"Bosch Limited Q4 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of Bosch Limited hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities. Thank you and over to you, Sir.

Annamalai Jayaraj: Thank you, Steven. Welcome to Bosch Limited 4Q and FY22 post results conference call. From Bosch Limited management, we have with us today Mr. Soumitra Bhattacharya – Managing Director and Mr. Guruprasad Mudlapur – Joint Managing Director.

To start with, Mr. Soumitra Bhattacharya will be making a presentation and that will be followed by a question-and-answer session. To view the presentation, please click the 'see meeting' link given in the conference call invite. Over to you, Sir.

Soumitra Bhattacharya: Thank you very much, Mr. Annamalai Jayaraj and a very warm good afternoon to all the colleagues attending this conference call. I do hope all of you are keeping well and are keeping safe and healthy. I'd like to start with a brief on the macro economy policy followed by the automotive market and then walk you through our financials. Finally, I'd like to end with the highlights for the quarter, which affects our business.

The Indian economy has been doing relatively well. Of course, I'll say under very difficult circumstances with both services and manufacturing, PMI showing strong growth. As I said, the rest of the world, India too, is actually witnessing a very high inflation. This has resulted in RBI revising the GDP forecast for FY 22-23, lower than 7.2%. Also, there's been a hike in the policy rate by 40 bps and CRR by 50 bps. Overall the automotive market production in current quarter declined by 3% excluding of course, two wheelers mainly due to the semiconductor's shortage globally and also due to the high base effect.

While recovery remains strong in CVs and PC segment, two-wheeler, three-wheeler and the tractor segment remained a laggard. Going forward the elevated fuel prices and the higher commodity prices continue to be a major concern for the automotive industry. Colleagues as you know, recently we saw that the WPI climbed further to more than 50%. Heavy commercial vehicle segment grew by 10% year-on-year. The growth of the segment was primarily due to the opening of the economy, revivals in the freight movement, higher fleet utilization level and pick up also in the construction activities. The recovery is expected to continue in the coming months as well. The passenger car segment, this includes of course, utility vehicles showed a marginal growth of 2% year-on-year primarily due to the shortage of semiconductor. Demand has remained intact with strong order book coupled with low inventory. In fact, inventory here is down to 18 to 20 days at the dealer end, which is far below the normal. Production declined by 35% year-on-year due to the high base, which happened in the peaks of 2021 stabilizing now to the normals of 2018-19, and as per the IMDs first-stage forecast for the monsoon is projected at a 99% LPA. This of course has implications with a plus minus 5%. So basically, monsoons predicted to be normal and this is very positive. It implies that a normal monsoon will of course support further demand and actually this can be linked to also a bumper rabi harvest. The LCV segment volume, which improved by 17% year on year basis, which benefitted from the rise in e-commerce and the increasing need for last mile delivery. Two-wheeler segment de-grew by 21% year-on-year, domestic demand for entry level segment remained weak and failed to pick up although premium two-wheelers and exports are performing better relatively. Amongst the other markets three-wheelers segment declined 3% pandemic receding. We are expecting that the consumers returning to shared mobility service, might get aided through the demand going ahead.

Let's have a look at how your company has performed in the market. Next slide please. Under the tractor and passenger vehicle segment the company has done better than the market. Although the company has marginally underperformed in the heavy commercial and light commercial segment, this is primarily driven by the fuel-mix change. We believe the company will grow better than the market once the semiconductor crises reduces and recedes with our opportunity primarily in LCV and pass car segment.

Let's have a look at how the company has performed in January-March 2022 quarter compared to the January-March 2021 with all the above-mentioned factors. Next slide, please. The overall revenue from operations for January-March 2022 stood at Rs. 3,311 crores, which was an increase of 2.9% as compared to the corresponding period of the previous year. Here automotive sales have de-grown by about 1% largely driven by powertrain systems while nonautomotive sales have increased by nearly 31% largely led by power tools. Overall product sales have increased by 3.5%. Income from services, mainly comprised of R&D services provided to OEM and of course Bosch Germany. January-March 2021 had a higher revenue as the CRS project for Isuzu Motors was completed in that quarter and the revenue was recognized based on the SOP date. After operating income, mainly includes income from lease rentals, miscellaneous income and export incentives. January-March 2021 had reclassification of reversal of provision, warranty and doubtful debt and some other operating income to other expenses. Hence, other operating income for the same quarter of the previous year is lower.

Our material cost as a percentage of total revenue from operations has increased from 61.4% in January-March 2021 to 64.6 in January-March 2022. The increase on this reason is mainly on account of three areas. Raw material price increases, lesser cost of trade goods in January-March 2021 which was adjusted in subsequent quarters which resulted in metal cost being lower in the same quarter of the previous year and of course we know the impact due to the supply chain. I would like to add here that your company is deeply focusing on recovery of raw material prices, electronic cost increases, including in relation to the logistics cost increases.

