22 October 2019

Update | Sector: Automobiles

Bosch

BSE SENSEX	S&P CNX
38,964	11,588

Bloomberg	BOS IN
Equity Shares (m)	31
M.Cap.(INRb)/(USDb)	429.9 / 6.1
52-Week Range (INR)	20436 / 12699
1, 6, 12 Rel. Per (%)	1/-20/-34
12M Avg Val (INR M)	339
Free float (%)	29.5

Financials & Valuations (INR b)

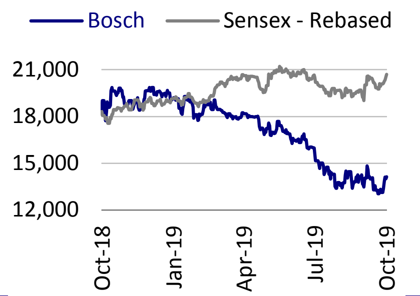
Y/E Mar	2019	2020E	2021E
Net Sales	122.6	103.6	125.0
EBITDA	21.6	16.1	21.1
PAT	16.0	12.9	16.0
EPS (INR)	541.9	437.4	541.3
Gr. (%)	15.3	-19.3	23.7
BV/Sh (INR)	3,095	2,671	3,077
RoE (%)	16.7	15.2	18.8
RoCE (%)	24.6	20.2	25.1
P/E (x)	26.9	33.3	26.9
P/BV (x)	4.7	5.5	4.7

Shareholding pattern (%)

As On	Jun-19	Mar-19	Jun-18
Promoter	70.5	70.5	70.5
DII	13.2	13.0	13.5
FII	7.4	7.5	7.0
Others	8.8	8.9	9.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR14,576 TP: INR14,380 (-1%) Neutral

High regulatory changes augur well | BS6 translation of LoI to business critical

We met with the management of Bosch (BOS) to understand the evolving regulatory, technological and competitive landscape in the sector. Increasing complexity due to stringent regulatory changes augur well for a technology-focused player like BOS, though the seamless translation of LoI is important for BS6 business. BOS is confident of leveraging its global knowhow at the parent level for EVs and would offer solutions from strong hybrids to BEVs. Key highlights:

Changing regulatory/technological landscape augurs well for BOS

- Given the changing regulatory context over the next few years, several technologies are expected to emerge. While there are numerous different technologies available for the requirements of OEMs, BOS has all the necessary solutions to offer to OEMs.
- As a company, BOS is a technology-agnostic player and offers solutions such as future compliant ICE solutions, Battery EVs and futuristic fuel cell technologies. Globally, its parent has solutions across the spectrum.
- Its endeavor is to offer lowest cost solutions (not just components) relevant to Indian OEMs by leveraging its global supply chain and India operations.
- However, BOS will be recalibrating supply chain in this uncertain tech environment. It has also started reskilling and redeploying its employees.

BS6 – Working with all relevant OEMs; seamless conversion of LoIs to business key

- Management is happy with BS6 client acquisition across its customer range. Except for Suzuki's plans to exit diesel, it hasn't lost any BS6 customers.
- Company is aware of the plans of its key customers and competitors. While it might have lost some business due to aggressive competition, its client acquisition is the highest-ever for such a transition (**Our view**: Currently, BS6 is being implemented simultaneously across segments v/s different timelines in the past, and thus, 2Ws have emerged as an opportunity.)
- Content per vehicle for BOS is expected to increase by low double-digit as it would be offering everything except diesel particulate filter and oxidation system for BS6.
- BS6 vehicles will need more sophisticated service centers and this should open up new opportunities for BOS in the aftermarket business (through servicing). BOS operates the largest independent service network in India.

2W EFIs – BS6 to add 2W segment to BOS business

- Thanks to BS6, the 2W segment (not contributing meaningfully earlier) will now get added to BOS' business. For electronic fuel injection (EFI) system, BOS has relations and contracts with key players. Except for Japanese OEMs, BOS has a good share of the EFI business from others.

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- Like with any global technology, the challenge is to integrate technology and making it work in the Indian environment.
- It believes e-carburetor is not a sustainable solution but offers a short-term fix. E-carburetor is unlikely to comply with future regulations on RDE with OBD (2022/23).

