Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bosch Limited

Growth plans in top gear

Automobiles	Sharekhan code: BOSCHLTD	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 16,211**	
Price Target: **Rs. 18,156**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 47,812 cr
52-week high/low:	Rs. 16,900 / 7,874
NSE volume: (No of shares)	0.91 lakh
BSE code:	500530
NSE code:	BOSCHLTD
Free float: (No of shares)	0.9 cr

Shareholding (%)

Promoters	70.5
FII	4.6
DII	15.7
Others	9.1

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	16.8	35.1	18.7	14.3
Relative to Sensex	12.2	16.1	-16.8	-11.0

Sharekhan Research, Bloomberg

Summary

- We retain a Buy rating on Bosch Limited (Bosch) with a revised PT of Rs. 18,156, factoring a recovery in its business outlook and earnings upgrade.
- Q3FY21 results beat estimates, driven by faster-than-expected recovery in sales. However, EBITDA margins lagged expectations by 20 bps.
- We expect Bosch's earnings to grow robust 46.4% in FY2022E and 21.5% in FY2023E, driven by a rise in demand and operating leverage benefits.
- Expansion of power tool business' distribution network, export of BS-VI automotive components to neighbouring countries, increased adoption of connected and EVs would be key growth drivers.

Q3FY21 results beat estimates driven by a faster-than-expected recovery in sales. However, EBITDA margins lagged our expectations by 20 bps. Net revenue grew by 19.4% y-o-y to Rs 3,039 crore, largely driven by a 34.7% growth in the mobility business, improving demand and enhanced content per vehicle, thanks to BS-VI norms. However, the company suffered loss of revenue due to a global shortage of semi-conductors, reducing its ability to deliver products to OEMs. EBITDA margin declined 86 bps y-o-y and improved by a marginal 14 bps q-o-q to 11.8%, resulting to EBITDA growth of 11.3% y-o-y and 23.7% q-o-q at Rs. 357 crore. Adjusted PAT grew 1.3% y-o-y to Rs. 331 crore. We expect Bosch to witness significant increase in content per vehicle with advent of BS-VI emission norms as vehicles require significant changes in combustion, powertrain systems and exhaust gas treatment. Supply of fuel injection to two-wheeler players would be an incremental growth opportunity for the company. Expansion of power tool business' distribution network in Tier-3 and -4 cities, export of BS-VI automotive components to neighbouring countries, increased adoption of connected and electric vehicles would be key growth drivers. Bosch has a strong technological parentage and operates in a high-entry barrier industry with a strong balance sheet, zero debt and healthy returns ratios. The company's order book of Rs. 18,500 crore for BS-VI products is likely to be executed in next 5-6 years, which provides healthy growth visibility. Increasing localisation of BS-VI components, benefits from investments in transformation and restructuring projects (Bosch has invested about Rs. 1,300 crore in these projects) coupled with operating leverage (due to strong recovery in volumes) would result in margin improvement. Bosch is well-prepared to tap on emerging opportunities in electrification and connected vehicles with strong technological support from its parent, Robert Bosch GmbH. We expect Bosch's earnings to grow robust 46.4% in FY2022E and 21.5% in FY2023E, driven by 25.9% CAGR during FY2021E-FY2023E and an improvement in EBITDA margin. Hence, we retain our Buy rating on the stock.

Our Call

Valuation – Maintain Buy rating with a revised PT of Rs. 18,156: FY2022 is likely to witness strong recovery, driven by normalisation of economic activity and pent-up demand, given that automotive demand would stay weak for two consecutive years in FY2020 and FY2021. Bosch expects demand to improve further in Q3FY2021, driven by the festive season. Margins are expected to improve going ahead, driven by increased localisation, transformational and restructuring projects and benefits of operating leverage due to improved demand. We have fine-tuned our earnings estimates. Bosch is a strong technological company with robust balance sheet (zero debt) and healthy return ratios. Its strong brand positioning, focus on technology and electrification of vehicles enable high growth visibility. We expect Bosch's earnings to grow robust 46.4% in FY2022E and 21.5% in FY2023E, driven by 25.9% CAGR during FY2021E-FY2023E and an improvement in EBITDA margin. The stock is trading at P/E of 27.7x and EV/EBITDA of 18.8x. We retain Buy rating with PT of Rs 18,156.

Key Risks

Performance can be impacted adversely if the commodity prices continue to rise at the current pace. Moreover, a prolonged shortage of semi-conductors can materially affect our revenue and margin projections.

