



# “Bosch Limited Q3 FY17 Post Results Conference Call”

**February 10, 2017**



**MANAGEMENT: MR. SOUMITRA BHATTACHARYA - MANAGING DIRECTOR,  
BOSCH LIMITED  
MR. S. KARTHIK - VICE PRESIDENT & COMPANY  
SECRETARY, BOSCH LIMITED  
MR. JAN-OLIVER ROEHL EXECUTIVE VICE PRESIDENT  
(DIESEL DIVISION), BOSCH LIMITED**

**MODERATOR: MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI  
SECURITIES INDIA PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Bosch Limited Q3 FY17 Post Results Conference Call 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 Stanford. Good afternoon everyone, on behalf of B&K Securities, welcome to 3Q FY17 Post Results Conference Call of Bosch Limited. I also take this opportunity to welcome the top management team from Bosch India Limited. We have with us today Mr. Soumitra Bhattacharya - Managing Director and Mr. S. Karthik - Vice President & Company Secretary. I would now invite Mr. Soumitra Bhattacharya for his opening remarks to be followed by Q&A session. Over to you, sir.

**Soumitra Bhattacharya:** Thank you very much, Jayaraj. A very good afternoon to all the colleagues in the conference call, before we look into the results of October to December 2016 quarter for the company, I would like to brief you a little bit about the overall domestic automotive market development in the last quarter and looking at the production volumes excluding the two wheelers.

During the quarter ended December 2016, the Indian automotive market had a weak growth of 1.4% against the quarter ended December 2015 in the backdrop of demonetization and its impact. The highlight of the quarter was the double-digit growth of the tractor segment namely 41%, driven mainly by the harvest season demand and also the 100% loan that has been offered by financial institutions. The heavy commercial segment increased by 5.5% due to a recovery of the economy and pre-buying of trucks due to the implementation of BS-IV by April 2017. Passenger car market grew by 2.2% due to new model launches and discounts which have been offered by OEMs, especially after the demonetization effect. The light commercial vehicle market saw a negative growth of 3.6% on account of fall in export demands. The three-wheeler market reduced by 21% mainly due to demonetization which reduce the domestic sales by nearly 36%.

We now look at how the Company has performed in the October to December quarter 2016. The Company adopted the IND-AS or Indian Accounting Standards from April 1<sup>st</sup>, 2016 and accordingly these financial results had been prepared in accordance with the recognition and measurement principles laid down in the standards. The financial results of the previous period have been restated accordingly. I would now like to tell you about the sales. As you are aware, due to the change in the regulatory requirement of disclosing the sales, the sales numbers disclosed in our results and discussed here will be the gross sales and income from operations. A separate line item of excise duty is shown as an expense. The Company registered gross sales and income from operations of Rs. 28,111 million which means Rs. 2811 crores, an increase of 7.2 % over the same period of 2015.



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The mobility solution segment witnessed a modest growth of 3.6%. The business beyond mobility solutions grew at a higher rate of 25%. The domestic sales for this quarter grew by 8.1%, thereof mobility solutions by 3.7% only. Export sales and income from operations had a negative growth of 1.2% mainly due to drop in exports of business beyond mobility solutions by 14.3%. In mobility solutions, diesel systems and after-market division had a challenging quarter with a negative growth due to weak demand in domestic commercial vehicle market, demonetization and tight liquidity in the market. Gasoline systems achieved a high double-digit growth aided by volume ramp-up by our customers and due to export sales.

The business beyond mobility solutions saw a strong growth highest share coming from the solar division followed by packaging as well as the power tools division. For the 9 months ended December 2016 gross sales and income from operations grew by 8%. The mobility solutions grew by 6.9, diesel systems and after-market divisions however, remain flat, whereas gasoline systems witnessed a high double digit growth. The business beyond mobility solutions increased by nearly 17%, with growth coming from power tools, security systems, solar and packaging divisions. For the sequential quarter, gross sales and income had a moderate growth and I will now directly get into other operating income.

