

India

REDUCE (no change)

Consensus ratings*: Buy 2 Hold 2 Sell 2

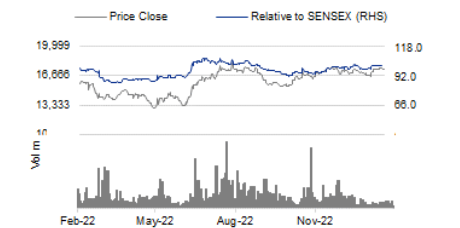
Current price:	Rs17,412
Target price:	Rs14,803
Previous target:	Rs13,700
Up/downside:	-15.0%
InCred Research / Consensus:	-13.8%

Reuters:	
Bloomberg:	BOS IN
Market cap:	US\$7,072m
	Rs513,555m
Average daily turnover:	US\$6.5m
	Rs473.3m
Current shares o/s:	29.5m
Free float:	29.5%

*Source: Bloomberg

Key changes in this note

- Sales raised by 2% for FY23-25F.
- EBITDA raised by 2% for FY23F-25F.
- PAT raised by 2-3% for FY23F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.5	3.5	10.7
Relative (%)	(0.8)	4.9	5.5

Major shareholders	% held
Bosch Global	70.5
GIC	3.1
New India Assurance	2.3

Analyst(s)



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Bosch Ltd

Margin risk to persist from new opportunities

- 3Q EPS dip of 14% qoq to Rs108 was marginally above our estimate as lower material cost and higher other income was negated by lumpy other expenses.
- Intense competition in new emission technology products for tractors in 2024F and cars in 2023F, we feel, will limit profit margin expansion. Retain estimates.
- Raise our P/E-based target price to Rs14,803 or 29x 1-year forward EPS and retain REDUCE rating on Bosch Ltd for its rich valuation vs. 10% EPS CAGR.

Seasonal lumpy other expenses cap 3QFY23 performance

Bosch Ltd's 3QFY23 EBITDA dipped 6% qoq to Rs4.04bn, which is 5% above our estimate as lower raw material cost (-500bp qoq) helped overcome seasonally higher other expenses (+37% qoq). Flattish qoq sales trend tests the investors' patience. Management indicated one-off cost provision for warranty, new technology investment and currency hedge as key reasons for seasonally high other expenses impacting EBITDA margin by 250bp. Higher other income (+63% yoy) & lower depreciation led to a 5% EPS beat to Rs108.1.

Management conference-call highlights

The sharp 500bp qoq drop in the raw material cost-to-net-sales ratio to 60.8%, we feel, is seasonal and due to higher service income while we are not confident of it sustaining in the coming quarters, as new technology products will be introduced in above 50HP tractors and in diesel cars from Apr 2023F. Management highlighted aftermarket sales declined by 3% yoy in 3QFY23. Capex stood elevated at Rs8bn in CY22, as per management. Management highlighted good wins in tractor TREM-5 emission upgrade due in Oct 2024F.

Maintains EBITDA CAGR at 12% for FY23-25F

The flattish qoq sales growth momentum in recent quarters, despite the buoyancy in sales to OEMs, was in line with our expectation of Bosch Ltd's weakening pricing power. We feel the entry pricing strategy of global competitors during the times of big technology upgrade ex-Real Driving Emission (RDE) norms, Tractor Emission Norms-5 (TREM) to impact the company's monopoly in the segment and lead to a drag on corporate average margin (repeat of BSVI upgrade in FY21, Figs. 6 & 7), as we estimate tractors to form 15% of its EBITDA (Fig. 10). We have marginally raised our EPS estimates by 2-3% to reflect the inflation benefit and higher other income.

