



“Bosch Limited 1Q FY23-24 Post Results Conference Call”

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Annamalai Jayaraj: Ladies and gentlemen, good day and welcome to Bosch Limited 1Q FY23-24 Post-Results Conference Call hosted by B&K Securities.

We also congratulate and welcome the Bosch Limited new leadership team to the investor call. We have with us today the new Managing Director and Chief Technology Officer – Mr. Guruprasad Mudlapur, a new Joint Managing Director – Mr. N. Sandeep and Ms. Karin Gilges – Chief Financial Officer.

At this point, all participant lines will be in the listen-only mode and there will be an opportunity to ask questions after the management presentation and opening remarks. Over to you, sir.

Guruprasad Mudlapur: Good afternoon, everyone, and thank you for being part of this call.

Today, I'll start with the brief on the macroeconomic policy followed by an automotive market update and then I'll walk you through our financials. Finally, I'll end with the highlights of the quarter affecting our business.

As per the recent IMF report, the global economy is expected to grow at 3% in 2023, up from 3.5% in 2022 and the advanced economies to grow by 1.5% in 2023 from 2.7% in 2022. Amongst this backdrop, the Indian economy is doing well and is expected to grow by 6.1% in FY23-24. More importantly, our inflation remains controlled and the financial sector is resilient.

Overall, the automotive industry displayed a mixed performance, with certain segments showing resilience and while others faced hurdles due to the pre-buying effects and exports decline. Passenger vehicle segments saw growth driven by the SUV category supported by strong order books from OEMs. However, the commercial vehicle segment saw moderation, while the medium and heavy commercial vehicle segment showed better performance, LCVs experienced a decline of 2%. Three-wheeler segment continued to recover in the domestic market, while exports remain sluggish. The tractor segment declined by 9% year-on-year due to a high base of FY23 coupled with inventory moderation in Q1 FY24. Two-wheeler demand recovery sustained during the marriage season; however, export market remains a concern with sluggish demand.

Let's now look at the automotive outlook for 2023. From the loss of COVID, Indian automotive industry bounces back and reached new peak in the year 2022. From this high base, we expect the market to grow in 2023 compared to 22. This shows the robustness of the Indian auto industry and the economy despite global headwinds and reduction in exports. Let's look at how the company performed in April to June 23 quarter compared to April-June 2022 amidst the above-mentioned factors.

Sector-wise sales, start with the mobility solutions sector, the mobility solution sales have grown by 13.6% in Q1 FY24 as compared to Q1 FY23. 12.5% growth in product sales of Powertrain solutions is driven mainly due to the growth in overall automotive sector and increase in share of content per vehicle, mainly in exhaust gas treatment. Automotive aftermarket has grown by 12.7% quarter-on-quarter mainly due to increase in export of spark plugs and higher market

consumption of lubricants. Two-wheeler business sales have also increased by 42.8% quarter-on-quarter due to improvement in semiconductor supplies as compared to previous quarter. The Beyond Mobility Solutions sales have grown by 21.5% in Q1 FY24 as compared to Q1 FY23. Consumer goods business comprising of power tools segment has increased by 17.9% quarter-on-quarter mainly due to increased sales of blue tools due to higher demand. The building technologies area grew by 13.6% at 36.9%, mainly on account of higher number of orders for installation of security systems.

Profitability statement: the overall revenue from operations for April, June 2023 stood at Rs. 41,584 million, which is an increase of 17.3% as compared to the corresponding period of previous years, mainly driven by growth in product sales by 14.5%. The Mobility Solutions area sales grew by 13.6%, while sales from business Beyond Mobility Solutions increased by 21.5%. Income from services, mainly comprising of engineering and application services provided to OEMs and Bosch Germany. Service income for the quarter is towards completion of BS-6 stage II projects for OEMs. Other operating income mainly includes income from lease, land rentals and miscellaneous income and of course, export incentives. In the current quarter, increase is mainly on account of rental income going to additional space let out in the Adugodi campus.

