Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Bosch Ltd

Margin performance below expectations; bright outlook

Automobiles	Sharekhan code: BOSCHLTD

Reco/View: Buy	↔	CMP: **Rs. 16,461**	Price Target: **Rs. 19,795**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 12.82

Updated Aug 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

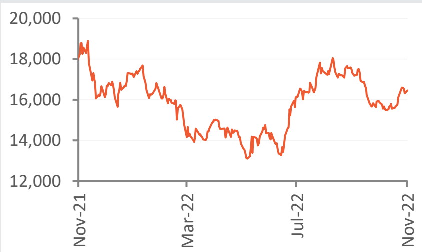
Company details

Market cap:	Rs. 48,549 cr
52-week high/low:	Rs. 19,245/12,940
NSE volume: (No of shares)	33,791
BSE code:	500530
NSE code:	BOSCHLTD
Free float: (No of shares)	0.9 cr

Shareholding (%)

Promoters	70.5
FII	3.6
DII	16.3
Others	9.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.5	-7.6	13.6	-6.2
Relative to Sensex	-1.8	-12.9	6.4	-7.9

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Bosch Limited (Bosch) with an unchanged PT of Rs.19,795, led by a robust demand outlook in the automotive business across segments, access to robust e-mobility technology, and continued focus on improving content per vehicle. The stock trades below its historical average at a P/E of 23.3x and EV/EBITDA of 17.1x its FY24E estimates.
- Q2 EBITDA margins were lower by 160bps than expectations at 11.8%, on account of unfavourable product mix and increase in raw material prices, while business outlook remains boost.
- Support from the parent company and investment in R&D would be key drivers to tap emerging opportunities in EVs and connected vehicles in India.
- We expect Bosch's earnings to clock a 30.8% CAGR during FY22-FY24E, driven by a 20% revenue CAGR and a 230-bps rise in EBITDA margin expansion to 14.7% in FY24E from 12.4% in FY22.

Bosch's Q2 EBITDA margins were lower by 160bps than expectations at 11.8% on account of an unfavourable product mix and an increase in raw material prices. Revenue, EBITDA and PAT continue to perform well in Q2, growing at 45.1% y-o-y, 44.8% y-o-y and 28.4% y-o-y, respectively. The management is optimistic, expecting growth across its business segments, with the e-mobility business driving overall growth. The capex for FY23E is estimated to be Rs. 520-560 crore, primarily focused on R&D for new businesses. Further, the company plans to invest more than Rs. 200 crore in India in the next five years in advanced automotive technologies and the digital mobility space. We expect Bosch to continue to see an increase in content per vehicle with the advent of BS-VI emission norms as vehicles require significant changes in combustion, powertrain systems, and exhaust gas treatment. Content per vehicle would be driven by improved safety features and conveniences with the advent of electric vehicles and increasing awareness among customers. Expansion of the power tool business' distribution network in Tier-3 and Tier-4 cities, export of BS-VI automotive components to neighbouring countries and greater 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 a strong balance sheet, zero debt, and healthy returns ratios. Bosch is well-prepared to tap into emerging opportunities in electrification and connected vehicles with strong technological support from its parent, Robert Bosch GmbH. Hence, we retain a Buy rating on the stock.

Key positives

- Bosch outperformed the automotive industry growth and grew its revenues by 25.5% y-o-y and 3.3% q-o-q, led by sustained demand in the passenger car (PC) segment and improved demand in two-wheelers and tractors during Q2.
- During the Q2FY23, the powertrain solution products grew by 39.6% y-o-y on the back of robust performance of auto volumes across segments, led by inventory filling for festive seasons and improvement in semi-conductor supplies.
- Energy and building technology segment grew by 27.6% y-o-y in Q2, led by a low base and pick up in overall economic and business activities.

Key negatives

- Q2 EBITDA margins were lower by 160bps than expectations at 11.8%, because of unfavourable product mix and an increase in raw material prices.

Management Commentary

- Management is positive, expecting growth across its business segments, with the e-mobility business driving overall growth.
- The company currently has a 7-8% share of exports of its revenues, which it aims to grow at healthy double-digit in the medium term
- The Capex for FY23E is estimated to be Rs. 520-560 crore, primarily focused on R&D for new businesses.
- The company has been awarded a pilot project for Hydrogen based technology projects. The government's focus on tighter regulation for electric vehicles is likely to benefit Bosch in the long run.

