

Q1FY22 result review
and earnings revision

Autos

Target price: Rs12,327

Earnings revision

| (%) | FY22E | FY23E |
|--------|-------|-------|
| Sales | ↑ 0.2 | ↑ 0.3 |
| EBITDA | ↑ 7.5 | ↑ 6.6 |
| EPS | ↑ 8.5 | ↑ 4.7 |

Target price revision

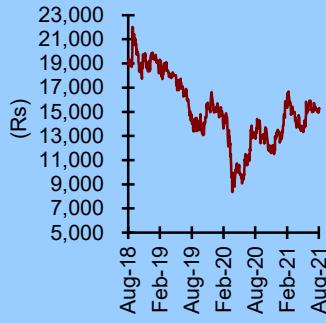
Rs12,327 from Rs11,773

Shareholding pattern

| | Dec '20 | Mar '21 | Jun '21 |
|-------------------------|---------|---------|---------|
| Promoters | 70.5 | 70.5 | 70.5 |
| Institutional investors | 20.4 | 20.5 | 20.5 |
| MFs and others | 2.9 | 3.2 | 3.0 |
| Banks & FIs | 0.1 | 0.1 | 0.1 |
| Insurance Cos | 12.6 | 12.8 | 12.9 |
| FII | 4.8 | 4.4 | 4.5 |
| Others | 9.1 | 9.0 | 9.0 |

Source: NSE

Price chart



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INDIA

Bosch Ltd

SELL

Maintain

Rs15,519

Bosch's (BOS) Q1FY22 operating performance was ahead of consensus estimates as adj. EBITDA margin fell just 176bps QoQ to 12.5%. However, we believe the gross margin expansion of 250bps QoQ to 41.1% was aided by inventorisation (unsustainable) benefit to unit costs. Automotive revenue declined ~22% QoQ on the back of mobility division (down ~24% QoQ) while non-automotive revenue fell ~38%. We expect growth tailwind of tractor segment to slow down in FY23 while lack of diesel growth in PVs, market share loss in MHCV is likely to keep growth in check. Delayed localisation leading to higher share of imports is likely to hinder EBITDA margins expansion vis-a-vis previous cycle levels (17-19%). Given modest FCF generation (yield: 2.7% for FY23E), high exposure towards ICE engine components remains a key risk to premium valuations. Maintain SELL.

► **Key highlights of the quarter:** BOS' mobility business was down 23.6% QoQ. Powertrain solutions business was up 316% YoY as two wheeler division witnessed 151% YoY growth while business beyond mobility declined 38% QoQ. Higher finished good inventory (~Rs2.1bn QoQ) creation aided gross margins optically via better fixed cost absorption. EBITDA margin contraction thus was limited to ~ 176bps at 12.5%. Other operating income was higher due to one-time write back of Rs376mn. On a reported basis, employee costs rose 194bps impacted by reversal of excess wage provision and retiralas. Adjusted PAT was down 28%QoQ at ~Rs26bn.

► **Key takeaways from concall:** a) Domestic sales were down 27.5% QoQ as revenue from mobility business declined ~26% and business beyond mobility fell 38.7% QoQ; b) traded goods portion of costs is likely to remain elevated due to new emissions changes and technology adoption needed higher imports; c) capex for FY22 is expected at Rs3.7-4bn for BOS and Rs10bn from Bosch India and associates; d) supply chain disruptions due to local lockdowns and semiconductor shortages are impacting production for BOS, and this situation is expected to continue till the end of FY22, albeit at lower intensity; e) aftermarket sales contribute 20% to sales, is expected to growth to ~25% over long run with the company focussing on expansion of distribution reach through Bosch car services (200 currently to 400 by FY23); and f) royalty rates increases have to be done to support new technology transfer from the parent.

