Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

Bosch Ltd

Turning the wheels

Automobiles	Sharekhan code: BOSCHLTD

Reco/View: Buy	↔	CMP: **Rs. 18,509**	Price Target: **Rs. 21,929**	↑

↑ 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 8.44

Updated Mar 08, 2023

Negligible Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 54,590 cr
52-week high/low:	Rs. 18,943 / 12,940
NSE volume: (No of shares)	0.27 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	0.2	8.8	8.8	29.2
Relative to Sensex	3.7	12.5	11.4	29.2

Sharekhan Research, Bloomberg

Summary

- We retain our Buy rating on Bosch Limited with a revised PT of Rs. 21,929 on the expectation of increase in content per vehicle on implementation of stringent emission norms and better profitability.
- Strategic focus on the aftermarket business is giving it an unparalled edge in the market.
- With a strong hold on gasoline, CNG, and diesel, now Bosch is targeting to expand in the EV and hydrogen energy segments.
- The stock trades at a P/E of 25.3x and EV/EBITDA of 16.9x its FY2025E estimates.

Bosch has reported subdued performance in the past; however, we believe the company would report healthy improvement in its performance in the medium term. Bosch has reported subdued performance over FY2016-FY2021 owing to (1) volatility in the MHCV segment, (2) moderation in its capex cycle, (3) increased raw-material outsourcing, and (4) organisational restructuring. Bosch has seen continuous EBITDA margin erosion from 19.4% in FY2016 to 12% FY2021 and registered marginal improvement at 12.4% in FY2022. We believe revival in the CV growth cycle along with the implementation of new emission norms would improve content per vehicle and gradual increase capex to support its EBITDA margin expansion on the shift in opex to capex in the medium term. We assume a 270-bps expansion in EBITDA margin over FY2022-FY2025 to 15.1% in FY2025E. Further, Bosch would have a competitive edge in new power train technologies (EV and hydrogen) due to the support of its parent. 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 our Buy rating with a revised price target (PT) of Rs. 21,929.

- **New emission norms – An opportunity to increase content per vehicle:** While the implementation of new emission norm increases the cost for OEMs, it translates into a growth opportunity for power train solution providers such as Bosch. In consequence to technology upgradation on change in emission norms, content per vehicle for Bosch would increase. We believe Bosch would emerge as a key beneficiary of implementation of BSVI phase 2 norms from April 2023. It is assumed that content per vehicle would increase by 1.6x/1.8x in the MHCV/LCV segment on implementation of BSVI phase-2 norms compared to BSIV norms.
- **Established in the gasoline segment also:** It is a myth that Bosch has only been a diesel power train solutions provider and would face headwinds owing to the increase in petrol share in the overall PV segment. Although Bosch has lately entered the petrol segment, it has built a healthy presence in the petrol segment, led by its superior technologies.
- **EV space, extended opportunities:** In contrast to the street's fear about its growth prospects on the rise in the penetration of EVs in the domestic market, Bosch has emerged as one of the preferred partners for various OEMs in the EV space – thanks to the support from its parent. We believe Bosch would build up healthy penetration in the EV space also via increasing localised solutions on rising EV volumes.
- **Entered in the hydrogen space, ahead of time:** While hydrogen fuel technology is at its nascent stage in India, Bosch has already started working on it, given it has been supporting domestic OEMs in developing hydrogen fuel-based vehicles. The proliferation of hydrogen technology would augur well for Bosch as content per vehicle in hydrogen fuel cell technology is high compared to EVs.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 21,929: Bosch is expected to be a key beneficiary of the implementation of stringent emission norms in the domestic automotive market owing to its strong technology expertise, given the implementation of new norms provides it an opportunity to expand its value added offerings which translates into increased content per vehicle. Along with strong dominance in the traditional fuel segment, Bosch can also cater to the alternate fuel segment, including EV, hydrogen, and others. Gradually, Bosch has been emerging as a preferred complete power train solution provider for OEMs. This enables a regular order inflow and business visibility. The company's strong brand positioning, focus on technology, and electrification of vehicles will enable high-growth visibility. The company's order book remains buoyant, providing growth visibility. We retain our Buy rating with a revised PT of Rs. 21,929 (30x its FY2025E EPS), in expectation of increasing content per vehicle on implementation of BSVI phase 2 norms from April 2023, EV opportunity, and revival in financial performance. The stock trades at a P/E of 25.3x and EV/EBITDA of 16.9x its FY2025E 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
Revenue	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 (Rs.)	415.2	412.7	491.3	644.5	731.0
P/E	44.6	44.9	37.7	28.7	25.3
P/BV	5.7	5.1	4.6	4.1	3.6
EV/EBIDTA	42.7	34.1	26.6	19.7	16.9
ROE (%)	12.7	11.5	12.2	14.2	14.3
ROCE (%)	12.4	11.2	11.8	13.7	13.7

Source: Company; Sharekhan estimates

What went wrong for Bosch: Did subdued operating performance resulted in de-rating?