Retain REDUCE rating due to rich P/E valuation vs poor EPS growth

The strong stock performance since Jun 2022 lows has pulled up forward P/E valuation above the 15-year mean level and is rich at 35x FY24F vs. 10% EPS CAGR estimate for FY24F-25F. The low visibility of localization drive and cost benefit, in our view, will be a drag on the stock price. Maintain REDUCE rating on it with a higher target price of Rs14,803 (Rs13,700 earlier). New electric vehicle/hydrogen vehicle component order wins in India, and superior localization drive benefits are key upside risks.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	97,180	117,440	146,692	163,082	179,912
Operating EBITDA (Rsm)	10,037	14,014	17,456	19,314	21,832
Net Profit (Rsm)	8,791	10,763	13,525	14,669	16,386
Core EPS (Rs)	298.1	364.9	458.5	497.2	555.5
Core EPS Growth	(32.3%)	22.4%	25.6%	8.5%	11.7%
FD Core P/E (x)	58.41	47.72	37.98	35.02	31.35
DPS (Rs)	115.0	210.1	130.0	150.0	170.0
Dividend Yield	0.66%	1.21%	0.75%	0.86%	0.98%
EV/EBITDA (x)	43.58	31.49	25.11	22.25	19.35
P/FCFE (x)	96.22	(408.77)	369.05	75.46	89.38
Net Gearing	(77.5%)	(67.7%)	(64.7%)	(66.1%)	(66.1%)
P/BV (x)	5.23	4.81	4.41	4.05	3.72
ROE	9.2%	10.5%	12.1%	12.1%	12.4%
% Change In Core EPS Estimates			2.47%	1.92%	1.94%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Margin risk to persist from new opportunities

3QFY23 earnings-call highlights

Margins: Management mentioned that the yoy easing in raw material cost was led by actualization of the year-end closing inventory. After the recent restructuring exercise, it indicated that employee cost stabilized at Rs27-28bn per quarter. Management mentioned that other expanses had many one-off items: Rs350m for special warranty provision, as indicated by on-field complaints, Rs300m forex impact, and Rs250m impact on account of increased spending on new business areas like electric vehicles (EVs), hydrogen vehicles, mobility, etc.

EV, hydrogen vehicle components: On electric two-wheeler or 2W, management mentioned that it is already supplying components to original equipment manufacturers or OEMs and has won large orders from them. It is working towards a higher level of localization to cater to market demand created by FAME-II (Faster Adoption and Manufacturing of Electric Vehicles) localization norms. Management mentioned that the company has been increasing its market share in battery systems, ECUs (electronic control units), etc. On hydrogen vehicle components, it is working in close collaboration with the experts in Germany, and has been offering systems, components and the fuel tank as well. It also has a hydrogen engine test facility in Bengaluru.

Aftermarket segment: Management mentioned that the automotive aftermarket segment declined by ~3% yoy. It also stated that the net working capital stands at 23 days for the business. It expects stronger growth in exports, especially the untapped markets like Sri Lanka, Bangladesh and Nepal. Management is targeting a double-digit market share by 2024F.

Powertrain business: Management mentioned that the overall growth in revenue was led by a 31% yoy growth in sales of powertrain solutions on the back of improved market demand and positive consumer sentiment. It expects the powertrain segment to grow further in FY24F.

Diesel business: Management indicated that diesel's share in passenger vehicles or PVs has come down to 18% but should remain stable now in the 16-18% range. It believes that some sports utility vehicles or SUVs will continue to run on diesel.

Gasoline business: On GDI (gasoline direct injection), management mentioned that earlier it was present in only high-end cars, but now it is also spreading to other models. It mentioned good growth for the gasoline business in FY24F.

Business acquisitions: Management indicated that it has made many acquisitions on account of the emission change from BSIV to BSVI and from TREM-IV to TREM-V. It, however, stopped short of elaborating on the same and whether these would be low-margin businesses.

No plans to consolidate sister companies in India: Management indicated that there are no plans for the listed company, Bosch Ltd, to consolidate its business with sister companies in India. It indicated that meaningful revenue of sister companies comes from sales to Bosch Ltd. Some of these products are automotive electronics, ECUs, etc. A sizeable portion of 2W business is done through Bosch Ltd.

