Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bosch Ltd

On the comeback path

Automobiles	Sharekhan code: BOSCHLTD
Reco/View: Buy ↔	CMP: Rs. 17,830
	Price Target: Rs. 19,795 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We retain a Buy on Bosch Limited with an unchanged PT of Rs.19,795, on expectation of rise in content per vehicle and an improvement in profitability.
- With a strong hold on gasoline, CNG and diesel now, Bosch is targeting to expand in EV and hydrogen energy segments.
- Bosch is expected to be a key beneficiary of the uptick in domestic CV industry and implementation of stringent emission norms.
- Despite flat revenue growth sequentially, the adjusted EBITDA margin improved (+80 bps q-o-q) on gross margin expansion.

In Q3FY23, Bosch reported operating performance in line with estimates as reported EBITDA was mere 1.6% below estimates and EBITDA margin was 20 bps higher than expectations. At Rs 3659.9 crore, revenue came flat on a q-o-q basis due to 27.4% q-o-q decline in consumer product segment and mere 2.8% q-o-q increase in automotive segment. The company has recorded a one-time additional expense of Rs 90 crore that include - (1) A special warranty for customer claims - Rs 35 crore (2) forex related impact: Rs 30 crore (3) new business-related expenses - Rs 25 crore. Gross margins expanded by 500 bps q-o-q and excluding the onetime expenses the adjusted EBITDA margin expanded by 80 bps q-o-q to 13.5%. With this operating performance, lower other income (12.3% down q-o-q) and higher depreciation (17.8% up q-o-q), adjusted PAT declined by mere 3.3% q-o-q. Along with the result the company has proposed an interim dividend of Rs 200/ share. 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. 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 with a PT of Rs. 19,795.

Key positives

- Gross margins expanded by 500 bps q-o-q to 40.0% and hence EBITDA margins expanded by 80 bps q-o-q to 13.5%.
- Powertrain solutions segment registered a 31.1% y-o-y growth led by healthy demand.
- Two-wheeler business registered 31.7% y-o-y growth due to ease out of semiconductor chip issue.

Key negatives

- Consumer product segment registered a 27.4% q-o-q decline in revenue and hence revenue remained flat on a q-o-q.
- EBIT margins in the automotive and consumer products segment contracted by 90 bps q-o-q and 490 bps q-o-q, respectively.

Management Commentary

- The management is optimistic on growth prospects of its aftermarket business and is expecting strong double-digit market share by FY24, given the auto after market segment has registered the highest ever sales and EBIT in CY22.
- Order book for BSVI projects is continuing to be strong.
- Continued focus on content per vehicle would aid on its operating performance in coming period.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs.19,795: Given strong technology expertise and deep penetration in domestic automotive segment, Bosch is expected to be key beneficiary of implementation of stringent emission norms in domestic automotive segment. Further, Bosch has adequate expertise to cater to alternate fuel segments including EV, hydrogen and others. Over the period Bosch has emerge has preferred complete powertrain solution providers for OEMs and hence continuously acquiring healthy business orders. Implementation of new emission norms is expected to boost its content per vehicles which in our view would drive its profitability going forward. 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 a 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 at a P/E of 24.4x and EV/EBITDA of 18.3x its FY25E estimates.

Key Risks

Performance may be affected if commodity prices increase in the future. In addition, a shortage of semiconductors can materially affect our revenue and margin projections.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenues	9,716	11,782	14,374	16,961	18,996
Growth (%)	-1.3	21.3	22.0	18.0	12.0
EBIDTA	1,161	1,457	1,866	2,497	2,868
OPM (%)	11.9	12.4	13.0	14.7	15.1
Net Profit	1,225	1,217	1,449	1,901	2,156
Growth (%)	-5.9	-0.6	19.0	31.2	13.4
EPS	415.2	412.7	491.3	644.5	731.0
P/E	42.9	43.2	36.3	27.7	24.4
P/BV	5.5	5.0	4.4	3.9	3.5
EV/EBIDTA	41.0	32.7	25.6	18.9	16.2
ROE (%)	12.7	11.5	12.2	14.2	14.3
ROCE (%)	13.2	13.9	15.6	18.2	18.3

