

Stringent emission norms, premiumisation to benefit...

About the stock: Bosch Ltd (Bosch) is a technology leader providing solutions in automotive, industrial technology, consumer goods, energy & building technology.

- Mobility solutions (automotive products) comprised ~85% of FY22 sales with share of Business Beyond Mobility at ~15%
- Within mobility, it has large presence in diesel-dependent vehicles & tractors

Q3FY23 Results: Bosch posted steady Q3FY23 results.

- Total operating income was flat QoQ at ₹ 3,660 crore
- Automotive products segment grew 3% QoQ to ₹ 3,240 crore while consumer goods & others segment de-grew 14% QoQ to ₹ 448 crore
- EBITDA margins were down 80 bps QoQ at 11% led by exceptional charge, adjusting for which EBITDA margins came in at 12.8%, up 100 bps QoQ
- Consequent PAT was at ₹ 319 crore, down 14% QoQ

What should investors do? Bosch's stock price has remained flattish over five years (i.e. at ~₹ 18,000 in March 2018) thereby underperforming the Nifty Auto index.

- We retain our **BUY** rating on the stock amid expectations of healthy volume growth in the M&HCV as well as UV space, Bosch's potential content increase in BS-VI stage 2 rollover and capabilities developed by it in alternate fuel ecosystems including EV's and hydrogen powered vehicles.

Target Price and Valuation: Introducing FY25E and rolling over our valuations we now value Bosch at ₹ 20,970 i.e. 31x P/E on FY25E EPS of ₹ 676 (earlier TP: ₹ 20,000).

Key triggers for future price performance:

- Leadership positioning in powertrain technology with parent supported ready solutions for flex fuel, BS VI phase II transition, EVs and hybrids
- With volume growth on the anvil in M&HCV & UV space, potential content increase in BS-VI stage 2 transition, incremental order wins on account of emission rollover in construction equipment space, we expect the topline at the company to grow at a CAGR of 16.5% over FY22-25E
- With operating leverage at play, continuous focus on calibrated localisation initiatives, we bake in margin improvement to 14% levels by FY25E

Alternate Stock Idea: In the auto coverage, we also like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,665



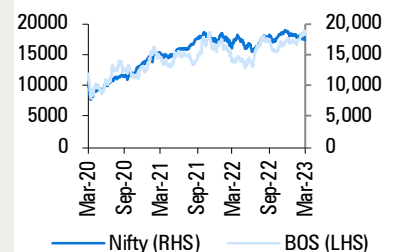
Particulars

Particular	₹ crore
Market Capitalization	53,141
Total Debt (FY22)	0.0
Cash and Invsts (FY22)	7,196
EV	45,945
52 week H/L (₹)	18,892 / 12,932
Equity capital (₹ crore)	29.5
Face value (₹)	10.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	70.5	70.5	70.5	70.5
FII	3.5	3.6	3.6	3.7
DII	16.4	16.5	16.3	16.5
Other	9.6	9.4	9.5	9.2

Price Chart



Recent event & key risks

- Posts steady Q3FY23 results
- **Key Risk:** (i) Slower than expected sales growth in FY22-25E, (ii) Delay in localisation initiatives thereby limiting margin expansion benefits

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	12,085.0	9,841.6	9,718.0	11,781.6	2.5%	14,673.0	16,748.3	18,637.9	16.5%
EBITDA	2,154.1	1,483.3	1,162.4	1,456.9	-5.8%	1,807.8	2,302.8	2,609.2	21.4%
EBITDA Margins (%)	17.8	15.1	12.0	12.4		12.3	13.7	14.0	
Net Profit (adjusted)	1,598.0	1,300.0	1,115.4	1,217.1	-3.4%	1,423.7	1,787.1	1,994.8	17.9%
EPS (₹) (adjusted)	541.9	440.8	378.2	412.7		482.8	606.0	676.4	
P/E (adjusted)	33.3	40.9	47.6	43.7		37.3	29.7	26.6	
RoNW (%)	17.5	14.0	11.4	11.4		12.4	14.2	14.5	
RoCE (%)	19.2	11.9	8.4	10.6		12.5	15.1	15.8	
RoIC (%)	54.9	43.9	47.0	39.2		43.3	50.5	52.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results:

- Bosch posted steady Q3FY23 results with topline coming in at ₹ 3660 crore, flat QoQ. Automotive products segment grew 3% QoQ to ₹ 3,240 crore while consumer goods & others segment de-grew 14% QoQ to ₹ 448 crore
- EBITDA came in at ₹ 403.7 crore with margins at 11%, down ~80 bps QoQ. Within segments, automotive EBIT declined ~85 bps QoQ to 11.2% whereas consumer goods segment declined ~100 bps QoQ to 11.7%
- The board also approved interim dividend of ~₹ 200 per share

Q3FY23 Earnings Conference Call Highlights

- The management informed about strong YoY growth in automotive volumes (in Q3FY23) led by lower base during last year, with sequential de-growth witnessed due to strong festive retails along with inventory destocking leading to muted volume prints at the OEM level
- The two-wheeler segment has been stable on a year-on-year basis albeit nowhere near the past records of 25 million. The management expects production of ~20 million+ 2-W in the FY22-23. The management expects the tractor industry to witness minor de-growth in CY23 albeit on the high base attained during CY22
- The management said raw material as percentage of sales declined significantly on account of actualisation of the year end closing inventory & employee expense to remain at ~₹ 270-280 crore per quarter. On the other expense front, the management said onetime items booked like provision for special warranty for customer claims on certain field complaints for automotive products were ~₹ 35 crore with exchange loss of ~₹ 30 crore
- On the aftermarket front the company achieved highest ever revenue (up~20% vs. guidance of 15%) and EBIT margins during the quarter
- The company informed about technology available with respect to hydrogen-based powertrains in India. Further, Bosch has entered into partnership with companies to offer hydrogen tank system as well
- The management remained committed towards healthy growth prospects for the company as whole primarily driven by powertrain division during FY23-24 aided by upcoming RDE emission norms

Bosch Ltd- ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY19	FY20	FY21
Environmental	16.8	16.8	16.8
Social	17.7	18.7	18.7
Governance	78.6	78.6	78.6
Overall ESG Score	37.7	38.1	38.1

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

On the EV components front, the company informed about major EV OEMs as clients including several big ones

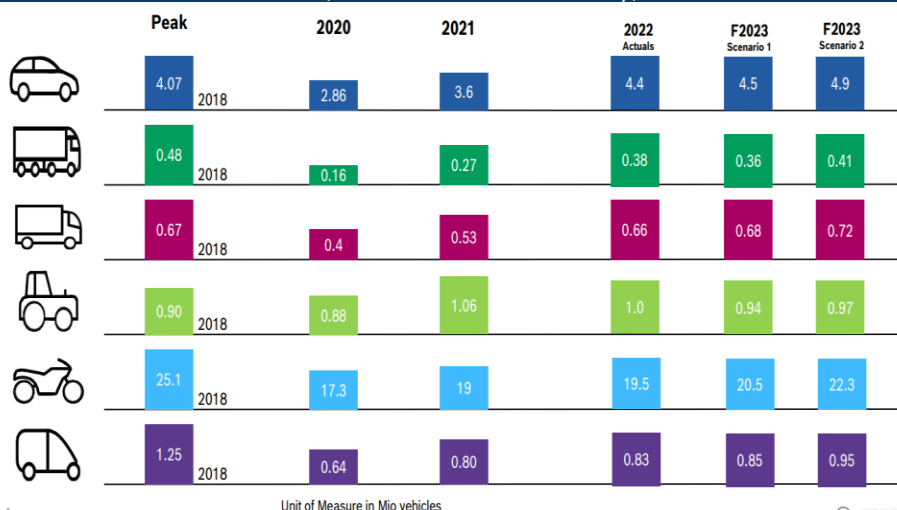
On the margins front, the company expects to improve, going forward, in comparison to the current quarter as there were some onetime costs as also a reduction in RM prices being witnessed

