

Initiating Coverage
Bosch Ltd.

03-May-2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 13,509	Buy on dips to Rs 12,740-12,770 band and add further in Rs 11,720-11,750 band	Rs 14,030	Rs 14,795	2 quarters

HDFC Scrip Code	BOSLTD
BSE Code	500530
NSE Code	BOSCHLTD
Bloomberg	BOS IN
CMP Apr 30, 2021 (Rs)	13,509
Equity Capital (cr)	29.5
Face Value (Rs)	10
Eq. Share O/S (cr)	2.9
Market Cap (Rs cr)	39,843
Book Value (Rs)	3,140.3
Avg.52 Wk Volume	154,500
52 Week High (Rs)	16,830.1
52 Week Low (Rs)	9,030.0

Share holding Pattern % (Mar, 2021)	
Promoters	70.54
Institutions	20.52
Non Institutions	8.94
Total	100.0

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Our Take:

Bosch is a renowned name in the automobile components and aftermarket due to its superior products, backed by German technology. The jump from BS-IV to BS-VI emission norms in April-2020 had increased the technological content per vehicle requirement for OEMs, benefitting companies like Bosch. Supply to the fast-growing electric vehicle segment and emerging technologies such as connected vehicles have added to the company's revenue potential. Bosch is witnessing increased off-take in the engine and exhaust gas treatment systems. Supplies of fuel-injection systems to 2W players provide an incremental opportunity. Bosch currently has an order book of ~Rs 18,500cr for BS-VI products, which would be executed over the next 5-6 years. It is readying solutions for emerging trends of connected vehicles (various cars with voice commands) and increasing digitization in the Indian automotive industry. The parent Robert Bosch Stiftung GmbH has been aggressively investing in electro-mobility. It has a total upfront investment of € 5bn and has invested € 700mn in CY21. Bosch India has been undergoing a massive restructuring (provided for ~Rs 1,500cr), which is now near completion; going forward, there's only a marginal requirement for further provisioning.

Valuation & Recommendation:

Bosch has a portfolio of fuel injection and engine management systems including electronic control units, fuel pumps, and multiple sensors. Bosch addresses over 40% of Indian automotive industry and its technological supremacy has helped the company grow ahead of industry in past. Valuation of the company has corrected over the past few years due to muted bottom line performance. However, with the revival in the automobile industry, we believe the company would be able to pass on the higher raw material costs. Along with the savings in operational expenses, we expect RoE/RoCE to expand to 14/19% by FY23E from 12/18% in FY20. It has an unparalleled track record of free cash flow management within the auto ancillary space. Additionally, it has been operating as a debt free cash rich company with almost Rs 6,500cr cash in its balance sheet (as of FY20), representing ~75% of its total capital employed. In the midst of the current pandemic-related turmoil, we expect a recovery in FY22. We believe the company would achieve FY19 revenue by FY22. Bosch follows conservative accounting policies and writes off all extraordinary expenses in the same year. It also provides aggressive depreciation as compared to its peers and general corporate sector. Its Cash EPS is 30-35% higher than the EPS. Investors can buy the stock on to Rs 12,740-12,770 band (25x FY23E EPS) and add further in Rs 11,720-11,750 band (23x FY23E EPS) band for a base case fair value of Rs 14,030 (27.5x FY23E EPS) and bull case fair value is Rs 14,795 (29x FY23E EPS) in the next two quarters.

Financial Summary

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY20	FY21E	FY22E	FY23E
Operating Income	3030	2537	19.4	2479	22.2	9842	9408	10913	12223
EBITDA	356	320	11.3	288	23.7	1483	837	1441	1907
RPAT	184	119	54.2	-65	-385.2	585	231	1180	1505
APAT	308	367	-16.0	219	40.6	1105	981	1180	1505
Diluted EPS (Rs)	104.6	124.5	-16.0	74.4	40.6	374.8	332.5	400.2	510.2
RoE (%)						12.0	10.6	12.3	14.1
P/E (x)						36.0	40.6	33.8	26.5
EV/EBITDA (x)						25.1	44.7	25.4	18.7

(Source: Company, HDFC sec)

Recent triggers

Q3FY21 financials

Bosch posted a strong performance in Q3FY21. Revenue rose 19.4% YoY to Rs 3,030cr, driven by robust growth in Automotive revenue, which was up 25% YoY to Rs 2,671cr on the back of sturdy recovery in the automobile industry; non-automotive revenue fell 10.6% YoY to Rs 365cr. EBITDA grew by 11.3% YoY to Rs 357cr while EBITDA margin contracted 86bps to 11.8% as savings in employee costs were offset by increase in raw material expenses. PBT before exceptional items grew 5% YoY to Rs 366cr. Reported PAT stood at Rs 184cr. The company booked the final tranche of its restructuring and reskilling programme costs at Rs 147cr in Q3FY21, resulting in YTD expense of Rs 744cr.