Our employee cost of January-March 2021 includes certain provisions, which were no longer required and hence were written back, hence employee cost of the same quarter of the previous year is on the lower side, on a like-to-like basis personnel costs for the current quarter compared to the previous quarter without considering the write back of the provisions has decreased from 9.8% to 7.7% of the total revenue in the quarter. Other expenses stood at Rs. 480 crores. This amounts to 14.5% of total revenue in January-March 2022 as compared to Rs. 489 crores, which is 15.2% of total revenue in January-March 2021. Decrease is on account of reduction in spending of administrative expenses. Depreciation for the quarter is at 2.7% of the total revenue as compared to 2.9% of the total revenue of January-March 2021. Operating profit EBIT stood at Rs. 346 crores in January-March 2022 as compared to Rs. 527 crores in January-March 2021, a decrease of 34%, mainly due to a onetime credit that we had of approximately Rs. 181 crores, there is a spike on 6% of the revenue of operations in personnel costs.

The other income primarily comprises of interest on fixed deposits and mark-to-market on debt mutual funds. The other income in January-March 2021 had a credit due to the reversal of the provisions no longer required. For the quarter ended March 2022 your company posted a profit before tax of Rs. 432 crores as compared to Rs. 640 crores in January-March 2021. This was before exceptional items. As a percentage of the total revenue from operations profit before tax stood at 13% of revenue in the current quarter. Profit after tax for the quarter ended March 2022 stood at Rs. 351 crores which is 10.6% of the total revenue from operations. Profit after tax in January-March 2021 was Rs. 482 crores. The tax expense for January-March 2022 is Rs. 81 crores, which is 18.7% of PBT, which is based on the best estimates of the weighted average annual income rate expected for the full year. If we remove the onetime impacts for the financials on a like-to-like basis, January-March 2021, the EBIT will be 10% as compared to the January-March 2022 EBIT at 10.3%. The onetime credits in the prior year mainly pertain to provisions no longer written back in personnel cost, resettlement and accruals for retirement benefits.

Modern India is a fast adopter of technology and legislation. India has successfully implemented the BS6 stage 1, the norms for on road vehicles in April 2020 and is gearing up for implementation of BS6 stage 2 emission norms which will be effective with effect from April, 2023. Bosch is fully prepared with technology of BS6 stage 2 and is already working with customers for CVs project executions. BS6 norms have reduced the gap with EU norms significantly and we are catching up with global standards in a quick way, example, being the introduction of real drive emissions and in-service conformity in BS6 stage 2, that captures the emission performance of vehicles in real drive conditions, which is a big step forward. Europe is currently discussing targets for EU7 legislation and India yet to start discussions on the next legislation, which is BS7. Nevertheless, Bosch has created internal scenarios for the next legislative targets and has defined the technology roadmap for the same. The technology roadmap for these future legislation scenarios is accessible to Bosch worldwide region and hence Bosch India is well equipped to bring these technologies to India as well. Overall, there will be an opportunity for Bosch to once again being world class products to India, and I would say not just world-class products, but innovative products as also in affordable price. As we understand the Government of India has agreed to delay the implementation of Trem stage 4 regulation for tractors for six months, implementation from October 2022, with the agreement that there will be no changes in dates on Trem-V, Stage-5 implementation date that is April 2024. Both stage 4 and Trem-V will see tractor applications moving from conventional to common real systems.

Bosch is fully prepared with both components tailor made common real systems offers for the implementation of the new norms. Overall Bosch will transform and transition from conventional products to common real products and tractor segments with a positive impact introducing advanced products and solutions into the market.

I would like to talk to you about the topic of sustainability at Bosch India. In 2020 Bosch India achieved carbon neutrality under scope one and two at its 37 locations across India. We support the ESG, which stands by the way for Environment for E, Social for S and Governance for G disclosures required by SEBI around VRR and BRSR for FY22-23, more importantly starting this financial year, we'll be adding an ESG section to our annual report for better and voluntary disclosures. Our board has responsibility of the oversight on ESG and I as the MD, I'm responsible for the implementation at Bosch Ltd. Our target ESG vision is aligned with the vision of Bosch group worldwide. I would finally like to mention especially that Bosch Ltd. with the Bidi plant won CO2 and energy efficiency award and our Nasik plant won the first place in sustainability culture worldwide across the Bosch group. 176 from Bosch locations across the world competed for the sustainability and the EHS award 2021.

The Directors have recommended a dividend of INR 110 per share for this 12 month period. In addition to commemorate the century celebration of Bosch India, a special dividend of Rs. 100 per share has further been proposed, the overall dividend payout for 2021/22 is now proposed at Rs. 210 per share.

I would like to thank you each and every one of you for your contribution, for your support to Bosch Ltd. and for all those listening patiently through this call. We would hope and like to meet you this year in person at our Annual Investor Conference and Call in August 2022.