Other operating income has increased from Rs. 357 Mio in October to December 2015 to Rs. 526 million in October-December 2016, mainly due to higher provision write-back of earlier years. Other operating income has also increased from Rs.758 million in April-December 2015 to Rs.1590 million in April-December 2016. Material cost, as a percentage of gross sales and income from operations increased from 49.7% in October-December quarter of 2015 to 52% in the current quarter of 2016. This is mainly due to unfavorable mix on the impact of higher traded goods resulting from business beyond mobility solutions, including sales price production, higher provision for inventory towards materials which are not suitable for BS-IV. On a year-to-date basis, material cost has increased from 48.6% in April-December 2015 to 49.5% (which means 0.9% increase in April to December 2016). This 0.9% increase is due to unfavorable mix also impact of higher traded goods which are from businesses beyond mobility solutions as well as adverse exchange rate.

I now come to employee cost. Employee cost increased from Rs. 3875 million in quarter ended December 2016 from Rs. 3213 million in corresponding quarter of 2015, an increase of nearly 20.6% mainly due to the cost of restructuring for us to be fit for the future. The employee cost stood at Rs. 10,602 million for the period April to December 2016, as compared to Rs. 9441 million for the same period in 2015, showing an increase of 12.3%. Depreciation is increased by 22.2% in the quarter ended September 2016, as against the quarter ended December 2015 this is due to higher asset base which is as we have always mentioned to you a part of our investment strategy. There has been an increase of 19.6% during the 9-month period ended December 2016 as compared to the same period in 2015.



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Other expenses stood at Rs. 5568 million in October to December quarter 2016 as against Rs. 5014 million in the same quarter of 2015, this is an increase of approximately 11% and has happened due to higher professional expenses towards BS-VI projects as well as our front ended CSR expenses. For the 9 months ended December 2016, other expenses have increased by 19.6% due to increase in variable expenses on higher production on one-time shifting expenses to our new Bidadi plant, front ended CSR expenses as well as expenses we incurred for BS-VI projects.

Operating profit as a percentage of gross sales and income from operations has hence decreased to 4.9% in the current quarter compared to 9.4% in the corresponding quarter of the previous year. The reason for decrease is a weak domestic demand unfavorable product mix, cost of restructuring and higher depreciation. For the nine months ended December 2016, operating profit has also declined by 13.5%, due to unfavorable product mix adverse exchange rates, cost of restructuring, one-time expenses and higher depreciation. Other income has increased from Rs. 1417 Mio in quarter ended December 2015 to Rs. 1634 Mio in the current quarter of 2016, thus showing an increase of 15.4%. The increase is on account of higher gain on fair market valuation of mutual funds in line with IND-AS and higher rental income, which is offset by reduction in interest income from fixed deposit due to drop in interest rates.

Other income has increased by 19.5% from Rs. 4630 Mio for April to December 2015 to Rs. 5530 million for April to December 2016. Fair valuation of mutual funds and rental income have contributed to this increase. PBT and PAT, for the quarter ended December 2016, the Company posted a profit before tax from continuing operations of Rs. 2991 million which means Rs. 299 crores, as compared to Rs. 3850 million which is Rs. 385 crores in the same quarter of 2015, this is a decrease of approximately 22% as a percentage of sales PBT stood at 10.6% in the current quarter, as compared to 14.7% in the corresponding quarter of 2015. Consequentially, profit after tax has decreased by 23.5% for the quarter ended December 2016, as against the quarter ended December 2015. For the period, April to December 2016, profit before tax from continuing operation has however decreased only by 2.9% and stood at 17.4% of sales, against 19.3% during previous year, whereas profit after tax decreased by 2.6%.

Outlook, our forecast for this year remains cautious with a moderate growth. Passenger vehicles are expected to grow moderately. The light commercial vehicle segment has continued to recover. However, we must remember that HCV, LCV has still to touch their peaks of 2011 and 2012 respectively. However, liquidity in the market is still limited pressure on growth of LCV segment will remain. The tractor segment has also started recovery due to a better and relatively normal monsoon during rainfall during the past monsoon. As stated earlier we remain for the long and mid-term our forecast for India always as stated before remains positive. While the proposed emission legislation timelines are very challenging, we at Bosch Limited have the necessary product, competence and infrastructure to support all our customers.

