

India

REDUCE (no change)

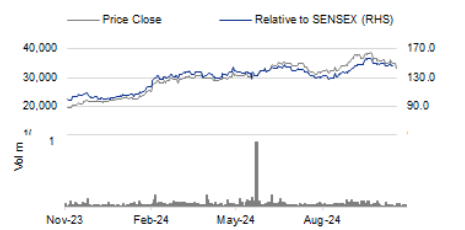
Consensus ratings*: Buy 1 Hold 1 Sell 3

| | |
|------------------------------|---------------------------|
| Current price: | Rs33,279 |
| Target price: | Rs26,379 |
| Previous target: | Rs26,302 |
| Up/downside: | -20.7% |
| InCred Research / Consensus: | -11.7% |
| Reuters: | BOSH.NS |
| Bloomberg: | BOS IN |
| Market cap: | US\$11,630m Rs981,504m |
| Average daily turnover: | US\$18.2m Rs1537.5m |
| Current shares o/s: | 29.5m |
| Free float: | 29.5% |

*Source: Bloomberg

Key changes in this note

- FY25F-27F sales cut by 2%.
- FY25F-27F EBITDA cut by 2-5%.
- FY25F-27F EPS cut by 2%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|--------|-----|------|
| Absolute (%) | (13.5) | 5.3 | 69.8 |
| Relative (%) | (10.6) | 5.7 | 40.2 |

| Major shareholders | % held |
|--------------------|--------|
| Bosch Global | 70.5 |
| GIC | 2.8 |
| LIC | 2.1 |

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Bosch Ltd

Prolonged slow sales momentum to haunt

- 2Q EPS growth of 5% qoq to Rs165 missed our/Bloomberg consensus estimates by 4% due to weak sales momentum (+6% yoy).
- Management retaining its double-digit growth aspiration, vs. 5% achieved in 1HFY25, looks stretched, considering macro slowdown. We cut EPS by 2%.
- Rich valuation at +1SD P/E for early double-digit EBITDA FY25F-27F CAGR is a cause of concern. Maintain our REDUCE rating on the stock.

Sales momentum disappoints; lower purchased goods provide hope

Bosch's sales growth continued to be tepid at 6% yoy in 2QFY25, a 6% miss to our/Bloomberg consensus estimates. The EBITDA margin expansion of 80bp yoy to 12.8% was driven by lower other expenses and purchased goods (-400bp qoq, Fig. 3), which was 11% below our estimate, but in line with the Bloomberg consensus estimate. Lower-than-expected depreciation (-11% yoy) and interest costs limited the PAT miss to 4%, against our expectation, at Rs4.9bn.

Management conference-call highlights

Management talked about its new businesses such as CNG bike and direct injection gasoline engines. Exports recorded a 10% growth in 1HFY25. Double-digit sales growth continued in building solutions (20%) and consumer goods (10%) segments. In the automotive segment, supplies to two-wheeler & aftermarket provide strong growth. Management retained its double-digit sales growth guidance for FY25F vs. 5% posted in 1H. Capex in 1H stood at just Rs1.4bn, but the company retained its full-year Rs4bn plan.

FY25F-27F EBITDA cut by 2-5%

The recent slowdown in truck and car demand, and the slow growth of Bosch in 1HFY25 led us to cut our sales estimates by 2% for FY25F-27F. The lower purchased goods in 2Q impress, but we look for sustainability. We cut EBITDA estimates by 5% for FY25F but with localization benefit expectation, we limit the reduction to ~ 2% for FY26F-27F. Strong other income & lower depreciation limits the cut in our EPS estimates to 2% for FY25F-27F.

Maintain REDUCE rating due to rich valuation and tepid sales growth

The sustained business restructuring by selling off loss-making new businesses has improved the profit margin, but has limited the sales momentum. New business wins are encouraging, but are still to make a big difference to sales growth. We maintain our REDUCE rating, raising the target price slightly to Rs26,379 (Rs26,302 earlier), as Bosch's valuation is rich at +1SD above the 10-year mean P/E (Fig. 7) and P/BV (Fig. 8). Key upside risks: Export revival benefit on sales and localization benefit on profits.

