

Near term outlook cautious amid global chip shortage

About the stock: Bosch Ltd (Bosch) is a technology leader providing solutions in automotive, industrial technology, consumer goods, energy & building technology.

- Mobility solutions (automotive products) formed ~85% of FY21 sales with share of Business Beyond Mobility at ~15%
- Within mobility, it has large presence in diesel-dependent vehicles & tractors

Q1FY22 Results: Bosch posted muted Q1FY22 results.

- Total operating income fell 24.1% QoQ to ₹ 2,444 crore with domestic revenues down ~27% QoQ, outperforming the OEM sales decline
- EBITDA margins were lower by ~670 bps QoQ to 12.5%
- Consequent PAT declined ~46% sequentially to ₹ 260 crore

What should investors do? The stock price has underperformed Nifty Auto index over past five years, declining from ~₹ 24,500 levels in August 2016 at ~9% CAGR.

- We retain **HOLD** rating on impending sectoral recovery, value addition focus

Target Price and Valuation: We value Bosch at 28x P/E on FY23E basis for a revised target price of ₹ 15,730 per share (earlier ₹ 16,550).

Key triggers for future price performance:

- Outperformance vs. base industries set to continue amid focus on higher content per vehicle; CV revival an added tailwind. Bosch also intends to increase the share of aftermarket sales from present levels of ~20% to ~25% in due course of time. We model 20.5% FY21-23E net sales CAGR
- Future regulatory changes (TREM-IV & V in tractor & off-highway, phase 2 of CAFE norms & BS-VI) to provide further value addition opportunities
- Resolution of semiconductor shortage to aid topline, margins. Operating leverage gains seen aiding margin improvement to 15% by FY23E

Alternate Stock Idea: In the auto ancillary coverage, we also like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target price of ₹ 180



BOSCH
Invented for life

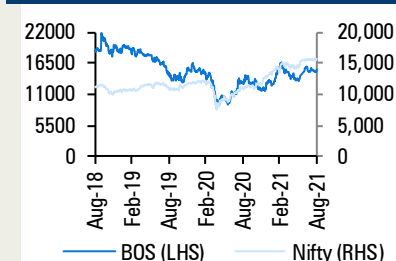
Particulars

Particular	₹ crore
Market Capitalization	43,645
Total Debt (FY21)	34.0
Cash and Investments (FY21)	7,586
EV	36,093
52 week H/L (₹)	16,900 / 11,322
Equity capital (₹ crore)	29.5
Face value (₹)	10.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	70.5	70.5	70.5	70.5
FII	6.7	4.6	4.3	4.3
DII	14.2	15.7	16.2	16.1
Other	8.6	9.1	8.9	9.0

Price Chart



Recent event & key risks

- Posted muted Q1FY22 results.
- **Key Risk:** (i) Sustained semiconductor shortage would pressurise margins and volumes, (ii) Market share gains if EV advent is slower than expected.

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	12,085.0	9,841.6	9,718.0	0.0%	11,959.8	14,115.0	20.5%
EBITDA	2,154.1	1,483.3	1,162.4	-9.1%	1,546.2	2,122.9	35.1%
EBITDA Margins (%)	17.8	15.1	12.0		12.9	15.0	
Net Profit (adjusted)	1,598.0	1,300.0	1,115.4	-6.0%	1,212.3	1,656.6	21.9%
EPS (₹) (adjusted)	541.9	440.8	378.2		411.1	561.8	
P/E (adjusted)	27.3	33.6	39.1		36.0	26.3	
RoNW (%)	17.5	14.0	11.4		11.4	13.9	
RoCE (%)	19.2	11.8	8.3		10.8	14.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

- Within overall net sales decline of 24.1% QoQ, automotive revenue decline was at 22.4% while others segment saw a sharper fall of 34.3%
- QoQ margin reading was negatively impacted by exceptionally low employee costs in Q4FY21 (₹ 135 crore vs. usual run rate of ₹ 250-300 crore), which have normalised in Q1FY22
- Encouragingly, gross margins were up ~250 bps QoQ due to change in product mix as well as quantum of traded components