We would now like to address your queries and thank you and look forward to your questions please. I have on the call along with me as Mr. Annamalai Jairaj mentioned, my colleague Mr. Mr. Guruprasad Mudlapur, CTO and JMD of the company. Today I'm happy to announce our CFO who has been inducted into our board, Mrs. Karin Gilges who is with us, but will participate in the call from the next meeting onwards. I'm sure you also warmly welcome her along with me into Bosch Ltd board. Mrs. Gilges welcome to the Bosch Ltd. board.

Mrs. Karin Gilges: Thank you very much.

Moderator: We will begin the question-and-answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: A few questions from my side, first is on the localization for BS6 components based on the volume growth visibility which we have particularly for CVs and two-wheelers, do you expect to reach optimum level of localization in this financial year FY23?

Soumitra Bhattacharya: As you know we are systematically and continuously localizing and also, we have a very clear plan on certain areas where we will not localize. The strategy for localization is based on which components will we make and which components we will create. If you remember last time, I had mentioned that our products and solutions, generally we localize and we are doing that. There could be certain components, example in EGT, which worldwide people, like those who are solution providers like Bosch, give the whole system, integrate the system to our solutions, but don't manufacture each of them, so that we will continue. In summary, we have localized quite a bit we will continue because there are different products and solutions also which come into play as the emission norm changes. There are some areas and I gave you a small example on the exhaust gas treatment components, which we will continue to outsource.

Jinesh Gandhi: Second question is on the PLI incentive, given that Bosch had been one of the beneficiary. So two part question here, one is with respect to the listed entity what all do we plan to manufacture under PLI scheme? Second is given that Bosch Ltd is umbrella entity, which has got the PLI incentive, would we be routing other components of the sister concerns through the listed entity and if yes what kind of margins will be recognized in the listed entity?

Soumitra Bhattacharya: Very, very good question and I will try to answer both. As you are aware, three of our Bosch companies led by the flagship company, which is Bosch Ltd, have applied and also been included in the PLI and Bosch Ltd actually has quite a lot of inflow from these two other sister companies also coming in. So a) In summary, we have applied and we will work towards getting the PLI through value addition as well as localization, both at Bosch Ltd but also at the other two sister companies that we have applied. There will be especially for our electronics company a significant flow also through Bosch Ltd. We are in discussion with the government and this is not about Bosch. You see, in the Indian context for electronics value addition, currently the threshold level at 50% is a big challenge for industry. We have taken it up with the government as always in agnostic and nothing to do with the company. Electronics value addition on 50% will need a relook and the government has been positive to say that based on the facts and figures we are going to look at those areas. And final statement, our work with the government has been, how do we get into advanced technology? How do we incentivize only for advanced technologies to take India forward and how do we give appropriate levels of value addition for participation of industry in the schemes to make it a reality.

Moderator: The next question is from the line of Pramod Amte from Ingrid Capital, please go ahead.

Pramod Amte: Continuation of the same on the PLI would you able to guide us what will be the CAPEX for FY23 and FY24 and taking into account this new PLI scheme? How this has changed compared to your earlier plan?

Soumitra Bhattacharya: I think you heard, on second and third, we had our global COO doing a virtual India tour and I will quote him "Bosch India has spent more than Rs. 9,000 crores in the last 10 years". You can safely take about anywhere between 55% to 60% of this CAPEX in the last 10 years has gone out through the listed company. Second, we have a pretty good CAPEX layout also for FY22 and FY23. We are looking to the upwards of anywhere between Rs. 550 to Rs. 600 crores. We will continue in that range, I have always told you anywhere between minimum of Rs. 400 crores up to Rs. 600 crores is what we spend normally. Of course if and where necessary we will look at intensifying also our CAPEX spends. In summary, we have applied, we have always been spending CAPEX rightly giving you example of 22-23 of Rs. 550 to 600 crores further. We will also wherever required further, we will not have a challenge. Our company is reasonably cash rich in terms of cashflow, we generate every year Rs. 1,000, 1,200, 1500 crores of cash. We have a healthy balance sheet with a cash flow right now for about Rs. 7,000 crores. Even after giving a healthy dividend, we will still have enough and more for CAPEX and other organic and inorganic including PLI spends.

Pramod Amte: Second question is to the CTO, considering you play active role in the EV ecosystem, how do you see the current fire incidences in the industry and also considering that you have a robust product and systems, are you already seeing more inquiries from your customers for Bosch systems and you expect the Bosch EV system and attrition to go up drastically in the coming years?