Financial Summary

| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 149,293 | 167,271 | 183,086 | 201,871 | 223,090 |
| Operating EBITDA (Rsm) | 18,067 | 20,948 | 23,736 | 27,351 | 29,142 |
| Net Profit (Rsm) | 14,368 | 15,303 | 19,132 | 21,304 | 22,800 |
| Core EPS (Rs) | 487.1 | 518.8 | 648.5 | 722.2 | 772.9 |
| Core EPS Growth | 33.5% | 6.5% | 25.0% | 11.4% | 7.0% |
| FD Core P/E (x) | 68.33 | 64.15 | 51.31 | 46.08 | 43.06 |
| DPS (Rs) | 480.0 | 375.0 | 450.0 | 520.0 | 550.0 |
| Dividend Yield | 1.44% | 1.13% | 1.35% | 1.56% | 1.65% |
| EV/EBITDA (x) | 50.42 | 43.18 | 37.90 | 32.81 | 30.65 |
| P/FCFE (x) | 55.54 | 59.79 | 62.63 | 66.44 | 56.05 |
| Net Gearing | (64.3%) | (64.0%) | (64.7%) | (63.4%) | (63.3%) |
| P/BV (x) | 8.91 | 8.14 | 7.73 | 7.38 | 7.04 |
| ROE | 13.2% | 13.3% | 15.5% | 16.4% | 16.7% |
| % Change In Core EPS Estimates | | | (1.89%) | (1.51%) | (1.49%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Prolonged slow sales momentum to haunt

Management conference-call highlights ►

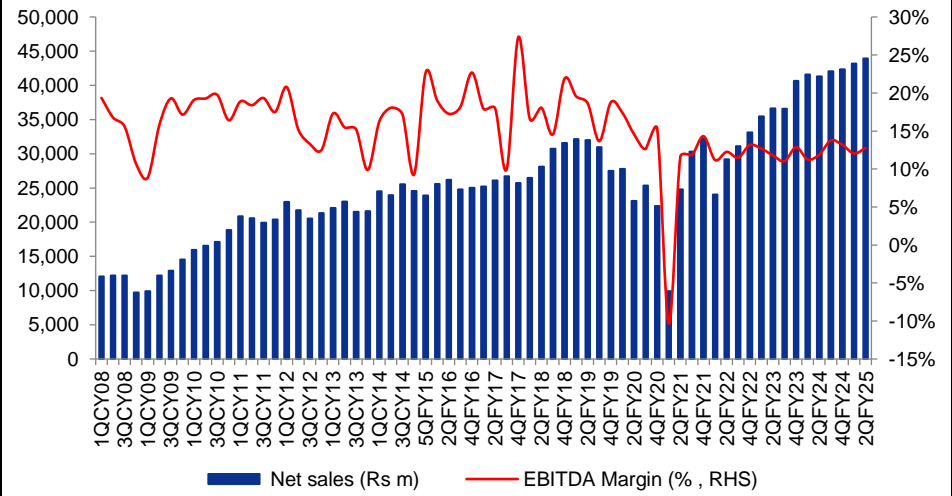
- **Outlook:** In Europe, manufacturing activity is declining, and services growth is slow, especially in Germany. Meanwhile, the US economy is on the growth path. Indian market is likely to witness growth pick-up driven by rising consumer spending, mainly in rural India, on the back of agricultural output improving after favourable monsoon conditions.
- **Costs front:** Input costs, including shipping, raw materials and wages remain at a lower level and are stable. However, this trend is not expected to continue.
- **Automotive industry:** The automotive market ended FY24 on a positive note reaching all-time highs in car and LCV segments and maintaining the momentum in other segments. Going ahead, the recent general elections, high base effect, and the historical trend suggest moderate growth for the automotive industry. The recent inventory build-up in the car segment remains a cause of concern, but the underlying economic conditions are strong, and India's growth narrative remains positive.
- **Mobility business:** The segment has grown by 6.7% yoy.
- **Power solutions business:** Revenue of the segment grew by 5.7%, with the growth in passenger car segment (mainly from diesel UV models), genset applications (with common rail systems), and exports of electronic-controlled throttle body, in-line pump and nozzle holders.
- **Mobility aftermarket:** Business topline grew by 8.8% on account of higher demand for lubricants and diesel systems. Faced challenges due to lower demand in the diesel space category while rotating machines, battery, and wipers witnessed double-digit growth.
- **Two-wheeler business:** Revenue grew by 13.4% led by higher sales of fuel injectors and exhaust sensors, driven by increased demand from major domestic motorcycle manufacturers. Bosch supported fuel technology of the world's first CNG bike (Bajaj Freedom 125).
- **Consumer goods:** Witnessed revenue growth of 10.1% yoy, driven by high demand for grinders, drills, cutters, spares, and accessories on account of market growth.
- **Building technologies:** The topline of the segment grew by 20.1% on account of the execution of a higher number of orders for installation of video surveillance and communication systems.
- **Financial highlights:** The EBITDA margin improved by 86bp yoy and 72bp qoq to 12.8%, driven by revenue growth and softening raw material prices. 2QFY25 has an exceptional item via sale of OE/OES diagnostics business for Rs485m.
- **Capex guidance:** For FY25F, it is Rs4bn, lower compared to last year, because the Adugodi campus at Bengaluru has been commissioned.
- **Purchase of traded goods:** Purchase of traded goods for the quarter was in lower single digit led by localization and product mix. Going ahead, management's endeavour is to maintain them at the current level.