CAFE norms (2022) – Diesel and hybrids to play a big part

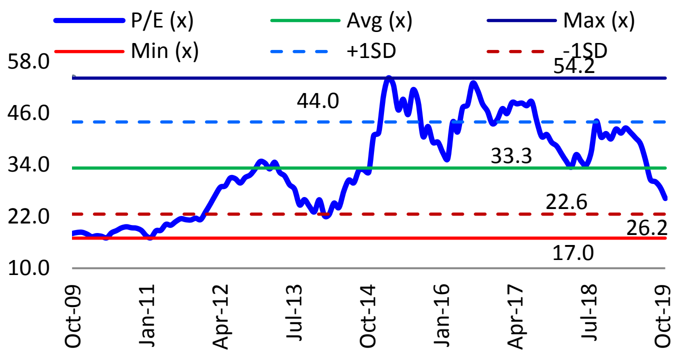
- Corporate Average Fuel Economy (CAFE) 2 norms applicable from 2022 will require a substantial reduction in CO_2 emission, which will make it difficult for the port fuel injection to comply (current petrol engines).
- Compliance with CAFE 2 norms will require a multi-fuel strategy; diesel will be the best placed to meet these norms. Hence, BOS believes that the share of diesel wouldn't come down dramatically post BS6.
- Also, it expects hybrids to play a big part to meet these norms, as witnessed in the EU. It is already in discussion with OEMs for hybrids.
- BOS has solutions for the entire spectrum of hybrid – from P0 to P4 level.

EVs: Working with all relevant OEMs

- Globally, Bosch has covered substantial grounds on e-mobility and has solutions across the spectrum – e-motors (48v to 400v), converter, inverter, electronic devices, smaller batteries, etc.
- EV adoption would entirely depend on total cost of ownership (TCOs), distance travelled on daily basis and infrastructure. It expects TCO for e-3Ws to be attractive, whereas e-2Ws and fleet PVs will soon become attractive.
- It already has strong positioning in the China EV market (for 2Ws and PVs) and has several partnerships in place.
- Since 2018, its parent has won orders worth EUR13b globally in the e-mobility segment.

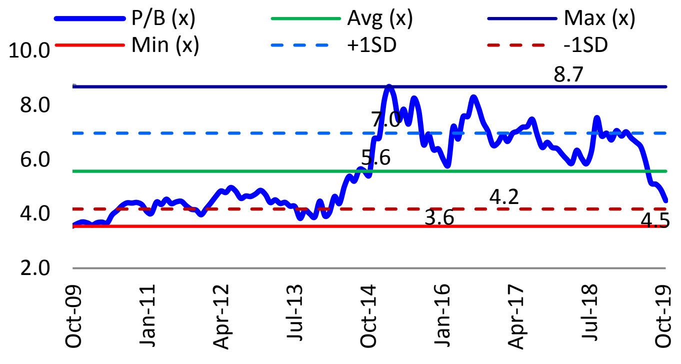
Valuations & view: While the BS6 transition poses risk of further market share loss in CVs as well as continuous decline in its stronghold PV diesel, 2W opportunity should open up for BOS (one of the 3-4 players in 2W EFIs). Valuations have corrected in line with muted earnings over the last four years and dilution in competitive positioning. We estimate EPS to remain flat over FY19-21 as the changing competitive positioning poses a threat to our estimates. We value BOS at 25x Sep'21 EPS, at ~25% discount to its 10-year LPA of 33x. Maintain **Neutral** with TP of ~INR14,380.