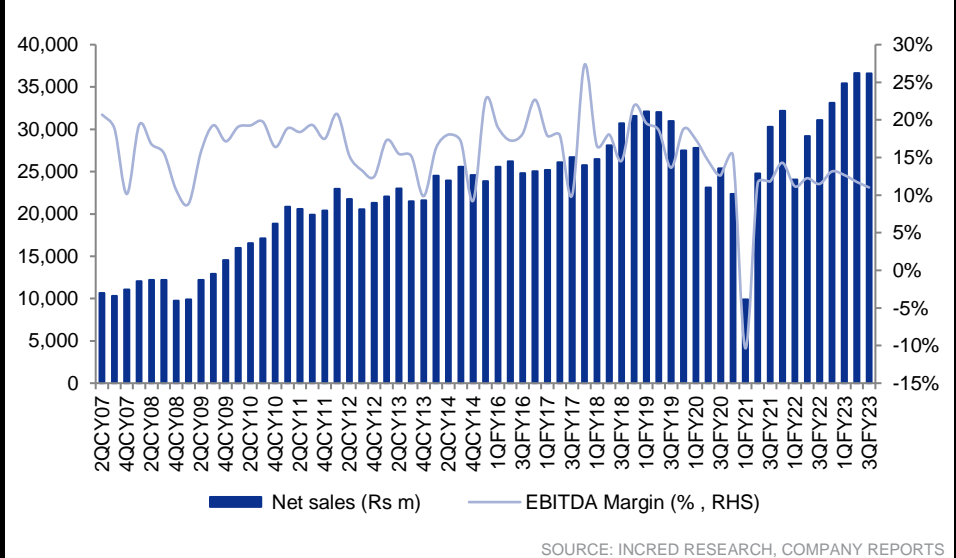
Capex and cash flow: Management mentioned that it will continue to spend on plant and machinery, though it gave a broad range of Rs3-6bn capex p.a. It mentioned that depreciation was higher due to capitalization of the smart campus and some plants and machinery, and localization of new products. It indicated healthy free cash flow and investments which it can liquidate, if required. It mentioned that the company has been deliberating both organic and inorganic growth. On the production-linked incentive or PLI scheme, management mentioned that the company has worked with the government earlier on advanced technologies and indicated that it would use the PLI scheme over the years, although it stopped short of giving a more detailed view.

Figure 1: Results comparison

FYE Mar (Rs m)	3QFY23	3QFY22	yoy % chg	2QFY23	qoq % chg	9MFY23	9MHFY2 2	yoy % chg	Comments for the quarter
Revenue	36,599	31,091	17.7	36,616	(0.0)	1,08,659	84,330	28.9	2% above our estimates.
Raw Materials	21,947	18,890	16.2	23,773	(7.7)	68,633	51,592	33.0	
RM as % of Revenues	60.0	60.8	(79)	64.9	(496)	63	61	198	103bp below our estimates.
EBITDA	4,037	3,574	13.0	4,311	(6.4)	12,843	9,839	30.5	5% above our estimates.
EBITDA margin (%)	11.0	11.5	(46.4)	11.8	(74.3)	11.8	11.7	15.2	40bp above our estimates.
Depn & amort.	1,083	851	27.3	919	17.8	2,650	2,351	12.7	
EBIT	2,954	2,723	8.5	3,392	(12.9)	10,193	7,489	36.1	
Interest expense	20	168.6	(88)	19	5	75	216	(65)	67% below our estimates.
Other Income	1,312	803	63.3	1,497	(12.4)	3,375	3,037	11.1	6% above our estimates.
Pre-tax profit	4,246	3,358	26.5	4,870	(12.8)	13,493	10,310	30.9	
Tax	1,057	1,009	4.7	1,146	(7.8)	3,238	2,785	16.3	
Tax rate (%)	24.9	30.1	(516)	23.5	136	24.0	27.0	(301)	
Normalised Net profit	3,189	2,349	35.8	3,724	(14.4)	10,255	7,525	36.3	5% above our estimates.
Exceptional items	-	-	nm	-	nm	-	1,141	nm	
Reported net profit	3,189	2,349	35.8	3,724	(14.4)	10,255	8,666	18.3	
Normalised EPS (Rs)	108.1	79.6	35.8	126.3	(14.4)	348	255	36.3	