The management stayed committed towards spending ~₹ 300-600 as capex and will focus on spending on developing technologies like Hydrogen, EV, etc

The company made acquisitions in TREM IV, TREM V and in the off-highway. It is well-prepared for transition based on these acquisitions

The management foresees headwind in growth to be in terms of global cues, inflation, supply chain issues, election in 2024 and energy prices

Exhibit 1: Production outlook (Indian Automotive Industry)



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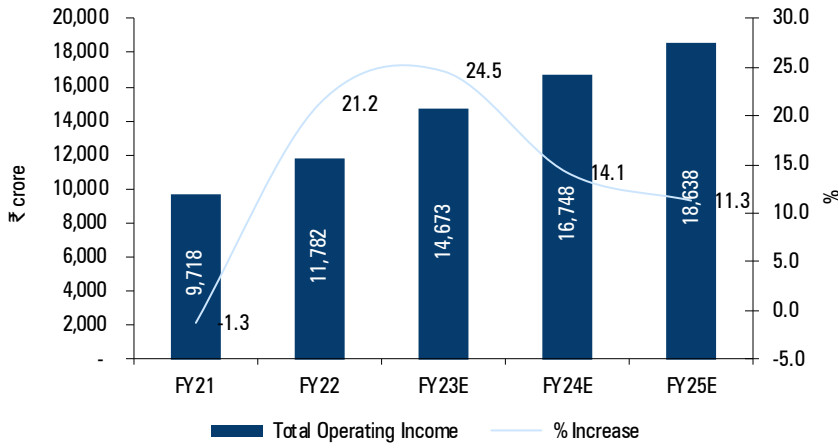
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Source: Company, ICICI Direct Research

Financial story in charts

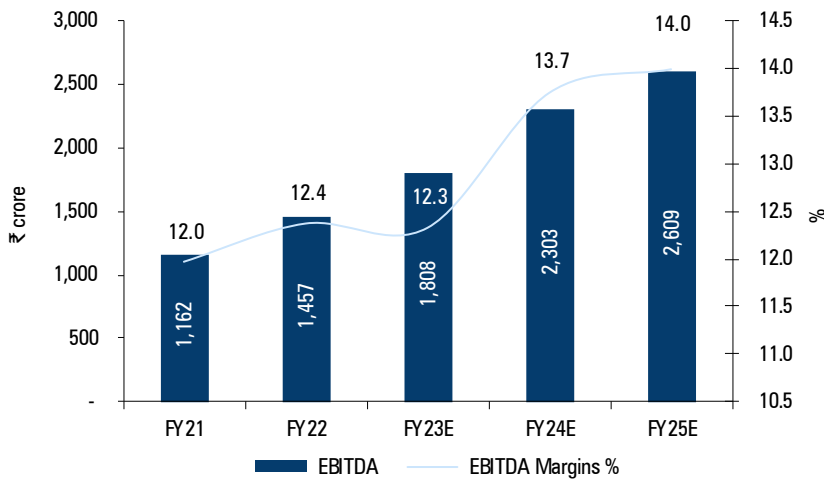
Exhibit 2: Trend in topline



Bosch is seen posting 16.5% revenue CAGR over FY22-25E

Source: Company, ICICI Direct Research

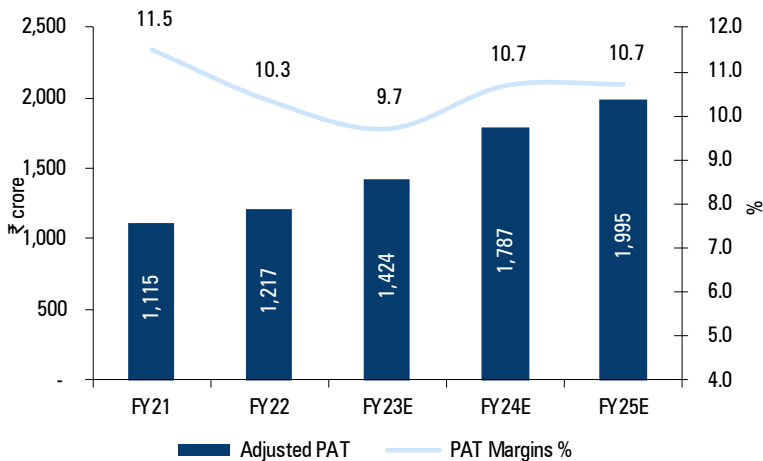
Exhibit 3: Trend in margins



Margins are seen rising to 14% by FY25E on the back of higher utilisation, operating leverage benefits as well as calibrated localisation initiatives

