

India

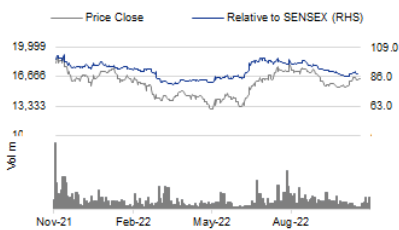
November 08, 2022 - 9:58 PM

**REDUCE** (no change)

Consensus ratings*:	Buy 3	Hold 1	Sell 2
Current price:	Rs16,446		
Target price:	Rs13,700		
Previous target:	Rs13,700		
Up/downside:	-16.7%		
InCred Research / Consensus:	-20.7%		
Reuters:			
Bloomberg:	BOS IN		
Market cap:	US\$6,680m		
	Rs485,058m		
Average daily turnover:	US\$7.9m		
	Rs576.8m		
Current shares o/s:	29.5m		
Free float:	29.5%		
*Source: Bloomberg			

**Key financial forecast**

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	13,199	14,393	16,073
Core EPS (Rs)	447.43	487.89	544.86
Core EPS Growth	22.6%	9.0%	11.7%
FD Core P/E	36.76	33.71	30.18
Recurring ROE	11.8%	11.9%	12.2%
P/BV (x)	4.17	3.84	3.53
DPS (Rs)	130.00	150.00	170.00
Dividend Yield	0.79%	0.91%	1.03%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	3.7	(5.0)	(9.3)
Relative (%)	(1.4)	(8.6)	(10.3)

Major shareholders	% held
Bosch Global	70.5
LIC	3.4
GIC	3.2

**Analyst(s)**

**Pramod AMTHE**  
T (91) 22 4161 1541  
E pramod.amthe@incredcapital.com  
**Hitesh THAKURANI**  
T (91) 22 4161 1554  
E hitesh.thakurani@incredcapital.com

# Bosch Ltd

## Pressure on EBITDA margin persists

- 2QFY23 EPS rose 11% qoq and 25% yoy to Rs126.3, in line with our estimate, as an 8% EBITDA miss was overcome by higher other income.
- We retain our EPS estimate, as for 2HFY23F we build in a 13% sales growth and 11.6% EBITDA margin because 3Q is seasonally weak on profitability.
- We maintain our REDUCE rating on the stock as profit margin challenges to persist from INR depreciation while a 33.7x FY24F P/E is more demanding.

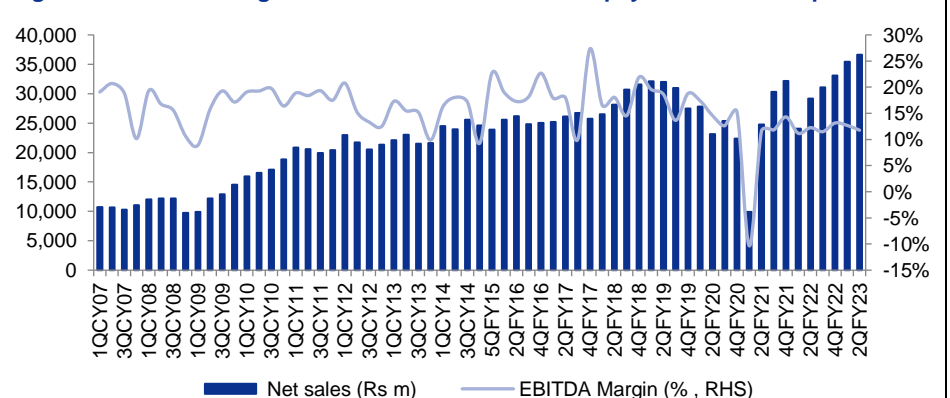
### Financial highlights

- 2QFY23 revenue increased 26% yoy and 3% qoq to Rs.36.6bn, 2% above our estimate and in line with Bloomberg consensus estimate. This was led by growth in the automotive segment aided by supply shortage easing, especially in semiconductors. Management indicated that the supply chain continues to remain fragile.
- Gross margin decreased by 214bp yoy and by 28bp qoq to 25.1%, 243bp below our estimate. This was mainly due to the share of traded goods continuing to remain high.
- EBITDA grew 21% yoy but declined by 4% qoq to Rs4.31bn, 8% below our estimate and 12% below Bloomberg consensus estimate, due to lower gross margin. Other expenses also included technical access fee of Rs.0.35bn paid to localize common rail injector used in commercial vehicles.
- Other income grew 20% yoy and 165% qoq to Rs1,497m, 36% above our estimate, due to the rise in interest income on fixed deposits and dividend income from equities.
- Normalized profit after tax increased by 26% yoy and by 11% qoq, in line with our estimate and Bloomberg consensus estimate, due to higher other income.
- EPS in 2QFY23 stood at Rs126.3 and in 1HFY23 it was at Rs239.6.