We have continued our investments into the future, in our people, technology, infrastructure as well as had new locations. We continue to be optimistic on India and our growth potential in this



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country and we at Bosch Limited are well placed to take on these challenges as and when the markets recover. And before I thank you and ask you for questions, I would also like to introduce you today, my colleague on the board Mr. Jan-Oliver Roehrl, who has recently taken over as the Chief Technical Officer as well as is responsible for the diesel division as its Regional President as well as responsible in the board for all engineering activities within the company. So, thank you Mr. Jan-Oliver Roehrl for joining in and you will hear from all three of us as the questions proceed.

So now, please feel free to ask your questions and thank you once again.

**Moderator:** Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Pramod Amte from CIMB. Please go ahead.

**Pramod Amte:** Couple of questions. One, can you define what is the absolute number of export value? You said it is down 1.5%-1.2%.

**Soumitra Bhattacharya:** Our exports are down by 5% and yes this is due to the global situation where we see that capacities are available as we have mentioned to you before that we do our exports based on what our other customers including where our sister plants need the support. So, basically Bosch has a very clear local for local strategy. Currently for the October to December period exports as a percentage of the gross sales is around 8.1%.

**Pramod Amte:** And second how do you see your market share in the BS-IV environment, are you seeing more competition, more new entrants coming in and grabbing your diesel market share one year down the line or you do not see that happening either in MHCV or any other segments?

**Soumitra Bhattacharya:** Yes, as I mentioned before that we had done the acquisition for BS-IV and right now the Company including the market is doing going ahead for the acquisitions of BS-VI. So, for BS-IV we are in a pretty good position. We have of course to phase out some of our products which do not comply with BS-IV many of these products will meet other requirements, example which we had mentioned for example the rotary pump will have a reduction because it will not meet the requirements for the commercial vehicles. So, overall pretty decent position in the market and however, the challenge will be for us to like all our other customers are compared to this to for us to meet the BS-VI requirements including the customer acquisition.

**Pramod Amte:** And a last question, you said you had some one-time impact of moving over to BS-IV. If I am not wrong you usually get compensated from the clients when you do these projects, so are these you will recoup these or you feel there will be some more pain in the March quarter, where there will be a full fledge shift over to the BS-IV happens.

**Soumitra Bhattacharya:** Perhaps there was a little lack in commonality of understanding, what I would mentioned was that the one-time expenses are relating to our shift to our new plant from Bangalore to Bidadi, number one. Number two, when we do these projects for our customers naturally there are engineering

services which are provided and where there is a common understanding on how we do the billing for services made. So, basically the one-time expenses as I mentioned was in relation to the shifting of the Bidadi plant. However, I did mention that we have had higher professional expenses towards BS-VI projects. So, it is a timing effect, you have to front ended put these expenses, people cost and place later you do the recovery.

**Moderator:** Thank you. We take the next question from the line of Sonal Gupta from UBS-Securities. Please go ahead.

**Sonal Gupta:** Recently there was an announcement by Bosch where they said that as a part of the power train division electro mobility will also be included now along with the gasoline and diesel system. So, do we have the similar understanding for this listed company, in the future would you be working on electrical mobility as well?

**Soumitra Bhattacharya:** We in India have not made any announcements on this matter of course our parent company is working very strongly in this area both in the hybrid as well as electrification. But right now for example, in India the main focus still remains it will be there for quite some time, as and when the aspect of electrification kicks in, we will update you. On your question as Bosch Limited, this as I said as we develop at that time we will tell. So, as you know that we have 10 legal entities and Bosch Limited is one off amongst the 10 legal entities and we have different legal entities producing different goods and services.

**Sonal Gupta:** So, as of now out of this 10 legal entities is there any one which is specifically working on electrical mobility?

**Soumitra Bhattacharya:** No, right now in India we do follow all what our parent company does but currently none of our legal entities have this electrification as a specific task and it is too early for us to now talk about this but our parent is working as and when India needs it we will also work and at that time we will announce how will go about it.

**Sonal Gupta:** Just on, on the BS-IV given that I guess for you we will start seeing the impact from Q4 itself as you start shipping probably more to the customer, I mean how do you see our localization levels for BS-IV and do we see any sort of significant change in our overall operations and raw material cost, margins, etc. going forward with BS-IV, do we significant change because of that?