Figure 1: Quarterly results comparison

| Y/E Mar (Rs m) | 2QFY25 | 2QFY24 | yoy % chg | 1QFY25 | qoq % chg | 1HFY25 | 1HFY24 | yoy % chg | Comments for the quarter |
|------------------------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|-------------|--------------------------|
| Revenue | 43,943 | 41,301 | 6.4 | 43,168 | 1.8 | 87,111 | 82,885 | 5.1 | 6% below our estimate. |
| Raw material costs | 28,616 | 27,584 | 3.7 | 27,867 | 2.7 | 56,483 | 54,418 | 3.8 | |
| RM costs as a % of revenue | 65.1 | 66.8 | (167) | 64.6 | 57 | 65 | 66 | (81) | 12bp above our estimate. |
| EBITDA | 5,605 | 4,913 | 14.1 | 5,197 | 7.9 | 10,802 | 9,592 | 12.6 | 11% below our estimate. |
| EBITDA margin (%) | 12.8 | 11.9 | 86.0 | 12.0 | 71.6 | 12.4 | 11.6 | 82.8 | 64bp below our estimate. |
| Depreciation & amortization | 900 | 1,013 | (11.2) | 856 | 5.1 | 1,756 | 1,934 | (9.2) | 10% below our estimate. |
| EBIT | 4,705 | 3,900 | 20.6 | 4,341 | 8.4 | 9,046 | 7,658 | 18.1 | |
| Interest expenses | 22 | 122.0 | (82) | 26 | (15) | 48 | 430 | (89) | 85% below our estimate. |
| Other income | 2,089 | 1,542 | 35.5 | 1,793 | 16.5 | 3,882 | 3,417 | 13.6 | 27% above our estimate. |
| Pre-tax profit | 6,772 | 5,320 | 27.3 | 6,108 | 10.9 | 12,880 | 10,645 | 21.0 | |
| Tax | 1,898 | 3,181 | (40.3) | 1,453 | 30.6 | 3,351 | 4,416 | (24.1) | |
| Tax rate (%) | 28.0 | 59.8 | (3,177) | 23.8 | 424 | 26.0 | 41.5 | (1,547) | |
| Normalized net profit | 4,874 | 2,139 | 127.9 | 4,655 | 4.7 | 9,529 | 6,229 | 53.0 | 6% above our estimate. |
| Exceptional items | 485 | 7,850 | nm | - | nm | 485 | 7,850 | nm | |
| Reported net profit | 5,359 | 9,989 | (46.4) | 4,655 | 15.1 | 10,014 | 14,079 | (28.9) | |
| Normalized EPS (Rs) | 165.3 | 72.5 | 127.9 | 157.9 | 4.7 | 323 | 211 | 53.0 | |

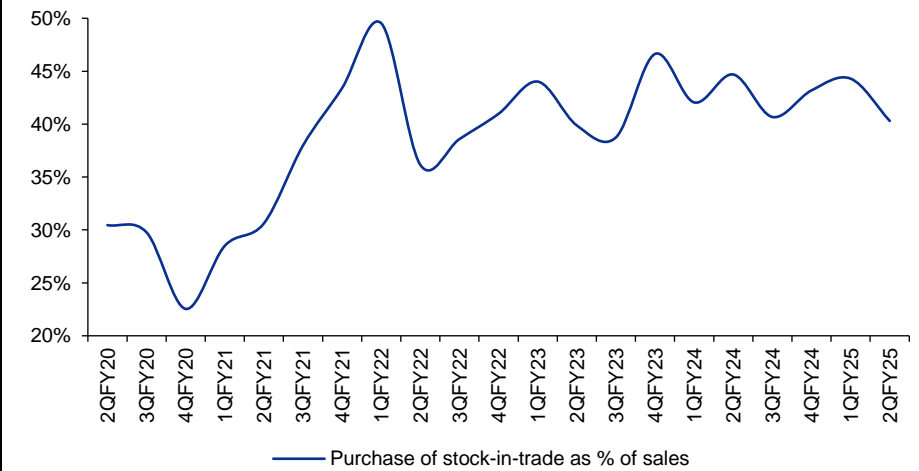
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Tepid sales growth continues



