

Sluggish demand seen weighing on rich valuation...

Bosch Ltd reported subdued Q1FY21 results, outperforming OEM volumes for the quarter courtesy increase in content/vehicle. Net revenues came in at ₹ 992 crore (down 64% YoY), with automotive revenues down 65.6% YoY to ₹ 813 crore. Revenues of powertrain solutions fell 78.3% YoY while revenue of ex-mobility solutions business fell 60% YoY. The company reported loss at EBITDA level of ₹ 103 crore, with automotive EBIT loss at ₹ 309 crore. All chief cost items rose on percentage of sales basis. Consequent reported loss at PAT level was at ₹ 121 crore vs. profit of ₹ 282 crore in Q1FY20. Bosch continued to book exceptional charges towards restructuring and transformational projects amid structural and cyclical changes in the automotive sector, which for the quarter was at ₹ 197 crore.

Cost focus reassuring amid muted topline outlook

Post Covid-19, the domestic auto industry is expected to see gradual volume improvement, with rural-facing (tractors, motorcycles) and personal mobility enablers (passenger cars) expected to outpace CVs and public transport categories. Bosch expects the industry to take four to five years to return to peak FY19 volumes, pending affirmative policy intervention (GST cut, scrappage policy, etc.). While overall demand picture remains subdued for Bosch courtesy high exposure to CV space and dwindling presence of diesel powertrain in India, we expect it to outperform its OEM clients courtesy (1) rising kit value, (2) new order wins & (3) focus on being a solutions provider. We build flattish revenue CAGR over FY20-22E. Amid topline challenges, the company continues to focus on controllables i.e. costs, capex. It continues to focus on right-sizing operations, keeping in view structural and cyclical changes in the automobile space and cut inessential capex. We factor in improvement in margins to 16% levels by FY22E on these steps.

Q1FY21 conference call – Key highlights and takeaways

Bosch said– (1) Some industry segment volumes are expected to decline to ~2009-10 levels pending any policy interventions, albeit tractor segment is looking positive and passenger car segment would see some revival in festive run-up, (2) Internal combustion engine will continue to form 80% of the industry even by 2030, (3) Production staff required for diesel is ~3x gasoline and ~10x electric courtesy volume and complexity of parts, (4) Restructuring costs incurred till date amount to ₹ 800 crore, with ~1,000 staff impacted this quarter, (5) Benefits from the exercise have payback period of five to six years, (6) FY21E capex plans have been cut by half, (7) BS-VI order book of ~ ₹ 24500 crore at ~ ₹ 18500 crore post Covid (to be executed in five to six years), (8) Supply chain issues faced in July have largely been resolved, (9) Bosch globally would stay out of lithium ion cell manufacturing.

Valuation & Outlook

We continue to maintain cautious stance on Bosch, primarily due to demand challenges given its high exposure to CV space, assign **SELL** post sharp rally in past few months. We value it at ₹ 10,950 i.e. 27x FY22E EPS of ₹ 406/share.

Key Financial Summary

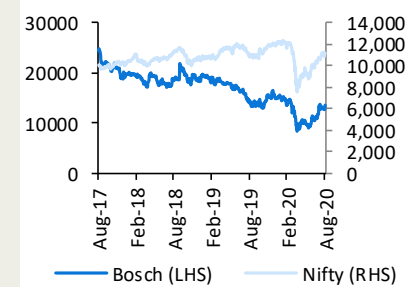
Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	11,690.2	12,085.0	9,841.6	7,850.7	9,812.0	-0.2%
EBITDA	2,093.2	2,154.1	1,483.3	886.5	1,571.7	2.9%
EBITDA Margins (%)	17.9	17.8	15.1	11.3	16.0	
Net Profit	1,370.7	1,598.0	649.8	576.1	1,196.5	35.7%
Net Profit (adjusted)	1,433.8	1,598.0	1,300.0	849.8	1,271.3	-1.1%
EPS (₹)	449.1	541.9	220.3	195.4	405.7	
EPS (₹) (adjusted)	469.8	541.9	440.8	288.2	431.1	
P/E	29.5	24.5	60.2	67.9	32.7	
RoNW (%)	14.4	17.5	14.0	8.9	12.2	
RoCE (%)	16.3	19.2	11.8	5.3	11.0	