Guruprasad Mudlapur: Very relevant question at this point of time. It's very early days so please expect some of these things to happen. The market is still immature and things are developing the way it is today. This has happened all over the world and things have also stabilized to a large extent all over the world and we will see that in the coming months and a year or so in India as well. Boschman does the design of battery systems and manufacturing of battery systems all with high levels of safety built in. We take care of this all over the world and in India too. There are several things you need to do a design at verifications, after design manufacturing and when it's actually deployed in the field to ensure that the batteries do not overheat or catch fire or any of the untoward incidence to happen. We do take care quite a lot about this. We've also been consulting the government on what are the norms they could bring in to make batteries much more safer than what they are today in terms of tightening the battery management systems or the way designed or the way they are manufactured today or thermal protection systems that are in. We've done quite some consulting to the government and several other industry players currently. We will see over the coming months an increasing awareness in the OEM community on what it means to have a safe battery and I believe some of the OEMs already have a lot of this awareness, but we will generally see increased awareness and thereby we should start to see more enquiries coming to companies like ours, which do high quality design and manufacturing of battery systems.

Moderator: The next question is from the line of Senthil from Ithought Financials, please go ahead.

Senthil: My question is broader strategic in nature over three to five years period. How do you see the kit value of electric vehicle business going up? Like you can give some numbers what is the current kit value and how it will evolve in the next two to five years?

Soumitra Bhattacharya: We have mentioned this before that from hardly 1% to 2% now and here we are talking only now pass-cars because segments like two-wheelers and three-wheelers will be different. We expect in the e-mobility case for India, in I would say realistic cum optimistic manner that by 2030 India could possibly have up to 30% of its pass-cars and utility vehicle being produced under this mobility, it could also be 25% so that's one. We also mentioned that ICE still will remain dominant. We also mentioned that diesel will play still a very strong role in the SUV segment. Of course, all of you know that with BS6 stage 1 and then stage 2 and later BS7 diesel has also a very competitive edge in terms of both emissions as well as fuel efficiency etc. Gasoline, diesel will play the majority role minimum 70%, 30% on a very low base is likely to catch up. Of course, we also said India has this very big challenge of putting up the whole infrastructure base across the country and which we believe that private public partnership will make it happen. This is how we look at and the view has not changed since then.

Senthil: How do you see as a Bosch Ltd progressing in this landscape, any overview about what percentage of revenue we're targeting anything you can say.

Soumitra Bhattacharya: We do not give guidance you know that well, because you have been attending for a long time. I would not like to give guidance and this question is not about Bosch limited. This question is I think for the industry that you're talking. So a) let's be honest in India we are at a pretty nascent stage when you look at US, when you look at Europe, specifically in USA today very aggressive EV, in California which is different from some other states, today Scandinavian countries very aggressive electrification even today, for example within Europe Germany has. So we cannot make a comparison amongst us, including China. Secondly, we believe that electrification is there to stay. It will become a big player, but you are going to see the movement mainly in big volumes between 2027 to 2030, the period between 2022 to 2025, there will be as you see some of the companies getting into it, yet when you look at the overview of the total volume of cars and remember right now we are talking of 3.6 million cars and utility vehicles sold in fiscal year 21/22. We have to look at that picture and this 4 million by that time will go to 6 million and by 2025 let's say and so the volume and the percentage will be climbing, but on a very low pace. I think our CTO had last time mentioned Bosch has got a parent and acquisition value of € 20 billion has invested more than € 5 billion on electrification and has all the components, products and solutions and we have used our parents in a very big way, maybe initially trade and then also later localized and as and when our customers launch our systems, we'll let you know.

Moderator: The next question is from the line of Ravi Purohit from Securities Investment Management. Please go ahead.

Ravi Purohit: I have two questions, one on more strategic and long-term view and maybe our new CFO could if she can also kind of add her thoughts from Bosch Ags point of view. In terms of there was a time Bosch was amongst the top docile auto component companies in India in terms of growth, performance wise, ROE, ROCE profile, margin performance. Whereas if we look at it today, we are curved in the middle of the ranking in terms of performances on growth, margin, ROE and ROCE, in that sense, how do we kind of rate our own performance vis-à-vis our peers, vis-à-vis where were five years back and where we are today and where we want to be over the next five years. If you could kind of give some strategic direction as to where Bosch India is really headed, when I mean, Bosch India, I mean Bosch Ltd the listed entity. So that will be kind of very helpful for my understanding point of view. Second question was on, I think in our press results we had mentioned today about fuel cells and hydrogen cells. If you could kind of kindly confirm whether all of those will be routed through the listed entity and we are actually thinking of bringing in all of those technologies, products through the listed entity itself, that could be kind of helpful for us to kind of understand.