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Sustainability of lower purchased stock-in-trade is a key thing to watch out for



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Key assumptions (Rs m)

| Revenue Mix | FY22 | FY23 | FY24 | FY25F | FY26F | FY27F |
|---------------------------------------|--------|--------|--------|--------|--------|--------|
| Fuel Injection Equipment | 48,452 | 63,551 | 71,289 | 77,762 | 85,645 | 95,450 |
| Injectors, Nozzles and Nozzle Holders | 28,719 | 38,599 | 44,130 | 47,947 | 52,330 | 57,646 |
| Auto Electricals | 4,352 | 5,447 | 5,888 | 6,307 | 6,754 | 7,300 |
| Portable Electric Power Tools | 13,449 | 15,641 | 17,402 | 19,493 | 22,735 | 25,318 |
| Others | 15,698 | 17,983 | 19,666 | 21,871 | 23,815 | 25,817 |
| Revenue Growth | | | | | | |
| Fuel Injection Equipment | 24.0% | 31.2% | 12.2% | 9.1% | 10.1% | 11.4% |
| Injectors, Nozzles and Nozzle Holders | 28.8% | 34.4% | 14.3% | 8.7% | 9.1% | 10.2% |
| Auto Electricals | 28.2% | 25.1% | 8.1% | 7.1% | 7.1% | 8.1% |
| Portable Electric Power Tools | 24.6% | 16.3% | 11.3% | 12.0% | 16.6% | 11.4% |
| Others | 11.3% | 14.6% | 9.4% | 11.2% | 8.9% | 8.4% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

| Rs m | FY25F | | FY26F | | FY27F | |
|----------------|----------|----------|----------|----------|----------|----------|
| | Old | New | Old | New | Old | New |
| Net Sales | 1,87,524 | 1,83,086 | 2,06,738 | 2,01,871 | 2,28,481 | 2,23,090 |
| Change (%) | | -2.4% | | -2.4% | | -2.4% |
| EBITDA | 24,873 | 23,736 | 27,794 | 27,351 | 29,607 | 29,142 |
| Change (%) | | -4.6% | | -1.6% | | -1.6% |
| EBITDA Margin | 13.3% | 13.0% | 13.4% | 13.5% | 13.0% | 13.1% |
| Change (%) | | (29.9) | | 10.5 | | 10.5 |
| Normalized PAT | 19,499 | 19,132 | 21,629 | 21,304 | 23,145 | 22,800 |
| Change (%) | | -1.9% | | -1.5% | | -1.5% |
| EPS | 661.0 | 648.5 | 733.2 | 722.2 | 784.6 | 772.9 |
| Change (%) | | -1.9% | | -1.5% | | -1.5% |

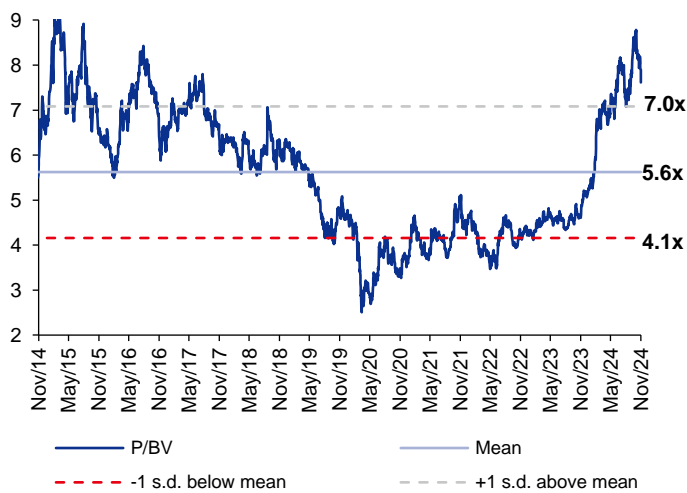
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Bosch's P/E-based target price

| | |
|---------------------------|--------|
| One-year forward EPS (Rs) | 753.7 |
| P/E(x) | 35.0 |
| Target Price (Rs) | 26,379 |