Long-term triggers

Restructuring complete; cash flows and profitability to improve

Bosch had undertaken various restructuring, reskilling, and redeployment initiatives to capitalize on opportunities emerging in electromobility and other mobility-related projects. Over the past two years, the company has spent ~Rs 1,500cr towards these initiatives. Although these initiatives are likely to provide long-term benefits, the company has expensed them through P&L as a prudent accounting practice. It has almost completed its restructuring exercise. Consequently, profitability and cash flows are expected to increase in the coming years.

Increasing content per vehicle

The requirement of technological content per vehicle has increased significantly as India moved directly from BS IV norms to BS VI in order to curb pollution. Bosch, being a leading technological player, is likely to benefit from this as there will be drastic reduction in particulate matter and nitrogen oxide emission that makes changes in engine specifications and exhaust treatment imperative. Bosch has also commenced supplies to electric vehicles and emerging technologies such as connected vehicles. Since 2017, Bosch has executed 127 BS VI projects with automotive OEMs.

Localisation to drive margin expansion

Bosch is looking to increase the localisation levels for BS-VI components. The company, as a strategy, localises products over a period of time, resulting in reduction of price of the products and consequent increase in the market share. Bosch stated that it would achieve a significant increase in localisation levels over the next two to three years, which will improve margins. Moreover, the restructuring projects are directed at optimising manpower and enhancing digitisation initiatives. Bosch expects payback period of about five years for these measures, the benefits of which are likely to be witnessed from FY22.

Its 100% subsidiary, Robert Bosch India Manufacturing, would offer manufacturing as a service in the Auto segment for both external customers as well as group companies.

Aftermarket business continues to improve

Bosch has established strong aftermarket and repair shops across India with a complete range of technology and solutions related to auto diagnosis and repairs, as well as a wide range of spare parts for vehicles and repair solutions, especially for passenger cars and two wheelers. The Automotive aftermarket division is the largest Independent Aftermarket (IAM) network in India and this business continues to pick up with the economy opening up. Bosch is concentrating on Tier 2 level of aftermarket (end point sale), in addition to strengthening its dealer network.

Cash rich company with clean balance sheet

Bosch has been debt-free over a long period of time with decent free cash flows and growing cash reserves. As of FY20, it had cash and current investments of ~Rs 6,500cr on its balance sheet. This abundant cash helps the company grab any opportunity available in the market to further differentiate its products or develop new facilities for supplying newer and better products.

Equipped to cater to Electrification theme

Bosch has products for e-2Ws, e-3Ws, and e-LCVs and is already supplying to Bajaj Chetak (drive, battery, ECU, connectivity box, and App/Cloud services), TVS iQube (ECU and in-hub drive system), and Tata Nexon. In M&HCVs, it expects fuel cells to be relevant solution and is globally strong in this technology.

What could go wrong?

High competitive intensity

Bosch operates in a highly competitive environment due to which it is exposed to risks of pricing pressures, market share losses due to de-risking from some customers, judicial changes, and increased import content.

Heavily auto sector dependent

About 85% of the business is dependent on the auto sector. Performance of the company, therefore, is dependent on this sector's growth.

Inability to fully pass on cost increases may impact margin

Raw material costs have been increasing for the company. Its margin would be impacted if it is not able to fully pass them on to clients.

Faster-than-expected growth in electric vehicles

Bosch expects internal combustion engines to command a market share of 80% by 2030 and it is making investments accordingly. Faster-than-anticipated growth of electric vehicles can upset the company's financial prospects.

Phasing out of diesel engines

Bosch is a leading player in powertrain components segment and enjoys ~70% market share of the diesel engine segment. There has been a lot of concern about impact of phasing out of <1.5L diesel engine on Bosch's business, as the company is a prominent player in diesel. However, the overall impact will be partly offset by content share gain on UV, LCV and HCV side. Currently the contribution of Diesel PVs is ~20% and will likely fall going forward.