Soumitra Bhattacharya: So let me answer the second question first, affirmative. Hydrogen electrification will all run through the listed company and I hope that gives you a clear answer. Now in relation to, you talked about profitability and long-term, I think you know that we don't give guidance, but I would like to say two, three things which are different from the past and I always mentioned to you and other colleagues that we are setting ourselves to make ourselves first fitter for the future. We are not looking at quarter to quarter results and I'll give you some examples. a) you remember the fiscal year 2020-2021 and 2021-2022, we took hit in the P&L of Rs. 1,500 crores for our CR program. Now we did that by design and today our personnel cost from earlier 14% to 16% is down to 9%. But more importantly, our productivity has improved. We have done it in a very fair Bosch way, and we are doing major reskilling, etc., including competency development. All this will come to benefit us in the future, that's one. Second, in the new world we do have a higher content of trading, but we have a very focused approach on localization keeping in mind that we would like to localize what makes sense. And I gave some examples earlier on the also. Third, the diesel share in India had climbed to 48%. And you know today it's down to 20%-22% and there was a strong mix in Bosch Limited also for diesel while we very strongly came back on gasoline and as we will do as electrification and hydrogen grows. Fourth, we have put in substantial amounts of money, initially starting with Rs. 100 crores, now Rs. 200-250 crores and we move on even higher to invest for businesses of the future. We take this hit in the P&L by design again to prepare for the future. So, whether it's competency building, whether it is having projects working with our customers and rather than just to find to get acquisitions. So, if somebody I would say, getting an EBIT of 10% on a very challenging year where semiconductor has actually hit not only the OEMs turnover, but also ours naturally which affects the contribution and also, where the world is undergoing a very high challenge in terms of supply chain, raw material price increases, we do see that is our profitability, our investment for the future, which will give us mid and long-term benefits and results are in the right place. Now I have given you an idea of the way forward of how the company is investing for the future, including for its people. By the way, we have been declared as one of the best places to work in the top quadrant of the top companies in India to work for. So, we are investing for the future, and I strongly believe that our quest to attain double-digit profitability and further improve on it over the years after having invested in businesses, will continue.

Ravi Purohit: Just one brief question, if I look at let's say 10-year numbers, and if you look at revenue point of view, we are probably 50% higher than what we were 10 years back. Whereas the profits are probably same as what it was 10 years back. So, 10 years is a fairly long period to assess a performance. So, in that context, would you say that there have been kind of misses that we have had to endure over the last 3-4 years in terms of a transformation or transitioning between, let's say BS-4 to BS-6 or BS-2 to BS-4 and where we have kind of lost market shares, we have lost clients, or is there anything that you could kind of pinpoint, analyze and what we call like a self-assessment of where…because if I look at our peers, lot of peers have kind of over the last 10 years their turnovers are probably 2x of what it was 10 years back, or 3x or 4x of what it was 10 years back. Profits are probably 2x or 3x of what it was. 10 years is a fairly long rope in that sense, which kind of also affects shareholder returns. Almost 7-8 years the shareholder returns are zero to negative. So, in that sense, there are a lot of these things, so any self-assessment that we have done, anything that we kind of did wrong in the past or missed in the past, and now we are kind of course-correcting and which kind of gives us confidence that the future will better than what it was in the last five years, or the performance will better than what it was in the last 5 to 10 years, I would say.

Soumitra Bhattacharya: I think it is a fair question. It's a good question and I will try to answer a part of it because part of your question is also a guidance question, and I have told you before, Ravi, that we do not give guidance. So, you should not attempt the guidance question. Now having said that, I will still give you an answer in a very fair way. Seven years ago, we were about 12,000 people in Bosch Limited. Today we are about 5500 in permanent headcount and 2000 on temporary. So, we have reduced dramatically on headcount, number one. Number two, seven years ago if I look also, the market was greatly and mainly diesel. Today, the market especially on pass cars and utilities has greatly changed. You know Ravi, all the colleagues in the concall know that we came compared to diesel later into gasoline. And however, though we came later, we have got a sizable proportion of the market in gasoline. Number three, any company which goes through transitioning and transformation has to take a call for a certain period of time to invest money to change the company. And we have decided and done that and that's why I told you that three to four years will be our period for the 3R program on reskill, redevelop, redeploy and restructure and that is greatly behind us. Now we are investing money for the future in relation to new businesses which will be in the listed company, and I gave you examples of hydrogen, electrification, and this will pay off in the long run, but it will not be in the short run. If you ask me, it will be mid-cum-long and definitely not in the short. In relation to efficiencies and other things, of course, we continue to focus on. In relation to people, we continue to focus on. And in relation to our campuses, we are about to open in the Adugodi main which belongs to Bosch 75 acres in the heart of the city, one of the smartest campuses we are inaugurating on 30th of June for Bosch in India 100 years. So, we have not been shy in investing for the future. We have reduced our headcount massively in all our plants and become more efficient. We are investing monies for the new businesses, and we have also done a lot of restructuring, redeployment, reskilling. And we believe like our parent, by the way it's not AG, Robert Bosch is GmbH or the largest private limited company, not to look at quarter-to-quarter results but to secure ourselves for the future and that's what we have done.