Material cost as a percentage of total revenue from operations is at 64.5% in April, June 2023 as compared to 64.6% in April, June 2022. However, material cost as a percentage of net sales, that's excluding income from services and other operating income is at 68.7% in April, June 2023 as compared to 67.2% in April, June 2022. The increase is mainly on account of higher share of traded goods in the current quarter as compared to the same quarter of the previous year. Impact on account of price increase given to import suppliers on account of higher energy costs. The employee costs for April, June 2023 is Rs. 3,094 million as compared to Rs. 2,702 million for April, June 2022. As a percentage of revenue from operations, the employee cost is better as compared to the same quarter of the previous year. Other expenses stood at Rs. 6,977 million, which is 16.8% of the total revenue in April, June 2023 as compared to Rs. 5,334 million which is 15% of the total revenue in April, June 2022. Current quarter has seen certain one-time impacts in other expenses.

Increased spending on new businesses; higher spending on customer projects for engineering and application services, which is in line with higher income from our services. Depreciation for the current quarter is at Rs. 921,000,000, which is 2.2% of the total revenue as compared to Rs. 648,000,000 which was 1.8% of the total revenue in April, June 2022. Increase in depreciation in current quarter is majorly on account of major additions to plant and machinery and buildings during financial year 22-23. With this, the operating profit stood at Rs. 3,728 million in April, June 2023 as compared to Rs. 3,847 million in April, June 22, a decrease of 2.3%. Other income primarily comprises of interest on fixed deposits and change in market value of mutual funds. The other income has increased from Rs. 566,000,000 in April, June 22 to Rs. 1,875 million in April, June 2023, mainly on account of higher mark-to-market gain on mutual funds, higher FD interest income and dividend received from investments in equity shares.

For the quarter ended April, June 2023, your company posted a profit before tax of Rs. 5,325 million as compared to Rs. 4,377 million in April, June 2022. As a percentage of total revenue from operations, profit before tax stood at 12.8% of total revenue in the current quarter. Profit after tax for the quarter ended June 23 stood at Rs. 4,090 million which is 9.8% of total revenue from operations. Profit after tax in April, June 2022 was Rs. 3,342 million which was 9.4% of the total revenue from operations.

Thank you all for your contribution and for listening patiently through the call. We will now address your queries. Thank you and Annamalai, questions please.

Annamalai Jayaraj: Thank you, sir. We shall now begin the question-and-answer session. The first question is from Pramod Amte. Please unmute and ask your question.

Pramod Amte: So, two questions. First one, you have explained in detail in the annual report and also I'll be getting the call about spark plug export opportunity. Can you just delve is this a trend that you have one of the low-cost production base and longstanding in this business and it's opening up an opportunity and which all areas in the ICE components you feel such opportunity and emerge for Bosch India for exporting to the global markets in the next 1 to 2 years?

Guruprasad Mudlapur: Thank you, Pramod. Yes, indeed you are right. The timing is right for us. Also, there have been some shifts of our production out of Russia. So a lot of spark plugs which were earlier made in our Russian location have moved out and they have been relocated into India. And that helps us produce more out of India and specifically with regard to spark plugs. There is a possibility that this phenomenon will extend to other areas. We are in discussions right now. We are looking at all possible opportunities and right now, I would not like to comment on any specific area that we may extend this to.

Pramod Amte: And the second question is with regard to the electric vehicle space. We are seeing new MNCs making inroads into India like recently Schaeffler winning the big order in eAxle. My question related to that is Bosch has a similar product lines globally and enjoys amazing customer relationship in India for many of the clients, so wanted to know where is the gap in terms of when you see to win such orders versus others already having it in the bag and how you plan to cover those gaps in the next 1 to 2 years to make inroads into EV orders?

Guruprasad Mudlapur: I'll let my colleague, JMD, Sandeep answer this.

N. Sandeep: I think on the eAxle portfolio, we as Bosch, have quite a widespread portfolio globally, especially coming out of our operations in China. Now, the market in India is in a formative phase and we are basically trying to align best the portfolio what we have globally to the requirements regionally in India. And this is going to take time and we are making progress in the field of electronics and software. But coming back specific to your question about eAxle, we are in the process of aligning the portfolio. I don't see a gap, but this would take time before we are able to bring together the specifications of the global platforms and the local requirements.

Annamalai Jayaraj: Thanks, Pramod. The next question is from Jinesh Gandhi. Please unmute and ask your question.

Jinesh Gandhi: Just continuing on eAxle, just to clarify, would eAxle opportunity coming in the listed entity given it's not per se powertrain related or would it be part of the unlisted entities?