► **Maintain SELL:** We remain cautious on BOS due to multiple challenges: 1) margin headwinds due to structurally higher bought out content in new programs, 2) structural industry decline in diesel PV segment, 3) market share loss in M&HCV, and 4) likely moderation of key growth driver (tractors) due to high base effect. We upgrade our earnings by 8.5%/4.7% for FY22E / FY23E on the back of better fixed cost management. We retain our target multiple at 25x FY23E EPS of Rs493. Maintain SELL with a revised target price of Rs12,327/share (earlier: Rs11,773).

| Market Cap | Rs458bn/US\$6.2bn | Year to Mar | FY20 | FY21 | FY22E | FY23E |
|--------------------------|-------------------|----------------------|--------|--------|----------|----------|
| Reuters/Bloomberg | BOSH.BO/BOS IN | Revenue (Rs mn) | 98,416 | 97,180 | 1,15,437 | 1,26,773 |
| Shares Outstanding (mn) | 29.5 | Rec. Net Inc (Rs mn) | 12,982 | 9,781 | 11,716 | 14,546 |
| 52-week Range (Rs) | 16679/11502 | EPS (Rs) | 440.1 | 331.6 | 397.2 | 493.1 |
| Free Float (%) | 29.5 | % Chg YoY | (18.8) | (24.7) | 19.8 | 24.2 |
| FII (%) | 4.5 | P/E (x) | 34.2 | 45.4 | 37.9 | 30.5 |
| Daily Volume (US\$/'000) | 42,573 | CEPS (Rs) | 377.2 | 279.2 | 533.0 | 649.1 |
| Absolute Return 3m (%) | 17.4 | EV/E (x) | 25.8 | 36.9 | 24.4 | 19.0 |
| Absolute Return 12m (%) | 22.5 | Dividend Yield (%) | 0.7 | 0.8 | 0.8 | 1.0 |
| Sensex Return 3m (%) | 13.4 | RoCE (%) | 11.8 | 6.6 | 10.2 | 12.0 |
| Sensex Return 12m (%) | 45.9 | RoE (%) | 7.9 | 4.9 | 11.0 | 12.5 |

Please refer to important disclosures at the end of this report

Table 1: Q1FY22 result summary (standalone)

(Rs mn, year ending March 31)

| | Q1FY22 | Q1FY21 | YoY (%) | Q4FY21 | QoQ (%) |
|---------------------------------|---------------|---------------|-----------------|---------------|-----------------|
| Total operating income | 24,435 | 9,915 | 146 | 32,177 | -24 |
| Raw material costs | 14,383 | 5,719 | 152 | 19,743 | -27 |
| Employee costs | 2,706 | 2,427 | 11 | 2,937 | -8 |
| Other expenditures | 4,281 | 2,795 | 53 | 4,892 | -12 |
| Total operating expenses | 21,369 | 10,940 | 95 | 27,572 | -22 |
| EBITDA | 3,066 | -1,025 | NC | 4,605 | -33 |
| EBITDA margin (%) | 12.5 | -10.3 | 2288 bps | 14.3 | -176 bps |
| Depreciation & Amortization | 671 | 728 | -8 | 921 | -27 |
| Other income | 990 | 1,734 | -43 | 1,171 | -15 |
| Interest costs | 32 | 18 | 77 | 41 | -22 |
| PBT | 3,353 | -37 | NC | 4,815 | -30 |
| Exceptional Items | - | 1,972 | - | -1,586 | NC |
| Taxes | 756 | -801 | NC | 1,580 | -52 |
| Reported PAT | 2,598 | -1,208 | NC | 4,820 | -46 |
| Adjusted PAT | 2,598 | -28 | NC | 3,611 | -28 |

Source: Company data, I-Sec research

Table 2: Earnings revision (standalone)

(Rs mn, year ending March 31)

| | FY22E | | | FY23E | | |
|----------|----------|----------|---------|----------|----------|---------|
| | Previous | New | Chg (%) | Previous | New | Chg (%) |
| Sales | 1,15,172 | 1,15,437 | 0.2 | 1,26,452 | 1,26,773 | 0.3 |
| EBITDA | 13,989 | 15,043 | 7.5 | 17,727 | 18,891 | 6.6 |
| PAT | 10,797 | 11,716 | 8.5 | 13,893 | 14,546 | 4.7 |
| EPS (Rs) | 366 | 397 | 8.5 | 471 | 493 | 4.7 |

Source: Company data, I-Sec research

Valuation

We remain cautious on BOS due to multiple challenges: 1) margin headwinds due to structurally higher bought out content in new programs, 2) structural industry decline in diesel PV segment, 3) market share loss in M&HCV, and 4) likely moderation of key growth driver (tractors) due to high base effect. We upgrade our earnings by 8.5%/4.7% for FY22E / FY23E on the back of better fixed cost management. We retain our target multiple at 25x FY23E EPS of Rs493. Maintain **SELL** with a revised target price of Rs12,327/share (earlier: Rs11,773).