Ravi Purohit: Wonderful. We have been hearing about a lot of these biofuels and ethanol blending and CNG. We have presence and do we make engines which are like ethanol compliant or overnight if the government changes the ethanol content, would we have ready to use supply system which can accommodate those changes? If you could just share something that is happening on the CNG and ethanol side. What kind of market share do we have and what kind of strength do we have on technology side or systems and processes side? Thank you.

Guruprasad Mudlapur: We have solutions for flex fuels. We have solutions for CNG, and we also have solutions and fuel blends happen. So, right now we are offering all those to the OEMs. And CNG we have been doing it for years now and flex fuels as well we are already doing it. As things progress and move towards higher blend levels, we will also have to bring in technology as relevant to the market in India and we will continue to do that. What I can tell you is that Bosch has the complete portfolio of flex fuel solutions deployed somewhere in the world or also in India and we continue to develop Indian applications and solutions as they may be necessary.

Moderator: The next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: A couple of questions. One on similar lines of last couple of questions. If I look at the fiscal 2016 to 2019 average raw material seems to be some 53% which because of the reasons you mentioned in supply chain, limited scope of localization, low commodity cost and diesel mix coming down, combined taking it up to almost 64% now. Though, yes, it is commendable that staff cost you have taken down considerably, but this almost 10% points change in declining gross margin is huge in overall scheme of things. So, I am not asking for any guidance, but how to look at how much of that can be recoverable when commodities or supply chain issues normalize and how much of it will be structural in nature.

Soumitra Bhattacharya: Thank you Basudeb, you have asked a question as well as answer. So, I will say yes, part of it is structural and part of it will further change on material content and definitely not go up, but it will stay constant and go down based on our localization plans. There are also some one-time effects. So, actually 64% should be looked at more towards that 61% or so. So, few things in relation to recovery, we will do a fair recovery. Bosch is one of the few companies who has a very tight and good process of contracting beforehand with most of our OEMs on FOREX and raw materials and we will see that recovery flow through. And we will also be fair towards the OEM by being fair towards us, which is what we have always stood by. We are adding a certain element also on electronics increases worldwide, as well as now the very turbulent stage of the supply chain. Today the world talks more about supply chain efficiency or effectivity. The world talks about supply chain resilience. So, we will look at the logistics cost increase and also create a scheme for recovery in a very transparent manner. So, in summary, inflation means cost increases happen, and that also means the optimal amount, the whole chain has to give into and up to the end consumer with the ability of the end consumer to then buy the goods and services finally. So, Bosch will participate in that in an ethical and fair manner, and we will see that we are working closely with the OEMs and our direct and indirect suppliers and do the necessary. So, the answer is we will also protect our balance sheet and P&L.

Basudeb Banerjee: And second question is, few comments on the working capital movement, we spent 22 as a whole, and how much of it is temporary nature and how much of it can be reversed. If any major line items you want to highlight? Because it seems it has taken away a big part of your cash flow.

Soumitra Bhattacharya: Basudeb, honestly, our company's cashflow situation is pretty good compared to the market. We have a pretty robust base of our collections because you shouldn't look at just one quarter, you should look at over the year.

Basudeb Banerjee: For the year, sir.

Soumitra Bhattacharya: Even for the year if I look at in reality our cash equivalent and bank, while it may have been…

Basudeb Banerjee: Only working capital…

Soumitra Bhattacharya: Working capital again, sometimes you increase your inventory by design. You have to be intelligent to have the right inventory in place so that you don't land up not being able to supply. Does that give you an answer? Again, I repeat, the company doesn't have issues on bad debts, number one. Number two, we don't have any major write-offs on inventories. And number three, wherever we increase inventory selectively it's with a very calculated choice. Does that answer your question?

Basudeb Banerjee: Yes.

Moderator: The next question is from the line of Jinal Sheth from Awriga Capital Advisors. Please go ahead.

Jinal Sheth: I just wanted to get a feeler about your export strategy. Sometime in the past you guys had mentioned that you would want to grow export in the coming years. So, any thoughts on that?

Soumitra Bhattacharya: Thanks a lot for the question. Our FY 2021-2022 exports as a percentage of sales is about 9% as compared to last year of about 10%. So, we have been hovering at around 10%. Answer is, yes, in the midterm we want to go towards anywhere between 12% and 15%. That is our intention. Positive news is our exports to our SAARC countries, you will be happy to know that we also have good sales to our neighboring countries. A majority of our exports, of course, go to our belt in Germany, but we also have started exports to Bangladesh and Sri Lanka, but we also do in many other ASEAN countries. So, short point, global Bosch policy is local for local. We see an opportunity for Bosch to further penetrate and increase and we have very ambitious plans in Bangladesh, Sri Lanka, and our now Nepal. And of course, our export connections will still remain with Germany on need basis. Our objective is in midterm, anywhere between 12% up to 15%. Right now, we are in the region of 10%.

Jinal Sheth: Thank you for that and hoping that this entire transformation phase leads us to better times in the coming years. Good luck.