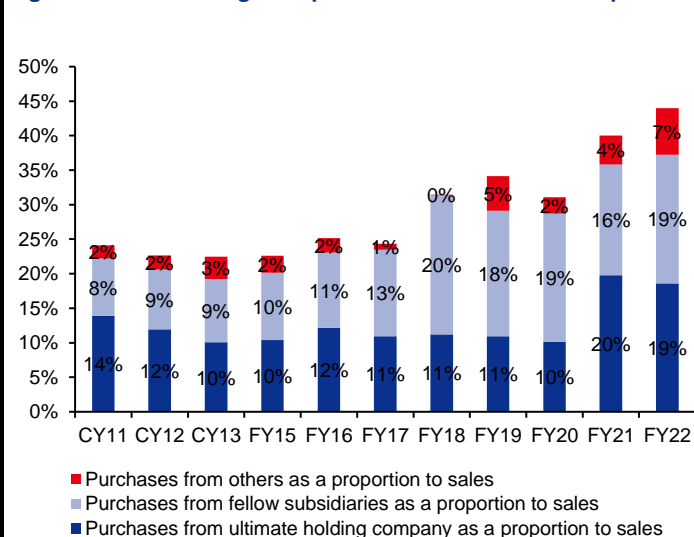
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sales near peak level but margin pressure persists



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Most of the goods purchased are from related parties



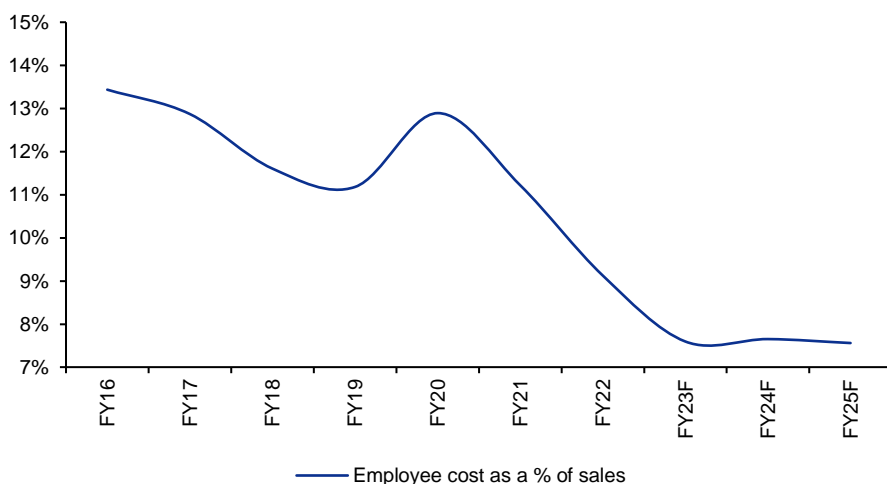
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Purchased stock-in trade as a % of sales ease from its recent peak



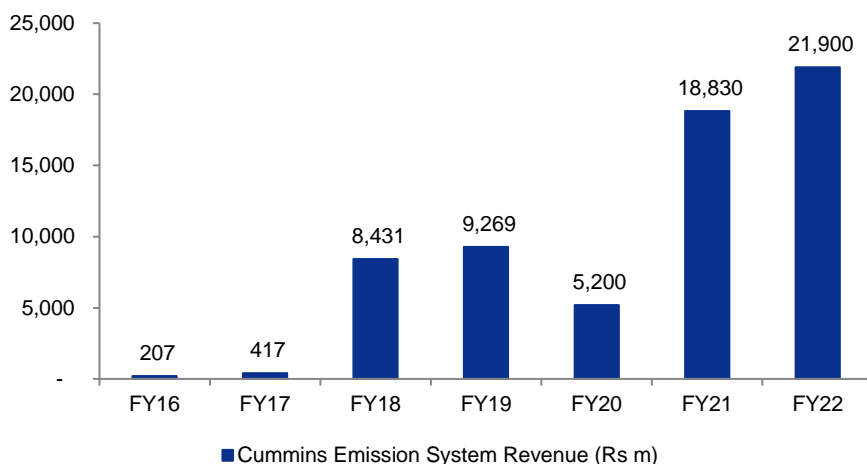
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Employee cost to remain under control