N. Sandeep: Well, we are at the moment first focusing on, like I mentioned, very generic level the requirements engineering which includes multiple domains. So we are yet to get to this point about where would the technology lie? So our focus primarily is to mobility level, focus on requirements engineering.

Jinesh Gandhi: The second question pertains to a broader direction of margins from where we are today. So we have seen our margin stabilizing in 11% to 12% range on sustained basis. Now, given many of the headwinds which we faced over last few years are going away plus we are seeing ramp up in our BS-6 localization solution. So how should one think about margins from where we are today?

Karin Gilges: So I would go first and then my colleagues can add. So if you are looking at the margins in the ICE business for manufactured goods in India in the limited for the Indian market. Then we are seeing actually that we have for the self-manufactured goods quite good margins on the market, but we also have to see that in the overall operating margin of the 9%, we have currently a high part of traded goods, goods which we are importing from other Bosch Groups mainly or from other countries and then trade it here in the market and therefore it is a mix. What we currently see is we have an increase in the content, especially in the exhaust gas treatment, but also an increase in the demands in the market of the common rail systems and where we have compared to the conventional products we have, we have up to now not reached the level of localization if you compare it to an conventional product like the air pump. So what we are doing looking forward, we are investing and going ahead with the localization. I told you last time for example the injector for the commercial vehicles where we started in October last year with the testing and assembly and now we are currently ramping up the production of the trial parts here in India. So this is overall, where we have different transfers in the next 2 to 3, 4 years, but we have to drive the localization and before we see the real stabilization, let's say also in the margins.

Jinesh Gandhi: And this increase in traded goods is effectively the structural change in the business, right? I mean EGT or SCR, those things will where content has increased materially post BS-6, this will remain as it is, I mean many of these things we won't like to make it in-house. Is that the correct understanding?

Karin Gilges: That is correct understanding. It will not reverse anymore and therefore because we have now a good view on the market and see the volumes we need and now we are going for localization and start also in the exhaust gas treatment, the localization of different products.

Jinesh Gandhi: Yes, and that could be localized by our supplier partner, not at Bosch level?

- Karin Gilges:** No, of course we also try to ramp up the supplier base for the products, but the finished goods itself for the exhaust gas treatment will be mainly as ourselves manufactured goods.
- Jinesh Gandhi:** And one last clarification on the other expenses that we are calling out for one-off expenses for the service part, that there is a commensurate benefit on the service income, right. So both will go away as things normalize?
- Karin Gilges:** If you look at the higher spending, we also have to see the other part, we have higher income from service. That means whenever we see in the revenues the service income, then we book it, also of course the related spending with it.
- Annamalai Jayaraj:** Thank you, Jinesh. I'll go for some questions in the chat box. Please can you quantify the one-off expenses included in the other expenses. That is the question from Mr. Abhishek.
- Karin Gilges:** Actually, one important point, this is the new business expenditures. And therefore we have in this quarter increase in the spending related to the new business areas. And what we can also see in the other expenses is the higher spending related to the higher service income. So these are the main two issues. One, the professional charges, which is the spending to the higher service income is about 1.3% points and the spending in the new business expenditures is roughly 0.6% points.
- Annamalai Jayaraj:** I will go for the questions in the chat box. This is from Ravi Purohit. Our current gross margins are the lowest ever, this is the new trend or new normal?
- Karin Gilges:** So in principle, we do not talk about gross margins at all. As I mentioned before, you have to see the mix between traded goods and manufactured goods and what we saw in the last quarter that we have a jump in the traded goods. We had high content or high revenues with exhaust gas treatment, which are currently traded. So in this overall and we have in this quarter to give you an idea traded percentage from total of 54.4% points versus the same quarter in the last year of 51.3%. And this is of course influencing them also the EBIT. So it's the EBIT, the new normal, it highly depends on the mix of course. But what we expect in the upcoming quarters is that we have a change in the mix that we have more manufactured goods in our revenues.
- Annamalai Jayaraj:** The next question in the chat box is that Bosch worldwide, has any supply agreement with Tesla. If Tesla enters India, will that open up opportunities for Bosch India?
- N. Sandeep:** I think Bosch has business relationship with Tesla primarily in the US and partly in China, but these are more in braking and wiper components. Let's follow up on what happens with the Tesla plans in India and their value chain and we will align accordingly.
- Guruprasad Mudlapur:** We do not want to speculate at this point what is the Indian scenario for Tesla. But yes, we have global supplies towards Tesla both in China and in North America.