Moderator: The next question is from the line of Navin Matta from Mahindra Manulife. Please go ahead.

Navin Matta: I just had a follow-up question to your previous response. I think you mentioned that one should look at raw material to sales being at 61% and not at 64%. I just wanted to understand, I didn't quite understand your comments on that please.

Soumitra Bhattacharya: Sometimes there are some one-time impacts. Again, I said look at the full year's results rather than quarter-to-quarter, that is one. And not to look at percentage of sales and you also have to take out the one-time impacts. On the matter which is affecting the material cost on the steel, aluminum and plastic cost, I already gave an answer that we would recover a very good portion of it through a systematic approach, including electronics and logistics.

Navin Matta: I also noticed that in your presentation you have again called out some transfer pricing adjustment also impacting this line item. So, could you quantify how much would that be on a year-on-year basis?

Soumitra Bhattacharya: Transfer pricing matter is always a timing effect. We do have a transfer pricing and we also have an agreed percentage on transfer prices between us and our parents, which is at arm's length, and which has been checked out in all possible ways, including by auditors. And in case of January to March 2022 we have a Rs. 400 million impact.

Navin Matta: Rs. 400 million adverse impact.

Soumitra Bhattacharya: Yes.

Navin Matta: So, that should ideally get smoothened out as we go into the next few quarters.

Soumitra Bhattacharya: Yes please.

Moderator: The next question is from the line of Priya Ranjan from HDFC Mutual Fund. Please go ahead.

Priya Ranjan: Just one thing, in your presentation you have mentioned because of the fuel mix and the MSCV side and LCV side, there has been some reduction in topline which has been achieved this year. So, can you just elaborate a bit on that? And is it because of CNG?

Soumitra Bhattacharya: Ranjan, there are two parts to it. First of all, in our conventional business we have a pretty good order book. I just announced today in the press conference, just to give you a data point that we have for Bosch Limited approximately Rs. 50 billion of acquisitions. So, that's quite substantial. That's number one. Our order book and acquisition is pretty good on the mobility side. Of course, in power tool and just as I said on powertrain and two wheelers, we have an order book of more than Rs. 50 billion for the next five years. And second, the fuel mix change has impacted. Look worldwide, you must understand Ranjan, what diesel was 10 years ago, whether in Germany, whether in Europe, I won't take America because America has always been a gasoline, everywhere it has had a hit. Now it has had a hit on pass car and utility vehicle. So, will diesel still be relevant? Answer is, yes. Starting with three wheelers, where diesel composition to diesel gasoline and of course, electrification, tractors totally diesel, take heavy commercial vehicles will run on diesel for a very long time and will remain dominant, as CTO mentioned and if hydrogen comes in also, it will slowly come in. Take light commercial vehicles will run on diesel for a long time and then electrification can also come in. So, it's a fact, diesel which had climbed to 50% market share, which is the highest point has come down. And this impacts across all industries and everyone, and of course, our company too. But we have tried to make up in other ways. So, our turnover over the years has increased. Of course, you can always have a question, could this have increased further? We are looking, I also announced to the press 50% growth over last year fiscal in 2022-2023.

Priya Ranjan: Just one thing, I was more inclined towards the MSCV and LCV side, because as pass car we already know, but in MSCV and LCV the phenomenon towards the CNG, etc., is very recent.

Soumitra Bhattacharya: There, yes, there is a certain percentage of CNG coming in. You are right. Diesel is still by far the most dominant, that's also right. And Bosch as the HCV and MCV grows, Bosch has a pretty good attempt on those areas, including LCV. Last time I told you, in Rupees per…at the Euro content or Rupees per car content, our content value has gone up. I think I shared some data with you last time. I think I shared content per vehicle.

Priya Ranjan: I don't think so. I will check back again. But okay.

Soumitra Bhattacharya: Next conference call, we can give you an indication about how we have moved on our content per vehicle.

Priya Ranjan: Sure. Just lastly, on the employee cost and the increase in the other expenses, that is certainly an extra or one-time impact last year. But do you think this is a sustainable number, like say 7%-8% of your topline as an employee cost which has come down this quarter. So, it is a sustainable number?

Soumitra Bhattacharya: Yes, 9% is a sustainable number. Look, that 4% is an incorrect number. Sometimes you get one-time credits. I mentioned to all of you that it would be unfair to compare January-March quarter. And by the way, January-March quarter 2021, I mentioned this to all of you, that this was an unusual quarter on a surge in topline and multiple one-time credits which came including reversals. So, the 16% profitability of the Quarter in January-March 2021 is actually not representative, and I told you that it is more like 10%. Ranjan, you have to always look at the trend of the past four years. The earlier trend of 14% to 16% on personnel cost will come down and stabilize around 9%.