Source: Company; Sharekhan estimates

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 08.44

Updated Dec 08, 2022

Negligible Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 52,587 cr
52-week high/low:	Rs. 18,300 / 12,940
NSE volume: (No of shares)	0.3 lakh
BSE code:	500530
NSE code:	BOSCHLTD
Free float: (No of shares)	0.9 cr

Shareholding (%)

Promoters	70.5
FII	3.7
DII	16.5
Others	9.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.0	2.8	-0.2	7.0
Relative to Sensex	-1.8	4.1	-4.7	2.6

Sharekhan Research, Bloomberg

Looking for a long-term play in EV space

Strong parent, Bosch is continuing to expand its EV business in the domestic market. Bosch is supplying various components in EV space and has acquired business in battery systems and ECUs also. 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.

Focus on green technology

The company can offer adequate solutions for hydrogen-based powertrains also, given its offers hydrogen engine testing facilities. The company continues to focus on green-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.

Content per vehicle rises on new norms

The implementation of tight emission norms augurs well for the company as the tight emission norms offers Bosch to offer advanced technology to the customers and hence its content per vehicle increased on implementation of new emission norms. The new emission norms in the tractor segment have offered healthy business to Bosch in YtdFY23. Similarly, the implementation of BS-VI phase would increase content per vehicle for the company.

Optimistic on after market segment

Bosch is optimistic on the growth prospects in the aftermarket segment. With strong brand equity, quality products and its earlier efforts the company is looking for a double-digit market share in aftermarket in FY24. With 500 service centres, Bosch Car Service is the fourth largest car service network in India. Beyond cars it is now focussing on the two-wheeler service segment and exports. The company is looking to expand its aftermarket sales in Sri Lanka, Bangladesh and Nepal.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Revenues	3,659.9	3,109.1	17.7	3,661.6	(0.0)
Total Expenses	3,166.2	2,751.7	15.1	3,195.4	(0.9)
EBIDTA	493.7	357.4	38.2	466.2	5.9
Depreciation	108.3	85.1	27.3	91.9	17.8
Interest	2.0	16.9	(88.1)	1.9	5.3
Other Income	131.2	80.3	63.4	149.6	(12.3)
PBT	514.6	335.7	53.3	522.0	(1.4)
Tax	105.7	100.9	4.7	114.6	(7.8)
Adjusted PAT	387.3	235.0	64.8	400.4	(3.3)
Exceptional charges	90.0	0.0	-	35.0	157.1
Reported PAT	319.7	235.0	36.1	373.6	(14.4)
Adjusted EPS	131.3	79.7	64.8	135.8	(3.3)

Source: Company; Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q3FY23	Q3FY22	Y-o-Y (bps)	Q2FY23	Q-o-Q (bps)
Gross margin (%)	40.0	39.2	80	35.1	500
EBIDTA margin (%)	13.5	11.5	200	12.7	80
Net profit margin (%)	8.7	7.6	120	10.2	(150)
Effective tax rate (%)	20.5	30.1	(950)	22.0	(140)

Source: Company; Sharekhan Research

Segmental Results (Consolidated) **Rs cr**

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Automotive products	3,239.9	2,740.6	18.2	3,150.5	2.8
Consumer products	256.1	221.3	15.7	352.8	(27.4)
Others	191.7	169.2	13.3	170.9	12.2
Net Sales	3,659.9	3,109.1	17.7	3,661.6	(0.0)
EBIT	**Q3FY23**	**Q3FY22**	**YoY %**	**Q2FY23**	**QoQ %**
Automotive products	363.9	386.7	(5.9)	380.8	(4.4)
Consumer products	15.8	(27.7)	(157.0)	39.0	(59.5)
Others	36.5	23.8	53	27.2	34.2
Total	416.2	382.8	8.7	447.0	(6.9)
Segmental EBIT Margin (%)	**Q3FY23**	**Q3FY22**	**YoY (bps)**	**Q2FY23**	**QoQ (bps)**
Automotive products	11.2	14.1	(290)	12.1	(90)
Consumer products	6.2	(12.5)	1,870	11.1	(490)
Others	19.0	14.1	500	15.9	310
Total	11.4	12.3	(90)	12.2	(80)
Segmental ROCE (%)	**Q3FY23**	**Q3FY22**	**YoY (bps)**	**Q2FY23**	**QoQ (bps)**
Automotive products	10.3	(231.7)	24,200	11.0	(80)
Consumer products	0.5	(0.8)	130	1.2	(70)
Others	1.0	0.7	30	0.7	20
Total	3.7	5.6	(190)	4.2	(40)