- Annamalai Jayaraj:** So next question in the chat box is has the audit qualification issue sorted out by taking approval in today's AGM? Please update.
- Karin Gilges:** It has been sorted out.
- Annamalai Jayaraj:** So next question is, can we expect margins to improve from Q1 levels or it will remain flattish?
- Karin Gilges:** So once again, the margins or the overall EBITDA is highly influenced by the mix we have between traded and manufactured goods. If we look only at the manufactured goods, then depending of course of that cluster of products, we see a stable situation. Nevertheless, it depends how much of our revenues are coming out of traded goods and how much coming out of manufactured goods. So overall if you say yes, margins are stable, but of course it depends on what is the set up or the product portfolio behind the revenue.
- Annamalai Jayaraj:** So the next question is, can you please highlight the rationale for business transfer of Project House Mobility Solutions? What do we do here in this business segment? And last year sales and EBITDA for this segment?
- Guruprasad Mudlapur:** So I think we've already explained the basic rationale for why we sold this. And let me quickly explain that one more time. So the project house for Mobility Solutions, which was handling the digital mobility solutions area, we realized that this requires global scale and global expansion. There is considerable growth globally. Of course, the Indian market, we did not foresee a lot of currently and it also required massive infusion of capital to make the business grow across the world. As Bosch Limited, we are chartered to take care of the India business and we're not really focused on the global part of the business. Primarily, this was the reason that we decided that it's better to sell the business to our parent and the parent has the skills and the necessary capabilities currently to take the business global and that's what happened in the previous quarter. So yes, the business has been sold, but links to the business remain in India and we will continue to work together.
- Annamalai Jayaraj:** The next question is how is engineering complexity in diesel versus gasoline versus hydrogen? Is there business entry barriers or superiority of part makers in each of these technologies?
- N. Sandeep:** But I think in the diesel technology, we have been having the longstanding footprint in that with system engineering competence, component engineering competence and also relatively higher depth of manufacturer. So when we moved from diesel to gasoline, most part of the system and component engineering competence remains. However, in the value chain manufacturing, there are of course much, many more players in the market and gasoline compared to diesel. I think your other question was how do you see that in the case of hydrogen. In hydrogen, we see a high degree of overlap with diesel kind of a complex system which needs competence build up in system engineering and also the competence components with hydraulics so that matches very close to the competence, which we have established for diesel. So that kind of gives you a perspective of what happens when we move from diesel to gasoline back to hydrogen.

- Annamalai Jayaraj:** So then one question on two-wheeler. Other than fuel injection, does Bosch supply any other components for the two-wheeler sector?
- N. Sandeep:** We have ABS single channel and dual channel ABS. We have infotainment systems, display indicators and also in-hub motors with motor control units. So that's the end-to-end portfolio spread of Bosch outside the electronic fuel injection.
- Annamalai Jayaraj:** The tractor segment, broadly, how much percentage of Bosch revenues from tractor segment? And what is the outlook for FY24 and 25? And also associated with that emission norm change in tractor segment TREM IV has been implemented, when is TREM V expected?
- Guruprasad Mudlapur:** Yes, I will sort of give you a response on the second part. We do not share details of segment level revenue and so on. On the TREM V, currently we are all prepared for in terms of technology. Of course, we are a technology company, we provide technology to the OEMs and we are prepared on offering TREM V technology to them. The chance of a postponement or chance of introduction of TREM V, I do not want to speculate, but it looks more and more certain that there will be further postponement of TREM V legislation. But Yes, we leave that to speculation.
- Annamalai Jayaraj:** Next question is from Senthil Manikandan. I have unmuted your line, you can ask the questions.
- Senthil Manikandan:** First question is with respect to the two-wheeler segment from the electric powertrain side. So what's the scope going forward over the next 2 to 3 years? What kind of components that Bosch plans to add to this segment?
- N. Sandeep:** Like I mentioned earlier, I think in the electrified scooter space, we would primarily focus on in-hub motors in the range of 2 to 3 kilowatts power range, along with the motor control unit. That would be the focus of portfolio from a Bosch side on the electrified two-wheelers.
- Senthil Manikandan:** Just related to the two-wheeler electric part, if you can quantify in terms of business acquisitions or market share in these products and how do you see as a percentage of overall consolidated sale two-wheelers performing, any color over this?
- N. Sandeep:** I'd like to not get into a forecast or a trajectory of market shares now because we are in extremely early stages of our formative business. And you noticed how the volumes are going back and forth being so sensitive to fame too. So at the moment, we are focusing on requirements engineering. We're focusing on the first engagement on system concepts with the customers. I would rather keep it this way than make a statement on a projection of market share or market development because there are too many open parameters and variables at this point in time.
- Guruprasad Mudlapur:** I just add that we are of course working with all OEMs on these projects.