Particulars

Particular	₹ crore
Market Capitalization	39,104
Total Debt (FY20)	52.1
Cash and Investments (FY20)	6,290
EV	32,866
52 week H/L (₹)	17137 / 7874
Equity capital (₹ crore)	29.5
Face value (₹)	10.0

Particulars



Key Highlights

- Revenues fall 64% YoY in Q1FY21 tracking sharp fall in OEM volumes with EBITDA, PAT prints in the red
- Muted outlook for domestic demand, especially in important served segments like CVs seen limiting topline growth
- Rising content per vehicle, status as solutions supplier and cost actions to aid some margin recovery in FY22E
- Downgrade from REDUCE to SELL amid stretched valuations, with revised target price of ₹ 10,950 valuing the company at 27x FY22E EPS of ₹ 406/share

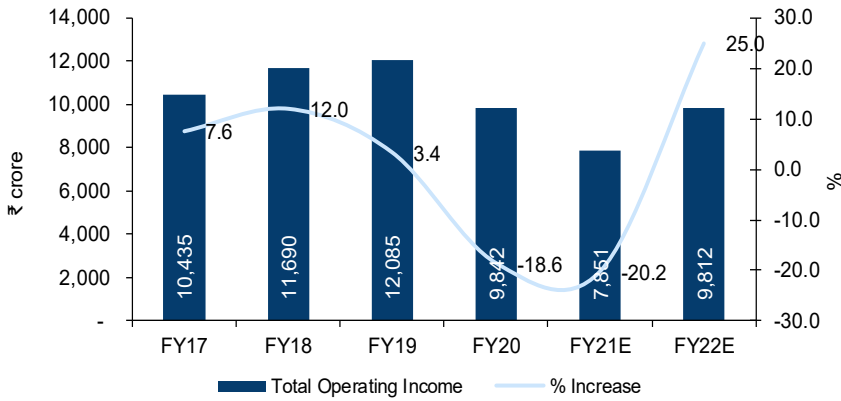
Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Financial story in charts