Source: Company; Sharekhan Research

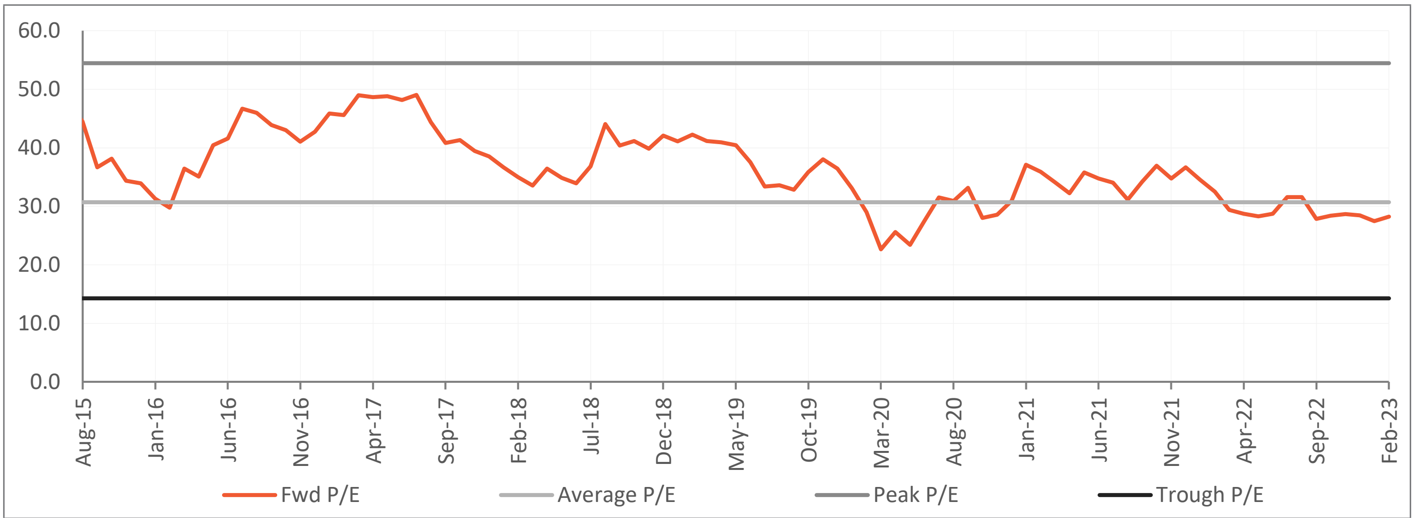
Outlook and Valuation

■ **Sector Outlook – Structural demand in place:** We remain optimistic on the automobile sector driven by pent-up demand across the segment. While PV and CV segment are performing the two-wheeler sector is relatively laggard. 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. 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:** Given strong technology expertise and deep penetration in domestic automotive segment, Bosch is expected to be key beneficiary of implementation of stringent emission norms in domestic automotive segment. Further, Bosch has adequate expertise to cater to alternate fuel segments including EV, hydrogen and others. Over the period Bosch has emerge has preferred complete powertrain solution providers for OEMs and hence continuously acquiring healthy business orders. Implementation of new emission norms is expected to boost its content per vehicles which in our view would drive its profitability going forward. 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 a 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 at a P/E of 24.4x and EV/EBITDA of 18.3x its FY25E estimates.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/ Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Bosch Ltd	17,830	43.2	36.3	27.7	32.7	25.6	18.9	13.9	15.6	18.2
Schaeffler India*	2,691	66.9	47.0	36.6	42.9	30.2	23.5	30.9	32.9	32.0
Sundram Fasteners	988	44.9	41.0	29.9	26.2	23.5	17.7	21.4	16.1	20.0

*Source: Company, Sharekhan estimates; * 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 are 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

Soumitra Bhattacharya	Managing Director
Ms. Karin Gilges	Chief Financial Officer and Joint Managing Director
Guruprasad Mudlapur	Joint MD 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 (old data)

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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