- Senthil Manikandan:** Second question is how do you see the two-wheeler market itself evolving like? Because entry level 100 CC segment hasn't been performing well off late, so just you can share your perspective on that?
- N. Sandeep:** I think the entry level growth is still sluggish and there is a movement of the market more towards the 125, while the premium segments are doing relatively better. I think this is also linked with certain amount of, I wouldn't call it distress, but slowdown in the rural spend towards the entry level bike side. We don't really foresee that there will be a big change, but good news for us in terms of businesses that the premium segment is continuing to do well.
- Guruprasad Mudlapur:** Entry level two-wheelers get exported and the export market is also sluggish currently.
- Annamalai Jayaraj:** There's a follow-up question on your answer on two-wheelers, sir. Is ABS a part of the listed entity?
- N. Sandeep:** No, it isn't. ABS is not. It's not a part of the listed entity.
- Annamalai Jayaraj:** The next question is, can you highlight within automotive products which items have higher traded goods element? And what is contribution of those product items in percentage terms to our current revenue?
- Karin Gilges:** So traded goods are of course mainly in the powertrain solutions where we see it, I mentioned already the exhaust gas treatment which are currently traded goods where we now going in the next upcoming years going ahead with the localization and these partially, of course in our power tools, we have partially localized and partially we traded.
- Annamalai Jayaraj:** And then the next question is, can you please tell us how much CAPEX is planned for the current year and the next year? In addition, is there any change in the CAPEX under PLI?
- Karin Gilges:** CAPEX, we have planned for the current year roughly 4.9 billion. And this is a little bit lesser than last year because last year we have finished our nice Adugodi Campus here as you know and this is mainly in the plants and this is mainly in machinery and equipment.
- Annamalai Jayaraj:** And next question is what is your view on usage of artificial intelligence, the service business of Bosch? Does it improve the efficiency significantly and consequently reduce our dependence on increased manpower in the service business?
- Guruprasad Mudlapur:** It's a very generic question, but I'll give you the answer in two perspectives. One is the utilization of AI in products and services that we make an offer. So here, Bosch has been investing quite a lot in AI, which is useful in our products and this will continue. We will see quite a lot of growth in this as the automotive technologies also moves ahead. Of course, there is another aspect to AI, which is now the more popular one under discussion, which is the generative AI like ChatGPT or so on. This certainly is also a topic of focus within Bosch. We look at it from the perspective of how can it enhance our productivities inside and what can we do more with tools

like ChatGPT either for coding, software development kind of aspects or for other purposes in terms of helping documentation or generation of reports, or even multiple working on productivity measures. So both aspects are looked at and certainly we see AI as a productivity enhancer in the second aspect. Of course, AI in product will add significant value.

Annamalai Jayaraj: Next question on the chat box is can you clarify why interest cost is high at Rs. 30 crores in 1Q FY24?

Karin Gilges: The interest is on the account of the interest provision created due to the levy of the interest on GST payables. Another reverse charge in respect of the salary cost of the expert deputed in the Indian legal entities, so this is a reason why we had to put in the provision.

Annamalai Jayaraj: The next question is on the employee cost. It could be great if you could throw some light on the employee cost. How is the trend going forward?

Karin Gilges: Going forward, the trend and then we have an extra thing this because we had a reversal in the provision. And therefore we see normal is at 8%, of course you have in each quarter, sometimes you have a reversal of the provision and on the other side, you have an increase in the provisions, but we see for this financial year 8%, which is reasonable and compared to the last years or to the former years were before the EVR, we are really now on a very good basis.

Annamalai Jayaraj: As there are no more questions, on behalf of B&K securities, we thank all the participants for joining the call and special thanks to Bosch management for taking time out for the call and giving us the opportunity to host the call. Have a good day.

Guruprasad Mudlapur: Thank you.

Karin Gilges: Thank you very much.

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