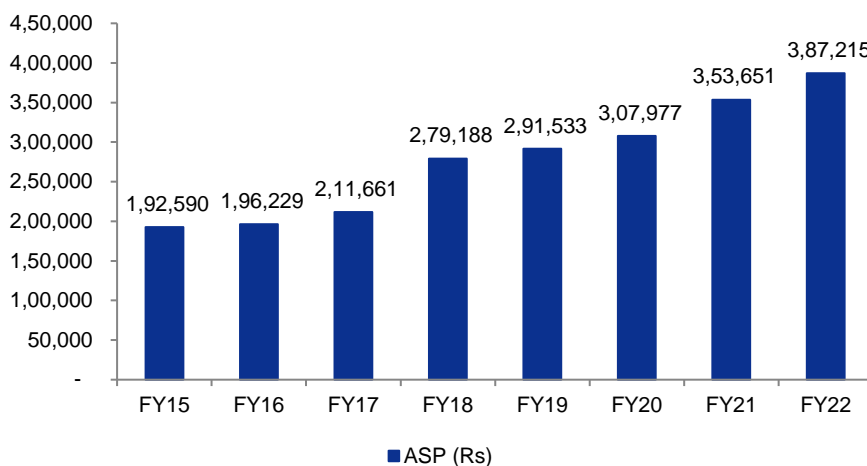
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Bosch Ltd's opportunity loss in commercial vehicle emissions upgrade to BSVI was Tata Cummins Emission System's gain in FY21



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Tata Cummins gained from commercial vehicle emission upgrade-led ASP drive



SOURCE: ACE EQUITY, INCRED RESEARCH, COMPANY REPORTS

Figure 8: Keihin benefitted from two-wheeler BSVI emission norms upgrade in FY21

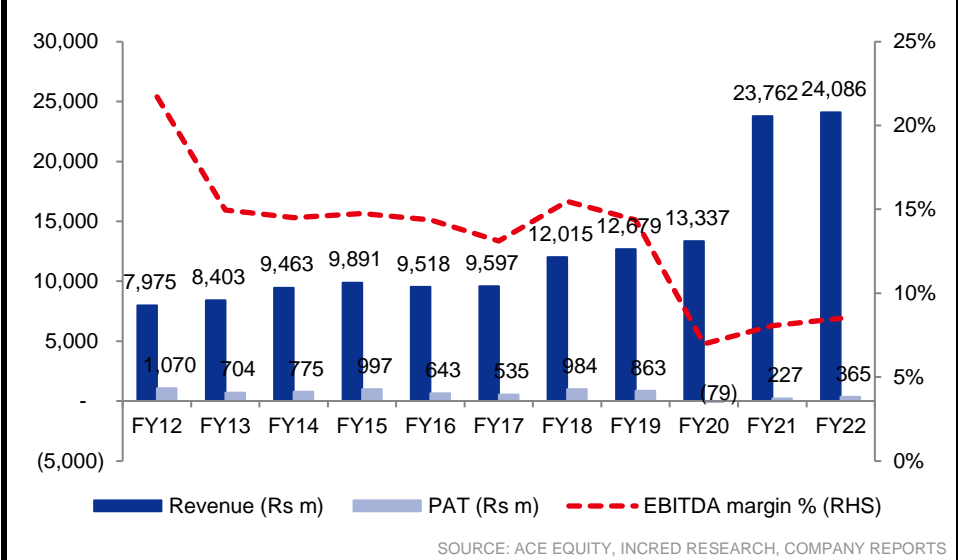
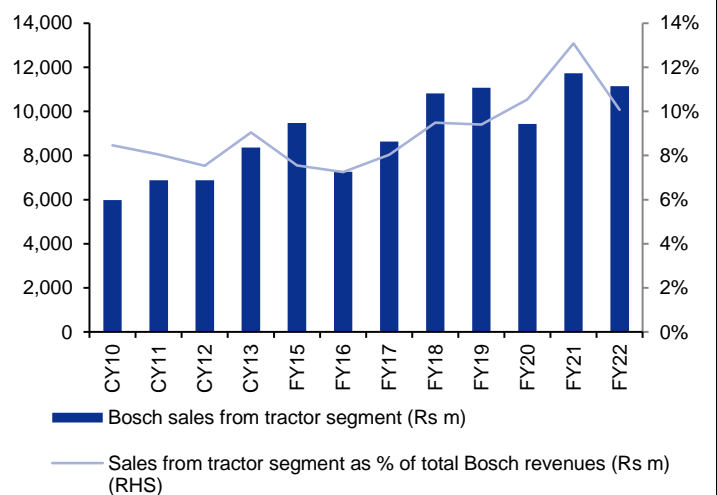