Maintained estimates – The company's strong brand positioning, focus on technology, and electrification of auto vehicles enable high-growth visibility. Bosch's earnings clock a 30.8% CAGR during FY22-FY24E, driven by a 20% revenue CAGR and a 230-bps rise in EBITDA margin expansion to 14.7% in FY24E from 12.4% in FY22. We have broadly maintained our estimates and included FY25E estimates.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs.19,795: Themanagement is positive about the demand scenario, expecting it on the path to recovery. We expect the company to be a key beneficiary of the revival in automotive demand, driven by pent-up offtake and normalisation of economic activities. Bosch is a solid technological company with a robust balance sheet, zero debt, and healthy return ratios. The company's strong brand positioning, focus on technology, and electrification of vehicles will enable its high growth visibility. The company's order book remains buoyant, providing growth visibility. we retain Buy with an unchanged PT of Rs.19,795, led by a robust demand outlook in the automotive business across segments, access to robust e-mobility technology, and a continued focus on improving content per vehicle. The stock trades below its historical average at a P/E of 23.3x and EV/EBITDA of 17.1x its FY24E estimates.

Key Risks

The company's performance may be affected if commodity prices increase in the future. In addition, a prolonged shortage of semiconductors can materially affect our revenue and margin projections.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenues	9,716	9,716	11,782	14,374	16,961
Growth (%)	(1.3)	(1.3)	21.3	22.0	18.0
EBIDTA	1,161	1,161	1,457	2,012	2,510
OPM (%)	11.9	11.9	12.4	14.0	14.8
Net Profit	1,226	1,226	1,218	1,605	1,946
Growth (%)	(5.8)	(5.8)	(0.6)	31.7	21.2
EPS	415.7	415.7	413.1	544.2	659.8
P/E	41.6	41.6	41.9	31.8	26.2
P/BV	5.3	5.3	4.8	4.3	3.8
EV/EBIDTA	39.6	39.6	31.6	22.8	17.8
ROE (%)	12.7	12.7	11.5	13.5	14.5
ROCE (%)	13.2	13.2	13.9	17.1	18.3

Source: Company; Sharekhan estimates

Key Conference call takeaways

- **EBITDA margin performance below expectations:** Bosch's Q2 EBITDA margins were lower by 160bps than expectations at 11.8%, on account of unfavourable product mix and increase in raw material prices. Net revenues for the Q2 reported a 25.5% y-o-y growth to Rs3,662 crore, led by 29.3% growth in automotive segment, flat growth in consumer segment (down 0.3%) and 18.1% growth in another segment. The company is witnessing ease in commodity prices from peak as well as ease in availability of semi-conductor supplies. The company's EBITDA margin contracted 90bps q-o-q to 11.8%, due to unfavourable product mix, an increase in raw material prices (esp. electronic components), and higher other operating expenses. The other operating expenses included a one-time technical cost of Rs35 crore to the global Bosch technical team for supporting the localisation strategy of the company. Depreciation was up 10.9% y-o-y to Rs91.9 crore, arising from average increase in assets and capitalisation of Audgodi Spark.NXT campus by the company. As a result, EBITDA and PAT 20.6% y-o-y and 0.4% y-o-y to Rs431 crore and Rs374 crore, respectively.
- **Segmental performance:** During the Q2FY23, the powertrain solution products grew by 39.6% y-o-y on the back of robust performance of auto volumes across segments, led by inventory filling for festive seasons and improvement in semi-conductor supplies. 2W business sales increased by 20.8% y-o-y, aided by ease in supply if semi-conductors during Q2FY23 versus Q2FY22. The energy and building technology segment grew by 27.6% y-o-y in Q2, led by a low base and pick up in overall economic and business activities. The automotive aftermarket and consumer goods segment grew 5.5% y-o-y and 3.3% y-o-y during Q2.
- **Management positive:** Management expects growth across its business segments, with the e-mobility business driving overall growth. Management expects commodity prices to soften in the near term. The capex for FY23E is estimated to be Rs520-560 crore, primarily focused on R&D for new businesses. The company's robust order book provides healthy growth visibility. Increasing localisation of BS-VI components benefits from investments in transformation and restructuring projects (Bosch has invested ~Rs. 1,300 crore in these projects) coupled with operating leverage (due to strong recovery in volumes) would drive up margins. The management expects margins to improve going forward because of a higher level of localisation and cost-reduction measures.
- **OEM demand outlook:** The company witnessed strong demand across automotive segments during the festive season. The passenger car (PC) and light commercial vehicle (CV) segments are expected to close CY22, surpassing the previous peak volumes reported in CY18. Other segments such as medium and heavy CV, 2Ws and 3Ws are expected to perform healthy growth in CY22, though likely to remain short of previous peaks. Tractors might end the year with a minor decline as compared to previous year due to a high base.
- **Exports:** Management is optimistic about improving its export component in the future. The company currently has a 7-8% share of exports of its revenues, which it aims to at a healthy double digit in the medium term.
- **Aims to reach 73-76% localisation:** Bosch focuses on improving localisation levels for BS-VI components. As BS-VI vehicle proliferation enhances, 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, aiming to reach 73-76% localisation. In the power tool segment (consumer products), the company has achieved 40% localisation. The company is a market leader in power tools segment, which is a fragmented segment.