**Soumitra Bhattacharya:** Like we mentioned before, our new generation products are in 2 different categories. One, new generation products which we started producing quite a few years ago where we have reached a very high level of localization and others where we bring in the new generation products and then we go into a phased localization. So, we will follow the same philosophy of saying local for local. Localization where it meets and makes business sense in terms of the critical volume normally we look at align in terms of filling up the line and at the starting phase we do trading of the products as well as training of our colleagues, both offsite and onsite and of course put in the necessary

CAPEX and the training for the peoples. So, short point the same philosophy that we have done before we will continue doing and normally we have seen that overtime and a define time we reach a good level of localizations because of value add is very important.

**Moderator:** Thank you. We take the next question from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati:** Now that we are so close to BS-IV, can you give some more color on what technology options are coming for BS-IV, what percentage of products have an SCR solution, what are still, what percentage of engines have move to CR DS technology? Some color on that would be useful.

**Soumitra Bhattacharya:** Thank you for your question, Puneet. I will hand this over now to Mr. Jan-Oliver Roehrl who is our Chief Technical Officer.

**Jan-Oliver Roehrl:** I got the question with regards to BS, there is no after treatment system required. So, I take the question up front for BS-VI, if you will. I would answer as follows that in the industry of course persists very good picture for BS-VI, out of the learning's that we had here specifically are tremendous so, we have supply GI solutions globally and can do same even in India. Having a big engineering team working on that and the technical solutions that are required for that they vary from market segment to market segment. So, it be that let say the smaller cars like, passenger cars or high commercial vehicle they will get along with so called NSCRs so it is a convertor or a catalytic conversion for the large commercial vehicles we-consider a selective catalytic reduction system which is requiring an addition of fluid so called AdBlue.

**Puneet Gulati:** Just to get my understanding right what you are saying is for BS-IV heavy commercial trucks, they will not be any SCR.

**Jan-Oliver Roehrl:** For BS-IV and all there is no SCR, consider this is not necessary for achieving the emission target, this can be resolve by in our compulsion measures.

**Puneet Gulati:** And also would all engines necessarily for heavy commercial trucks have to graduate to common rail technology or can you still do with in line technology?

**Jan-Oliver Roehrl:** The customers they are let say looking for their best solution and here again that varies from customer to customer.

**Puneet Gulati:** So, theoretically in the BS-IV heavy commercial truck scenario you could actually have an in line fuel injection system without NSCR.

**Jan-Oliver Roehrl:** So, there is let say still open, yes.

**Jan-Oliver Roehrl:** conferring to BS-VI that we will be mainly be doing CRS but it is still open in some part.

- Puneet Gulati:** Also there was some news report that you have supplied the AMT shifted module to Kwid. Just wanted to check if it is from the listed entity or from any other entity?
- Soumitra Bhattacharya:** It is not from the listed entity.
- Moderator:** Thank you. We take the next question from the line of Kunal Bhatia from Dalal and Broacha. Please go ahead.
- Kunal Bhatia:** Sir, just wanted to get a sense if we were to remove the exceptional kind of items from the expenses, what kind of EBITDA margins we would have generated because I understand there are, there would be lot of one-offs this time because of this CSR and the other things which is happened.
- Soumitra Bhattacharya:** We do not give these numbers but since you asked I can tell you it is 50% to 60% is around one time.
- Kunal Bhatia:** 50% to 60% in the other expenses sir?
- Soumitra Bhattacharya:** In the increase in that delta that you talked about the EBITDA around 50% to 60%, majority has been sort of one time hit and others have been certain recurring which we had anticipated.
- Moderator:** Thank you. We take the next question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** My question pertains to pre-buying before BS-IV in the current quarter are we getting any indication from our CV customers about what kind of demand they are looking at?
- Soumitra Bhattacharya:** Yes, we are following up customer by customer because as you know there is sort of anticipated pre-buy impact and therefore the customers are also have increased the demand but we are very closely looking at the value chain of what is their demand, what is their pipeline, what is their inventory and this also it has some linkage to the government announcement in relation to how the production and the manufacturing date will be announced for also the BS-III to the BS-IV in relation to the pre-buy. So, we are carefully monitoring with our customers as we also open the share with our suppliers and the actual and real numbers I think only in March you can get a real feel and that to the end. Finally, the implications for a pre-buy also means for the industry perhaps in the month of April and May that the numbers could be muted because any pre-buy is always eating away in to the consumption of the future.
- Jinesh Gandhi:** And sir, coming to BS-IV could you indicate kind of increase in realizations which Bosch can see because of BS-IV?
- Soumitra Bhattacharya:** Look, we mentioned already, my colleague Mr. Jan-Oliver Roehrl mentioned that while BS-IV will be mainly CRS and we have kept all applications opened based on the customer's demand. The CRS values which are currently running will also continue in only a greater focus. So, while