Figure 9: TVS Delphi product display of tractor parts to upgrade for meeting TREM-5 norms



SOURCE: INCRED RESEARCH, COMPANY REPORTS

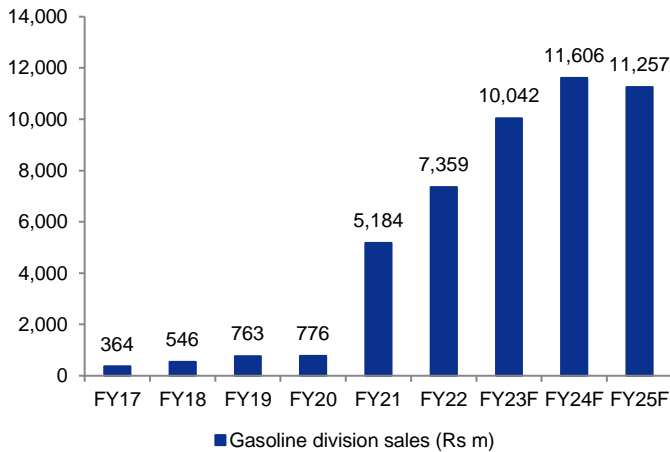
Figure 10: Bosch Ltd's sales dependence on the tractor segment



SOURCE: INCRED RESEARCH, COMPANY REPORTS

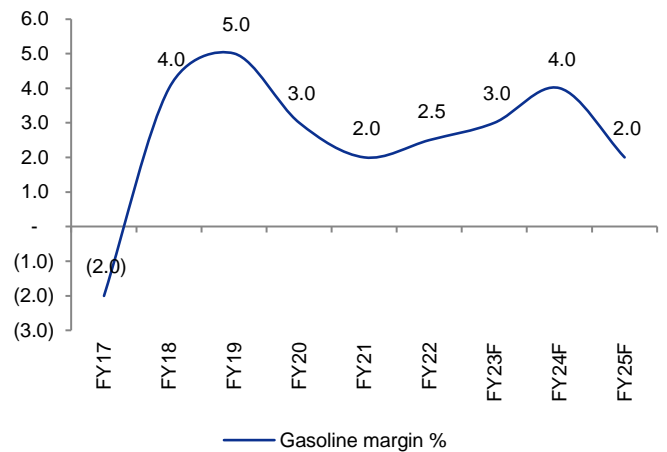
Last of the monopoly segment i.e. tractors (15% EBITDA) to witness major competition from TVS Delphi in TREM-IV norms of 2025. Bosch Ltd lost big orders from Mahindra & Mahindra or M&M, and Escorts.

Figure 11: Bosch Ltd's gasoline sales ramp-up



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Bosch Ltd's gasoline EBITDA margin to be inferior compared to leaders like Denso and Keihin in the segment



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gasoline system expansion may not be EBITDA driver on relatively weaker design vs. diesel, and higher competition to result in lower margins. Order wins are from low gasoline OEMs like Tata Motors and M&M.

Figure 13: Our revised earnings estimates

In Rs m	FY23F		FY24F		FY25F	
	Old	New	Old	New	Old	New
Net Sales	1,43,963	1,46,692	1,59,972	1,63,082	1,76,424	1,79,912
Change (%)		1.9%		1.9%		2.0%
EBITDA	17,148	17,456	18,947	19,314	21,424	21,832
Change (%)		1.8%		1.9%		1.9%
EBITDA Margin	11.9%	11.9%	11.8%	11.8%	12.1%	12.1%
Change (%)		(1.1)		(0.1)		(0.8)
Normalised PAT	13,199	13,525	14,393	14,669	16,073	16,386
Change (%)		2.5%		1.9%		1.9%
EPS	447.4	458.5	487.9	497.2	544.8	555.5
Change (%)		2.5%		1.9%		1.9%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Key assumptions (Rs m)

