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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

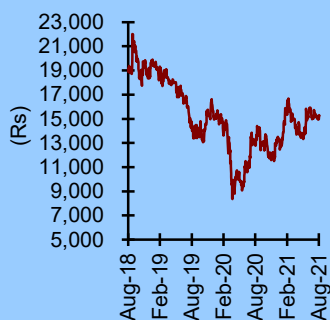
Rs12,327 from Rs11,773

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
FIs	4.8	4.4	4.5
Others	9.1	9.0	9.0

Source: NSE

Price chart



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Bosch Ltd

SELL

Maintain

Rs15,519

Margin challenges likely to persist

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 retinals. 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
Reuters/Bloomberg	BOSH.BO/BOS IN
Shares Outstanding (mn)	29.5
52-week Range (Rs)	16679/11502
Free Float (%)	29.5
FII (%)	4.5
Daily Volume (US\$'000)	42,573
Absolute Return 3m (%)	17.4
Absolute Return 12m (%)	22.5
Sensex Return 3m (%)	13.4
Sensex Return 12m (%)	45.9

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	98,416	97,180	1,15,437	1,26,773
Rec. Net Inc (Rs mn)	12,982	9,781	11,716	14,546
EPS (Rs)	440.1	331.6	397.2	493.1
% Chg YoY	(18.8)	(24.7)	19.8	24.2
P/E (x)	34.2	45.4	37.9	30.5
CEPS (Rs)	377.2	279.2	533.0	649.1
EV/E (x)	25.8	36.9	24.4	19.0
Dividend Yield (%)	0.7	0.8	0.8	1.0
RoCE (%)	11.8	6.6	10.2	12.0
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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