- Bosch had registered muted performance for the past six years owing to volatility in the MHCV segment, change in emission norms, and moderation in its capex cycle. Over FY2016-FY2021, the MHCV segment witnessed cyclical correction and over capacity due to the change in axle load norms.
- Further, Bosch has not scheduled any major capex during FY2019-FY2022. Raw material outsourcing also increased during the same period. During FY2019-FY2022, the average annual capex run rate stood at Rs. 262 crore compared to Rs. 520 crore over FY2017/FY2018. Raw-material outsourcing (as a percentage of total raw-material cost) increased from 47% in FY2016 to 66% in FY2022.
- The increase in raw-material outsourcing resulted in EBIDTA margin contraction. Bosch has registered continuous contraction in EBIDTA margin for five years (FY2016 to FY2021) and registered marginal improvement in FY2022. EBIDTA margin contracted from 19.4% in FY2016 to 12% in FY2021 and expanded by 40 bps to 12.4% in FY2022. The subdued operating performance resulted in de-rating of the stock, given one-year forward earnings multiple has contracted from average 41x during FY2014-FY2018 to below 30x now.

Content per vehicle to increase on change in emission norms

- Amongst its peers, Bosch is expected to be a key beneficiary of the change in emission norms due to its presence in a power train solution segment. Technology upgrades because of change in emission norms and, consequently, content per vehicle rises for Bosch.
- It is assumed that content per vehicle would increase by 1.6x/1.8x in the MHCV/LCV segment on implementation of BSVI phase 2 norms compared to BSIV norms.
- Additionally, in the tractor segment, the company expects an increase in content per vehicle due to implementation of new emission norms. The content per vehicle on implementation of TREM IV and V transition will be around 5.5x of the content per vehicle during TREM III norms. (TREM IV has already been implemented on tractors above 50 bhp).
- In February 2020, Bosch had indicated that it has orders pertaining to BSVI norms, which are worth Rs. 23,000 crore (for five years), which came down to Rs.18,000 crore during Covid-19. Without sharing the value of the orders, management has indicated that now it has all-time high orders for the auto segment. Further, the company has procured healthy orders pertaining to TREM IV and TREM V norms in the tractor segment.

Customer preference shifting towards petrol: Not a concern for Bosch

- Customer preference has been shifting towards the petrol segment, as the gap between petrol prices and diesel prices is narrowing down. The share of diesel vehicles in the overall PV segment has come down from 48% in the past to 18% currently.
- Management indicates that diesel share may temporarily tweak here or there, but it is likely to stabilise at current levels as a certain set of customers in the UV segment continue to prefer to opt on diesel.
- Though Bosch has lately entered the gasoline power train segment, it has built a strong market share in the gasoline segment also. Management is optimistic on the growth prospects of its power train division in FY2024.

Aftermarket: Paying dividends

- Bosch has been strategically focussing on the aftersales markets and its efforts have started paying dividends to it.
- Bosch's aftermarket segment showed strong performance in CY2022, as the aftermarket segment reported the highest-ever turnover and EBIT in CY2022.
- Net working capital in the aftermarket segment stands at 23 days. Bosch has the fourth largest car service network and is present in 500 locations in India. Further, Bosch has been receiving a healthy response in export markets, including Sri Lanka, Bangladesh, and Nepal.

EV: An opportunity not a threat

- Given Bosch has been a key technology provider for an IC-enabled power train system, the street was fearing a possible loss of business opportunity on the rise in penetration of EVs in the domestic market. However, in contrast to street's concerns, Bosch has developed significant programmes/products in the EV segment and has been looking for a sizeable market share in the EV segment, when EVs would get adequately penetrated in the domestic market over the period.
- Key products in Bosch's portfolio are electric motors, e-axle, invertor, DC-DC charger, convertor, fuel cell power module, low-voltage batteries with a 48V traction battery, and hybrid battery technology. It is understood that Bosch has no plan to manufacture battery cells in India. Bosch has already acquired business for the battery system and ECU and has been improving its market presence in other components also.
- We assume that Bosch would increase the localisation of EV parts once the EV segment ensures a feasible level of volume opportunity – in line with its strategy.
- Bosch's focus on electrification provides it with a competitive edge due to its parent's, Robert Bosch GmbH, substantial investments in the 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.