realizations go up we do not indicate the increase in the value of the realizations. So, you can as well as guess that with CRS realization relative to conventional goes up but the value differential we do not give guidance or talk about it.

- Jinesh Gandhi:** But we provide the entire system for the CRS?
- Soumitra Bhattacharya:** Absolutely, as we have been doing before, we will and in fact we are also preparing to do the entire system for BS-VI slated currently to be April 1<sup>st</sup>, 2020.
- Moderator:** Thank you. We take the next question from the line of Rohit Kadam from Credit Suisse. Please go ahead.
- Jatin Chawla:** This is Jatin. Couple of questions one is when I look at your segment wise numbers it seems there is a very sharp fall on a year on base, year basis on the profitability on what is mentioned here as others I would assume it is the non-autos part. So, any particular reason while we see such a sharp fall because margins have gone from like 8.5% to 1% at an EBIT level here?
- Soumitra Bhattacharya:** I think when you referring to others you are talking of credit mainly. I assume you are doing that. Well, if you have, we have told you before that incase of credit parts due to low or no value addition obviously the depth of manufacturing being lower the profitability is relatively lower. So, if that is what your question is then happy with the answer.
- Jatin Chawla:** But I am comparing it also on a Y-o-Y basis, right, so December 31<sup>st</sup> 2015 with a revenue of 433 crores you had an EBIT of 37 crores, so I assume the traded portion would be similar even then so why then such a sharp fall in profitability?
- Soumitra Bhattacharya:** I mentioned to you that in the case of October to December we had a pretty major increase in our Solar Photovoltaic business, in our packaging business as well as in our power tools. So, when you have a higher material content and the higher trading content then this also has a certain implication on the bottom line. So, this I had mentioned in my starting talk when I briefed about our results.
- Jatin Chawla:** When you talked about your outlook, you mentioned your outlook for the LCV and the passenger car side what would be your outlook for the M&HCV for let's say the calendar year 2017 in terms of the industry growth?
- Soumitra Bhattacharya:** Look, if you look at the outlook for HCV, we must remember that HCV while we are talking of a certain growth the percentage growth is not expected to be too high. We are looking at anywhere between 1.5% to may be 2%-2.5% growth. Secondly, you must also remember that the peak of the HCV which was reached in 2011 was around a 380 K, if I am not wrong it was 377 K or something. So, that is the sort of number we are expecting us to get back. So, if I summarize two things. First, HCV which is supposedly had a good growth in 2016-2017 has still not reached the peak of 2011.



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Second, based on this good growth and sort of muted expectation for 2017-2018 we expected to be anywhere between 1.5% to 2%.

**Jatin Chawla:**

And last question would be that you kind of walked us through your whole localization process for the new BS-IV components that are going to be come in at what stage would you be on that process, you talked about moving from traded to gradually increase in localization at what stage are you right now for the BS-IV components on the CRS side?

**Soumitra Bhattacharya:**

We are pretty well prepared for BS-IV. In fact, BS-IV was known well in advance, so we are pretty well-prepared but again as I said any transition that you do which our customers require products which are new there we go into a very systematic process of localization. We start with trading, we bring in line, we train up people and then we go to localization. If you remember 8-10 years ago when you asked us about the common rail systems, we said the same thing and that time I remember we were around hardly 25%-30% and today we are well at 60%-70% and above. So, it all depends on or the existing products going to be needed which in the case in many cases, yes, are there some newer products that we are bringing in which are a parent is already doing so the answer is yes a little bit and then we go into localization. So, it is a process of localization.