- **Focus on greener technology:** The company continues to focus on greener technology products through support of its parent company. In India, the company is getting traction in 2Ws and 3Ws, with strong enquiries from the PV segment. The company has been awarded a pilot project for Hydrogen based technology projects. The government's focus on tighter regulation for electric vehicles is likely to benefit Bosch in the long run.
- **Bosch to witness increased content/vehicle:** The automotive industry saw a sharp improvement in demand with rising production. Our channel checks suggest underlying strong demand in two-wheeler and four-wheeler segments once the economy normalises with higher vaccination levels in the country. 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 an additional opportunity for Bosch, as the company was not present in engine systems for the two-wheeler segment in the BS-IV era.
- **Leveraging group strengths give Bosch a competitive edge:** The markets are continuously adapting to changes, led by a global driver for climate action, electrification, automation, and connectivity. Bosch's focus on electrification provides it with a competitive edge due to its parent's, Robert Bosch GmbH, substantial investments in electric vehicles (EV) technology. The parent has been investing in EVs for the past 10 years. Bosch Global has prepared to tackle challenging situations and has a strong product portfolio in electromobility with solid order books. In India, Bosch Limited will support OEMs through system expertise and participate in ecosystem partnerships to become a significant player in the electrification ecosystem. Leveraging a robust global portfolio, Bosch in India is rightly positioned to support Electric Vehicle (EV) adoption across segments.
- **Investments in technologies to remain focused:** Bosch Limited will invest more than Rs. 200 crores in India over the next five years (till 2026) in advanced automotive technologies and digital mobility space. The capex for FY23E is estimated to be Rs. 550-600 crore, primarily focused on R&D for new businesses.
- **Strong broad-based growth:** The company's strong brand positioning, focus on technology, and electrification of auto vehicles enable high-growth visibility. Bosch's earnings clock a 30.8% CAGR during FY22-FY24E, driven by a 20% revenue CAGR and a 230-bps rise in EBITDA margin expansion to 14.7% in FY24E from 12.4% in FY22. We have broadly maintained our estimates and included FY25E estimates.

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Revenues	3,661.6	2,918.0	25.5	3,544.4	3.3
Total Expenses	3,230.4	2,560.5	26.2	3,095.0	4.4
EBIDTA	431.2	357.5	20.6	449.4	(4.0)
Depreciation	91.9	82.9	10.9	64.8	41.8
Interest	1.9	1.5	25.0	3.6	(47.2)
Other Income	149.6	124.3	20.3	56.6	164.3
PBT	487.0	397.5	22.5	437.6	11.3
Tax	114.6	25.5	348.7	103.5	10.7
Adjusted PAT	373.6	372.2	0.4	334.1	11.8
Exceptional charges	0.0	0.0	-	0.0	-
Reported PAT	373.6	372.2	0.4	334.1	11.8
Adjusted EPS	126.7	126.2	0.4	113.3	11.8

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q2FY23	Q2FY22	YoY (bps)	Q1FY23	QoQ (bps)
Gross margin (%)	35.1	37.2	(210)	35.4	(30)
EBIDTA margin (%)	11.8	12.3	(50)	12.7	(90)
EBIT margin (%)	9.3	9.4	(10)	10.9	(160)
Net profit margin (%)	10.2	12.8	(260)	9.4	80
Effective tax rate (%)	23.5	6.4	1,710	23.7	(10)