Source: Company, ICICI Direct Research

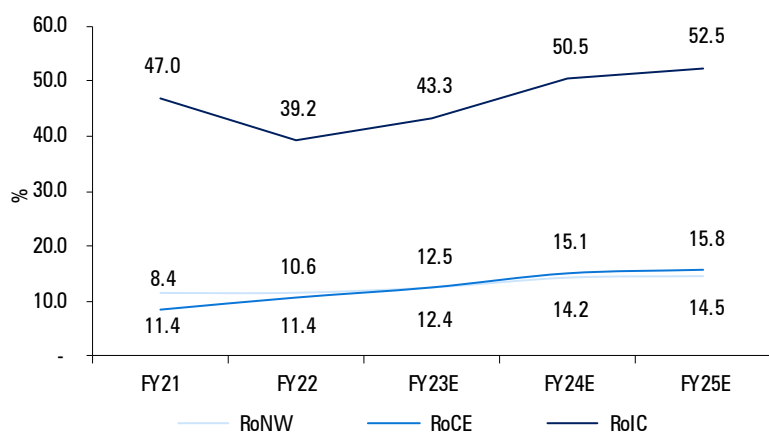
Exhibit 4: Trend in profitability



We expect PAT to grow at 17.9% CAGR to ₹ 1,995 crore by FY25E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in return ratios



Return ratios are seen touching ~15% by FY25E.
RoIC for the company is likely to cross 50% mark

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Summary

	Revenues (₹ cr)	Growth (%)	Adj. EPS (₹)	Growth (%)	Adj. PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	9,841.6	(18.6)	440.8	(18.7)	40.9	31.6	14.0	11.9
FY21	9,718.0	(1.3)	378.2	(14.2)	47.6	39.2	11.4	8.4
FY22	11,781.6	21.2	412.7	9.1	43.7	31.5	11.4	10.6
FY23E	14,673.0	24.5	482.8	17.0	37.3	25.2	12.4	12.5
FY24E	16,748.3	14.1	606.0	25.5	29.7	19.5	14.2	15.1
FY25E	18,637.9	11.3	676.4	11.6	26.6	16.9	14.5	15.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	11,781.6	14,673.0	16,748.3	18,637.9
Growth (%)	21.2	24.5	14.1	11.3
Raw Material Expenses	7,298.7	9,299.9	10,551.0	11,741.3
Employee Expenses	1,072.0	1,093.8	1,172.4	1,258.1
Other Expenses	1,954.1	2,471.6	2,722.1	3,029.3
Total Operating Expenditure	10,324.7	12,865.2	14,445.6	16,028.7
EBITDA	1456.9	1807.8	2302.8	2609.2
Growth (%)	25.3	24.1	27.4	13.3
Depreciation	324.3	374.2	410.3	447.3
Interest	28.9	9.5	7.1	5.3
Other Income	396.2	457.5	497.5	503.2
PBT	1,500.0	1,881.7	2,382.8	2,659.7
Less Exceptional items	0.0	0.0	0.0	0.0
Total Tax	282.9	458.0	595.7	664.9
PAT	1217.1	1423.7	1787.1	1994.8
Adjusted PAT	1217.1	1423.7	1787.1	1994.8
Growth (%)	152.2	17.0	25.5	11.6
EPS (₹)	412.7	482.8	606.0	676.4
Adjusted EPS	412.7	482.8	606.0	676.4