Moderator: The next question is from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj: I just have two questions. They are largely on the new business initiatives which we have been investing for. So, if you look at the present commentary also on electrification, we are looking at positive operating margin around 2024-2025. And we also have in the past talked about it will take time for these businesses to mature. So, one way to kind of just understand the investments which we have been making in the P&L, what would be the level of investments say on an annual basis we will be making towards these initiatives? To get a perspective because the conventional power trading business is also on a recovery pose and what you see on a blended basis doesn't really give a true picture on the performance of that business. So, any perspective you can share on that.

Soumitra Bhattacharya: Thanks. I think it's a very intelligent question. I mentioned that but I will repeat it. So, we have in the past few years and now we have upped it and we are going to allow anywhere between 1% up to 2% of our turnover and therefore our profits to be kept aside minimum for new businesses. So, we are rather willing to have a slight short to mid-term EBIT hit and still deliver a decent EBIT and good cash flows so that we secure our future by investing in new business areas.

Viraj: So, in relation to where the parent is looking in terms of positive profit margin contribution, for us where do you think, where are we in that journey? Is it still called early days given the kind of adoption which we are seeing in India vis-à-vis the global penetration for EV? Any perspective on that? And second question is, we have been hearing Bajaj Auto, TVS, they are completely localized, sourcing of motors, hub drive systems in the e-powertrain for So, if you can provide any update as to where are we in that localization? Are they still our customers? Are we still the single sole supplier to those models?

Soumitra Bhattacharya: I will give an answer and then request also to my colleague to come. First, I want to say that our parent is dealing in a very mature market. Our parent has invested over the last 10 to 12 years and when they started at that time, electrification was not the big thing in even Europe and America, every year between €400 million and €500 million. So, when I said €5 billion in the last 10 years, that's a lot of money that also our parent did there. Second, our parent has the highest ever acquisition of €20 billion. So, obviously our parent has a very strong portfolio proven otherwise you can't get an acquisition value of €20 billion. And our parent obviously has taken a very conscious decision, which I believe is the right decision, which India would be willing to take at the appropriate time, not to look at quarter-to-quarter profits, but futureproofing for the long run. And for these businesses you need to put in and we don't borrow money because we have got our own money so there's no interest. And lastly, based on a very good portfolio and an excellent relationship between our parent with very competitive royalty and technology fees, we will invest and localize at the appropriate time where volumes are optimal for localization and be a relevant player as we have been earlier in different technologies. So, we are willing to take some quarters hit for the mid and long run, because it's far better to prepare yourself for the future and luckily, we have our parent who is the leader in this business, including in electrification. Guru, any comments?

Guruprasad Mudlapur: I just want to add that we leverage quite a lot on what our parent does in terms of product portfolio. If we have to start from zero and develop any axle for the Indian market, it's an overall R&D investment of maybe over $100 million, including quite some investment in manufacturing which can also run into several million dollars. So, it's quite a lot of money. And if that kind of a money cannot be recovered with the volumes we currently have, it's a no go for a purely local product development. So, understanding this and also understanding what our MD just said that the parent has invested over 5 billion over the last 10 years and developed a huge portfolio of products, we definitely leverage on that, and we do the variant developments in India and offer that to customers. Most Indian customers and most customers worldwide are doing the same that we take the base platform and then we make customer variant and offer it to the market. So that's how it is. So, if we do invest in R&D locally, you should see that as a component which is on top of what has been globally invested. So, it cannot be measured as something, if we invest just 1 million, that's not what it truly is. It's an overall amount of platform investment plus what's developed for a customer.

Soumitra Bhattacharya: I think we have to close, Guru. But compliment to you. I would like to say a couple of last sentences to help you to connect the red dots. Because I find a lot of questions that you are repeating or are perhaps missing a few red dots. So, I would just like to give you a summary of the red dots. By design, we have upped our R&D expenditure in Bosch. Today we spend anywhere up to (+) Rs. 600 crores on R&D. Bosch India has the biggest R&D center in the world, for India and the world outside Germany. Second, we will invest in new businesses even if it hits our P&L by 1%-1.5% and up to 2% to ensure that we are secured for the future. Third, we have reduced our headcount significantly up to nearly between 4,000 and 5,000 people to have currently a permanent headcount of only 5,500 as against what we had. Fourth, we will do localization as and when we deem right in optimal manner. And of course, I mentioned to you where our material cost will more or less harbor. Fifth, diesel which was 50% approximately will not go back to that level. This implies for the whole market, the business, but also for Bosch. Lastly, I have given for the first time, not a guidance, but an indication of around, and I hope that will be more than that, 15% growth with a healthy EBIT for the fiscal year 2022-2023. I hope that helps you to connect some of the red dots in a very turbulent year. And of course, I forgot to mention that we will recover our RMI increases, electronics and logistics to a great extent, in dialogue and discussion with our OEMs.

Thank you very much. Over to Mr. Annamalai.

Annamalai Jayaraj: We thank all the participants. We thank the management for taking the time out for the call. Have a good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

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