Upside risks: Faster recovery of M&HCV upcycle, diesel PV market recovery.

Downside risk: Sharper demand decline in tractor segment in FY22/FY23.

Financial summary

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|--|---------------|---------------|-----------------|----------------|
| Total Op. Income (Sales) | 98,416 | 97,180 | 1,15,437 | 126,773 |
| Operating Expenses | 83,583 | 87,138 | 1,00,394 | 107,881 |
| EBITDA | 14,833 | 10,042 | 15,043 | 18,891 |
| % margins | 15.1% | 10.3% | 13.0% | 14.9% |
| Depreciation & Amortisation | 3,833 | 3,431 | 4,007 | 4,601 |
| EBIT | 11,000 | 6,611 | 11,036 | 14,290 |
| Other Income | 5,466 | 5,033 | 4,789 | 5,489 |
| Gross Interest | 102 | 140 | 281 | 332 |
| PBT | 16,364 | 11,504 | 15,544 | 19,447 |
| Less: Exceptionals | 7,168 | 5,853 | - | - |
| PBT after Exceptionals | 9,196 | 5,651 | 15,544 | 19,447 |
| Less: Taxes | 1,901 | 846 | 3,828 | 4,901 |
| Less: Minority Interest | 0 | 0 | 0 | 0 |
| Add: Profit from discontinued operations | 0 | 0 | 0 | 0 |
| Net Income (Reported) | 7,296 | 4,805 | 11,716 | 14,546 |
| Net Income (Adjusted) | 12,982 | 9,781 | 11,716 | 14,546 |

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|----------------------------------|---------------|----------------|----------------|----------------|
| ASSETS | | | | |
| Current Assets | 67,219 | 70,234 | 75,014 | 83,119 |
| Cash & cash eqv. | 22,555 | 24,412 | 23,786 | 25,863 |
| Current Liabilities & Provisions | 36,690 | 44,919 | 46,968 | 49,431 |
| Net Current Assets | 30,529 | 25,316 | 28,046 | 33,687 |
| Investments | 40,207 | 51,353 | 56,353 | 61,353 |
| Goodwill | 0 | 0 | 0 | 0 |
| Net Fixed Assets | 18,416 | 17,322 | 17,315 | 16,714 |
| Capital Work-in-Progress | 4,870 | 4,774 | 4,774 | 4,774 |
| Long term loans & advances | 1,096 | 1,096 | 1,302 | 1,430 |
| Deferred Tax Assets | 5,475 | 6,937 | 6,937 | 6,937 |
| Other non-current asset | 700 | 700 | 800 | 900 |
| Total Assets | 96,423 | 102,724 | 110,752 | 121,021 |
| LIABILITIES | | | | |
| Borrowings | 548 | 2,213 | 2,213 | 2,213 |
| long-term borrowings | 548 | 2,213 | 2,213 | 2,213 |
| short-term borrowings | 0 | 0 | 0 | 0 |
| Long-term provisions | 3,268 | 2,382 | 2,382 | 2,382 |
| Deferred Tax Liability | 0 | 0 | 0 | 0 |
| Other Non-current Liabilities | 0 | 0 | 0 | 0 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Equity Share Capital | 295 | 295 | 295 | 295 |
| Reserves & Surplus | 92,312 | 97,834 | 105,862 | 116,131 |
| Net Worth | 92,607 | 98,129 | 106,157 | 116,426 |
| Total Liabilities | 96,423 | 102,724 | 110,752 | 121,021 |

Source: Company data, I-Sec research

Table 5: 5-stage DuPont analysis

(% year ending March 31)

| All figures in % | FY20 | FY21 | FY22E | FY23E |
|--------------------|-------|-------|-------|-------|
| Tax Burden | 79.3 | 85.0 | 75.4 | 74.8 |
| Interest Burden | 83.6 | 85.5 | 140.8 | 136.1 |
| EBIT Margin | 11.4 | 6.9 | 9.7 | 11.5 |
| Asset Turnover | 100.3 | 93.0 | 102.5 | 103.0 |
| Financial Leverage | 104.1 | 104.7 | 104.3 | 103.9 |
| ROE | 7.9 | 4.9 | 11.0 | 12.5 |