Revenue Mix	FY20	FY21	FY22	FY23F	FY24F	FY25F
Fuel Injection Equipment	39,726	39,059	48,452	62,058	68,989	76,416
Injectors, Nozzles and Nozzle holders	22,772	22,294	28,719	37,393	42,366	47,145
Auto Electricals	3,198	3,396	4,352	5,447	5,888	6,365
Portable Electric Power tools	10,023	10,794	13,449	16,438	18,287	19,947
Others	13,721	14,104	15,698	18,047	19,560	21,300
Revenue Growth						
Fuel Injection Equipment	-24.8%	-1.7%	24.0%	28.1%	11.2%	10.8%
Injectors, Nozzles and Nozzle holders	-23.1%	-2.1%	28.8%	30.2%	13.3%	11.3%
Auto Electricals	2.2%	6.2%	28.2%	25.1%	8.1%	8.1%
Portable Electric Power tools	-1.9%	7.7%	24.6%	22.2%	11.2%	9.1%
Others	-37.8%	2.8%	11.3%	15.0%	8.4%	8.9%

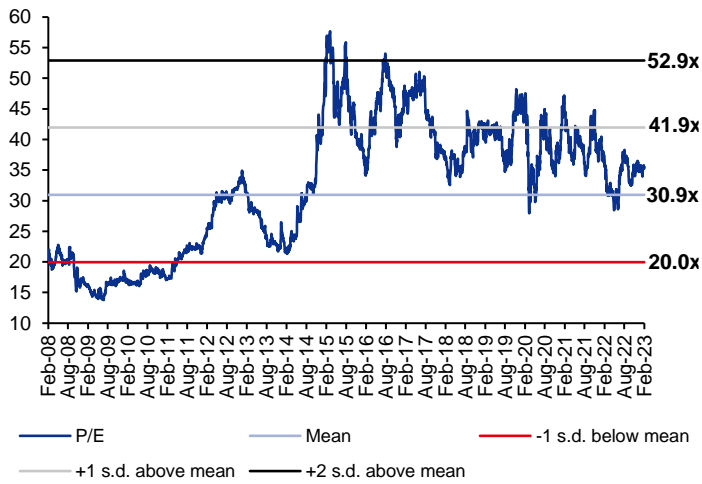
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: Bosch Ltd's P/E-based target price

1-year forward EPS (Rs)	548.3
P/E(x)	27.0
Target Price (Rs)	14,803

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 16: Forward P/E valuation above mean



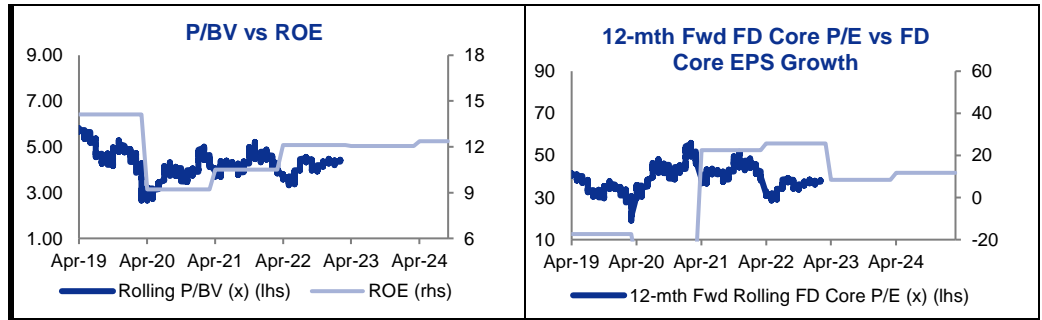
SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 17: Forward P/BV valuation below mean level reflects weak ROE