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	12,085	9,842	8,356	11,520	13,248
Growth (%)	3.4	(18.6)	(15.1)	37.9	15.0
EBIDTA	2,154	1,483	978	1,786	2,205
OPM (%)	17.8	15.1	11.7	15.5	16.6
Net Profit	1,594	1,301	971	1,422	1,727
Growth (%)	16.2	(18.3)	(25.4)	46.4	21.5
EPS	540.4	441.3	329.4	482.1	585.7
P/E	30.0	36.7	49.2	33.6	27.7
P/BV	5.2	5.2	4.8	4.3	3.8
EV/EBIDTA	19.8	28.1	43.1	23.4	18.8
ROE (%)	17.5	14.1	9.7	12.7	13.8
ROCE (%)	24.8	17.1	10.5	16.5	17.8

Source: Company; Sharekhan estimates

Q3FY21 results ahead of expectations: Q3FY21 results beat estimates driven by a faster-than-expected recovery in sales. However, EBITDA margins lagged our expectations by 20 bps. Net revenue grew by 19.4% y-o-y to Rs 3,039 crore, largely driven by a 34.7% growth in the mobility business, improving demand and enhanced content per vehicle, thanks to BS-VI norms. However, the company suffered loss of revenue due to a global shortage of semi-conductors, reducing its ability to deliver products to OEMs. EBITDA margin declined 86 bps y-o-y and improved by a marginal 14 bps q-o-q to 11.8%, resulting to EBITDA growth of 11.3% y-o-y and 23.7% q-o-q at Rs. 357 crore. Adjusted PAT grew 1.3% y-o-y to Rs. 331 crore. The company disclosed an exceptional expense Rs 146.6 crore. The amount is the last tranche extended under the current 3R strategy.

Outlook positive: The management was positive on Q3FY21 growth, led by robust demand across its segments. The company is expecting continued demand recovery in the sector, aided by normalisation of economic activities and successful rollout of COVID vaccines throughout the country.

Demand improving; Bosch to witness increased content/vehicle: The automotive industry witnessed sharp improvement in demand with production going up. Our channel checks suggest underline strong demand in two-wheeler and four-wheeler segments. We expect strong recovery from FY2022, driven by normalisation in economic activity. Moreover, with the implementation of BS-VI emission norms, Bosch is witnessing increased content per vehicle in the engine and exhaust gas treatment systems. In addition, the supply of fuel-injection systems to the two-wheeler segment provides additional opportunity for Bosch (Bosch was not present in engine systems for the two-wheeler segment in earlier BS-IV era).

Margins expected to improve driven by increased localisation, savings led by transformational projects and operating leverage: Bosch is focussing on improving localisation levels for BS-VI components. As the BS-VI vehicle proliferation improves, Bosch would look at parts that could be manufactured in-house. Bosch stated that it would achieve a significant increase in localisation levels over the next two to three years, which would enable margin improvement. Moreover, the company has so far invested Rs. 1,300 crore on transformational and restructuring projects. These projects are directed towards optimising manpower and enhancing digitisation initiatives. Bosch expects a payback period of about five years for these measures, the benefits of which would be visible from FY2022. Moreover, the automotive industry is likely to witness a strong recovery in FY2022 after two consecutive years of downturn in FY2020 and FY2021. Improvement in volumes would lead to benefits of operating leverage, which would enable margin improvement.

Aftermarket business continues to improve: Bosch stated the aftermarket business continues to pick up with opening up of the economy. Bosch is concentrating on Tier 2 level of aftermarket (end-point sales) in addition to strengthening its dealer network.

Strong broad-based growth; Expect robust double-digit growth in FY2022: Given its strong brand positioning, focus on technology and electrification of auto vehicles enable high growth visibility. We expect Bosch's earnings to grow robust 46.4% in FY2022E and 21.5% in FY2023E, driven by 25.9% CAGR during FY2021E-FY2023E and improvement in EBITDA margin. The stock is trading at P/E of 27.7x and EV/EBITDA of 18.8x. We retain Buy rating with PT of Rs. 18,156.

