

Varroc Engineering (VARROC) - REDUCE

Q4FY26 Result Update

Current Market Price (CMP) Rs.587	Fair Value (FV) Rs.550
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Rationale:

- Q4FY26 EBITDA was 6% below our estimates due to a weak revenue print.
- We believe revenues will grow marginally ahead of industry growth owing to increased competitive intensity in key segments.
- We expect the company's margins recovery to remain below expectations.
- The company's net debt rose to Rs495 cr in Q4FY26 versus Rs441 cr in Q3FY26.
- We estimate Varroc Engineering's EBITDA to increase by 11-12% CAGR over FY26-29E.
- We have cut our FY27-28 EPS estimates by 5-6% due to higher depreciation and interest expenses.
- We retain REDUCE rating with a revised FV of Rs550, based on 17x June 2028E EPS.

👍 Positives:

- Overseas business saw 24.0% yoy growth in Q4FY26, on back of a strong order book.
- Gross margin rose by 90 bps on a qoq basis in Q4FY26 due to a better product mix.

👎 Negatives:

- Revenues came in 4% below our estimates.
- EBITDA margin came in at 9.4%, 20 bps below estimates.
- Reported PAT came in at Rs70.5 cr (27% below estimates).
- Competitive intensity in lighting segment remains elevated, will result in market share loss for the company as peers are better positioned in terms of technology access.

(EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization; CAGR: Compounded Annual growth Rate; EPS: Earnings Per Share; PAT: Profit After Tax)



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

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- 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
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- 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.

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