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	97,180	117,440	146,692	163,082	179,912
Gross Profit	39,453	44,454	53,836	61,319	69,086
Operating EBITDA	10,037	14,014	17,456	19,314	21,832
Depreciation And Amortisation	(3,414)	(3,243)	(3,761)	(4,283)	(4,926)
Operating EBIT	6,622	10,771	13,696	15,031	16,906
Financial Income/(Expense)	(140)	(289)	(100)	(225)	(200)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,040	3,963	4,200	4,494	4,854
Profit Before Tax (pre-EI)	11,522	14,445	17,796	19,301	21,560
Exceptional Items					
Pre-tax Profit	11,522	14,445	17,796	19,301	21,560
Taxation	(2,731)	(3,683)	(4,271)	(4,632)	(5,175)
Exceptional Income - post-tax					
Profit After Tax	8,791	10,763	13,525	14,669	16,386
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,791	10,763	13,525	14,669	16,386
Recurring Net Profit	8,791	10,763	13,525	14,669	16,386
Fully Diluted Recurring Net Profit	8,791	10,763	13,525	14,669	16,386

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	10,037	14,014	17,456	19,314	21,832
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,591	(5,507)	(3,107)	(1,482)	(3,986)
(Incr)/Decr in Total Provisions	2,469	(6,911)	740	418	1,109
Other Non-Cash (Income)/Expense	(492)	898			
Other Operating Cashflow	(3,967)	1,230			
Net Interest (Paid)/Received	4,900	3,674	4,100	4,269	4,654
Tax Paid	(2,731)	(3,683)	(4,271)	(4,632)	(5,175)
Cashflow From Operations	14,806	3,716	14,919	17,888	18,435
Capex	(2,408)	(4,128)	(8,000)	(5,000)	(6,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(7,061)	(844)	(5,528)	(6,080)	(6,688)
Cash Flow From Investing	(9,469)	(4,972)	(13,528)	(11,080)	(12,688)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,391)	(6,195)	(3,835)	(4,425)	(5,015)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(3,391)	(6,195)	(3,835)	(4,425)	(5,015)
Total Cash Generated	1,945	(7,451)	(2,443)	2,382	732
Free Cashflow To Equity	5,337	(1,256)	1,392	6,807	5,747
Free Cashflow To Firm	5,477	(968)	1,492	7,032	5,947

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	76,076	72,329	75,413	83,876	91,296
Total Debtors	30,953	34,764	39,791	43,446	47,645
Inventories	12,985	17,293	20,095	20,106	22,181
Total Other Current Assets	5,378	7,388	8,127	8,939	9,833
Total Current Assets	125,392	131,774	143,426	156,368	170,956
Fixed Assets	17,284	18,169	22,408	23,125	24,199
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	5,059	4,161	4,161	4,161	4,161
Total Non-current Assets	22,343	22,330	26,569	27,286	28,360
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	36,401	33,578	38,415	40,329	42,968
Other Current Liabilities					
Total Current Liabilities	36,401	33,578	38,415	40,329	42,968
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	13,113	13,647	15,012	16,513	18,164
Total Liabilities	49,514	47,225	53,426	56,841	61,133
Shareholders' Equity	98,221	106,879	116,569	126,813	138,184
Minority Interests					
Total Equity	98,221	106,879	116,569	126,813	138,184

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(1.3%)	20.8%	24.9%	11.2%	10.3%
Operating EBITDA Growth	(32.3%)	39.6%	24.6%	10.6%	13.0%
Operating EBITDA Margin	10.3%	11.9%	11.9%	11.8%	12.1%
Net Cash Per Share (Rs)	2,579.72	2,451.83	2,556.39	2,843.25	3,094.78
BVPS (Rs)	3,330.67	3,623.02	3,951.50	4,298.73	4,684.19
Gross Interest Cover	47.24	37.30	136.96	66.81	84.53
Effective Tax Rate	23.7%	25.5%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	38.6%	57.6%	28.4%	30.2%	30.6%
Accounts Receivables Days	52.63	45.32	42.99	45.59	46.75
Inventory Days	76.33	75.71	73.48	72.10	69.64
Accounts Payables Days	121.02	111.61	95.38	94.93	90.41
ROIC (%)	14.4%	30.5%	28.4%	26.8%	28.4%
ROCE (%)	6.9%	10.5%	12.3%	12.4%	12.8%
Return On Average Assets	6.4%	7.3%	8.4%	8.4%	8.7%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
ASP (% chg, main prod./serv.)	13.0%	6.2%	5.0%	2.0%	3.0%
Unit sales grth (% , main prod./serv.)	(1.7%)	24.0%	28.1%	11.2%	10.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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