Hand on Future technology: Hydrogen technology

- With a strong presence in the traditional fuel segment, Bosch has been aggressively working towards hydrogen fuel technology in India. With global parentage, it is assuming that Bosch has an adequate portfolio of products and technology access to cater to the hydrogen fuel segment in India.
- The company is capable to offer systems and components catering to hydrogen fuel cell technology.
- The company has already set up a state-of-the-art hydrogen engine test facility. Bosch has been supporting its domestic customers on the development of hydrogen-powered vehicles.
- The potential content for Bosch under the hydrogen fuel technology will be more than that for EV. Additionally, hydrogen fuel injection technology will be a much smoother transition from gasoline and diesel injection.
- Even though it would take time for the mass market to adopt hydrogen technology, it appears that Bosch would not be impacted due to the change in fuel technology, albeit it would emerge as a key beneficiary of the change in technology.

Non-auto business: Partially de-risks from cyclical corrections

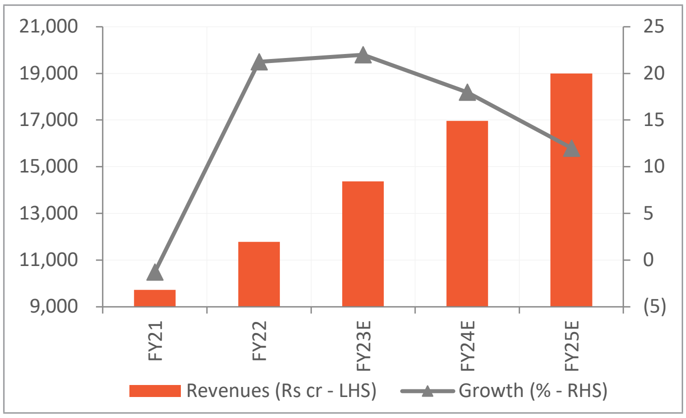
- Along with the automobile industry, Bosch has been catering to the non-auto segment such as power tool and building tools.
- The non-auto business contributed 14% to its total revenue in FY2022. Bosch is a market leader in the power tools segment and has been aiming to expand its market share in the power tools segment to 23% by 2025 from 18% in 2020. The increase in traction in the non-auto business would partially reduce Bosch's overdependence on the cyclical MHCV business.

Export: May contribute 10-12% to the total revenue

- Bosch has been predominantly considered a domestic-focused company; however, it has been building up its presence in export markets to partially de-risk its dependence on the domestic market.
- Exports contributed 10.7% to its FY2022 revenue. Management indicates that exports may remain at 10-12% of the total revenue in the medium term, barring a few exceptions.

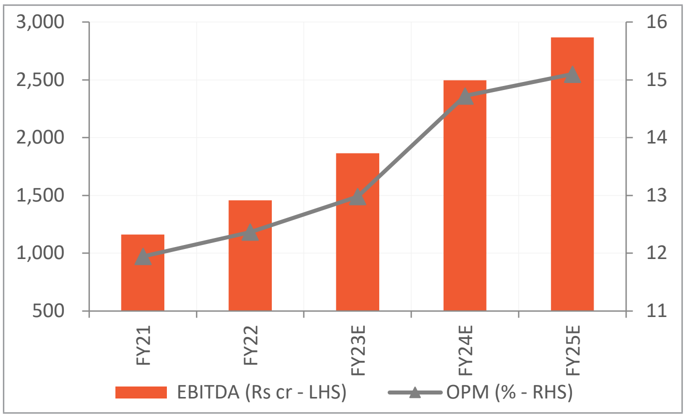
Financials in charts

Revenue and growth trend



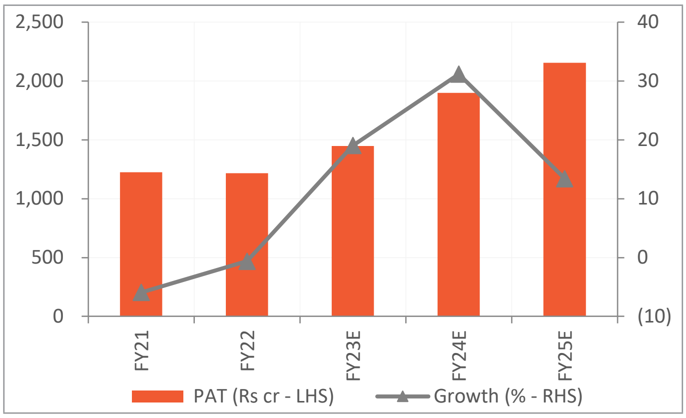
Source: Company, Sharekhan Research

EBITDA and OPM trend



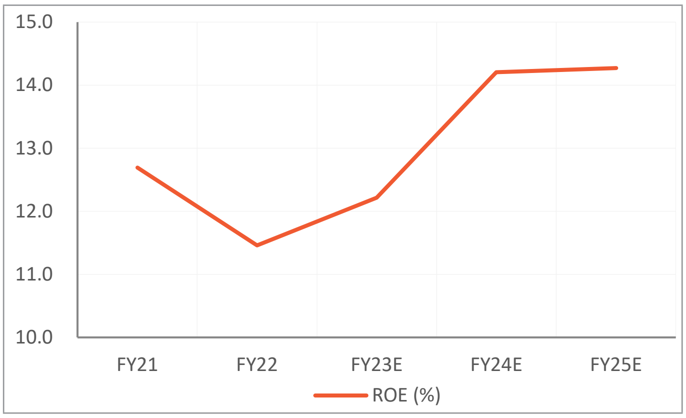
Source: Company, Sharekhan Research

PAT and growth trend



Source: Company, Sharekhan Research

ROE trend



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 segments are performing well, 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 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 steel, which is a crucial raw material.