Results Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Revenues	3,030	2,537	19.4	2,479	22.2
EBITDA	356	320	11.3	288	23.7
EBITDA Margins (%)	11.8	12.6	(86 bps)	11.6	14 bps
Depreciation	97	110	-11.8	80	21.8
Interest	7	3	134.8	1	415.9
Other income	111	140	-20.5	101	9.7
PBT	364	347	4.8	309	17.9
Tax	33	21	61.5	(27)	NA
Adjusted PAT	331	327	1.3	335	-1.3
Exceptional charges	147	207	-	400	
Reported PAT	184	119	54.4	(65)	-385.3
Adjusted EPS	112.2	110.8	1.3	113.7	-1.3

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Improving macro

The business outlook for the automotive segment is improving as economic activities normalise. Automotive demand is witnessing strong recovery in two-wheeler and four-wheeler segments aided by pent-up demand and an increase in personal mobility transport. The rural and semi-urban remains buoyant on robust farm income this year. A recovery in export destinations augurs well for the sector. The roll-out of COVID-19 vaccination programmes in the country are keeping overall outlook positive for the coming months following the respective approval of various vaccines.

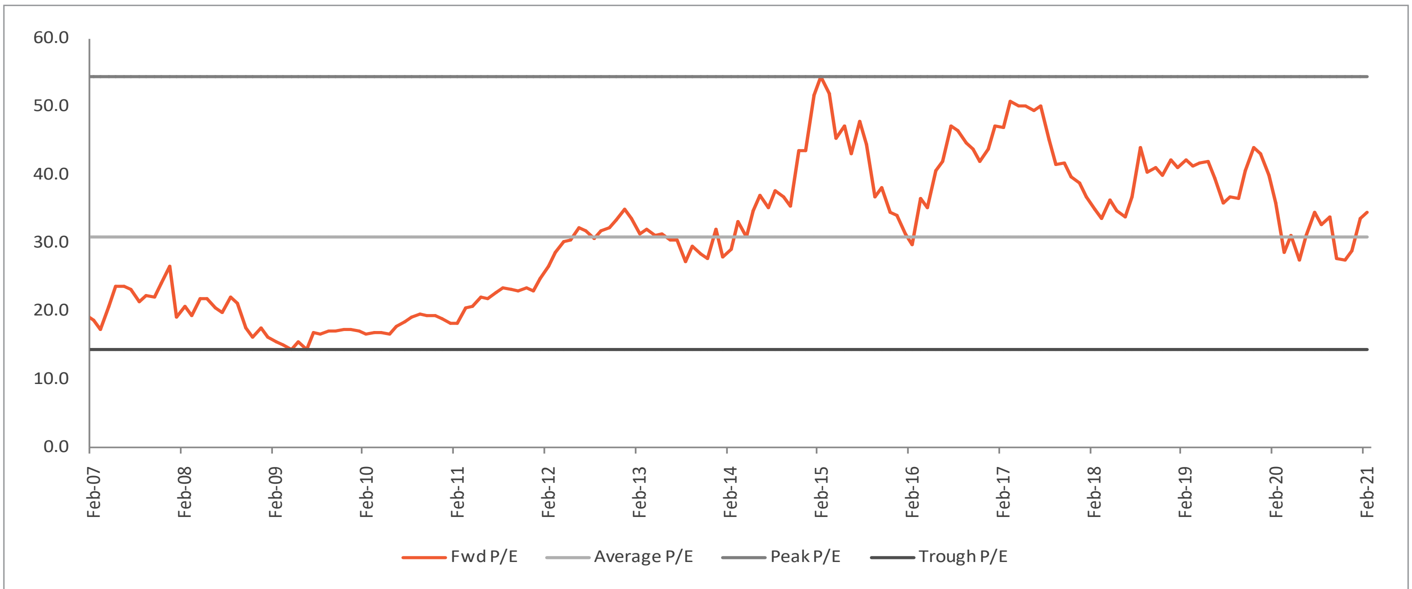
■ Company outlook - Beneficiary of automotive demand

Bosch's content per vehicle would increase with change from BS-IV to BS-VI emission norms, commencing supplies in the fast-growing electric vehicle segment and emerging technologies such as connected vehicles. Bosch is witnessing increased offtake for engine and exhaust gas treatment systems as automotive OEM customers have started rolling BS-VI emission norm-compliant vehicles. Moreover, supplies of fuel-injection systems to 2W players provide an incremental opportunity. Bosch has tied up with leading OEM players for supply of BS-VI products and the current order book stands at Rs. 18,500 crore, to be executed over 5-6 years. Moreover, Bosch has commenced supplies to the electric vehicle segment with supply of the entire drive systems for Bajaj Chetak scooter, in-house hub systems for TVS Qube scooter, and components to Tata Nexon electric SUV. Bosch is making itself ready to provide solutions for emerging trends of connected vehicles (various cars with voice commands) and increasing digitisation in the Indian automotive industry. We maintain our positive stance on the company.