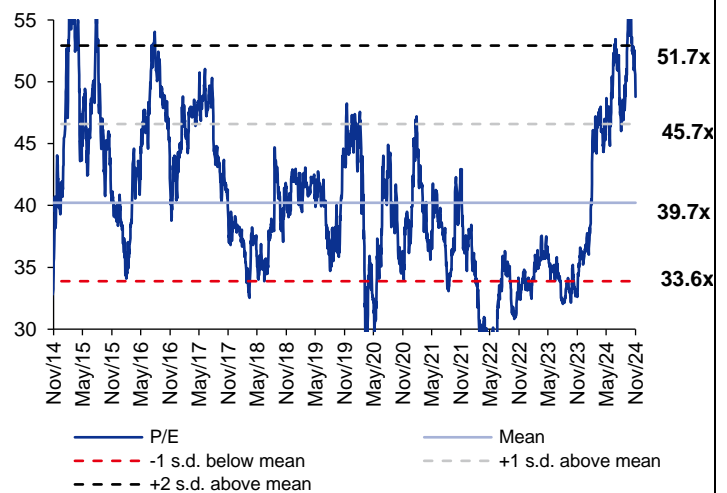
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Forward P/BV valuation is rich above the +1SD level



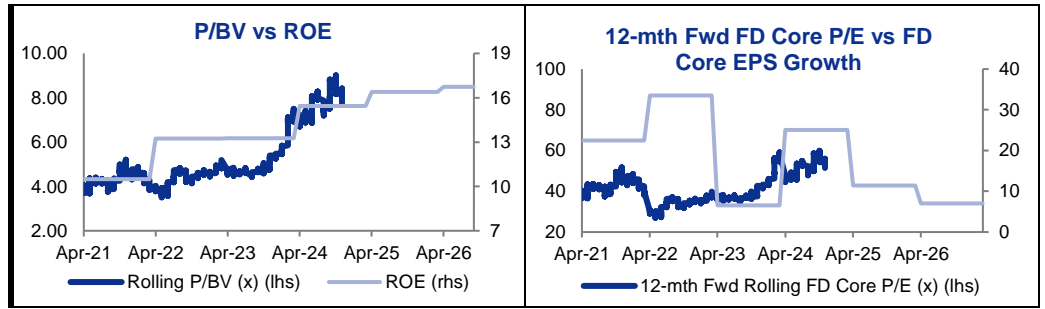
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 8: Forward P/E valuation remains above the +1SD level



SOURCE: BLOOMBERG, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 149,293 | 167,271 | 183,086 | 201,871 | 223,090 |
| Gross Profit | 54,665 | 58,931 | 65,179 | 74,087 | 81,428 |
| Operating EBITDA | 18,067 | 20,948 | 23,736 | 27,351 | 29,142 |
| Depreciation And Amortisation | (3,856) | (4,295) | (4,231) | (5,265) | (5,927) |
| Operating EBIT | 14,211 | 16,653 | 19,506 | 22,086 | 23,215 |
| Financial Income/(Expense) | (121) | (508) | (200) | (500) | (400) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | 4,734 | 6,063 | 6,548 | 7,203 | 7,995 |
| Profit Before Tax (pre-EI) | 18,824 | 22,208 | 25,854 | 28,789 | 30,810 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 18,824 | 22,208 | 25,854 | 28,789 | 30,810 |
| Taxation | (4,456) | (6,905) | (6,722) | (7,485) | (8,011) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 14,368 | 15,303 | 19,132 | 21,304 | 22,800 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 14,368 | 15,303 | 19,132 | 21,304 | 22,800 |
| Recurring Net Profit | 14,368 | 15,303 | 19,132 | 21,304 | 22,800 |
| Fully Diluted Recurring Net Profit | 14,368 | 15,303 | 19,132 | 21,304 | 22,800 |