**Moderator:**

Thank you. We take the next question from the line of Laxminarayan from Catamaran. Please go ahead.

**Laxminarayan:**

I have a three of them. First is, what is your read on the potential or scrappage policy and how do you think it will actually impact in case there is a 10 years' scrappage policy is announced for commercial vehicles? Second is, how the two-wheeler firms are gearing up for BS-IV transition as well as BS-VI transition and what is our play there? The third is, you had mentioned repeatedly over the last couple of calls that your gasoline injection systems are gaining in terms of market share, if you can just help me understand the gasoline as a percentage of overall revenues has it gone ahead of double digits. So these are the 3 questions and if possible if you can just see if you can give me some color on, have we got new customers on the gasoline injection?

**Soumitra Bhattacharya:**

So, I will answer part of these and some of these I will be requesting my colleague to answer. So, first one on the scrappage policy, I think the industry over all is very positive and bullish when Mr. Gadkari announced this and I remember having been also in the ACMA and SIAM Conference where he attended and also we in stated this matter. Now, the scrappage policy once it is announce and I hope it gets announced in 1<sup>st</sup> April or whichever date will bring to India a very important step which most countries have done which means, we are one of the few countries who allow very old vehicles to ply and therefore we do not have a system of taking out the very old vehicles, the vehicles which are in bad shape, which are polluting and which are also not allowing space for newer vehicles and newer average fleet of the whole country or the path to get reduced in terms of years. So, answer is yes, we look forward. Second is our scrappage policy has a lot of parts to it and we cannot discuss it today but it means how do you scrap vehicles, how do you ensure, what sort of incentives do you give for people to bring in while they scrap and it also means that how

do you control therefore spurious parts and how do you actually take care of the whole value chain when you do it. So, it is not just an announcement of policy. In India, right now we also have these challenges where we do not have proper scrapping yards. In other countries, there are very technically proven and competent scrapping yards and methodology to scrap including an incentive policy. So, short point, I think most of the auto industry would be having a positive view on this. We ourselves have a positive view the question is we will have to wait how comprehensive and if and when this policy would be announced and how will it get implemented. On the two-wheeler front, yes we are well prepared as mentioned by us many times before that the two-wheeler which currently are around 20 million per year which will move specially for the two-wheelers from carburetor to fuel injection system is likely to be 2020 when this is getting kicked in to Rs. 28 million. So, it is a big number. Third, we do not talk about market shares but our gasoline division is growing well and fast. Now on the portion on new customers I will request my colleague as well as his comments on gasoline and two-wheelers but just let me remind you we do not give market shares nor do we give numbers as our policy has been stated before nor guidance. So, my colleague will now take over, Mr. Roehrl.

**Jan-Oliver Roehrl:** To the question with regards, two-wheeler and they changed from BS-IV to BS-VI which the growing two-wheeler markets will undergo a transition here. There will be to our mind a complete change over from the carburetor market to and engine management systems or at least we do not see any other solution to comply with their emission legislation that is coming up in year 2020 if for that market segment. So, in its complete shift here and it is affecting the whole market, we now the Indian OEMs as well as the global OEMs and some of them are already offering today if the so called EFI or EMS engine management systems and we as RBIN we intend to be a partner in that change in the market of course knowing that there is heavy competition in that segment as let say the gasoline system markets is not the real system market in itself but it is accepting a component wise approach as well.

**Moderator:** We take the question from the line of Kartik Gada from Val-Q Investment Advisory. Please go ahead.

**Kartik Gada:** Just wanted one clarification to one of the earlier question you replied that the 50% to 60% of the delta was one-off but I could not understand, so 50% to 60% delta of what line item exactly?

**Soumitra Bhattacharya:** You talked about the question was about other expenditure and that is where I indicated that for the other expenditure majority of it has been sort of one-off.