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	1,217.1	1,423.7	1,787.1	1,994.8
Add: Depreciation & Interest	353.2	383.7	417.5	452.7
Sub: Other Income	-396.2	-457.5	-497.5	-503.2
(Inc)/dec in Current Assets	-954.6	-1,177.5	-949.9	-864.9
Inc/(dec) in CL and Provisions	-186.2	1,092.3	763.5	695.1
CF from operating activities	33.3	1264.7	1520.7	1774.5
(Inc)/dec in Investments	-354.9	-350.0	-600.0	-650.0
(Inc)/dec in Fixed Assets	-428.2	-550.0	-550.0	-550.0
Others	-11.3	-113.2	-58.3	-53.1
Add: Other Income	396.2	457.5	497.5	503.2
CF from investing activities	-398.1	-555.7	-710.9	-749.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-619.3	-619.3	-737.3	-811.0
Others	239.1	-9.5	-7.1	-5.3
CF from financing activities	-380.2	-628.8	-744.4	-816.3
Net Cash flow	-745.1	80.2	65.4	208.3
Opening Cash	2,450.4	1,705.3	1,785.5	1,851.0
Closing Cash	1705.3	1785.5	1851.0	2059.2

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	29.5	29.5	29.5	29.5
Reserve and Surplus	10,658.4	11,462.8	12,512.7	13,696.5
Total Shareholders funds	10687.9	11492.3	12542.2	13726.0
Total Debt	0.0	0.0	0.0	0.0
Other non-current Liabilities	416.8	459.0	489.3	516.8
Total Liabilities	11104.6	11951.2	13031.3	14242.7
Assets				
Gross Block	4,044.6	4,644.6	5,244.6	5,844.6
Less: Acc Depreciation	2,795.8	3,169.9	3,580.3	4,027.6
Net Block	1248.8	1474.6	1664.3	1817.0
Capital WIP	605.4	555.4	505.4	455.4
Total Fixed Assets	1,854.2	2,030.0	2,169.7	2,272.4
Investments	5,490.2	5,840.2	6,440.2	7,090.2
Inventory	1,729.3	2,010.0	2,294.3	2,553.1
Debtors	1,526.7	2,010.0	2,294.3	2,553.1
Loans and Advances	1,630.2	1,883.6	2,150.0	2,392.5
Other current assets	652.5	812.6	927.6	1,032.2
Cash	1705.3	1785.5	1851.0	2059.2
Total Current Assets	7,244.0	8,501.7	9,517.1	10,590.3
Creditors	2,240.4	2,814.0	3,212.0	3,574.4
Provisions	1,119.8	1,406.5	1,605.4	1,786.6
Other Current Liabilities	945.5	1,177.5	1,344.1	1,495.7
Total Current Liabilities	4,305.7	5,398.0	6,161.5	6,856.7
Net Current Assets	2938.3	3103.7	3355.5	3733.6
Deferred Tax Asset	416.1	558.0	637.0	708.8
Other non-current Assets	54.9	68.4	78.0	86.8
Application of Funds	11104.6	11951.2	13031.3	14242.7

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	412.7	482.8	606.0	676.4
Cash EPS	522.7	609.7	745.1	828.1
BV	3,624.2	3,897.0	4,253.0	4,654.5
DPS	210.0	210.0	250.0	275.0
Cash Per Share	2,440.0	2,585.9	2,811.5	3,102.6
Operating Ratios (%)				
EBITDA Margin	12.4	12.3	13.7	14.0
PBT / Net sales	12.7	12.8	14.2	14.3
PAT Margin	10.3	9.7	10.7	10.7
Inventory days	53.6	50.0	50.0	50.0
Debtor days	47.3	50.0	50.0	50.0
Creditor days	69.4	70.0	70.0	70.0
Return Ratios (%)				
RoE	11.4	12.4	14.2	14.5
RoCE	10.6	12.5	15.1	15.8
RoIC	39.2	43.3	50.5	52.5
Valuation Ratios (x)				
P/E	43.7	37.3	29.7	26.6
EV / EBITDA	31.5	25.2	19.5	16.9
EV / Net Sales	3.9	3.1	2.7	2.4
Market Cap / Sales	4.5	3.6	3.2	2.9
Price to Book Value	5.0	4.6	4.2	3.9
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.2	1.2	1.2
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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