Exhibit 1: P/E and P/B bands



Source: MOFSL

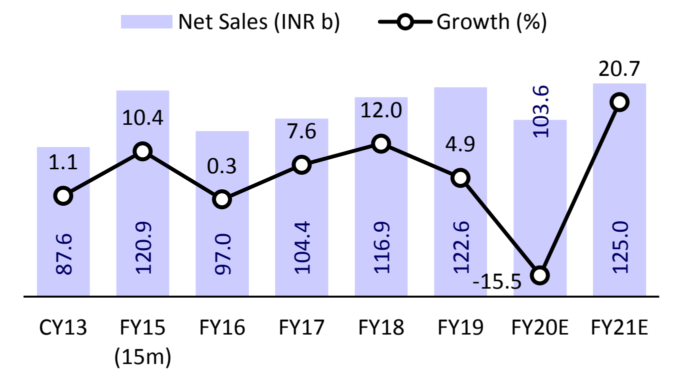
Exhibit 2: P/B bands



Source: MOFSL

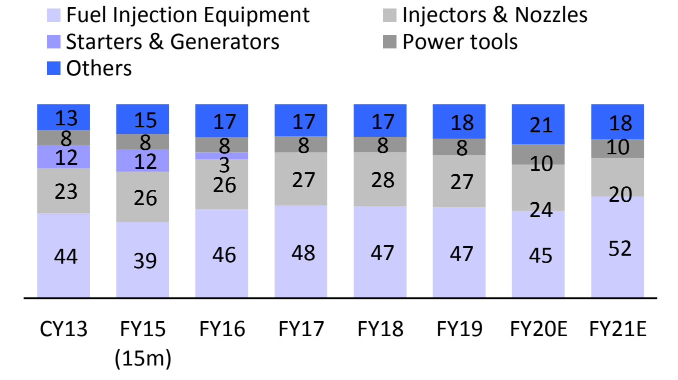
Bosch| Key Operating Indicators

Exhibit 3: Trend in sales



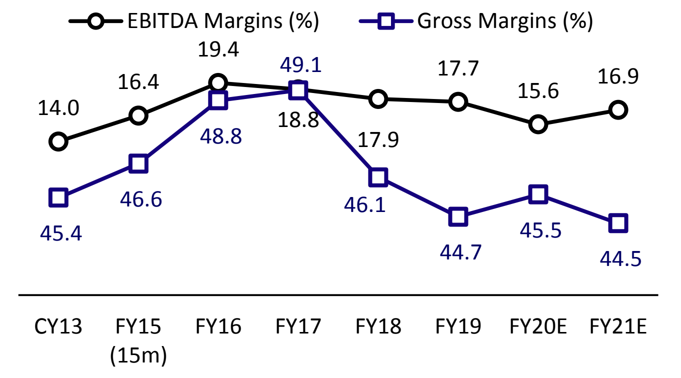
Source: Company, MOFSL

Exhibit 4: Segment mix



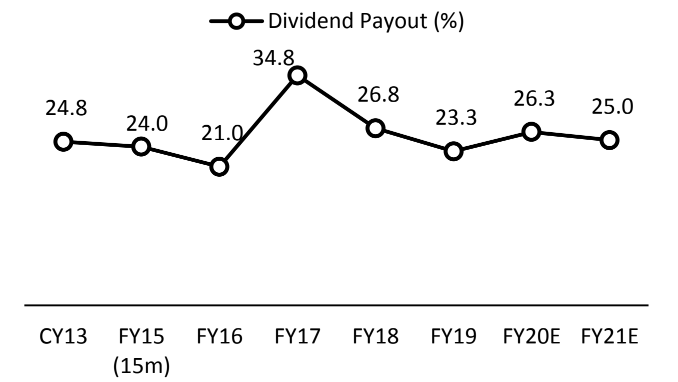
Source: Company, MOFSL

Exhibit 5: Gross margins v/s EBITDA margins



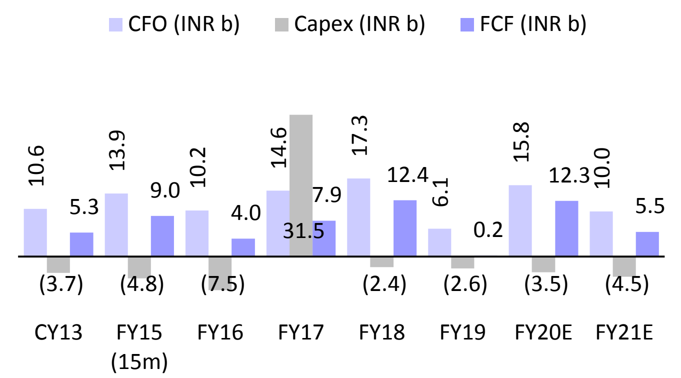
Source: Company, MOFSL

Exhibit 6: Trend in dividend payout



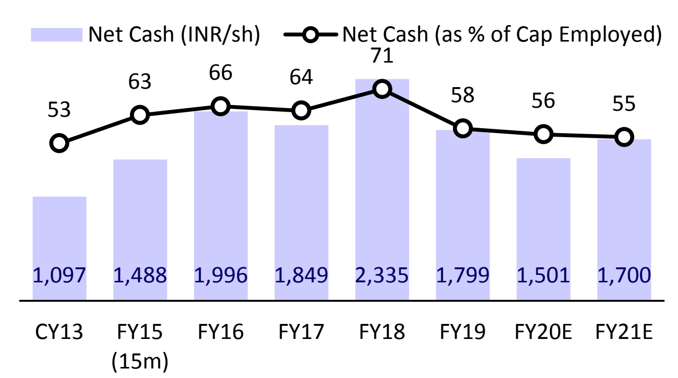
Source: Company, MOFSL

Exhibit 7: FCF and net cash



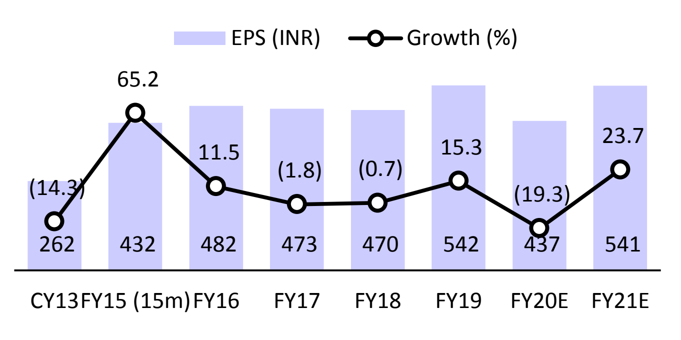
Source: Company, MOFSL

Exhibit 8: Cash would be ~ 45% of capital employed



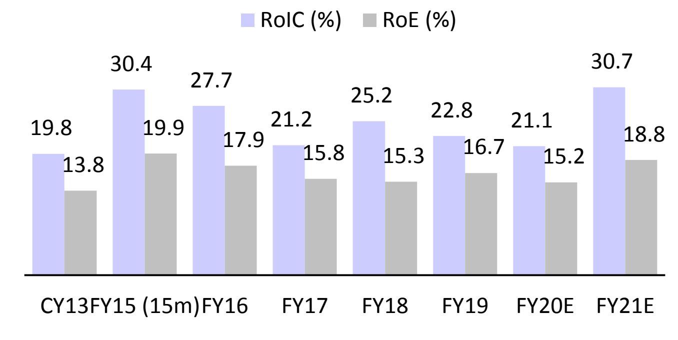
Source: Company, MOFSL

Exhibit 9: EPS and EPS growth trend



Source: Company, MOFSL

Exhibit 10: Trend in return profile



Source: Company, MOFSL

Operating metrics

Exhibit 11: Snapshot of Revenue Model

(INR m)	CY13	15M FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Fuel Injection Equipment	**40,396**	**49,297**	**45,912**	**51,396**	**54,047**	**55,101**	**44,789**	**62,965**
Growth (%)	-6	-2	16	12	5	2	-19	41
% of Net Revenues	46	41	47	49	46	45	43	50
Injectors, Nozzles and Nozzle holders	**21,270**	**32,601**	**25,825**	**29,260**	**31,636**	**31,794**	**23,846**	**24,036**
Growth (%)	-1	23	-1	13	8	0	-25	1
% of Net Revenues	24	27	27	28	27	26	23	19
SMG & Auto Electricals	**10,916**	**14,448**	**3,422**	**0**	**0**	**0**	**0**	**0**
Growth (%)	13	6	-70	-100	0	0	0	0
% of Net Revenues	12	12	4	0	0	0	0	0
Portable Electric Power tools	**7,146**	**9,951**	**7,879**	**8,833**	**9,012**	**9,968**	**10,467**	**11,460**
