

ICICI Securities Limited
is the author and
distributor of this report

Q2FY21 result review
and reco change

Autos

Target price: Rs10,712

Earnings revision

| (%) | FY21E | FY22E |
|--------|--------|--------|
| Sales | ↑ 1.1 | ↑ 5.3 |
| EBITDA | ↓ 17.4 | ↓ 11.1 |
| EPS | ↓ 56.0 | ↓ 6.3 |

Target price revision

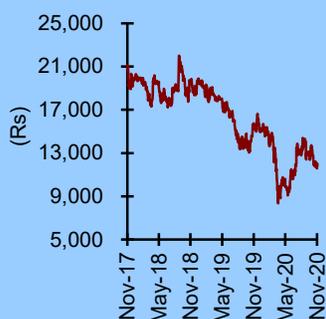
Rs10,712 from Rs10,698

Shareholding pattern

| | Mar '20 | Jun '20 | Sep '20 |
|-------------------------|---------|---------|---------|
| Promoters | 70.5 | 70.5 | 70.5 |
| Institutional investors | 20.7 | 20.6 | 20.8 |
| MFs and others | 1.5 | 1.6 | 1.7 |
| Banks & FIs | 0.1 | 0.1 | 0.1 |
| Insurance Cos | 11.5 | 11.7 | 12.3 |
| FIs | 7.6 | 7.2 | 6.7 |
| Others | 8.8 | 8.9 | 8.7 |

Source: NSE

Price chart



Research Analysts:

Nishant Vass

nishant.vass@icicisecurities.com
+91 22 6637 7260

Pratit Vajani

pratit.vajani@icicisecurities.com
+91 22 6637 7161

INDIA

Bosch Ltd

REDUCE

Upgrade from Sell

Rs11,829

Quarter falls short of expectations

Bosch's (BOS) Q2FY21 operating performance was below consensus estimates as EBITDA margin came in at 11.6% (down 295bps YoY). Automotive revenues increased by ~9% to ~Rs21.3bn (mainly due to 7.5% YoY improvement in mobility division) while non-automotive revenues declined 3% to ~Rs3.5bn. Restructuring costs (Rs4bn for Q2) continued to remain elevated (past 6-qtrs cumulative hit of Rs13bn), company expects this to rundown in H2FY21. We believe the efforts to right size core business lay a better foundation for the future; however, underlying business challenges (market share loss in M&HCV, decline of diesel share in PV's) and uncertainty on current demand sustenance remain key risks. We believe margins scale back (>15%+) is likely an uphill battle considering the product mix and pricing considerations. **Upgrade to REDUCE (from Sell).**

- **Key highlights of the quarter:** BOS' domestic mobility solutions business improved ~7.5% YoY due to better sales in the powertrain solutions business (up 6.7% YoY) in auto segment while 2-W segment grew mid-double digit. Business beyond mobility was down 4.6% due to weakness in solar and security technology businesses. Higher RM costs (up 396bps) impacted by forex appreciation and product mix led to EBITDA margin contraction of 294bps to 11.6% as employee costs declined 204bps. Provision of ~Rs4bn has been made as part of restructuring, redeployment and reskilling initiatives and the management expects additional provision in Q3FY21.
- **Key takeaways from concall:** a) Capex for FY21 has been trimmed by 50% (Rs2.3bn-2.4bn) as the company focuses on strong cash conservation and liquidity management; b) domestic sales were up 7.2% YoY with mobility segment improving 9.6% YoY while business beyond mobility declined 4.9% YoY; c) as part of its 3R restructuring program, BOS has already provided for ~Rs13bn till date; payback period is expected to be 5-6 years; ~1k workers have opted for voluntary retirement program under restructuring and reskilling program; d) recovery in tractor and 2W segments has been strong; domestic plants in the mobility business are currently operating at peak utilisation; and e) BOS has acquired 7.14% stake (~Rs148mn) in *Nivaata* Systems to expand its mobility/cloud solutions offering.
- **Upgrade to REDUCE:** Our conservative view on BOS (past few years) has been centred on both industry and company specific challenges. While the industry seems to be bottoming out the company specific concerns still remain, the stock too has underperformed during this period. While we trim earnings in FY21E/FY22E by 56%/6.3% in FY21/22 we also rollover to Sep'22E factoring in better industry growth prospects in FY23. We cut our target multiple to 25x (earlier: 26x) on Sep'22E EPS of Rs428, upgrade our rating to **REDUCE** (from **Sell**) with a revised target price of Rs10,712/share (earlier: Rs10,698/share).

