration & pricing pressure

High dependence on key OEM customers creates revenue and margin risk, as large customers have significant negotiating power and can exert pricing pressure. Overseas operations have also faced customer concentration, while intense competition can limit Varroc's ability to pass on cost increases.

Overseas business & execution risk

A key profitability risk, with European and other international businesses facing market weakness, customer concentration and cost pressures. Higher labour costs and regulatory complexity, particularly in Europe, could delay the turnaround and weigh on margins.

EV transition & technology risk

Rapid technology shifts and the EV transition could reduce demand for conventional ICE components and require continued investment in electronics, software, ADAS and EV technologies. Failure to keep pace with evolving automotive architectures could impact competitiveness and future order wins.

Supply chain & geopolitical risk

Dependence on critical suppliers and imported components exposes Varroc to supply disruptions, input-cost volatility, and geopolitical risks. While 96% of procurement spend is local and supplier diversification provides some mitigation, critical suppliers account for 80% of total spend, leaving the company exposed to disruptions that could affect production and deliveries.

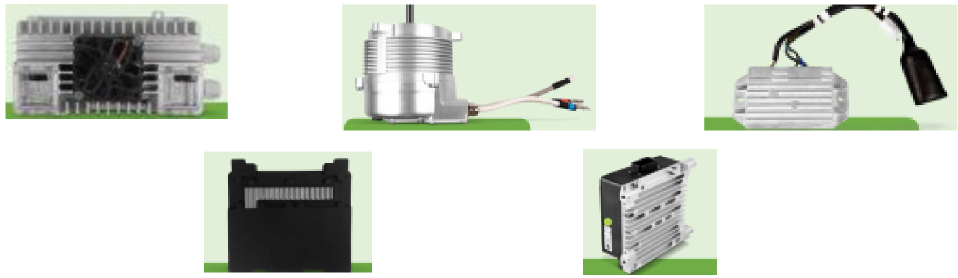
Source: Company, Midas Research

Glossary

CAPEX	Capital Expenditure	RoCE	Return on Capital Employed
MT	Metric Ton	RoIC	Return on Invested Capital
Bn	Billion	R&D	Research and Development
CAGR	Compounded Annual Growth Rate	PBT	Profits Before Tax
CMP	Current Market Price	ROA	Return on Assets
EBIT	Earning Before Interest and Tax	DTL	Deferred Tax Liabilities
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	Avg	Average
EPS	Earnings Per Share	CF	Cash Flow
EV	Enterprise Value	QoQ	Quarter on Quarter
FCF	Free Cash Flow	RM	Raw Material
P/E	Price to Earnings	CoGS	Cost of Goods Sold
PBT	Profit Before Tax	cr.	cr.
RoE	Return on Equity	DCF	Discounted Cash Flow

Annexures

Product Overview (1/3) – Business I

Product	Overview	Applications / vehicle segments
ICE Powertrain *5 facilities · India + 2 facilities · Italy* 	▪ Precision engine, transmission and generator components developed to meet BS-VI norms, delivering high performance at competitive cost; includes proprietary innovations such as the Integrated Starter Generator and sodium-filled valves. ▪ **Key products:** Valves, transmission gears, crankpins & balancers, magneto & regulator rectifiers, Integrated Starter Generators (ISG), starter / actuator / wiper motors.	▪ 2W ▪ 3W ▪ 4W PV ▪ 4W CV (ICE)
E-Mobility *2 facilities · India* 	▪ Locally designed, developed and manufactured energy-efficient EV systems for electric 2W and 3W, with complete vertical integration in electronics manufacturing and fully IoT-enabled lines. ▪ **Key products:** Traction motors, motor controllers, 48V battery packs & BMS, on-board and DC-DC chargers/converters, VCUs and throttles.	▪ Electric 2W OEMs ▪ Electric 3W OEMs
Body Systems *14 facilities · India* 	▪ End-to-end design, development, and manufacturing of polymer and painted body components, leveraging lightweighting, 2K molding, and 3i technology for durable, cost-efficient parts across platforms. ▪ **Key products:** Exterior molded components, tail-lamp assemblies, soft door trims, cockpit/dashboards, painted body panels, air-filter & seat assemblies, mirrors, and structural polymer parts.	▪ 2W ▪ 3W ▪ 4W PV ▪ 4W CV

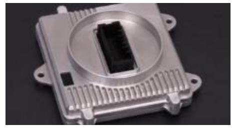
Source: Company, Midas Research

Product Overview (2/3) – Business I

Product	Overview	Applications / vehicle segments
HMI Solutions *3 facilities · India*     	▪ Integrated human-machine interface solutions that enhance rider control, connectivity, and safety – backed by high-precision molding, SMT electronic assembly, and in-house testing labs for best-in-class quality and durability. ▪ **Key products:** Digital instrument clusters, smart telematics & monitoring systems, indirect tyre-pressure monitoring (TPMS), smart sensors and ergonomic handlebar switches	▪ 2W OEMs ▪ 3W OEMs
Aftermarket *Exports to 30+ countries · 310+ cities · 720+ distributors*    	▪ A pan-India and export aftermarket network offering a wide spectrum of replacement products across electrical, electronics, engine components and accessories, supported by 800+ channel partners and 8,000+ SKUs. ▪ **Key products:** Lighting, spare parts (forged components, filters, rubber parts), Varroc-Oil lubricants and automotive accessories (helmets, roof rails and more).	▪ 2W ▪ 3W ▪ 4W PV ▪ 4W CV

Source: Company, Midas Research

Product Overview (3/3) – Business I

Product	Overview	Applications / vehicle segments
Advanced Electronics *Mfg: Romania, India, Vietnam · R&D: Poland, Germany, China, India*     	▪ Supplies advanced 4W electronics to global OEMs, spanning high- and low-voltage PCBAs, ADAS and driver-monitoring, with a growing pipeline of EV high-voltage wins (inverters, power electronics and wall chargers). ▪ **Key products:** HV/LV electronics PCBAs, ADAS (up to L2), driver & cabin monitoring, surround-view/360 camera systems, telematics control units, advanced infotainment, EV inverters, PEU/HV power PCBA and bidirectional (L2V2) chargers.	▪ Global 4W / PV OEMs ▪ EV platforms & connected vehicles
Lighting Solutions *5 facilities · India + 4 facilities · Globally*      	▪ Advanced visibility and indication systems for 2W, 3W and 4W vehicles, leveraging LED, Matrix and Xenon technologies to develop lightweight, energy-efficient solutions that enhance safety and aesthetics. Its portfolio also includes Adaptive Driving Beam (ADB) systems for glare-free night driving and LiDAR-enabled headlamps designed for ADAS compatibility. ▪ **Key products:** Head & rear lamps, projector modules, signaling/indication lamps, LCU/LDM, Adaptive Driving Beam (ADB) and LiDAR-enabled headlamps.	▪ 2W ▪ 3W ▪ 4W PV ▪ 4W CV
Overseas Forging *Part of overseas "Rest of Operations"*    	▪ Precision forging operations serving global powertrain customers, producing high-integrity forged components; sits alongside global 2W lighting and advanced electronics in Varroc's overseas business. ▪ **Key products:** Forged crankshafts, camshafts and related precision-forged powertrain components.	▪ Global powertrain / OEM customers

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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