Source: Company data

Table 6: Cashflow statement

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|--|----------------|----------------|----------------|----------------|
| Cashflow before working capital changes | 3,155 | 919 | 16,005 | 19,479 |
| Working Capital Changes | 10,206 | 6,236 | (3,356) | (3,565) |
| Operating Cashflow | 13,361 | 7,154 | 12,649 | 15,915 |
| Capital Commitments | (4,049) | (2,338) | (4,000) | (4,000) |
| Free Cashflow | 9,312 | 4,816 | 8,649 | 11,914 |
| Cashflow from Investing Activities | 2,103 | (7,540) | (9,306) | (9,228) |
| Issue of Share Capital | - | - | - | - |
| Inc/(Dec) in securities premium | - | - | - | - |
| Buyback of shares | - | - | - | - |
| Inc/(Dec) in Borrowings | 441 | 1,665 | - | - |
| Dividend paid | (3,734) | (3,393) | (3,688) | (4,278) |
| Others | (2,327) | 3,970 | (281) | (332) |
| Cashflow from Financing Activities | (5,619) | 2,242 | (3,968) | (4,609) |
| Net Cash Flow | 9,844 | 1,857 | (626) | 2,077 |
| Closing Cash & Bank balance | 22,555 | 24,412 | 23,786 | 25,863 |

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|--|-------|-------|-------|-------|
| Per Share Data (in Rs.) | | | | |
| EPS (Basic) | 247.3 | 162.9 | 397.2 | 493.1 |
| EPS (Adjusted) | 440.1 | 331.6 | 397.2 | 493.1 |
| Cash EPS | 377.2 | 279.2 | 533.0 | 649.1 |
| Dividend per share (DPS) | 105 | 115 | 125 | 145 |
| BVPS (Adjusted) | 3,139 | 3,326 | 3,599 | 3,947 |
| Growth Ratios (%) | | | | |
| Total Op. Income (Sales) | -19.7 | -1.3 | 18.8 | 9.8 |
| EBITDA | -31.4 | -32.3 | 49.8 | 25.6 |
| Net Income (Adjusted) | -18.8 | -24.7 | 19.8 | 24.2 |
| EPS (Adjusted) | -18.8 | -24.7 | 19.8 | 24.2 |
| Cash EPS | -44.4 | -26.0 | 90.9 | 21.8 |
| BVPS (Adjusted) | 1.5 | 6.0 | 8.2 | 9.7 |
| Valuation Ratios (x) | | | | |
| P/E (Adjusted) | 34.2 | 45.4 | 37.9 | 30.5 |
| P/BV (Adjusted) | 4.8 | 4.5 | 4.2 | 3.8 |
| EV/EBITDA | 25.8 | 36.9 | 24.4 | 19.0 |
| EV/Sales | 3.9 | 3.8 | 3.2 | 2.8 |
| Return/Profitability Ratios (%) | | | | |
| EBITDA Margin | 15.1 | 10.3 | 13.0 | 14.9 |
| Net Income Margin (Adjusted) | 7.4 | 4.9 | 10.1 | 11.5 |
| RoCE | 11.8 | 6.6 | 10.2 | 12.0 |
| RoNW | 7.9 | 4.9 | 11.0 | 12.5 |
| Dividend Payout Ratio | 23.9 | 34.7 | 31.5 | 29.4 |
| Dividend Yield | 0.7 | 0.8 | 0.8 | 1.0 |
| Wkg. Cap. Ratios (x) | | | | |
| Net D/E | - | - | - | - |
| Debt/EBITDA | 0.0 | 0.2 | 0.1 | 0.1 |
| EBIT/Interest | 108.3 | 47.2 | 39.3 | 43.1 |
| Current Ratio | 1.8 | 1.6 | 1.6 | 1.7 |
| Quick Ratio | 1.5 | 1.3 | 1.6 | 1.7 |
| Inventory (days) | 42 | 50 | 50 | 50 |
| Receivables (days) | 53 | 53 | 54 | 54 |
| Payables (days) | 61 | 85 | 76 | 72 |

Source: Company data, I-Sec research

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