■ Valuation - Maintain Buy rating with a revised PT of Rs. 18,156

FY2022 is likely to witness strong recovery, driven by normalisation of economic activity and pent-up demand, given that automotive demand would stay weak for two consecutive years in FY2020 and FY2021. Bosch expects demand to improve further in Q3FY2021, driven by the festive season. Margins are expected to improve going ahead, driven by increased localisation, transformational and restructuring projects and benefits of operating leverage due to improved demand. We have fine-tuned our earnings estimates. Bosch is a strong technological company with robust balance sheet (zero debt) and healthy return ratios. Its strong brand positioning, focus on technology and electrification of vehicles enable high growth visibility. We expect Bosch's earnings to grow robust 46.4% in FY2022E and 21.5% in FY2023E, driven by 25.9% CAGR during FY2021E-FY2023E and an improvement in EBITDA margin. The stock is trading at P/E of 27.7x and EV/EBITDA of 18.8x. We retain Buy rating with PT of Rs 18,156..

One-year forward P/E (x) band



Source: Sharekhan Research

About company

The Bosch Group is a leading global supplier of technology and services. The company employs roughly 4,03,000 associates worldwide (as of December 31, 2019). According to preliminary figures, the company generated sales of Euros 77.9 billion in 2019. The group's operations are divided into four business sectors: Mobility Solutions, Industrial Technology, Consumer Goods, and Energy and Building Technology. In India, Bosch is a leading supplier of technology and services in the areas of mobility solutions, industrial technology, consumer goods, and energy and building technology. Additionally, in India, Bosch has the largest development centre outside Germany for end-to-end engineering and technology solutions. Bosch Group in India employs over 31,000 associates and generated consolidated revenue of about Rs. 21,450 crore (Euro 2.66 billion) in 2018, of which Rs. 15,824 crore (Euro 1.96 billion) is from third party. In India, Bosch has close to 18,000 research and development associates. In India, Bosch Limited is the flagship company of Bosch Group. The company earned revenue of over Rs. 12,460 crore (Euro 1.54 billion) in 2018. In India, Bosch setup its manufacturing operations in 1951, which has grown over the years to include 18 manufacturing sites and seven development and application centres.

Investment theme

Bosch Limited (Bosch) reported Q3FY21 results better than expected driven by faster than expected recovery in sales. However, the EBITDA margins was lower by 20 bps to our estimates. We expect Bosch to witness significant increase in content per vehicle with advent of BS-VI emission norms as vehicles require significant changes in combustion, powertrain systems and exhaust gas treatment. Supply of fuel injection to two-wheeler players would be an incremental growth opportunity for the company. Expansion of power tool business' distribution network in Tier 3 and 4 cities, export of BS-VI automotive components to neighbouring countries, increased adoption of connected and electric vehicles would be key growth drivers for the company. Bosch has a strong technological parentage and operates in a high entry barrier industry with strong balance sheet, zero debt and healthy returns ratios. The company's order book of Rs. 18,500 crore for BS6 products is likely to be executed over the next five to six years, which provides healthy growth visibility going ahead. Increasing localisation of BS-VI components, benefits from investments in transformation and restructuring projects coupled with operating leverage (due to strong recovery in volumes) would result in margin improvement. Bosch is well prepared to tap on emerging opportunities in electrification and connected vehicles with strong technological support from its parent, Robert Bosch GmbH. We expect Bosch's earnings to grow robust 46.4% in FY2022E and 21.5% in FY2023E, driven by 25.9% CAGR during FY2021E-FY2023E and improvement in EBITDA margin. Hence, we retain our Buy rating on the stock.

Key Risks

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- In addition, the prolonged shortage of semi-conductors can materially affect our revenue and margin projections.

Additional Data

Key management personnel

VK Vishwanathan	Chairman
Soumitra Bhattacharya	Managing Director
Andreas Wolf	Joint Managing Director
Jan-Oliver Rohrl	Chief Technical Officer and Executive Director

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Robert Bosch Gmbh	67.8
2	General Insurance Corporation of India	3.27
3	Life Insurance Corporation	2.87
4	Robert Bosch Engineering and Business Solution	2.78
5	New India Assurance company Ltd	2.71
6	United India Insurance company	1.15
7	Blackrock Inc	0.72
8	Aditya Birla Sun life AMC	0.69
9	Vanguard Group Inc	0.62
10	Standard Life Aberdeen PLC	0.44

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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