### Earnings-call highlights

- As per management, EBITDA margin was impacted because of higher traded goods mix and a rise in the prices of electronic components.
- The quarter also witnessed higher spending on building new technologies and technical access fee at an arm's length, amounting to Rs350m.
- A new common rail injector line for commercial vehicles was inaugurated to cater to domestic clients, which should improve localization content from 73% currently to 76%.
- The company also launched a pilot hydrogen engine testing infrastructure with a temporary storage set-up in Bengaluru. The company's pilot project to convert diesel engine into a hydrogen engine, it stated, may be commercialized in two years.
- Budgeted capex for FY23F is Rs5.2-5.6bn. This also includes expenditure on plant and machinery as well as towards the productivity-linked incentive or PLI scheme.
- With the low base effect waning and challenges in truck demand from rising interest rates, we reiterate REDUCE rating on the stock with a 27x FY24F EPS-based target price of Rs13,700. Our EBITDA and PAT estimates for FY23F are 10% lower than Bloomberg consensus estimates. Key upside risk is new EV-related order win or localization benefits on cost.

**Figure 1: Though sales hit a new peak, margins are still not picking up because of a higher share of traded goods and technical access fee payment to related parties**



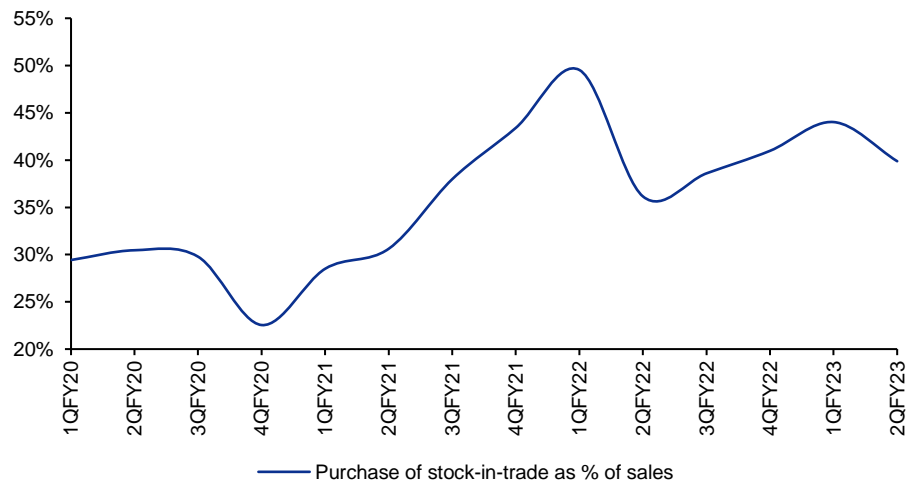
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Results comparison

FYE Mar (Rs m)	2QFY23	2QFY22	yoy % chg	1QFY23	qoq % chg	1HFY23	1HFY22	yoy % chg	Comments for the quarter
Revenue	36,616	29,180	25.5	35,444	3.3	72,060	53,239	35.4	2% above our estimates.
Raw Materials	23,773	18,320	29.8	22,913	3.8	46,686	32,702	42.8	
RM as % of Revenues	64.9	62.8	214	64.6	28	65	61	336	243bp above our estimates.
EBITDA	4,311	3,575	20.6	4,495	(4.1)	8,806	6,266	40.5	8% below our estimates due to lower gross margin.
<b>EBITDA margin (%)</b>	<b>11.8</b>	<b>12.3</b>	<b>(47.9)</b>	<b>12.7</b>	<b>(90.8)</b>	<b>12.2</b>	<b>11.8</b>	<b>45.2</b>	121bp below our estimates, cushioned by lower employee costs.
Depn & amort.	919	829	10.9	648	41.8	1,567	1,500	4.5	
EBIT	3,392	2,747	23.5	3,847	(11.8)	7,239	4,766	51.9	
Interest expense	19	15.2	25	36	(47)	55	47	17	71% below our estimates.
Other Income	1,497	1,244	20.4	566	164.5	2,063	2,233	(7.6)	36% above our estimates.
Pretax profit	4,870	3,975	22.5	4,377	11.3	9,247	6,952	33.0	
Tax	1,146	1,020	12.4	1,035	10.7	2,181	1,776	22.8	
Tax rate (%)	23.5	25.7	(213)	23.6	(11)	23.6	25.5	(195)	
<b>Normalised Net profit</b>	<b>3,724</b>	<b>2,955</b>	<b>26.0</b>	<b>3,342</b>	<b>11.4</b>	<b>7,066</b>	<b>5,176</b>	<b>36.5</b>	In line with our estimates due to higher other income.
Exceptional items	-	765	nm	-	nm	-	1,141	nm	
Reported net profit	3,724	3,720	0.1	3,342	11.4	7,066	6,317	11.9	
<b>Normalised EPS (Rs)</b>	<b>126.3</b>	<b>100.2</b>	<b>26.0</b>	<b>113.3</b>	<b>11.4</b>	<b>240</b>	<b>176</b>	<b>36.5</b>	