| Market Cap | Rs349bn/US\$4.7bn | Year to Mar | FY20 | FY21E | FY22E | FY23E |
|-------------------------|-------------------|----------------------|--------|--------|---------|---------|
| Reuters/Bloomberg | BOSH.BO/BOS IN | Revenue (Rs mn) | 98,416 | 87,293 | 101,683 | 110,732 |
| Shares Outstanding (mn) | 29.5 | Rec. Net Inc (Rs mn) | 12,973 | 8,263 | 11,372 | 13,909 |
| 52-week Range (Rs) | 16615/8357 | EPS (Rs) | 439.8 | 280.1 | 385.5 | 471.5 |
| Free Float (%) | 29.5 | % Chg YoY | (18.8) | (36.3) | 37.6 | 22.3 |
| FII (%) | 6.7 | P/E (x) | 26.5 | 41.7 | 30.3 | 24.8 |
| Daily Volume (US\$'000) | 10,244 | CEPS (Rs) | 377.2 | 241.3 | 513.4 | 615.8 |
| Absolute Return 3m (%) | (9.5) | EV/E (x) | 19.0 | 32.4 | 20.9 | 16.3 |
| Absolute Return 12m (%) | (22.0) | Dividend Yield (%) | 0.9 | 0.9 | 1.0 | 1.1 |
| Sensex Return 3m (%) | 10.5 | RoCE (%) | 11.8 | 5.0 | 9.1 | 10.7 |
| Sensex Return 12m (%) | 4.8 | RoE (%) | 7.9 | 3.5 | 11.3 | 12.5 |

Please refer to important disclosures at the end of this report

Table 1: Q2FY21 result summary (standalone)*(Rs mn, year ending March 31)*

| | Q2FY21 | Q2FY20 | YoY (%) | Q1FY21 | QoQ (%) |
|---------------------------------|---------------|---------------|-----------------|---------------|-----------------|
| Total operating income | 24,792 | 23,127 | 7 | 9,915 | 150 |
| Raw material costs | 14,716 | 12,813 | 15 | 5,719 | 157 |
| Employee costs | 3,083 | 3,349 | -8 | 2,427 | 27 |
| Other expenditures | 4,112 | 3,596 | 14 | 2,795 | 47 |
| Total operating expenses | 21,911 | 19,758 | 11 | 10,940 | 100 |
| EBITDA | 2,881 | 3,369 | -15 | -1,025 | NC |
| EBITDA margin (%) | 11.6 | 14.6 | -295 bps | -10.3 | 2195 bps |
| Depreciation & Amortization | 798 | 827 | -4 | 728 | 10 |
| Other income | 1,015 | 1,675 | -39 | 1,734 | -41 |
| Interest costs | 13 | 6 | 132 | 18 | -27 |
| PBT | 3,084 | 4,211 | -27 | -37 | NC |
| Exceptional Items | 4,000 | 1,302 | - | 1,972 | - |
| Taxes | -266 | 434 | -161 | -801 | NC |
| Reported PAT | -650 | 2,475 | -126 | -1,208 | NC |
| Adjusted PAT | 2,189 | 3,583 | -39 | -22 | NC |

Source: Company data, I-Sec research

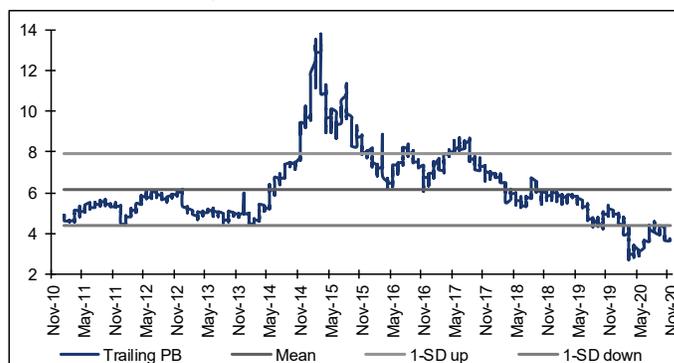
Table 2: Earnings revision (standalone)*(Rs mn, year ending March 31)*

| | FY21E | | | FY22E | | | FY23E |
|----------|----------|--------|---------|----------|----------|---------|------------|
| | Previous | New | Chg (%) | Previous | New | Chg (%) | Introduced |
| Sales | 86,311 | 87,293 | 1.1 | 96,563 | 1,01,683 | 5.3 | 1,10,732 |
| EBITDA | 10,282 | 8,498 | (17.4) | 14,659 | 13,039 | (11.1) | 16,215 |
| PAT | 7,499 | 3,301 | (56.0) | 12,139 | 11,372 | (6.3) | 13,909 |
| EPS (Rs) | 254 | 112 | (56.0) | 411 | 385 | (6.3) | 472 |