Source: Company, Sharekhan Research

Segmental Results (Consolidated) Rs cr

Segment Revenue	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Automotive products	3,150.5	2,436.4	29.3	3,109.2	1.3
Consumer products	352.8	353.7	(0.3)	318.8	10.7
Others	170.9	144.7	18.1	120.0	42.4
Net Sales	**3,661.6**	**2,918.0**	**25.5**	**3,544.4**	**3.3**
EBIT	**Q2FY23**	**Q2FY22**	**YoY %**	**Q1FY23**	**QoQ %**
Automotive products	380.8	287.7	32.4	422.2	(9.8)
Consumer products	39.0	46.3	(15.8)	18.6	109.7
Others	27.2	37.4	(27)	24.5	11.0
Total	**447.0**	**371.4**	**20.4**	**465.3**	**(3.9)**
Segmental EBIT Margin (%)	**Q2FY23**	**Q2FY22**	**YoY (bps)**	**Q1FY23**	**QoQ (bps)**
Automotive products	12.1	11.8	30	13.6	(150)
Consumer products	11.1	13.1	(200)	5.8	520
Others	15.9	25.8	(990)	20.4	(450)
Total	**12.2**	**12.7**	**(50)**	**13.1**	**(90)**
Segmental ROCE (%)	**Q2FY23**	**Q2FY22**	**YoY (bps)**	**Q1FY23**	**QoQ (bps)**
Automotive products	11.0	8.4	270	12.3	(120)
Consumer products	1.2	1.4	(20)	0.6	60
Others	0.7	1.1	(30)	0.7	-
Total	**4.2**	**3.7**	**50**	**4.3**	**(10)**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Structural demand in place

We remain optimistic about the automobile sector driven by pent-up demand across the segment. The PV segment, both for two-wheelers and four-wheelers, is expected to remain robust amid COVID-19 as a preference for personal transport. Rural sentiments remain healthy, given above normal monsoon this year, higher reservoir levels, and the expectation of strong Rabi season going forward. We expect sequential improvement in M&HCV sales to continue, driven by rising e-commerce, agriculture, infrastructure, and mining activities. We expect M&HCVs to outpace other automobile segments over the next few years, followed by growth in the passenger vehicle (PV), two-wheeler, and tractor segments. Moreover, exports provide a considerable growth potential, given India's cost-effective manufacturing, being geographically closer to key markets of the Middle East and Europe, and being the second-largest producer of crucial raw material, steel.

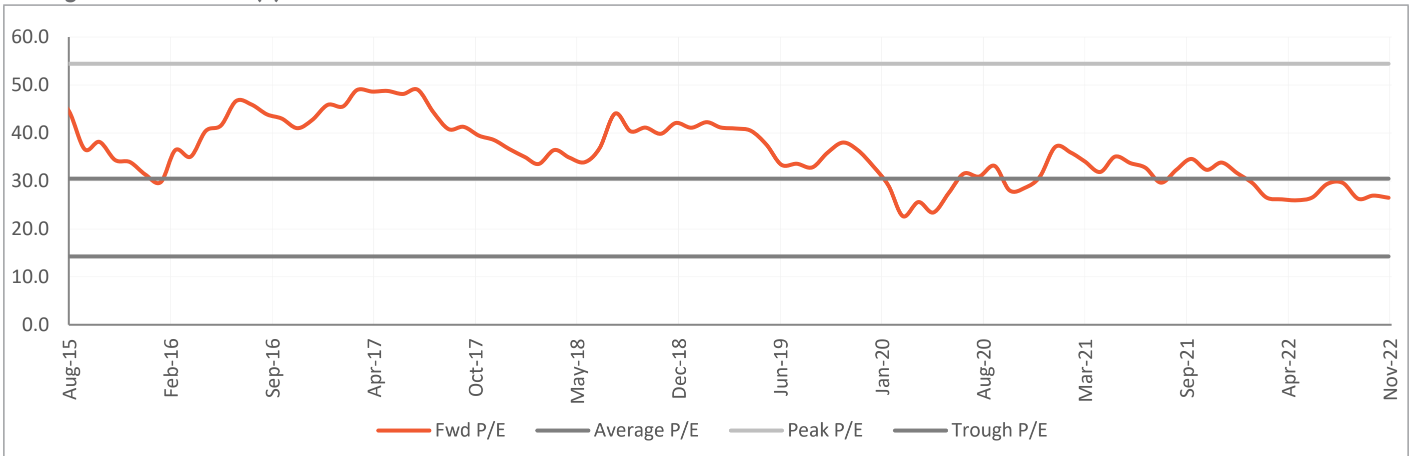
■ Company Outlook – Beneficiary of automotive demand