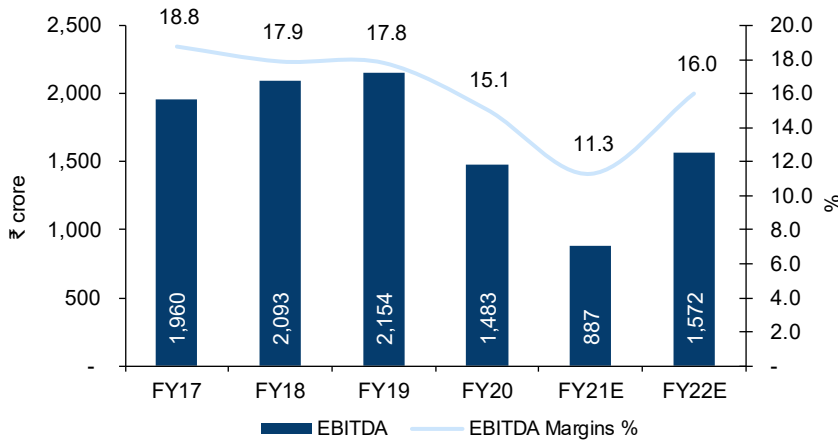
Exhibit 1: Topline trend



We expect sales to remain flattish over FY20-22E

Source: Company, ICICI Direct Research

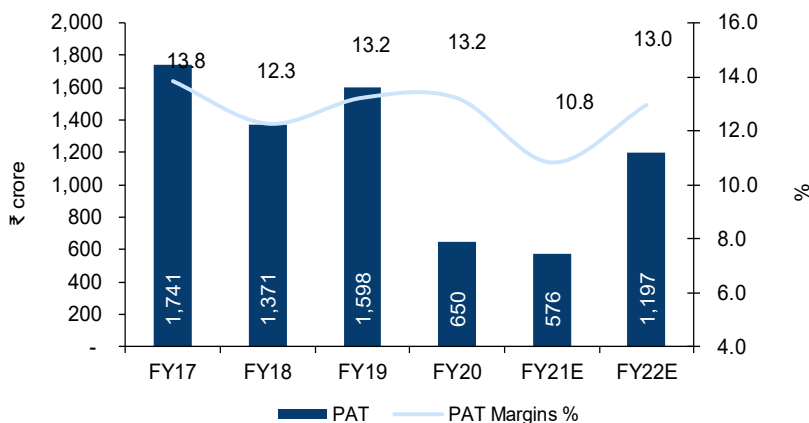
Exhibit 2: EBITDA, EBITDA margin trend



Margins seen recovering mildly to 16% by FY22E

Source: Company, ICICI Direct Research

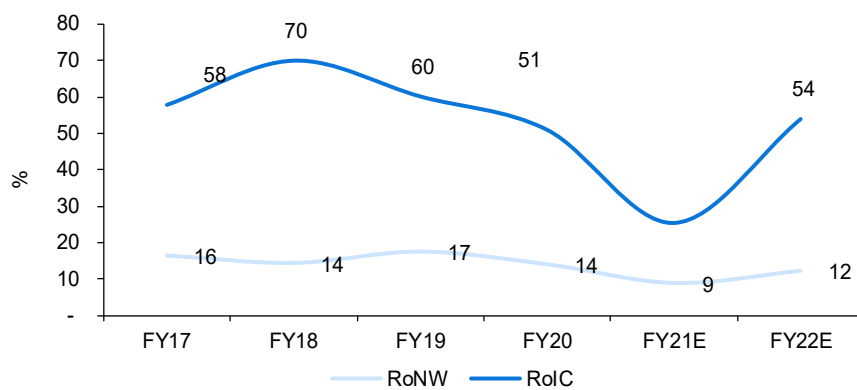
Exhibit 3: Profitability trend



Normalised PAT seen growing at -1.1% CAGR over FY20-22E to ₹ 1,197 crore

Source: Company, ICICI Direct Research

Exhibit 4: Return ratios trend



RoE seen remaining well below previous levels amid expected demand softness and gradual nature of uptick in margins. RoC, however, still expected to be robust given high share of cash & cash equivalents as percentage of net worth

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Revenues	Growth	Adj. EPS	Growth	Adj. PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	11690.2	12.0	469.8	-0.7	28.2	15.3	14.4	16.3
FY19	12085.0	3.4	541.9	15.3	24.5	15.7	17.5	19.2
FY20	9841.6	-18.6	440.8	-18.7	30.1	22.2	14.0	11.8
FY21E	7850.7	-20.2	288.2	-34.6	46.0	36.1	8.9	5.3
FY22E	9812.0	25.0	431.1	49.6	30.8	19.9	12.2	11.0