Q1FY22 Earnings Conference Call highlights

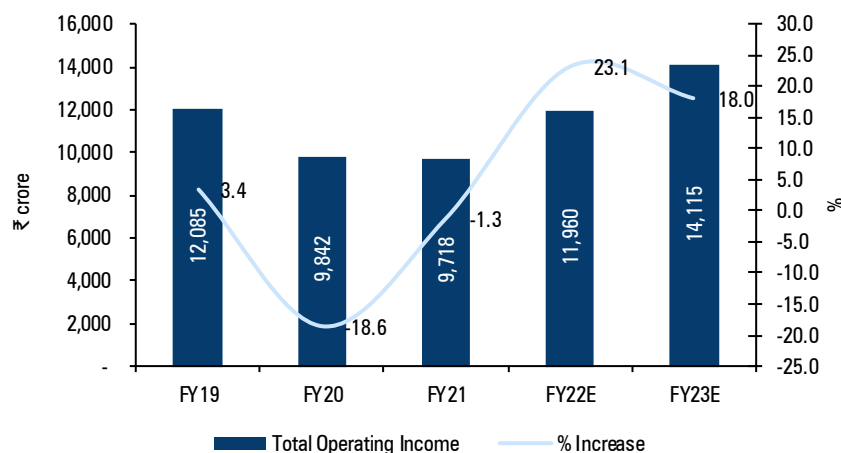
- The company sounded cautious over the medium term outlook. Global supply chains remain under pressure while evolution of pandemic domestically would be governed by pace of vaccination
- Semiconductor (chip) shortage remains an issue across the globe and is set to persist throughout 2021, with under-fulfilment of demand expected to continue into 2022 as well
- Bosch believes that EV penetration in 2-W would reach double-digits sometime after 2025
- The company is the market leader in 2-W fuel injection systems and views ABS transition post BS-VI as a large growth opportunity
- Commodity costs remain elevated but the company has been able to pass on a portion of it
- FY22 capex guidance was at ₹ 370-400 crore

Key highlights from FY21 Annual Report

- Bosch believes that 75% of new vehicles will still have ICE engine in 2030. It remains powertrain agnostic, however, and acquired 26% stake in SUN Mobility during the year
- During FY21, in the 2-W division, Bosch entered the commuter motorcycle engine management solution space, won a new client in high end motorcycle engine management solutions space and was part of two electric 2-W launches
- The powertrain solutions business offers solutions in EV, PV, CV and off-road segments and aims for market leadership across diversified systems like petrol and diesel injection, electrified drives, battery and fuel cell technologies. It is developing engine management systems, fuel supply modules, fuel injectors, pumps and ignition systems for diesel and petrol
- Automotive aftermarket division recorded ~20% revenue decline in FY21 (with EBIT being flat)
- The company's power tools are available across e-commerce portals
- Bulk of Bosch exports (9.4% of sales) are to Germany, China, Brazil and Bangladesh