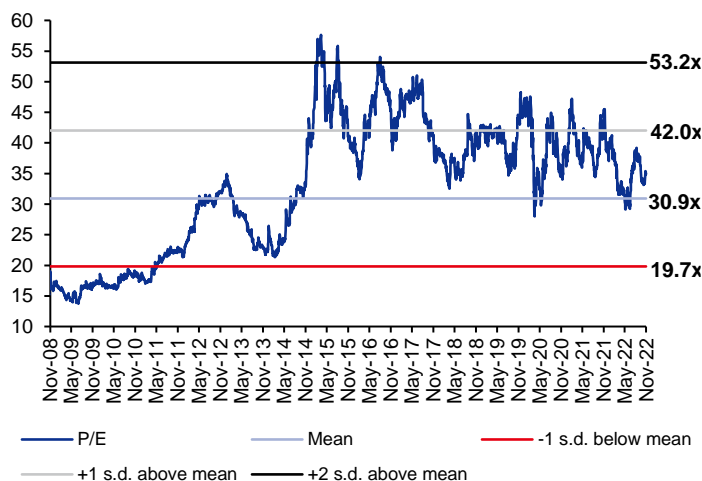
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Move towards localization remains gradual with the share of traded goods still close to 40%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Forward P/E still above mean level



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Forward P/BV below mean level reflects weak ROE



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

### Profit & Loss

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>117,440</b>	<b>143,963</b>	<b>159,972</b>	<b>176,424</b>
<b>Gross Profit</b>	<b>44,454</b>	<b>54,274</b>	<b>61,589</b>	<b>69,335</b>
<b>Operating EBITDA</b>	<b>14,014</b>	<b>17,148</b>	<b>18,947</b>	<b>21,424</b>
Depreciation And Amortisation	(3,243)	(3,547)	(4,109)	(4,746)
<b>Operating EBIT</b>	<b>10,771</b>	<b>13,600</b>	<b>14,838</b>	<b>16,678</b>
Financial Income/(Expense)	(289)	(275)	(225)	(200)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	3,963	4,042	4,325	4,671
<b>Profit Before Tax (pre-EI)</b>	<b>14,445</b>	<b>17,367</b>	<b>18,938</b>	<b>21,149</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>14,445</b>	<b>17,367</b>	<b>18,938</b>	<b>21,149</b>
Taxation	(3,683)	(4,168)	(4,545)	(5,076)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>10,763</b>	<b>13,199</b>	<b>14,393</b>	<b>16,073</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>10,763</b>	<b>13,199</b>	<b>14,393</b>	<b>16,073</b>
Recurring Net Profit	10,763	13,199	14,393	16,073
<b>Fully Diluted Recurring Net Profit</b>	<b>10,763</b>	<b>13,199</b>	<b>14,393</b>	<b>16,073</b>

