



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

Updated Jun 08, 2023

08.33

Negligible Risk

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

Source: Morningstar

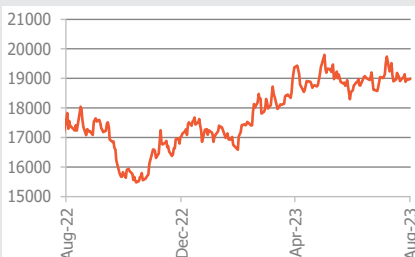
Company details

Market cap:	Rs. 56,008 cr
52-week high/low:	Rs. 19,980 / 15,301
NSE volume: (No of shares)	26,073
BSE code:	500530
NSE code:	BOSCHLTD
Free float: (No of shares)	0.9 cr

Shareholding (%)

Promoters	70.5
FII	3.9
DII	16.7
Others	8.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.3	-4.1	10.8	15.1
Relative to Sensex	-3.0	-12.4	1.6	-4.1

Sharekhan Research, Bloomberg

Bosch Ltd

Focussing on localization

Automobiles

Sharekhan code: BOSCHLTD

Reco/View: Buy



CMP: Rs. 18,990

Price Target: Rs. 21,929



Upgrade



Maintain



Downgrade

Summary

- We retain our Buy rating on Bosch Ltd with an unchanged PT of Rs. 21,929 on expectation of increasing localization, higher content per vehicle, and emerging opportunities in alternative power train solutions.
- The company is emerging as a beneficiary of rising relocation of production due to geopolitical issues.
- 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 26x and EV/EBITDA of 16.6x its FY2025E estimates.

For Q1FY2024, Bosch reported revenue in line with our estimates, while it missed adjusted EBITDA margin estimates by 130 bps on account of higher other expenses. Revenue increased by 2.3% q-o-q to Rs. 4,158 crore (vs. our expectation of Rs. 4,104 crore) because of 6.1% q-o-q growth in the automotive segment, given the consumer products and other segment registered 21.1% q-o-q and 13.3% q-o-q revenue decline, respectively. While gross margin contracted by 50 bps q-o-q, other expenses expanded by 170 bps q-o-q. Other expenses were high due to high spending on new businesses and on engineering applications, which impacted EBITDA margin by 0.6% and 1.3%, respectively. Given that engineering application sales were considered, adjusted EBITDA margin came in at 11.9% (as opposed to our expectation of 13.2%), after deducting one-time charges that accounted for 0.6% of sales and were linked to spending for new companies. With 23.6% q-o-q decline in depreciation and 38.0% q-o-q increase in other income, APAT increased by 7.6% q-o-q to Rs. 428 crore (against our estimate of Rs. 408.9 crore). Going forward, management is focusing more on localization, which in our view would enhance its profitability. Bosch is looking for transformative changes in the domestic market and has been emphasizing cleaner fuels, green hydrogen, and electrification. We believe steady growth in the CV segment along with implementation of new emission norms would improve content per vehicle and gradually increase capex to support its EBITDA margin expansion on the shift in opex to capex in the medium term. The company's strong brand positioning, focus on technology, and electrification of vehicles will enable its high-growth visibility.

Key positives

- Traded goods constituted 65.2% to the total raw-material (RM) cost in Q1FY2024 compared to 72.9% in Q4FY2023.
- Employee cost as a percentage of sales came down to 7.4% in Q1FY2024 from 8.1% in Q4FY2023.
- Other income increased by 38% q-o-q to Rs. 187 crore due to high MTM gain.

Key negatives

- The consumer product division reported a 21.1% q-o-q decline in revenue.
- Other expenses were inflated by 60 bps due to higher investments on new businesses.

Management Commentary

- Management is looking for increased level of localisation in the coming period to improve its profitability.
- Management is focusing on alternative power train technologies, including green hydrogen and electrification.
- The automotive aftermarket segment registered 12.7% growth on a q-o-q basis.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 21,929: Bosch reported higher-than-estimated APAT in Q1FY2024 owing to healthy performance in the mobility segment, including the aftermarket segment. We believe content per vehicle is rising on implementation of BSVI phase-2 norms. We believe the introduction of new components due to the implementation of new emission norms would help Bosch to outperform the underline industry growth. Given its technological expertise and support from its parent, we continue to believe Bosch would be a key beneficiary of the implementation of stringent emission norms in the domestic automotive market as the increase in complexity offers it an opportunity to enhance its content per vehicle. Further, the company is emerging as a key beneficiary of the increase in relocation of production trends due to ongoing geopolitical issues, given that volumes of its spark plug have increased due to a shift in business from Russia to India. Going forward, such an opportunity may emerge in other components/ solutions. Along with strong dominance in the traditional fuel segment, Bosch is capable of catering to the alternate fuel segment, including EV, hydrogen, and others. Gradually, Bosch has been emerging as a preferred complete power train solutions provider for OEMs. This enables for a regular order inflow and business visibility. The company's strong brand positioning, focus on technology, and electrification of vehicles will enable its high-growth visibility. We maintain our Buy rating on the stock with a target price (TP) of Rs. 21,929 on expectation of rise in localisation, increased content per vehicle, and emerging opportunity in alternative power train.