Supply constraints at customer

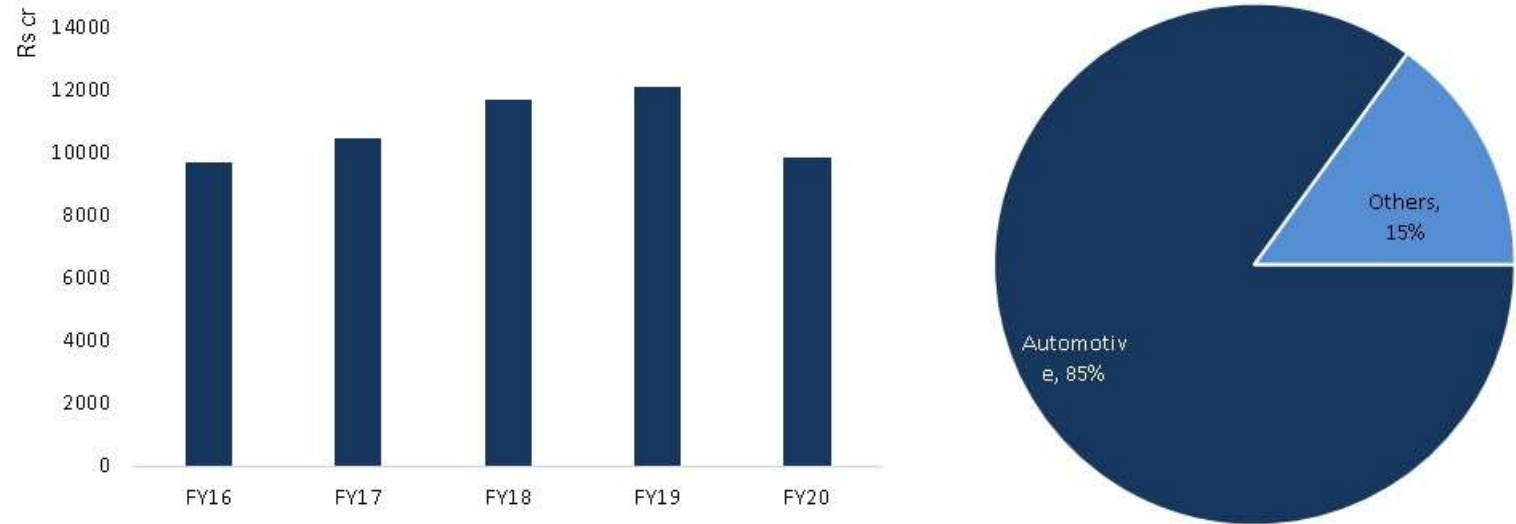
It customers are facing supply constraints related to global semiconductor shortage hampering demand fulfilment to an extent – with the situation seen dragging for another few months. This could in turn impact revenue of Bosch.

About the company

Bosch Ltd is the flagship company of The Bosch Group in India, which operates through 14 companies catering to different verticals. Bosch Ltd. is the only listed subsidiary globally of parent Robert Bosch, which holds a 70.5% stake. It is a leading supplier of technology and services in the areas of Mobility Solutions, Industrial Technology, Consumer Goods, and Energy and Building Technology. Additionally, Bosch has, in India, the largest development centre outside Germany, for end-to-end engineering and technology solutions.

Bosch set up its manufacturing operations in 1951, which have grown over the years to include 18 manufacturing sites, and seven development and application centres. The Bosch Group in India employs over 31,500 associates and generated consolidated sales of about Rs 20,000cr in FY20. Bosch Ltd. accounted for ~50% of the group sales.

Revenue trend and breakup (FY20)



(Source: Company, HDFCsec)

Financials – Consolidated Income Statement

(Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	12085	9842	9408	10913	12223
Growth (%)	3.4	-18.6	-4.4	16.0	12.0
Operating Expenses	9931	8358	8571	9473	10316
EBITDA	2154	1483	837	1441	1907
Growth (%)	2.9	-31.1	-43.6	72.0	32.4
EBITDA Margin (%)	17.8	15.1	8.9	13.2	15.6
Depreciation	402	383	374	418	468
Other Income	595	547	517	567	587
EBIT	2347	1647	981	1590	2025
Interest expenses	13	10	11	12	14
PBT	2334	920	220	1578	2012
Tax	741	335	-11	398	507
PAT	1593	585	231	1180	1505
Share of Asso./Minority Int.	0	0	0	0	0
Exceptional item	0	456	750	0	0
Adj. PAT	1598	1105	981	1180	1505
Growth (%)	11.4	-30.9	-11.3	20.3	27.5
EPS	542.0	374.8	332.5	400.2	510.2