**Kartik Gada:** So, just one more thing here if I am looking at last year's 3Q absolute other expenditure it is 562 crores and this quarter it is 557 crores. So, actually there is a decrease of 5 crores, so ...

**Soumitra Bhattacharya:** No, we have to look at others, if we look at the elements of expenditure there are certain elements where we had a certain increase which we had a one-off and recurring. So, one is others, one is personnel. So, in personnel also we have a certain one-off expenditure and also in others. So, you

have to take combinations of some of these items I will do a quick recap of what I stated before. Material cost increase we have had because of the trading part being more in personnel and others you take then this is a sort of 50% to 60% are one-off which we have done, which I have indicated to you and then of course there are other elements like depreciation which are due to CAPEX issues, etc. So, this covers both other expenditures as well as personal.

**Moderator:** Thank you. We take the next question from the line of Sonal Gupta from UBS Securities. Please go ahead.

**Sonal Gupta:** So, just wanted to clarify because you have mentioned that for BS-IV no after treatment is required, I mean clearly there, I mean you can use an EGR system but do you see none of your customers adopting any SCR systems because SCR would have higher fuel efficiency versus EGR and may be especially in the case heavy trucks. So, are we not seeing any sort of adoption on the SCR versus EGR and everybody is going with EGR only?

**Jan-Oliver Roehrl:** So, it is good that you repeat your question again for the very heavy commercial vehicles there is also SGR applicable for the BS-IV and that is not only let's say for fuel economy reasons but you have to have a load cycles that require an EGT and that can be ECR not necessarily also. So, that is heavily depending then up on the customer application for the very heavy commercial vehicles.

**Sonal Gupta:** So, do we see any adoption amongst our customers in India in terms of SCR?

**Jan-Oliver Roehrl:** For BS-IV in your question or BS-VI?

**Sonal Gupta:** For BS-IV?

**Jan-Oliver Roehrl:** So, let's say as I say the clear customer's strategy on what he is doing there we can advise him but at the end it is customer decision on which way he is intending to follow.

**Sonal Gupta:** Absolutely. But as a market are you seeing some adoption or you are not seeing any adoption in the market?

**Jan-Oliver Roehrl:** We see adoptions specifically of course with BS-VI.

**Moderator:** Thank you. We take the next question from the line of Vidrum Mehta from ICICI Securities. Please go ahead.

**Vidrum Mehta:** Just like to understand the impact of BS-IV norm on the Company. So, what is our current revenue contribution from the products which are expected to phase-out due to the BS-IV norms?

**Soumitra Bhattacharya:** We do not more into contribution this is more like a guidance question again. We have products which phase-out I have mentioned before that in our portfolio we have a combination of both conventional and new generation and some of the conventional get reduced and some overtime get

phased out but we do not get improved now this contribution and in terms of its turnover impact on its bottom line.

**Vidrum Mehta:** So, sir like if the older products which are more localize in nature are facing-out and if we are bringing in more newer products which are lesser localized would that has impact on the margins going forward at least over the next 3 to 4 quarters?

**Soumitra Bhattacharya:** Look this question is again a guidance question. But I would like to give you an answer which we have given before. Bosch has had a systematic method of localization. If you remember when the first common rail systems came in, we as Bosch Limited gave to Mahindra and this was for those days of Scorpio. Now I am talking of this as about say 2002-2003 and we had the same questions then but if you look at those products today the common rail injector and the entire aspect of the pump and the components that go with it are highly localized. So, the question is do we have a local for local strategy, the answer is yes. Do we go into localization answer is yes. Do we have a supplier development program and a good supplier base, the answer is yes. So, we have a very clear strategy and what makes business sense in relation to based on customer acquisition, in relation to changing in emission norms and standards we follow that policy and it is a very clear step by step and no dramatic changes are done overnight.

**Vidrum Mehta:** And sir any additional CAPEX plan for this newer BS-IV norms.

**Soumitra Bhattacharya:** Well our CAPEXes are already put in place. If you look at the last 2-3 years, the way our Company has put CAPEX both in plant and machinery as well as our locations as we have indicated. All our CAPEXes put in place, we are putting CAPEX in a very organized way for both products and services. For example if you remember we mentioned to you that our headquarters in Bangalore Adugodi is being converted into a completely high tech center. Our Company is getting into not just products but also services, connectivity and are working very closely to see that we are aligned of meeting and being ahead of what is required for the Indian automotive market because we have a parent which has done these things many times and is getting more and more to be a connected company and giving products and services.