Key Risks

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

Valuation (Consolidated)

Rs cr

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenues	9,716	11,782	14,929	16,961	18,996
Growth (%)	-1.3	21.3	26.7	13.6	12.0
AEBIDTA	1,161	1,457	1,807	2,497	2,868
OPM (%)	11.9	12.4	12.1	14.7	15.1
Adj Profit	1,225	1,217	1,424	1,900	2,156
Growth (%)	-5.9	-0.6	17.0	33.4	13.5
A EPS	415.2	412.7	483.0	644.4	731.1
P/E	45.7	46.0	39.3	29.5	26.0
P/BV	5.8	5.1	5.2	4.6	4.0
EV/EBIDTA	43.9	33.1	26.4	19.1	16.6
ROE (%)	12.7	11.1	13.3	15.6	15.5
ROCE (%)	12.4	10.9	12.8	14.9	14.8

Source: Company Data; Sharekhan estimates

Relocation of volumes

- ◆ With geopolitical issues, the relocation of capacities/volumes has been a growing phenomenon.
- ◆ Bosch has been emerging as one of the key beneficiaries of relocation of business due to geopolitical issues as it has witnessed a shift of production of spark plug from Russia to India due to the ongoing issues between Russia and Ukraine.
- ◆ Going forward, Bosch expects the relocation of volumes may happen in some other areas/products. also.

EV an opportunity

- ◆ 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 rise in penetration of EVs in the domestic market.
- ◆ However, in contrast to the 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.
- ◆ Initially, Bosch is planning to engage with customers and offer the required solutions as per the needs of domestic players and then it would introduce its global products/solutions in the Indian market when volumes would ramp up.

Localisation to rise

- ◆ Bosch continues to aim to reach a high level of localisations to improve its profitability as in-house manufactured products offer higher margin than trading products.
- ◆ Going forward, the company expects the share of manufactured revenue to increase compared to traded goods.
- ◆ The company continues to focus on localisation. Initially, it outsources the components and supplies to customer; but once it gets a volume visibility, it starts localising the same product in India.

Key beneficiary of change in emission norms

- ◆ Among 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 on change in emission norms and consequently the content per vehicle rises for Bosch.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
Revenues	4,158	3,544	17.3	4,063	2.3
Total Expenses	3,666	3,095	18.4	3,541	3.5
EBIDTA	493	449	9.7	522	(5.7)
Depreciation	92	65	42.1	121	(23.6)
Interest	31	4	755.6	5	569.6
Other Income	187	57	231.1	136	38.0
PBT	557	438	27.4	533	4.6
Tax	124	104	19.3	134	(7.9)
Adjusted PAT	428	334	28.2	398	7.6
Exceptional charges	25	0	-	0	
Reported PAT	409	334.1	22.5	398.1	2.8
Adjusted EPS	145.3	113.3	28.2	135.0	7.6

Source: Company; Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Gross margin (%)	35.5	35.4	10	36.0	(60)
EBIDTA margin (%)	11.9	12.7	(80)	12.9	(100)
Net profit margin (%)	9.8	9.4	40	9.8	-

Source: Company; Sharekhan Research

Segmental Results (Consolidated)

Segment Revenue	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
Automotive products	3,623.2	3,109.2	16.5	3,416.5	6.1
Consumer products	375.4	318.8	17.8	475.7	(21.1)
Others	167.0	120.0	39.2	192.7	(13.3)
Net Sales	4,158.4	3,544.4	17.3	4,063.4	2.3
EBIT	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
Automotive products	396.5	422.2	(6.1)	414.3	(4.3)
Consumer products	58.1	18.6	212.4	42.2	37.7
Others	30.6	24.5	25	40.8	(25.0)
Total	485.2	465.3	4.3	497.3	(2.4)
Segmental EBIT Margin (%)	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Automotive products	10.9	13.6	(260)	12.1	(120)
Consumer products	15.5	5.8	960	8.9	660
Others	18.3	20.4	(210)	21.2	(280)
Total	11.7	13.1	(150)	12.2	(60)
Segmental ROCE (%)	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Automotive products	9.8	12.3	(240)	10.7	(90)
Consumer products	1.7	0.6	110	1.3	40
Others	0.8	0.7	10	1.0	(20)
Total	4.2	4.3	0	4.5	(30)

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. While the PV and CV segments 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 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.