Balance Sheet

As at March (Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	29	29	29	29	29
Reserves	9088	9231	9167	10037	11188
Shareholders' Funds	9118	9261	9196	10067	11218
Minority Interest	0	0	0	0	0
Borrowings	0	0	0	0	0
Net Deferred Taxes	-460	-457	-457	-457	-457
Total Source of Funds	8658	8804	8740	9610	10761
APPLICATION OF FUNDS					
Net Block & Goodwill	1011	1195	1222	1228	1210
CWIP	644	487	487	487	487
Investments	4381	4450	4583	4885	5222
Other Non-Curr. Assets	170	271	254	306	342
Total Non Current Assets	6036	6132	6292	6600	6919
Inventories	1444	1116	1031	1166	1339
Trade Receivables	1568	1413	1289	1435	1574
Cash & Equivalents	1253	2256	1957	2515	3093
Other Current Assets	1942	1938	1830	2033	2210
Total Current Assets	6206	6723	6107	7149	8217
Trade Payables	1578	1605	1547	1704	1741
Other Current Liab & Provisions	2006	2446	2112	2435	2633
Total Current Liabilities	3583	4051	3659	4139	4374
Net Current Assets	2623	2672	2448	3010	3842
Total Application of Funds	8658	8804	8740	9610	10761

Cash Flow Statement

(Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	2,341	1,007	220	1,578	2,012
Non-operating & EO items	-414	-390	9	-44	-30
Interest Expenses	-268	-285	11	12	14
Depreciation	405	445	374	418	468
Working Capital Change	-689	1,021	-68	-11	-261
Tax Paid	-782	-461	11	-398	-507
OPERATING CASH FLOW (a)	593	1,336	557	1,555	1,696
Capex	-580	-423	-400	-425	-450
Free Cash Flow	13	913	157	1,130	1,246
Investments	1,577	76	-150	-250	-300
Non-operating income	769	-526	0	0	0
INVESTING CASH FLOW (b)	1,766	-873	-550	-675	-750
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-6	0	-11	-12	-14
FCFE	2,353	463	-4	868	932
Share Capital Issuance	0	0	0	0	0
Dividend	-305	-310	-295	-310	-354
Others	-2,220	-64	0	0	0
FINANCING CASH FLOW (c)	-2,531	-373	-306	-322	-367
NET CASH FLOW (a+b+c)	-172	90	-299	558	578

Key Ratios

	FY19	FY20	FY21E	FY22E	FY23E
Profitability Ratios (%)					
EBITDA Margin	17.8	15.1	8.9	13.2	15.6
EBIT Margin	19.4	16.7	10.4	14.6	16.6
APAT Margin	13.2	11.2	10.4	10.8	12.3
RoE	16.7	12.0	10.6	12.3	14.1
RoCE	24.6	17.9	10.6	16.5	19.0
Solvency Ratio (x)					
Net Debt/EBITDA	-0.6	-1.5	-2.3	-1.7	-1.6
Net D/E	-0.1	-0.2	-0.2	-0.2	-0.3
PER SHARE DATA (Rs)					
EPS	542.0	374.8	332.5	400.2	510.2
CEPS	678.4	504.8	459.3	541.9	669.0
BV	3091.8	3140.3	3118.5	3413.7	3803.9
Dividend	105.0	105.0	100.0	105.0	120.0
Turnover Ratios (days)					
Inventory days	48.1	55.3	52.4	45.6	44.9
Debtor days	40.3	47.5	41.6	36.7	37.4
Creditors days	54.4	59.0	61.1	54.4	51.4
VALUATION (x)					
P/E	24.9	36.0	40.6	33.8	26.5
P/BV	4.4	4.3	4.3	4.0	3.6
EV/EBITDA	17.8	25.1	44.7	25.4	18.7
EV/Revenues	3.2	3.8	4.0	3.4	2.9
Dividend Yield (%)	0.8	0.8	0.7	0.8	0.9

(Source: Company, HDFC sec Research)



Price chart



Disclosure:

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