Bosch's content per vehicle would increase with the change from BS-IV to BS-VI emission norms, commencing supplies in the fast-growing EV 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-compliant vehicles. Moreover, supplies of fuel-injection systems to two-wheeler players provide an incremental opportunity. Bosch has tied up with leading original equipment manufacturers (OEM) players for the collection of BS-VI products. The current order book remains buoyant to be executed over 5-6 years.Moreover, Bosch has commenced supplies to the EV segment, with the supply of the entire drive systems for Bajaj Chetak scooter, in-house hub systems for the TVS iQube scooter, and components for the 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 with an unchanged PT of Rs 19,795

The Management is positive about the demand scenario, expecting it on the path to recovery. We expect the company to be a key beneficiary of the revival in automotive demand, driven by pent-up offtake and normalisation of economic activities. Bosch is a solid technological company with a robust balance sheet, zero debt, and healthy return ratios. The company's strong brand positioning, focus on technology, and electrification of vehicles will enable its high growth visibility. The company's order book remains buoyant, providing growth visibility. we retain Buy with an unchanged PT of Rs.19,795, led by a robust demand outlook in the automotive business across segments, access to robust e-mobility technology, and a continued focus on improving content per vehicle. The stock trades below its historical average at a P/E of 23.3x and EV/EBITDA of 17.1x its FY24E estimates.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Bosch Ltd	16,461	39.8	28.4	23.3	29.9	21.6	17.1	13.9	18.1	19.3
Schaeffler India*	3,009	74.8	52.5	40.9	48.1	33.9	26.3	30.9	32.9	32.0
Sundram Fasteners	1,003	45.6	29.9	24.0	26.5	19.5	15.4	21.4	22.0	24.0

*Source: Company; Sharekhan Research; * Financial are for CY21, CY22E and CY23E*

About company

The Bosch Group is a leading global automotive supplier of technology and services. In India, Bosch is a leading supplier of technology and services in mobility solutions, industrial technology, consumer goods, and energy and building technology. Additionally, in India, Bosch has the most significant development centre outside Germany for end-to-end engineering and technology solutions. In India, Bosch had set up its manufacturing operations in 1951, which have grown to include 18 manufacturing sites and seven development and application centres.

Investment theme

Bosch is one of the leading automotive suppliers in India, with strong technology in its mobility businesses. We expect Bosch to witness a significant increase in content per vehicle with the advent of BS-VI emission norms as vehicles require substantial 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 networks in tier 3 and 4 cities, export of BS-VI automotive components to neighbouring countries, and increased adoption of connected EVs would be key growth drivers for the company. Bosch has a solid 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 crores for BS-VI products is likely to be executed over the next five to six years, which provides strong 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) are expected to result in margin improvement.

Key Risks

- The company's performance can be impacted adversely if commodity prices continue to rise at the current pace.
- In addition, a prolonged shortage of semiconductors can materially affect our revenue and margin projections.

Additional Data

Key management personnel

VK Vishwanathan	Chairman
Soumitra Bhattacharya	Managing Director
SC Srinivasan	Chief Financial Officer and Joint Managing Director
Guruprasad Mudlapur	Chief Technical Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Robert Bosch Internationale Betiligungen Ag	67.8
2	General Insurance Corporation of India	3.3
3	Life Insurance Corporation	3.3
4	Robert Bosch Engineering and Business Solution	2.8
5	New India Assurance company Ltd	2.5
6	United India Insurance company	1.1
7	Blackrock Inc	0.7
8	Aditya Birla Sun life AMC	0.7
9	Vanguard Group Inc	0.6
10	Standard Life Aberdeen PLC	0.4

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

Sharekhan

by BNP PARIBAS

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