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India | Equity Research | Results update

Varroc Engineering

Auto Ancillaries

Margin miss led by high tooling mix; new orders to support growth

Varroc Engineering's (VAR) EBITDA margin stood at 9.2%, down ~80bps YoY (vs. Consensus/I-Sec estimate of 9.8%/9.7%). Revenue growth was ~6% YoY, with ~8% YoY growth in India operations. Overseas operations remained under pressure due to macro weakness. VAR expects a gradual recovery in its overseas business over the next 1–2 years, with recent order wins. We have factored in 12% revenue CAGR over FY25–28E, led by growth in the 2W segment and ramp-up of new order wins. We expect EBITDA margin to improve to ~10.5%/10.7% in FY27E/FY28E. Maintain **BUY**, with a DCF-based TP of INR 745 (earlier INR 690), implying ~20x FY28E EPS.

Q2FY26 conference call takeaways, and our views

- Revenue was up 6% YoY at INR 22bn with ~8% YoY growth in India operations. Overseas growth lagged (down 18% YoY) due to macro weakness. Adjusted for the impact of the rare earth issue, India growth would have been ~12% YoY; rare earth issue has normalised since Q2-end. For its overseas operations, VAR expects a gradual recovery over the next 1–2 years with recent order wins. Revenue contribution from the EV segment stood at 11% in Q2 (vs. 9.8%/5.3% in FY25/FY24). Net new annual peak revenue from order wins in H1FY26 stood at INR 8.9bn – split 39%/61% in 4W/(2W + 3W) segments, with ~37% orders from the EV segment. New orders should push VAR's growth, with expected additional revenue of INR 9.5bn/INR 11bn in FY26/FY27 from these orders and with higher content/unit in EV (5–6x) vs. ICE variants driving growth. VAR sees EV revenue picking up as new orders ramp up. New order wins of ~INR 6bn include order for passenger car lighting, additional orders for existing EV products and orders for display or instrument clusters.
- EBITDAM stood at 9.2%, down ~80bps YoY, primarily due to higher mix of low margin tool sales. Employee expenses increased by ~50bps YoY due to the dedicated R&D setup in an overseas location to support the 4W lighting and electronics business. In the medium term, the company would focus on improving EBITDAM by reducing costs through operational efficiency and backward integration (VAR's renewable energy investments may aid in lowering its electricity cost). Net debt reduced further by ~INR 680mn in Q2 to INR 3.8bn. Capex in H1 stood at INR 1.9bn.

Vishakha Maliwal

vishakha.maliwal@icicisecurities.com
+91 22 6807 7161

Vivek Kumar

vivek.k@icicisecurities.com

Ronak Mehta

ronak.mehta@icicisecurities.com

Market Data

Market Cap (INR)	99bn
Market Cap (USD)	1,117mn
Bloomberg Code	VARROC IN
Reuters Code	VARE BO
52-week Range (INR)	666 /365
Free Float (%)	25.0
ADTV-3M (mn) (USD)	1.5

Price Performance (%)	3m	6m	12m
Absolute	24.7	38.5	20.0
Relative to Sensex	19.5	36.0	12.7

ESG Score	2024	2025	Change
ESG score	66.5	70.3	3.8
Environment	53.2	52.5	(0.7)
Social	76.1	76.0	(0.1)
Governance	69.2	78.2	9.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E	FY28E
Revenue	1.9	2.8	4.6
EBITDA	(0.1)	0.8	4.6
PAT	4.4	3.2	10.7

Previous Reports

08-08-2025: [Q1FY26 results review](#)

30-05-2025: [Q4FY25 results review](#)

Financial Summary

Y/E March (INR mn)	FY25A	FY26E	FY27E	FY28E
Net Revenue	81,541	89,695	1,00,458	1,12,513
EBITDA	7,888	8,969	10,548	12,039
EBITDA %	9.7	10.0	10.5	10.7
Net Profit	2,133	3,422	4,743	5,849
EPS (INR)	14.0	22.4	31.0	38.3
EPS % Chg YoY	4.1	60.4	38.6	23.3
P/E (x)	46.4	28.9	20.9	16.9
EV/EBITDA (x)	13.5	11.4	9.3	7.7
RoCE (%)	7.8	18.4	23.2	22.7
RoE (%)	13.9	18.4	20.9	21.0