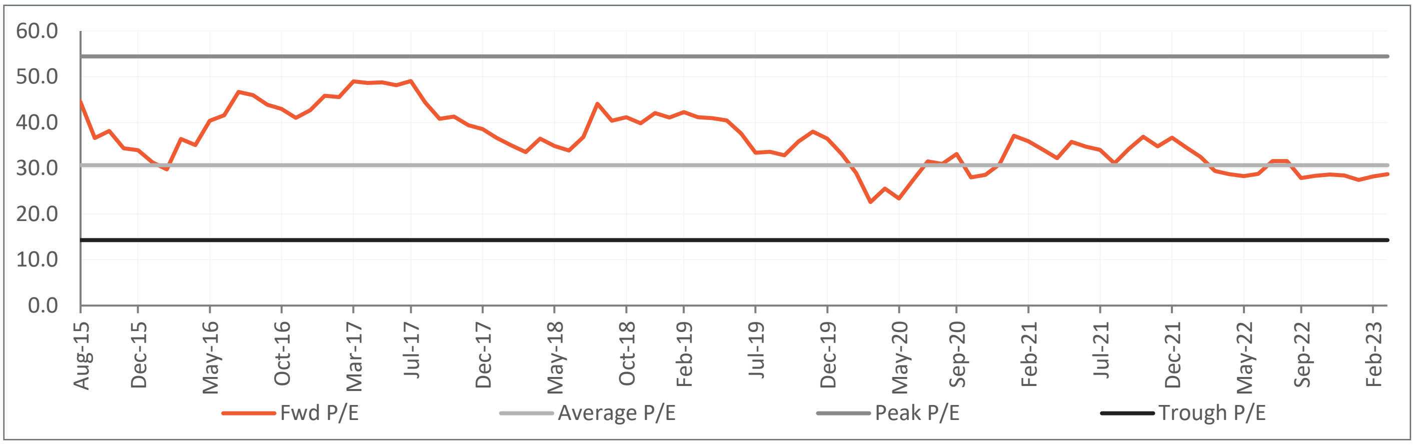
■ Company Outlook – Beneficiary of automotive demand

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 incrementala opportunity. Bosch has tied up with leading original equipment manufacturers (OEM) 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 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 a revised PT of Rs. 21,929

Bosch is expected to be a key beneficiary of the implementation of stringent emission norms in the domestic automotive market owing to its strong technology expertise, given the implementation of new norms provides it an opportunity to expand its value added offerings – which translates into increased content per vehicle. Along with strong dominance in the traditional fuel segment, Bosch can also cater to the alternate fuel segment, including EV, hydrogen, and others. Gradually, Bosch has been emerging as a preferred complete power train solution provider for OEMs. This enables a regular order inflow and business visibility. The company's strong brand positioning, focus on technology, and electrification of vehicles will enable high-growth visibility. The company's order book remains buoyant, providing growth visibility. We retain our Buy rating with a revised PT of Rs. 21,929 (30x its FY2025E EPS), in expectation of increasing content per vehicle on implementation of BSVI phase 2 norms from April 2023, EV opportunity, and revival in financial performance. The stock trades at a P/E of 25.3x and EV/EBITDA of 16.9x its FY2025E 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	18,509	44.9	37.7	28.7	34.1	26.6	19.7	11.2	11.8	13.7
Schaeffler India*	2,844	70.7	50.6	43.3	44.3	33.1	27.4	18.6	21.9	22.3
Sundram Fasteners	964	43.9	40.0	29.1	25.5	22.9	17.3	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 crore 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 adversely impacted 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
Mr. V. Srinivasan	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Robert Bosch Internationale Betiligungen Ag	67.80
2	General Insurance Corporation of India	3.10
3	Bosch Global Software Technologies Pvt Ltd	2.78
4	New India Assurance company Ltd	2.25
5	Life Insurance Corporation	2.05
6	United India Insurance company	1.13
7	Vanguard Group Inc	0.92
8	ICICI Prudential Life Insurance Co	0.78
9	Kotak Mahindra AMC	0.63
10	L&T MF	0.62

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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by BNP PARIBAS

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