Source: Company data, I-Sec research

Valuation

Our conservative view on BOS (past few years) has been centred on both industry and company specific challenges. While the industry seems to be bottoming out the company specific concerns still remain, the stock too has underperformed during this period. While we trim earnings in FY21E/FY22E by 56%/6.3% in FY21/22 we also rollover to Sep'22E factoring in better industry growth prospects in FY23. We cut our target multiple to 25x (earlier: 26x) on Sep'22E EPS of Rs428, upgrade our rating to **REDUCE** (from Sell) with a revised target price of Rs10,712/share (earlier: Rs10,698/share).

Chart 1: Trailing P/B

Source: I-Sec research, 12m trailing data

Financial summary

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

| | FY20 | FY21E | FY22E | FY23E |
|--|---------------|---------------|----------------|----------------|
| Total Op. Income (Sales) | 98,416 | 87,293 | 101,683 | 110,732 |
| Operating Expenses | 83,583 | 78,796 | 88,644 | 94,517 |
| EBITDA | 14,833 | 8,498 | 13,039 | 16,215 |
| % margins | 15.1% | 9.7% | 12.8% | 14.6% |
| Depreciation & Amortisation | 3,840 | 3,817 | 3,774 | 4,257 |
| EBIT | 10,992 | 4,681 | 9,265 | 11,958 |
| Other Income | 5,466 | 5,352 | 6,052 | 6,752 |
| Gross Interest | 102 | 89 | 115 | 115 |
| PBT | 16,356 | 9,944 | 15,203 | 18,595 |
| Less: Exceptionals | 7,168 | 5,972 | - | - |
| PBT after Exceptionals | 9,189 | 3,972 | 15,203 | 18,595 |
| Less: Taxes | 1,901 | 671 | 3,831 | 4,686 |
| Less: Minority Interest | 0 | 0 | 0 | 0 |
| Add: Profit from discontinued operations | 0 | 0 | 0 | 0 |
| Net Income (Reported) | 7,288 | 3,301 | 11,372 | 13,909 |
| Net Income (Adjusted) | 12,973 | 8,263 | 11,372 | 13,909 |

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

| | FY20 | FY21E | FY22E | FY23E |
|----------------------------------|---------------|---------------|----------------|----------------|
| ASSETS | | | | |
| Current Assets | 66,946 | 67,517 | 73,749 | 82,013 |
| Cash & cash eqv. | 22,284 | 24,577 | 22,286 | 26,188 |
| Current Liabilities & Provisions | 36,199 | 35,142 | 39,192 | 43,715 |
| Net Current Assets | 30,747 | 32,376 | 34,557 | 38,297 |
| Investments | 40,415 | 45,415 | 50,415 | 55,415 |
| Goodwill | 0 | 0 | 0 | 0 |
| Net Fixed Assets | 18,289 | 12,035 | 12,573 | 13,706 |
| Capital Work-in-Progress | 4,874 | 4,770 | 4,770 | 4,770 |
| Long term loans & advances | 1,096 | 972 | 1,132 | 1,233 |
| Deferred Tax Assets | 5,475 | 5,475 | 5,475 | 5,475 |
| Other non-current asset | 700 | 800 | 900 | 1,000 |
| Total Assets | 96,721 | 97,072 | 105,051 | 115,126 |
| LIABILITIES | | | | |
| Borrowings | 766 | 766 | 766 | 766 |
| long-term borrowings | 766 | 766 | 766 | 766 |
| short-term borrowings | 0 | 0 | 0 | 0 |
| Long-term provisions | 3,268 | 3,268 | 3,268 | 3,268 |
| 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 | 92,392 | 92,743 | 100,722 | 110,797 |
| Net Worth | 92,687 | 93,038 | 101,017 | 111,092 |
| Total Liabilities | 96,721 | 97,072 | 105,051 | 115,126 |

Source: Company data, I-Sec research

Table 5: 5-stage DuPont analysis

(% , year ending March 31)

| All figures in % | FY20 | FY21E | FY22E | FY23E |
|--------------------|-------|-------|-------|-------|
| Tax Burden | 79.3 | 83.1 | 74.8 | 74.8 |
| Interest Burden | 83.6 | 84.9 | 164.1 | 155.5 |
| EBIT Margin | 11.4 | 5.5 | 9.3 | 11.0 |
| Asset Turnover | 100.0 | 88.4 | 95.1 | 94.5 |
| Financial Leverage | 104.4 | 104.3 | 104.0 | 103.6 |
| ROE | 7.9 | 3.5 | 11.3 | 12.5 |