**Moderator:** Thank you. We take the next question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

**Jinesh Gandhi:** Sir, couple of clarifications one is with respect to the numbers which we report the segmental, the others line item is primarily know autos right including trading goods?

**Soumitra Bhattacharya:** It is known auto and it is traded goods.

**Jinesh Gandhi:** And secondly for the staff cost – also you have indicated that delta is 50% to 60% is one-off?



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**Soumitra Bhattacharya:** We said it is a combination of both others as well as personnel. One of the colleagues on the phone had asked on, I remember on the, operating other expenses and it quoted a different number. I will repeat what had mentioned. Other expenses had mentioned October to December was Rs. 5568 million against the earlier quarter of Rs. 5014 million. So he had quoted similar numbers and here it is 11% increase, yes it is due to also partly one-time and then on the employee cost it has increased to Rs. 3875 million or Rs. 387 crores from earlier figure of Rs. 321 crores and here also it is a part of what I said a mixture of recurring and a majority of it being one-time and here we are putting and spending money on restructuring for us to be right sized and fit for the future.

**Jinesh Gandhi:** And sir lastly what would be our CAPEX plan for FY17 and FY18?

**Soumitra Bhattacharya:** We have been spending anywhere between I remember between the period from 2013 to 2017 we have been spending anywhere between Rs. 450 crores up to Rs. 680 crores. So, in the same lines, we have never gone below Rs. 450 crores and we have been in that region of Rs. 450 to Rs. 700 crores. So, it is not the amount of money we spent, it is the quality of money we spent for the strategy that we have. So, sometimes we have spent money on plant and machineries, sometimes we are putting our plants strategically, sometimes we are doing for our tech centers and we have indicated to always it is a combination. So, to summarize we have short term and a mid-term plan. We use our CAPEX in a very judicious way and we have spent it for products, services as well as our staff, example the tech centers that we are creating now.

**Moderator:** We take the next question from the line of Sandeep Manam from Franklin Templeton. Please go ahead.

**Sandeep Manam:** Just have a question on in 2020 when BS-VI how would the share of diesel and gasoline direct injection evolve in passenger car market?

**Soumitra Bhattacharya:** Diesel and gasoline the mix if you look at the historic data, diesel in India was pretty low and climbed up to 48% then it remained at about 40% for a long time. Currently diesel to gasoline is around 36% on the pass car, when I say pass car it means pass car and utility. Going forward it is expected that diesel will dip. We cannot indicate what the percentage exactly will be but it is slated to dip below the current levels and the reasons are quite obvious because as compact cars is one of the big elements in India there due to various propositions including the aspect of affordability, pricing, etc. compact cars may not have the same level of dieselization as before for BS-VI. So keeping this in mind, yes there is going to be a shift very clearly as has been seen also in different parts of the world. Second a part which you have not asked is from the IC to electrification where in the rest of the world also clearly people are saying that there are possible shifts. This would also follow in the rest of the world including India but with a lag. So that right now is not being considered. So 2020 summarize there would be a shift, percentage is not determined and the shift would naturally go in favor of gasoline.



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- Sandeep Manam:** But actually, within gasoline the share of gasoline direct injection do you think that can significantly move, right now it has only very few models in India have that.
- Soumitra Bhattacharya:** No, we do not want to go into that as a percentage. You are right in the question that you are asking that but we do not want to go because these are choices that our individual customers will have to make.
- Moderator:** Thank you very much. Ladies and gentlemen that was the last question. Due to time constraints, I would now like to hand the conference over to Mr. Annamalai Jayaraj from B&K Securities for closing comments.
- Annamalai Jayaraj:** We thank all the participants. We thank Bosch management for sparing time for the call and also providing us the opportunity to host the call. Have a great weekend.
- Soumitra Bhattacharya:** Thank you very much to all of you for participating and look forward to the next con call.
- Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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