Financial story in charts

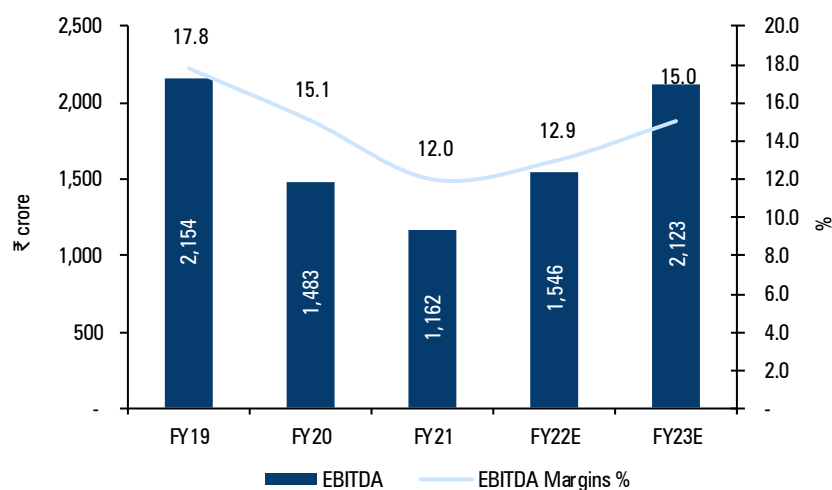
Exhibit 1: Trend in topline



Bosch is seen posting 20.5% revenue CAGR over FY21-23E

Source: Company, ICICI Direct Research

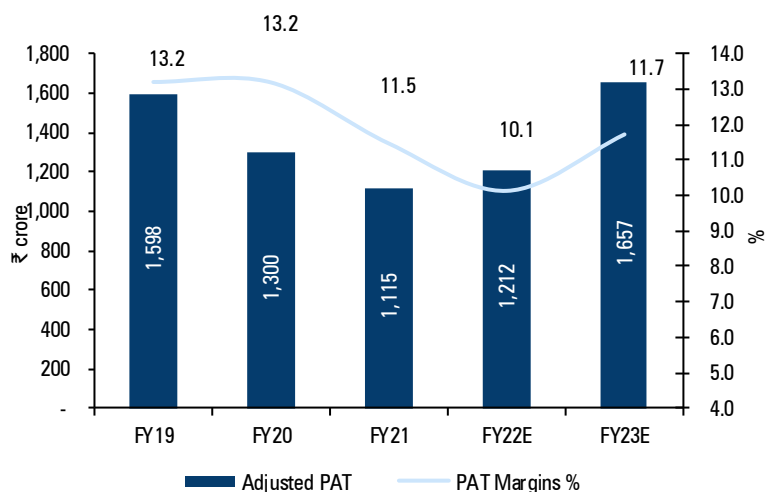
Exhibit 2: Trend in margins



Margins are seen rising to 15% by FY23E on the back of higher utilisation, operating leverage benefits

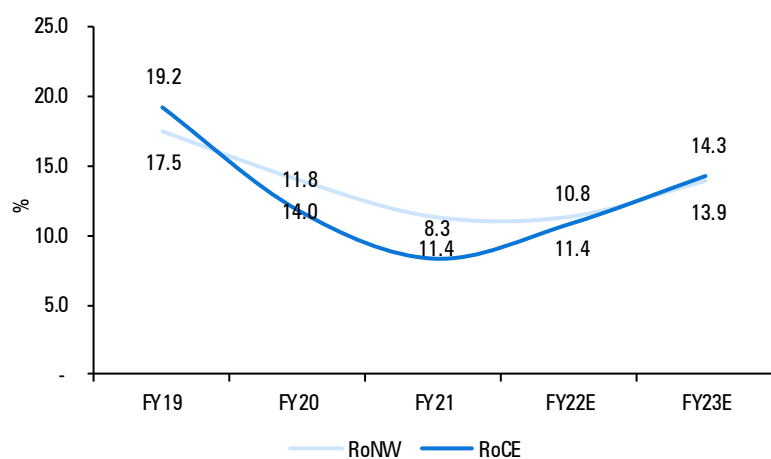
Source: Company, ICICI Direct Research

Exhibit 3: Trend in profitability



We expect PAT to grow at 21.9% CAGR to ₹ 1,657 crore by FY23E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios


Return ratios are seen touching ~14% by FY23E. These are suppressed due to surplus cash on b/s. RoIC for the company is in the range of ~40-60%

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Revenues	Growth	Adj. EPS	Growth	Adj. PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	11,690.2	12.0	469.8	(0.7)	31.5	17.5	14.4	16.3
FY19	12,085.0	3.4	541.9	15.3	27.3	17.8	17.5	19.2
FY20	9,841.6	(18.6)	440.8	(18.7)	33.6	25.2	14.0	11.8
FY21	9,718.0	(1.3)	378.2	(14.2)	39.1	31.1	11.4	8.3
FY22E	11,959.8	23.1	411.1	8.7	36.0	23.3	11.4	10.8
FY23E	14,115.0	18.0	561.8	36.6	26.3	16.5	13.9	14.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Total operating Income	9,841.6	9,718.0	11,959.8	14,115.0	
Growth (%)	-18.6	-1.3	23.1	18.0	
Raw Material Expenses	5,309.4	5,772.6	7,148.0	8,327.8	
Employee Expenses	1,268.5	931.6	1,156.1	1,203.9	
Other Expenses	1,780.4	1,851.4	2,109.4	2,460.3	
Total Operating Expenditure	8,358.3	8,555.6	10,413.5	11,992.0	
EBITDA	1483.3	1162.4	1546.2	2122.9	
Growth (%)	-31.1	-21.6	33.0	37.3	
Depreciation	383.3	341.4	388.7	423.4	
Interest	10.2	14.0	10.5	7.9	
Other Income	546.6	504.0	461.7	523.1	
PBT	1,636.4	1,311.0	1,608.8	2,214.8	
Less Exceptional items	861.5	743.9	0.0	0.0	
Total Tax	190.1	84.6	396.5	558.1	
PAT	649.8	482.5	1212.3	1656.6	
Adjusted PAT	1300.0	1115.4	1212.3	1656.6	
Growth (%)	-59.3	-25.7	151.2	36.6	
EPS (₹)	220.3	163.6	411.1	561.8	
Adjusted EPS	440.8	378.2	411.1	561.8	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	649.8	482.5	1,212.3	1,656.6	
Add: Depreciation & Interest	393.5	355.4	399.2	431.3	
Sub: Other Income	-546.6	-504.0	-461.7	-523.1	
(Inc)/dec in Current Assets	487.0	-117.8	-698.5	-952.0	
Inc/(dec) in CL and Provisions	437.9	822.9	-105.2	790.5	
CF from operating activities	1421.6	1039.1	346.1	1403.4	
(Inc)/dec in Investments	15.4	-1,114.6	-200.0	-850.0	
(Inc)/dec in Fixed Assets	-395.6	-241.9	-400.0	-400.0	
Others	-119.9	-30.3	81.3	-52.9	
Add: Other Income	546.6	504.0	461.7	523.1	
CF from investing activities	46.5	-882.8	-57.0	-779.7	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	52.1	-18.1	0.0	0.0	
Dividend paid & dividend tax	-371.6	-339.1	-368.6	-442.4	
Others	-145.3	395.4	-10.5	-7.9	
CF from financing activities	-464.8	38.2	-379.1	-450.2	
Net Cash flow	1,003.3	194.5	-90.0	173.4	
Opening Cash	1,252.6	2,256.0	2,450.4	2,360.5	
Closing Cash	2256.0	2450.4	2360.5	2533.8	

