Dated: 13th Nov 2025

Varroc Engineering (VARROC) - REDUCE

Q2FY26 Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.648	**Rs.600**

Rationale:

- Q2FY26: Parts shortage drives revenue miss; EBITDA was 8% below our estimates.
- We believe the revenue ramp-up will be impacted, given our expectations of a demand moderation in the EV 2W segment's growth.
- We expect the margin recovery to remain below expectations, owing to increased competitive intensity in the EV component space and the B2B nature of the business.
- We believe it will be challenging for the company to gain market share without impacting profitability.
- We expect earnings per share (EPS) of Rs23.5 in FY26E and Rs27.5 in FY27E.
- Our revised FV of Rs600 (Rs550 earlier) is based on an 18x December 2027E EPS.
- We cut our FY26-28E EPS estimates by 3-12%; retain REDUCE.

Positives:

- Key positives are the balance sheet deleveraging and an improvement in return ratios
- Company reduced its net debt by Rs70 cr in Q2FY26, bringing it down to Rs380 cr.

Negatives:

- Revenues grew 6% yoy in Q2FY26 but was 2% below our estimates.
- Overseas business saw an 18% yoy decline due to multiple headwinds across globe.
- EBITDA margin was 9.2% (-40 bps qoq), 70 bps below our estimates.
- Reported PAT came in at Rs63.3 cr in Q2FY26, 27% below our estimates.

(EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization; EV: Electric Vehicle; 2W: Two-Wheeler; PAT: Profit After Tax); B2B: Business to Business)

Holding Period: 12 months

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Shrikant Chouhan
Head of Research
shrikant.chouhan@kotak.com
+91 22 6218 5408

Arun Agarwal
Auto/Auto Ancillary, Building Material
Cement, Consumer Durable
arun.agarwal@kotak.com
+91 22 6218 6443

Amit Agarwal, CFA
Transportation, Paints, FMCG
agarwal.amit@kotak.com
+91 22 6218 6439

Rini Mehta
Research Associate
rini.mehta@kotak.com
+91 22 6218 6433

Sumit Pokharna
Oil and Gas, Information Tech
sumit.pokharna@kotak.com
+91 22 6218 6438

K. Kathirvelu
Support Executive
k.kathirvelu@kotak.com
+91 22 6218 6427

Pankaj Kumar
Construction, Capital Goods & Midcaps
pankajr.kumar@kotak.com
+91 22 6218 6434

Amarjeet Maurya
Internet Software & Services
amarjeet.maurya@kotak.com
+91 22 6218 6427

Veer Trivedi
BFSI
veer.trivedi@kotak.com
+91 22 6218 6432

TECHNICAL RESEARCH TEAM (PRIVATE CLIENT GROUP)

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Sayed Haider
sayed.haider@kotak.com
+91 22 62185458

DERIVATIVES RESEARCH TEAM (PRIVATE CLIENT GROUP)

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 66041701

Prasenjit Biswas, CMT, CFTe
prasenjit.biswas@kotak.com
+91 33 6638 8331

Karan Kulkarni
karan.kulkarni@kotak.com
+91 20 66203350

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