Exhibit 1: Q2FY26 result review (consolidated)

INR mn	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)
Total Operating Income	22,073	20,808	6.1%	20,276	9%
Cost of Materials	14,210	13,355	6%	12,713	12%
As % of sales	64.4%	64.2%	20 bps	62.7%	168 bps
Gross profit	7,863	7,453	6%	7,563	4%
Gross margin	35.6%	35.8%	-20 bps	37.3%	-168 bps
Employee Expenses	2,495	2,245	11%	2,412	3%
As % of sales	11.3%	10.8%	51 bps	11.9%	-60 bps
Other Expenses	3,339	3,127	7%	3,205	4%
As % of sales	15.1%	15.0%	10 bps	15.8%	-68 bps
EBITDA	2,030	2,082	-2%	1,946	4%
EBITDA margin	9.2%	10.0%	-81 bps	9.6%	-40 bps
Depreciation	826	815	1%	811	2%
EBIT	1,204	1,266	-5%	1,135	6%
EBIT Margin	5.5%	6.1%	-63 bps	5.6%	-14 bps
Interest	319	432	-26%	363	-12%
Other Income	27	67	-60%	51	-47%
PBT	912	901	1%	822	11%
PBT Margin	4.1%	4.3%	-20 bps	4.1%	8 bps
Tax expenses	288	330	-13%	365	-21%
Effective Tax Rate	31.5%	36.6%	(0)	44.4%	-1289 bps
Share of profit from associates	8	7	19%	5	55%
Adjusted PAT	633	578	9%	462	37%
Exceptional expenses/ (income)	-	-	-	(612)	-
Reported PAT	633	578	9%	1,074	-41%

Source: Company data, I-Sec research

Exhibit 2: Estimates revision

	FY26E			FY27E			FY28E		
	Old	Revised	% change	Old	Revised	% change	Old	Revised	% change
Revenue (INR bn)	88	90	1.9%	98	100	2.8%	108	113	4.6%
EBITDA (INR bn)	9	9	-0.1%	10	11	0.8%	12	12	4.6%
EBITDA margin (%)	10.2%	10.0%	-20 bps	10.7%	10.5%	-20 bps	10.7%	10.7%	0 bps
PAT (INR bn)	3.3	3.4	4.4%	4.6	4.7	3.2%	5.3	5.8	10.7%
EPS (INR)	21.5	22.4	4.4%	30.1	31.0	3.2%	34.6	38.3	10.7%

Source: I-Sec research

Downside risks

- Slower-than-expected growth in domestic 2W market.
- Unable to add large e2W OEMs apart from Bajaj Auto as customers.

Exhibit 3: Shareholding pattern

%	Mar'25	Jun'25	Sep'25
Promoters	75.0	75.0	75.0
Institutional investors	16.7	17.0	17.0
MFs and others	11.0	11.4	11.5
FIs/Banks	0.4	0.4	0.4
Insurance	1.4	1.2	0.8
FIIIs	3.9	4.0	4.3
Others	8.3	8.0	8.0

Source: Bloomberg, I-Sec research

Exhibit 4: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Net Sales	81,541	89,695	1,00,458	1,12,513
Operating Expenses	21,561	24,038	26,421	29,028
EBITDA	7,888	8,969	10,548	12,039
EBITDA Margin (%)	9.7	10.0	10.5	10.7
Depreciation & Amortization	3,233	3,520	3,603	3,778
EBIT	4,654	5,449	6,945	8,261
Interest expenditure	1,702	1,200	1,000	900
Other Non-operating Income	177	195	214	235
Recurring PBT	3,129	4,444	6,159	7,596
Profit / Loss from Associates	-	-	-	-
Less: Taxes	996	1,022	1,417	1,747
PAT	2,133	3,422	4,743	5,849
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,133	3,422	4,743	5,849
Net Income (Adjusted)	2,133	3,422	4,743	5,849