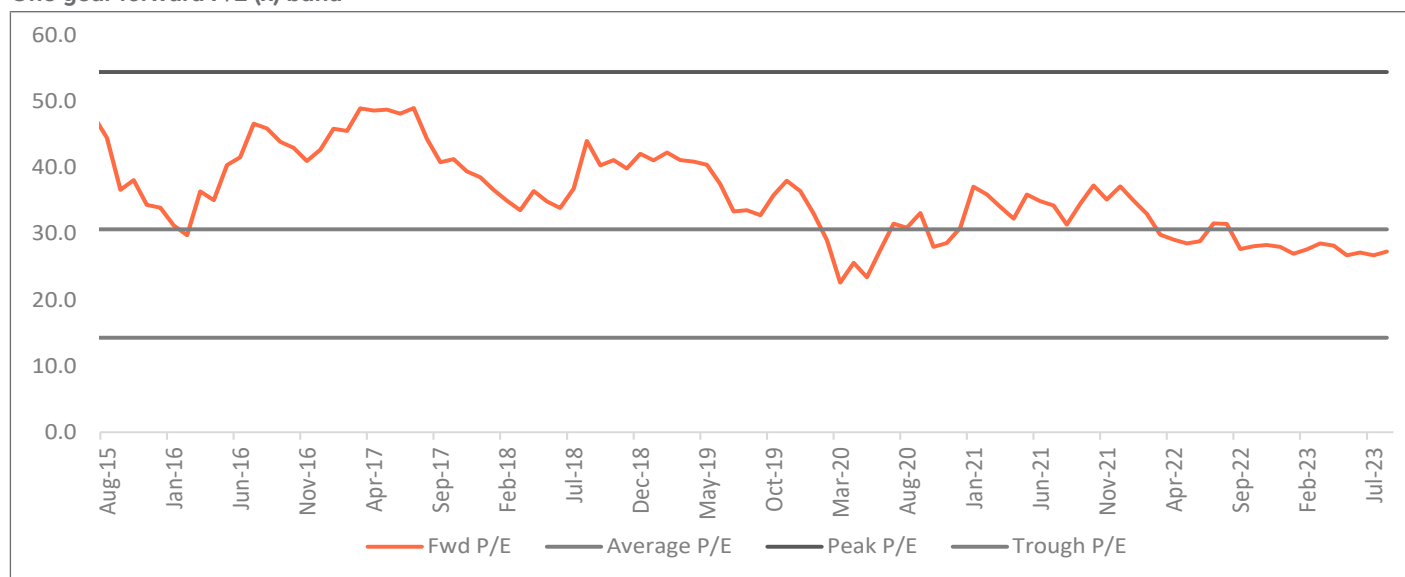
■ Company Outlook – Beneficiary of rise in automotive demand

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. 21,929

Bosch reported higher-than-estimated APAT in Q1FY2024 owing to healthy performance in the mobility segment, including the aftermarket segment. We believe content per vehicle is rising on implementation of BSVI phase-2 norms. We believe the introduction of new components due to the implementation of new emission norms would help Bosch to outperform the underline industry growth. Given its technological expertise and support from its parent, we continue to believe Bosch would be a key beneficiary of the implementation of stringent emission norms in the domestic automotive market as the increase in complexity offers it an opportunity to enhance its content per vehicle. Further, the company is emerging as a key beneficiary of the increase in relocation of production trends due to ongoing geopolitical issues, given that volumes of its spark plug have increased due to a shift in business from Russia to India. Going forward, such an opportunity may emerge in other components/ solutions. Along with strong dominance in the traditional fuel segment, Bosch is capable of catering to the alternate fuel segment, including EV, hydrogen, and others. Gradually, Bosch has been emerging as a preferred complete power train solutions provider for OEMs. This enables for a regular order inflow and business visibility. The company's strong brand positioning, focus on technology, and electrification of vehicles will enable its high-growth visibility. We maintain our Buy rating on the stock with a TP of Rs. 21,929 on expectation of rise in localisation, increased content per vehicle, and emerging opportunity in alternative power train.

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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 tier-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 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

Guruprasad Mudlapur	MD
Ms. Karin Gilges	Chief Financial Officer and Joint Managing Director
Mr. V. Srinivasan	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Robert Bosch Internationale AG	67.76
2	General Insurance Corp of India	3.00
3	Bosch Global Software Technologies Pvt Ltd	2.78
4	New India Assurance Co Ltd	2.23
5	Life Insurance Corp of India	1.94
6	Kotak Mahindra Asset Management Co Ltd/India	1.25
7	United India Insurance Co Ltd	1.06
8	ICICI Prudential Life Insurance Co Ltd	0.84
9	L&T Mutual Fund Trustee Ltd	0.61
10	Vanguard Group Inc	0.60

Source: Bloomberg

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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 deteriorating 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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