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Capital	29.5	29.5	29.5	29.5	
Reserve and Surplus	9,239.9	9,792.7	10,636.4	11,850.6	
Total Shareholders funds	9269.4	9822.1	10665.8	11880.1	
Total Debt	52.1	34.0	34.0	34.0	
Other non-current Liabilities	329.5	425.5	468.7	510.2	
Total Liabilities	9651.0	10281.6	11168.5	12424.3	
Assets					
Gross Block	3,492.9	3,734.0	4,234.0	4,734.0	
Less: Acc Depreciation	2,130.1	2,471.5	2,860.2	3,283.6	
Net Block	1362.8	1262.5	1373.8	1450.4	
Capital WIP	487.0	487.8	387.8	287.8	
Total Fixed Assets	1,849.8	1,750.3	1,761.6	1,738.2	
Investments	4,020.7	5,135.3	5,335.3	6,185.3	
Inventory	1,115.9	1,298.5	1,310.7	1,546.8	
Debtors	1,413.0	1,389.4	1,638.3	1,933.6	
Loans and Advances	1,516.9	1,461.8	1,799.0	2,123.2	
Other current assets	420.6	434.4	534.6	630.9	
Cash	2256.0	2450.4	2360.5	2533.8	
Total Current Assets	6,722.3	7,034.5	7,643.0	8,768.4	
Creditors	1,605.0	2,223.0	1,966.0	2,320.3	
Provisions	1,291.1	1,073.1	949.1	1,120.1	
Other Current Liabilities	772.9	1,195.8	1,471.6	1,736.8	
Total Current Liabilities	3,669.0	4,491.9	4,386.7	5,177.2	
Net Current Assets	3053.3	2542.7	3256.4	3591.2	
Deferred Tax Asset	456.6	505.9	454.9	536.8	
Other non-current Assets	109.6	56.2	69.2	81.6	
Application of Funds	9651.0	10281.6	11168.5	12424.3	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	
Per share data (₹)					
EPS	220.3	163.6	411.1	561.8	
Cash EPS	350.3	279.4	542.9	705.4	
BV	3,143.2	3,330.7	3,616.8	4,028.5	
DPS	105.0	115.0	125.0	150.0	
Cash Per Share	2,128.4	2,572.3	2,609.6	2,956.6	
Operating Ratios (%)					
EBITDA Margin	15.1	12.0	12.9	15.0	
PBT / Net sales	16.6	13.5	13.5	15.7	
PAT Margin	13.2	11.5	10.1	11.7	
Inventory days	41.4	48.8	40.0	40.0	
Debtor days	52.4	52.2	50.0	50.0	
Creditor days	59.5	83.5	60.0	60.0	
Return Ratios (%)					
RoE	14.0	11.4	11.4	13.9	
RoCE	11.8	8.3	10.8	14.3	
RoIC	43.0	46.1	44.2	58.5	
Valuation Ratios (x)					
P/E	67.2	90.5	36.0	26.3	
P/E Adjusted	33.6	39.1	36.0	26.3	
EV / EBITDA	25.2	31.1	23.3	16.5	
EV / Net Sales	3.8	3.7	3.0	2.5	
Market Cap / Sales	4.4	4.5	3.6	3.1	
Price to Book Value	4.7	4.4	4.1	3.7	
Solvency Ratios					
Debt/Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.2	1.0	1.2	1.2	
Quick Ratio	0.9	0.7	0.9	0.9	

Source: Company, ICICI Direct Research

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