Source: Bloomberg, ICICI Direct Research

Exhibit 6: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	70.5	70.5	70.5	70.5	70.5
FII	7.4	7.3	7.4	7.5	7.1
DII	13.2	13.3	13.3	13.1	13.5
Others	8.8	8.9	8.7	8.8	8.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Total operating Income	12,085.0	9,841.6	7,850.7	9,812.0	
Growth (%)	3.4	-18.6	-20.2	25.0	
Raw Material Expenses	6,675.2	5,309.4	4,344.4	5,298.5	
Employee Expenses	1,350.7	1,268.5	1,050.5	1,118.9	
Other Expenses	1,905.0	1,780.4	1,569.2	1,822.9	
Total Operating Expenditure	9,930.9	8,358.3	6,964.1	8,240.3	
EBITDA	2154.1	1483.3	886.5	1571.7	
Growth (%)	2.9	-31.1	-40.2	77.3	
Depreciation	402.2	383.3	372.9	417.0	
Interest	13.3	10.2	7.7	5.7	
Other Income	595.4	546.6	572.1	550.6	
PBT	2,334.0	1,636.4	1,078.1	1,699.6	
Less Exceptional items	0.0	861.5	347.2	100.0	
Total Tax	740.6	190.1	154.8	403.1	
PAT	1598.0	649.8	576.1	1196.5	
Adjusted PAT	1598.0	1300.0	849.8	1271.3	
Growth (%)	16.6	-59.3	-11.3	107.7	
EPS (₹)	541.9	220.3	195.4	405.7	
Adjusted EPS	541.9	440.8	288.2	431.1	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Liabilities					
Equity Capital	29.5	29.5	29.5	29.5	
Reserve and Surplus	9,096.7	9,239.9	9,550.5	10,378.4	
Total Shareholders funds	9126.2	9269.4	9580.0	10407.9	
Total Debt	0.0	52.1	52.1	52.1	
Other non-current Liabilities	352.3	329.5	329.0	329.5	
Total Liabilities	9478.6	9651.0	9961.1	10789.4	
Assets					
Gross Block	2,940.1	3,492.9	3,992.9	4,392.9	
Less: Acc Depreciation	1,746.8	2,130.1	2,503.0	2,920.0	
Net Block	1193.3	1362.8	1489.9	1472.9	
Capital WIP	644.2	487.0	237.0	137.0	
Total Fixed Assets	1,837.5	1,849.8	1,726.9	1,609.9	
Investments	4,036.2	4,020.7	4,920.7	5,570.7	
Inventory	1,444.3	1,115.9	860.3	1,075.3	
Debtors	1,567.5	1,413.1	1,075.4	1,344.1	
Loans and Advances	1,367.4	1,516.9	1,210.0	1,512.3	
Other current assets	574.1	420.6	335.5	419.3	
Cash	1252.6	2255.9	2230.5	2295.6	
Total Current Assets	6,206.0	6,722.3	5,711.7	6,646.6	
Creditors	1,577.5	1,605.0	1,290.5	1,612.9	
Provisions	774.9	1,291.1	1,038.2	1,297.5	
Other Current Liabilities	878.7	772.9	616.5	770.5	
Total Current Liabilities	3,231.1	3,669.0	2,945.2	3,681.0	
Net Current Assets	2974.9	3053.3	2766.6	2965.6	
Deferred Tax Asset	459.6	456.7	298.6	373.2	
Other non-current Assets	106.3	109.6	87.4	109.3	
Application of Funds	9478.6	9651.0	9961.1	10789.4	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit after Tax	1,598.0	649.8	576.1	1,196.5	
Add: Depreciation	402.2	383.3	372.9	417.0	
(Inc)/dec in Current Assets	-435.4	487.0	985.1	-869.7	
Inc/(dec) in CL and Provisions	-288.0	437.9	-723.8	735.8	
CF from operating activities	694.6	1421.5	645.9	934.7	
(Inc)/dec in Investments	1,186.6	15.4	-900.0	-650.0	
(Inc)/dec in Fixed Assets	-600.2	-395.6	-250.0	-300.0	
Others	-54.0	-120.0	179.7	-95.9	
CF from investing activities	1127.8	46.5	-398.2	-495.3	
Issue/(Buy back) of Equity	-1.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	52.1	0.0	0.0	
Dividend paid & dividend tax	-384.6	-371.6	-265.4	-368.6	
Others	-2,085.4	-145.3	-7.7	-5.7	
CF from financing activities	-2470.9	-464.8	-273.1	-374.4	
Net Cash flow	-635.2	1,003.2	-25.4	65.1	
Opening Cash	1,887.8	1,252.6	2,255.9	2,230.5	
Closing Cash	1252.6	2255.9	2230.5	2295.6	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	541.9	220.3	195.4	405.7
Cash EPS	678.3	350.3	321.8	547.1
BV	3,094.7	3,143.2	3,248.6	3,529.3
DPS	108.7	105.0	90.0	125.0
Cash Per Share	1,793.4	2,128.4	2,425.0	2,667.4
Operating Ratios (%)				
EBITDA Margin	17.8	15.1	11.3	16.0
PBT / Netsales	19.3	16.6	13.7	17.3
PAT Margin	13.2	13.2	10.8	13.0
Inventory days	43.6	41.4	40.0	40.0
Debtor days	47.3	52.4	50.0	50.0
Creditor days	47.6	59.5	60.0	60.0
Return Ratios (%)				
RoE	17.5	14.0	8.9	12.2
RoCE	19.2	11.8	5.3	11.0
RoIC	60.1	50.9	25.4	53.9
Valuation Ratios (x)				
P/E	24.5	60.2	67.9	32.7
P/E Adjusted	24.5	30.1	46.0	30.8
EV / EBITDA	15.7	22.2	36.1	19.9
EV / Net Sales	2.8	3.3	4.1	3.2
Market Cap / Sales	3.2	4.0	5.0	4.0
Price to Book Value	4.3	4.2	4.1	3.8
Solvency Ratios				
Debt/E equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.2	1.2	1.2
Quick Ratio	1.1	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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