Cash Flow

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| EBITDA | 18,067 | 20,948 | 23,736 | 27,351 | 29,142 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (649) | (4,271) | (1,979) | (3,962) | (3,432) |
| (Incr)/Decr in Total Provisions | (1,709) | (1,790) | 2,162 | 860 | 2,046 |
| Other Non-Cash (Income)/Expense | 380 | 904 | | | |
| Other Operating Cashflow | (123) | 9,602 | 485 | | |
| Net Interest (Paid)/Received | 4,613 | 5,555 | 6,348 | 6,703 | 7,595 |
| Tax Paid | (4,456) | (6,905) | (6,722) | (7,485) | (8,011) |
| Cashflow From Operations | 16,123 | 24,043 | 24,031 | 23,467 | 27,341 |
| Capex | (6,655) | (3,268) | (5,793) | (6,000) | (7,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 8,207 | (4,355) | (2,562) | (2,691) | (2,825) |
| Cash Flow From Investing | 1,552 | (7,623) | (8,356) | (8,691) | (9,825) |
| Debt Raised/(repaid) | | | | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (14,160) | (11,063) | (13,275) | (15,340) | (16,225) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | | | | | |
| Cash Flow From Financing | (14,160) | (11,063) | (13,275) | (15,340) | (16,225) |
| Total Cash Generated | 3,515 | 5,358 | 2,400 | (564) | 1,291 |
| Free Cashflow To Equity | 17,675 | 16,421 | 15,675 | 14,776 | 17,516 |
| Free Cashflow To Firm | 17,796 | 16,929 | 15,875 | 15,276 | 17,916 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Total Cash And Equivalents | 70,795 | 77,175 | 82,137 | 84,264 | 88,380 |
| Total Debtors | 38,622 | 44,289 | 45,575 | 50,654 | 53,560 |
| Inventories | 19,029 | 18,934 | 22,572 | 25,441 | 28,727 |
| Total Other Current Assets | 9,399 | 10,332 | 11,365 | 12,502 | 13,752 |
| Total Current Assets | 137,845 | 150,730 | 161,650 | 172,861 | 184,419 |
| Fixed Assets | 20,968 | 17,915 | 21,503 | 22,238 | 23,311 |
| Total Investments | | | | | |
| Intangible Assets | | | | | |
| Total Other Non-Current Assets | 3,781 | 2,877 | 2,877 | 2,877 | 2,877 |
| Total Non-current Assets | 24,749 | 20,792 | 24,380 | 25,115 | 26,188 |
| Short-term Debt | | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 39,981 | 38,297 | 42,976 | 47,349 | 51,637 |
| Other Current Liabilities | | | | | |
| Total Current Liabilities | 39,981 | 38,297 | 42,976 | 47,349 | 51,637 |
| Total Long-term Debt | | | | | |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | | | | | |
| Total Non-current Liabilities | | | | | |
| Total Provisions | 12,491 | 14,619 | 16,081 | 17,689 | 19,458 |
| Total Liabilities | 52,472 | 52,916 | 59,057 | 65,038 | 71,095 |
| Shareholders Equity | 110,122 | 120,632 | 126,974 | 132,937 | 139,512 |
| Minority Interests | | | | | |
| Total Equity | 110,122 | 120,632 | 126,974 | 132,937 | 139,512 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Revenue Growth | 27.1% | 12.0% | 9.5% | 10.3% | 10.5% |
| Operating EBITDA Growth | 28.9% | 15.9% | 13.3% | 15.2% | 6.5% |
| Operating EBITDA Margin | 12.1% | 12.5% | 13.0% | 13.5% | 13.1% |
| Net Cash Per Share (Rs) | 2,399.83 | 2,616.10 | 2,784.32 | 2,856.41 | 2,995.94 |
| BVPS (Rs) | 3,732.95 | 4,089.22 | 4,304.19 | 4,506.34 | 4,729.21 |
| Gross Interest Cover | 117.45 | 32.78 | 97.53 | 44.17 | 58.04 |
| Effective Tax Rate | 23.7% | 31.1% | 26.0% | 26.0% | 26.0% |
| Net Dividend Payout Ratio | 98.6% | 72.3% | 69.4% | 72.0% | 71.2% |
| Accounts Receivables Days | 41.92 | 44.57 | 45.25 | 46.31 | 47.62 |
| Inventory Days | 70.05 | 63.95 | 64.24 | 68.57 | 69.78 |
| Accounts Payables Days | 95.77 | 89.16 | 84.77 | 87.36 | 86.21 |
| ROIC (%) | 29.5% | 32.1% | 34.8% | 36.3% | 35.0% |
| ROCE (%) | 13.1% | 14.4% | 15.8% | 17.0% | 17.0% |
| Return On Average Assets | 9.2% | 9.5% | 10.8% | 11.4% | 11.4% |

| Key Drivers | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| ASP (% chg, main prod./serv.) | 5.0% | 3.0% | 1.0% | 2.0% | 2.5% |
| Unit sales grth (% , main prod./serv.) | 31.2% | 12.2% | 9.1% | 10.1% | 11.4% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.