Growth (%)	12	11	-1	12	2	11	5	9
% of Net Revenues	8	8	8	8	8	8	10	9
Others	**12,372**	**19,297**	**17,092**	**18,011**	**19,235**	**20,955**	**20,701**	**21,972**
Growth (%)	13	25	11	5	7	9	-1	6
% of Net Revenues	14	16	18	17	16	17	20	18
Total Gross sale of product	**92,100**	**1,25,594**	**1,00,130**	**1,07,500**	**1,13,929**	**1,17,818**	**99,801**	**1,20,433**
Growth (%)	1	9	0	7	6	3	-15	21
Less: Excise Duty	**6,949**	**8,180**	**7,405**	**8,074**	**1,821**	**0**	**0**	**0**
Excise Duty (% of Net Sales)	8	7	8	8	2	0	0	0
Net Sales	**85,151**	**1,17,414**	**92,725**	**99,426**	**1,12,109**	**1,17,818**	**99,801**	**1,20,433**
Growth (%)	1	10	-1	7	13	5	-15	21
Service Income	**1,346**	**2,000**	**1,991**	**2,334**	**2,685**	**2,641**	**2,196**	**2,650**
Growth (%)	28	19	24	17	15	-2	-17	21
% of Net Sales	2	2	2	2	2	2	2	2
Total Other Operating Income	**1,070**	**1,441**	**2,298**	**2,592**	**2,108**	**2,120**	**1,557**	**1,873**
Net Revenues	**87,567**	**1,20,855**	**97,014**	**1,04,352**	**1,16,902**	**1,22,579**	**1,03,554**	**1,24,955**
Growth (%)	1	10	0	8	12	5	-16	21
- of which Exports	10,578	14,625	12,425	10,178	11,086	10,151	8,982	10,839
Growth (%)	13	11	6	-18	9	-8	-12	21
% of net revenues	12	12	13	10	10	9	9	9
EBITDA	**12,277**	**19,813**	**18,782**	**19,604**	**20,933**	**21,635**	**16,141**	**21,115**
- EBITDA Margins (%)	14.0	16.4	19.4	18.8	17.9	17.7	15.6	16.9
PAT	**8,213**	**13,376**	**15,314**	**17,412**	**13,708**	**15,980**	**12,281**	**15,962**
EPS (INR/Share)	**262**	**426**	**488**	**570**	**449**	**542**	**416**	**541**
Core EPS (INR/Share)	**193**	**315**	**360**	**507**	**389**	**460**	**362**	**490**

Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement (INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Income from Operations	1,04,419	1,12,426	1,18,722	1,22,579	1,03,554	1,24,955
Less: Excise Duty	7,405	8,074	1,821	0	0	0
Total Income from Operations	**97,014**	**1,04,352**	**1,16,902**	**1,22,579**	**1,03,554**	**1,24,955**
Change (%)	0.3	7.6	12.0	4.9	-15.5	20.7
EBITDA	**18,782**	**19,604**	**20,933**	**21,635**	**16,141**	**21,115**
Margin (%)	19.4	18.8	17.9	17.7	15.6	16.9
Depreciation	3,864	4,562	4,672	4,045	3,532	4,322
EBIT	**14,917**	**15,042**	**16,261**	**17,590**	**12,609**	**16,793**
Int. and Finance Charges	129	272	33	133	100	100
Other Income	6,036	6,174	5,118	5,953	4,582	4,506
PBT bef. EO Exp.	**20,824**	**20,945**	**21,346**	**23,410**	**17,091**	**21,200**
EO Items	262	3,711	-939	0	-821	0
PBT after EO Exp.	**21,086**	**24,656**	**20,407**	**23,410**	**16,270**	**21,200**
Current Tax	6,578	6,904	7,016	7,074	3,990	5,238
Deferred Tax	-806	340	-318	356	0	0
Tax Rate (%)	27.4	29.4	32.8	31.7	24.5	24.7
Reported PAT	**15,314**	**17,412**	**13,708**	**15,980**	**12,281**	**15,962**
Adjusted PAT	**15,124**	**14,442**	**14,339**	**15,980**	**12,900**	**15,962**
Change (%)	39.3	-4.5	-0.7	11.5	-19.3	23.7
Margin (%)	15.6	13.8	12.3	13.0	12.5	12.8