Source: Company data

Table 6: Cashflow statement

(Rs mn, year ending March 31)

| | FY20 | FY21E | FY22E | FY23E |
|--|----------------|----------------|----------------|-----------------|
| Cashflow before working capital changes | 11,230 | 7,206 | 15,260 | 18,281 |
| Working Capital Changes | 8,759 | 664 | (4,472) | 161 |
| Operating Cashflow | 19,989 | 7,870 | 10,788 | 18,442 |
| Capital Commitments | (3,930) | 2,437 | (4,312) | (5,389) |
| Free Cashflow | 16,059 | 10,307 | 6,477 | 13,053 |
| Cashflow from Investing Activities | (5,102) | (2,539) | (9,572) | (10,590) |
| Issue of Share Capital | - | - | - | - |
| Incl/(Dec) in securities premium | - | - | - | - |
| Buyback of shares | - | - | - | - |
| Incl/(Dec) in Borrowings | 659 | - | - | - |
| Dividend paid | (3,734) | (2,950) | (3,393) | (3,835) |
| Others | (2,231) | (89) | (115) | (115) |
| Cashflow from Financing Activities | (5,306) | (3,039) | (3,507) | (3,950) |
| Net Cash Flow | 9,581 | 2,292 | (2,291) | 3,902 |
| Closing Cash & Bank balance | 22,284 | 24,577 | 22,286 | 26,188 |

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

| | FY20 | FY21E | FY22E | FY23E |
|--|-------|-------|-------|-------|
| Per Share Data (in Rs.) | | | | |
| EPS (Basic) | 247.1 | 111.9 | 385.5 | 471.5 |
| EPS (Adjusted) | 439.8 | 280.1 | 385.5 | 471.5 |
| Cash EPS | 377.2 | 241.3 | 513.4 | 615.8 |
| Dividend per share (DPS) | 105 | 100 | 115 | 130 |
| BVPS (Adjusted) | 3,142 | 3,154 | 3,424 | 3,766 |
| Growth Ratios (%) | | | | |
| Total Op. Income (Sales) | -19.7 | -11.3 | 16.5 | 8.9 |
| EBITDA | -31.4 | -42.7 | 53.4 | 24.4 |
| Net Income (Adjusted) | -18.8 | -36.3 | 37.6 | 22.3 |
| EPS (Adjusted) | -18.8 | -36.3 | 37.6 | 22.3 |
| Cash EPS | -44.4 | -36.0 | 112.8 | 19.9 |
| BVPS (Adjusted) | 1.6 | 0.4 | 8.6 | 10.0 |
| Valuation Ratios (x) | | | | |
| P/E (Adjusted) | 26.5 | 41.7 | 30.3 | 24.8 |
| P/BV (Adjusted) | 3.7 | 3.7 | 3.4 | 3.1 |
| EV/EBITDA | 19.0 | 32.4 | 20.9 | 16.3 |
| EV/Sales | 2.9 | 3.2 | 2.7 | 2.4 |
| Return/Profitability Ratios (%) | | | | |
| EBITDA Margin | 15.1 | 9.7 | 12.8 | 14.6 |
| Net Income Margin (Adjusted) | 7.4 | 3.8 | 11.2 | 12.6 |
| RoCE | 11.8 | 5.0 | 9.1 | 10.7 |
| RoNW | 7.9 | 3.5 | 11.3 | 12.5 |
| Dividend Payout Ratio | 23.9 | 35.7 | 29.8 | 27.6 |
| Dividend Yield | 0.9 | 0.9 | 1.0 | 1.1 |

Wkg. Cap. Ratios (x)

| | | | | |
|--------------------|-------|------|------|-------|
| Net D/E | - | - | - | - |
| Debt/EBITDA | 0.1 | 0.1 | 0.1 | 0.0 |
| EBIT/Interest | 108.2 | 52.8 | 80.7 | 104.1 |
| Current Ratio | 1.8 | 1.9 | 1.9 | 1.9 |
| Quick Ratio | 1.5 | 1.6 | 1.9 | 1.9 |
| Inventory (days) | 42 | 47 | 55 | 55 |
| Receivables (days) | 53 | 60 | 58 | 58 |
| Payables (days) | 60 | 60 | 60 | 62 |

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Nishant Vass, MBA (Finance); Pratit Vajani, MBA (Finance); authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.