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Total Current Assets	22,856	24,869	28,475	37,196
of which cash & cash eqv.	1,633	1,525	2,330	7,912
Total Current Liabilities & Provisions	21,205	23,326	26,125	29,260
Net Current Assets	1,650	1,543	2,351	7,936
Investments	541	541	541	541
Net Fixed Assets	20,160	16,624	15,781	15,094
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,033	3,512	3,512	3,512
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	24,651	23,614	23,746	28,831
Liabilities				
Borrowings	9,488	5,488	1,488	1,488
Deferred Tax Liability	(816)	(816)	(816)	(816)
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	153	153	153	153
Reserves & Surplus	15,498	18,461	22,593	27,678
Total Net Worth	15,651	18,614	22,745	27,830
Minority Interest	329	329	329	329
Total Liabilities	24,651	23,614	23,746	28,831

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Dec-24	Mar-25	Jun-25	Sep-25
Net Sales	20,753	20,992	20,276	22,073
% growth (YOY)	10.1	6.3	6.8	6.1
EBITDA	1,858	2,207	1,946	2,030
Margin %	9.0	10.5	9.6	9.2
Other Income	26	48	51	27
Adjusted Net Profit	457	794	462	633

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Operating Cashflow	2,296	7,819	8,962	10,102
Working Capital Changes	(3,123)	(128)	(170)	(190)
Capital Commitments	(3,360)	(2,464)	(2,760)	(3,091)
Free Cashflow	(1,064)	5,355	6,202	7,011
Other investing cashflow	4,801	195	214	235
Cashflow from Investing Activities	1,441	(2,269)	(2,546)	(2,855)
Issue of Share Capital	-	-	-	-
Interest Cost	(1,702)	(1,200)	(1,000)	(900)
Inc (Dec) in Borrowings	(2,606)	(4,000)	(4,000)	-
Dividend paid	(153)	(458)	(611)	(764)
Others	0	0	1	2
Cash flow from Financing Activities	(4,462)	(5,659)	(5,611)	(1,662)
Chg. in Cash & Bank balance	(725)	(109)	806	5,584
Closing cash & balance	578	1,524	2,330	7,914

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
Per Share Data (INR)				
Reported EPS	14.0	22.4	31.0	38.3
Adjusted EPS (Diluted)	14.0	22.4	31.0	38.3
Cash EPS	35.1	45.4	54.6	63.0
Dividend per share (DPS)	1.0	3.0	4.0	5.0
Book Value per share (BV)	102.4	121.8	148.9	182.1
Dividend Payout (%)	7.0	13.4	12.9	13.1
Growth (%)				
Net Sales	8.0	10.0	12.0	12.0
EBITDA	2.0	13.7	17.6	14.1
EPS (INR)	4.1	60.4	38.6	23.3
Valuation Ratios (x)				
P/E	46.4	28.9	20.9	16.9
P/CEPS	18.5	14.3	11.9	10.3
P/BV	6.3	5.3	4.4	3.6
EV / EBITDA	13.5	11.4	9.3	7.7
EV / Sales	1.3	1.1	1.0	0.8
Profitability Ratios				
Gross Profit Margins (%)	36.1	36.8	36.8	36.5
EBITDA Margins (%)	9.7	10.0	10.5	10.7
EBIT Margins (%)	5.7	6.1	6.9	7.3
Net Profit Margins (%)	2.6	3.8	4.7	5.2
RoCE (%)	7.8	18.4	23.2	22.7
RoE (%)	13.9	18.4	20.9	21.0
Dividend Yield (%)	0.2	0.5	0.6	0.8

Operating Ratios

Fixed Asset Turnover (x)	3.8	4.5	5.2	6.0
Inventory Turnover Days	33	33	33	33
Receivables Days	30	30	30	30
Payables Days	59	59	59	59
Effective Tax Rate (%)	60.2	23.0	23.0	23.0
Net Debt / Equity (x)	0.5	0.2	(0.1)	(0.2)
Net Debt / EBITDA (x)	0.9	0.4	(0.1)	(0.6)

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Jeetu Jawrani](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