Standalone - Balance Sheet (INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	314	305	305	295	295	295
Total Reserves	95,035	87,691	99,508	90,967	78,465	90,436
Net Worth	**95,349**	**87,996**	**99,813**	**91,262**	**78,760**	**90,731**
Total Loans	149	0	0	0	0	0
Capital Employed	**95,498**	**87,996**	**99,813**	**91,262**	**78,760**	**90,731**
Gross Block	55,370	23,911	26,261	28,888	35,330	39,830
Less: Accum. Deprn.	42,096	8,774	13,086	17,131	20,663	24,985
Net Fixed Assets	**13,273**	**15,137**	**13,175**	**11,757**	**14,667**	**14,845**
Capital WIP	1,507	1,289	3,132	6,442	3,500	3,500
Total Investments	**44,495**	**39,266**	**52,404**	**40,538**	**38,038**	**38,038**
Curr. Assets, Loans&Adv.	**60,095**	**57,630**	**65,658**	**63,764**	**46,897**	**62,224**
Inventory	11,915	11,804	12,258	14,443	11,348	13,694
Account Receivables	13,225	11,862	16,156	15,675	12,767	16,432
Cash and Bank Balance	18,315	17,176	18,878	12,527	6,212	12,105
Loans and Advances	16,640	16,788	18,366	21,118	16,569	19,993
Curr. Liability & Prov.	**28,831**	**30,002**	**39,461**	**35,834**	**28,937**	**32,471**
Account Payables	13,088	13,399	20,231	15,885	11,974	14,225
Other Current Liabilities	5,029	4,767	6,670	9,200	6,213	7,497
Provisions	10,713	11,836	12,560	10,749	10,749	10,749
Net Current Assets	**31,264**	**27,628**	**26,197**	**27,929**	**17,959**	**29,752**
Deferred Tax assets	4,958	4,676	4,905	4,596	4,596	4,596
Appl. of Funds	**95,498**	**87,996**	**99,813**	**91,262**	**78,760**	**90,731**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)						
EPS	**481.6**	**473.2**	**469.8**	**541.9**	**437.4**	**541.3**
Cash EPS	604.7	622.6	622.9	679.1	557.2	687.8
BV/Share	3,036.6	2,883.1	3,270.2	3,094.7	2,670.7	3,076.7
DPS	85	165	100	105	91	112
Payout (%)	21.0	34.8	26.8	23.3	26.3	25.0
Valuation (x)						
P/E	30.3	30.8	31.0	26.9	33.3	26.9
Cash P/E	24.1	23.4	23.4	21.5	26.2	21.2
P/BV	4.8	5.1	4.5	4.7	5.5	4.7
EV/Sales	4.5	4.1	3.6	3.4	4.1	3.3
EV/EBITDA	23.4	21.8	20.4	19.3	26.2	19.8
Dividend Yield (%)	0.6	1.1	0.7	0.7	0.6	0.8
FCF per share	126.7	260.3	407.6	6.3	417.3	185.7
Return Ratios (%)						
RoIC	27.7	21.2	25.2	22.8	21.1	30.7
RoE	17.9	15.8	15.3	16.7	15.2	18.8
RoCE	24.6	23.1	22.8	24.6	20.2	25.1
Working Capital Ratios						
Fixed Asset Turnover (x)	1.8	4.4	4.5	4.2	2.9	3.1
Asset Turnover (x)	1.0	1.2	1.2	1.3	1.3	1.4
Inventory (Days)	45	41	38	43	40	40
Debtor (Days)	46	39	50	47	45	48
Creditor (Days)	49	47	63	47	42	42
Working Cap. Turnover (Days)	49	37	23	46	41	52

Standalone - Cash Flow Statement **(INR Million)**

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	20,824	24,655	20,406	23,410	17,091	21,200
Depreciation	3,864	4,604	4,672	4,045	3,532	4,322
Interest & Finance Charges	-5,907	-2,762	-2,720	-5,820	-4,482	-4,406
Direct Taxes Paid	-5,772	-7,246	-6,761	-7,430	-3,990	-5,238
(Inc)/Dec in WC	-2,821	3,848	4,588	-8,083	3,655	-5,901
CF from Operations	**10,188**	**23,099**	**20,185**	**6,122**	**15,806**	**9,976**
CF from Operating incl EO	**10,188**	**14,567**	**17,287**	**6,122**	**15,806**	**9,976**
(Inc)/Dec in FA	-6,208	-6,621	-4,846	-5,937	-3,500	-4,500
Free Cash Flow	**3,980**	**7,946**	**12,441**	**185**	**12,306**	**5,476**
(Pur)/Sale of Investments	-15,600	10,468	-10,620	11,867	2,500	0
Others	6,036	8,613	3,763	5,953	4,582	4,506
CF from Investments	**-15,772**	**12,460**	**-11,703**	**11,883**	**3,582**	**6**
Issue of Shares	0	-20,198	0	-10	-21,559	0
Inc/(Dec) in Debt	-973	-500	0	0	0	0
Interest Paid	-129	-32	-6	-133	-100	-100
Dividend Paid	-3,212	-5,967	-3,295	-3,726	-3,224	-3,990
Others	0	0	55	0	0	0
CF from Fin. Activity	**-4,315**	**-26,697**	**-3,246**	**-3,870**	**-24,882**	**-4,090**
Inc/Dec of Cash	**-9,898**	**330**	**2,338**	**14,135**	**-5,494**	**5,892**
Opening Balance	1,304	959	1,289	18,878	12,527	6,212
Closing Balance	**-8,594**	**1,289**	**3,627**	**33,013**	**7,033**	**12,105**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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