### Balance Sheet

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	72,329	77,121	85,168	92,178
Total Debtors	34,764	39,432	43,037	47,168
Inventories	17,293	19,721	19,723	21,751
Total Other Current Assets	7,388	8,127	8,939	9,833
<b>Total Current Assets</b>	<b>131,774</b>	<b>144,401</b>	<b>156,868</b>	<b>170,930</b>
Fixed Assets	18,169	20,622	21,512	22,766
Total Investments				
Intangible Assets				
Total Other Non-Current Assets	4,161	4,161	4,161	4,161
<b>Total Non-current Assets</b>	<b>22,330</b>	<b>24,783</b>	<b>25,673</b>	<b>26,927</b>
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	33,578	37,929	39,817	42,424
Other Current Liabilities				
<b>Total Current Liabilities</b>	<b>33,578</b>	<b>37,929</b>	<b>39,817</b>	<b>42,424</b>
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
<b>Total Non-current Liabilities</b>				
Total Provisions	13,647	15,012	16,513	18,164
<b>Total Liabilities</b>	<b>47,225</b>	<b>52,940</b>	<b>56,330</b>	<b>60,588</b>
Shareholders Equity	106,879	116,243	126,211	137,269
Minority Interests				
<b>Total Equity</b>	<b>106,879</b>	<b>116,243</b>	<b>126,211</b>	<b>137,269</b>

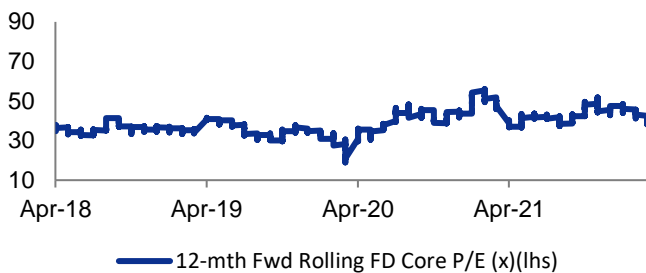
### Cash Flow

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>14,014</b>	<b>17,148</b>	<b>18,947</b>	<b>21,424</b>
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(5,507)	(2,860)	(1,447)	(3,904)
(Incr)/Decr in Total Provisions	(6,911)	740	418	1,109
Other Non-Cash (Income)/Expense	898			
Other Operating Cashflow	1,230			
Net Interest (Paid)/Received	3,674	3,767	4,100	4,471
Tax Paid	(3,683)	(4,168)	(4,545)	(5,076)
<b>Cashflow From Operations</b>	<b>3,716</b>	<b>14,627</b>	<b>17,472</b>	<b>18,025</b>
Capex	(4,128)	(6,000)	(5,000)	(6,000)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(845)	(5,528)	(6,080)	(6,688)
<b>Cash Flow From Investing</b>	<b>(4,972)</b>	<b>(11,528)</b>	<b>(11,080)</b>	<b>(12,688)</b>
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(6,195)	(3,835)	(4,425)	(5,015)
Preferred Dividends				
Other Financing Cashflow				
<b>Cash Flow From Financing</b>	<b>(6,195)</b>	<b>(3,835)</b>	<b>(4,425)</b>	<b>(5,015)</b>
Total Cash Generated	(7,451)	(735)	1,967	321
<b>Free Cashflow To Equity</b>	<b>(1,256)</b>	<b>3,100</b>	<b>6,392</b>	<b>5,336</b>
<b>Free Cashflow To Firm</b>	<b>(968)</b>	<b>3,375</b>	<b>6,617</b>	<b>5,536</b>

### Key Ratios

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	20.8%	22.6%	11.1%	10.3%
Operating EBITDA Growth	39.6%	22.4%	10.5%	13.1%
Operating EBITDA Margin	11.9%	11.9%	11.8%	12.1%
Net Cash Per Share (Rs)	2,451.83	2,614.27	2,887.06	3,124.67
BVPS (Rs)	3,623.02	3,940.45	4,278.33	4,653.20
Gross Interest Cover	37.30	49.46	65.95	83.39
Effective Tax Rate	25.5%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	57.6%	29.1%	30.7%	31.2%
Accounts Receivables Days	45.32	43.35	45.60	46.76
Inventory Days	75.71	75.32	73.17	70.68
Accounts Payables Days	111.61	97.75	96.34	91.77
ROIC (%)	30.5%	28.2%	27.4%	29.0%
ROCE (%)	10.5%	12.2%	12.2%	12.7%
Return On Average Assets	7.3%	8.3%	8.3%	8.6%

### 12-mth Fwd Rolling FD Core P/E (x)



### Key Drivers

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
ASP (% chg, main prod./serv.)	5.0%	5.0%	2.0%	3.0%
Unit sales grth (% , main prod./serv.)	22.4%	25.0%	11.1%	10.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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